Dear Shareholders,

Over the past few months, EADS has been experiencing heavy turbulence. The announcement of further delays in the emblematic A380 programme, and the financial impact of going off schedule, have caused some to question the solidity of the Group and have diverted attention away from its genuine strengths.

Sure, notable industrial management and corporate governance flaws have been exposed. These had escaped notice during the flush of success. Past over-confidence carries heavy commercial and financial consequences. We have been dealt a painful but salutary blow, and it is forcing the Group to reassess its industrial model in terms of its efficiency and value creation, for the long term. Conscious of the need, compounded by the deteriorating dollar exchange rate, we are committed to getting EADS back on track and making it stronger than ever before.

EADS has what it takes to recover. First, EADS has truly unique, modern and adequate products – and the excellence of the A380 is not in dispute; it has loyal customers that are entrusting it with repeat orders; it has a remarkable, skilled and committed workforce; it has supportive suppliers; and it has truly leading edge technologies. Second, we know what’s wrong, and we know how to put it right. What we need is hard work, of a kind that focuses on carefully selected issues. These will be resolved by sticking to the tight schedule needed to surmount our difficulties.

We have started with fundamental change along the lines of the Power8 program. The first tangible result is the clarification of the Group’s structure. Louis Gallois is now co-CEO of EADS and also CEO of Airbus, henceforth wholly-owned by EADS. Simplification means faster reactions and enhanced efficiency. The other divisions are now headed up by Thomas Enders. In recent years these divisions have been strengthening their competitiveness, while Airbus generated earnings for the Group. They can now pick up the earnings baton, and make a greater contribution to EADS success.

We personally will supervise the implementation of this transformation, which will be extended to the whole of the Group. All our assets will come to bear, and help our Group rise from present woes, stronger and even more worthy of the trust you have placed in it.

THOMAS ENDERS AND LOUIS GALLOIS
CEOs
EBIT* contribution, 2006 guidance

From an Income Statement perspective, the management estimates that the A380 series production will generate a cumulative programme EBIT* loss of around €2.8 billion for the years 2006 to 2010, of which approximately €1.1 billion is anticipated in 2006 and approximately €0.7 billion in 2007. The A380 programme shall deliver a first positive EBIT* contribution in 2010.

The management estimates that the A380 programme contributions will be substantial beyond 2010.

The above 2006 programme EBIT* loss reflects an estimated €0.6 billion of provisions for A380 loss making contracts. The A380 charges, and charges potentially arising from the outstanding decision on the A350 programme, as well as the amount and phasing of non recurring charges of the “Power8” programme, invalidate the previously provided 2006 EBIT* guidance. Until further notice, EADS will not issue an updated 2006 outlook.

Possible contract terminations under the new A380 timetable have not been taken into account in the financial estimates.

Comparison to original pre-June plan

The revised A380 delivery schedule results in cumulative EBIT* shortfalls of €4.8 billion compared to the margin contribution of its original baseline plan for the years 2006 to 2010 (at $1.30 per €1.00):

- Thereof, close to €2 billion cumulative EBIT* previously expected between 2006 and 2010 will be postponed beyond 2010 as a result of the delivery shifts to later years.
- In addition, cost overruns and late delivery payments will result in irrecoverable expenses and a corresponding €2.8 billion reduction in previously expected cumulative EBIT* over the 2006 to 2010 period.

Finally, the build-up of inventory as well as the impact on payments from A380 customers will lead to a working capital increase of some €1.5 billion.

Summing up all the above, EADS anticipates the A380 programme will suffer a cumulative free cash flow reduction of €6.3 billion compared to previously expected free cash flow for the period.

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Summing up all the above, EADS anticipates the A380 programme will suffer a cumulative free cash flow reduction of €6.3 billion compared to previously expected free cash flow for the period.
To restore its competitiveness, and to counter the financial impact of these delays, Airbus is launching the “Power8” programme which is intended to generate sustainable annual cost savings of at least €2.0 billion from 2010 onwards. Furthermore, “Power8” aims to speed up development processes and to deliver around €5.0 billion in cumulative cash savings by 2010. The Board of Directors fully supports the “Power8” programme. Improvement and cost reduction programmes will also be implemented in other parts of the Group. Furthermore, EADS will continue Group wide integration to reduce costs and to achieve more efficient and more effective management structures.

Power8 competitiveness programme

The Board of Directors decided to conduct an independent assessment of individual discharge of duties in the situation that led to the A380 delays. This investigation will extend to scrutinizing potential responsibilities at the management level. The Company reserves all its rights in the circumstances.

The EADS Board of Directors has appointed EADS Co-CEO Louis Gallois as Airbus CEO with immediate effect. Louis Gallois will remain Co-CEO of EADS. The non-Airbus divisions will report to EADS Co-CEO Thomas Enders in the future.

The new management structure will allow, on the one hand, a leaner, more efficient corporate governance and, on the other hand, additional cost savings within the EADS group.

The EADS Board of Directors has appointed Fabrice Brégier as Airbus Chief Operating Officer (COO) with immediate effect. Fabrice Brégier remains a member of the EADS Executive Committee.

To further improve transparency within the Group, the EADS Board has appointed EADS CFO Hans Peter Ring as Airbus CFO effective 1 January 2007. Hans Peter Ring will remain CFO of EADS.

Lutz Bertling has been appointed to succeed Fabrice Brégier as President and CEO of Eurocopter and to join the EADS Executive Committee with immediate effect.

EADS has announced the resignation of Christian Streiff as Airbus’ Chief Executive Officer and member of the EADS Executive Committee with immediate effect.

The EADS Board of Directors has appointed Fabrice Brégier as Airbus Chief Operating Officer (COO) with immediate effect. Fabrice Brégier remains a member of the EADS Executive Committee.
Why is the electrical installation of the A380 more complex than in other planes? Commercial aircraft feature increasingly high performance equipment. From reclining seats to individual entertainment systems, cabin equipment has fundamentally changed and is now a major selling point to airline passengers.

Previously, planes were fitted with extensive hydraulic systems, especially for seats. Today, seats are electronically controlled. For example, twenty years ago, audio was piped to passengers by tubes. But today, equipment is entirely electronic. Electrical power is therefore the key to comfort when flying.

Airlines flying the A380 aim to make the plane the flagship of their fleet. They want to offer a hitherto unrivalled quality of service. When fitting out the cabin, they want the latest, most modern equipment, to give their customers a bespoke service, surpassing all existing levels of quality.

A380 Programme: where are we?
- 15 planes assembled
- 5 planes in flight testing.
- 730 flights – 2,300 flying hours.
- Type certification from European certification authorities (EASA) and American authorities (FAA) in December 2006.
- Delivery of first plane to Singapore Airlines in October 2007.

Final tests prior to certification
- On 4 September, the A380 took its first passengers (see photo). 474 volunteer Airbus employees, randomly chosen from the 15,000 applicants, took off for the first of a series of four passenger flights, the purpose being to test plane comfort and ergonomics. On 13 November, the A380 began its final series of technical trials under commercial flight conditions, with a view to ensuring airport compatibility. After leaving Toulouse, the plane will make 4 flights to ten airports including Hong Kong, Peking, Sydney and Vancouver.
The search for excellence drives the increasing complexity of equipment. Each customer airline needs to provide a customised package of services. As a result, more than 70,000 electrical technical solutions have been developed for the A380, resulting in huge numbers of combinations at the electrical level, to meet customer requirements.

The A380 features 100,000 electrical connections, which are so many wires interconnecting different items of equipment. The electrical lines are bundled in harnesses.

However, all the information cannot be routed along the same harness. This is because aircraft cabling and wiring is governed by extremely precise rules for segregating wires by purpose, so to ensure absolute data integrity. Furthermore, given the growth in the number of wires and in parallel the increased space they take up, there is less and less room for routing the harnesses.

The electrical installation layout is also governed by the cabin structure. Every time a system is upgraded, including even an individual item of equipment, the electrical connection has to keep pace. Each time a cable or wiring route is modified, or there is a mechanical change in the aircraft, there are spin-off consequences on the electrical installations, with resulting, sometimes substantial, modifications. This is one of the reasons of the delays announced for the industrial roll-out of the A380. The measures taken to overcome this situation are now beginning to produce results. They will ensure that the A380 cabin is on a par with the outstanding performance of the aircraft itself.
EADS now owns 100 percent of Airbus

EADS on 13 October acquired from BAE Systems its 20 percent stake in Airbus for €2.75 billion. This value was determined by an independent expert during the put option process which was launched by BAE Systems in June 2006. EADS paid in cash from the existing resources of the Group. EADS is therefore now the sole owner of Airbus.

EADS delivered solid results in the first half of 2006. Revenues increased across all Divisions by 18 percent to €19.0 billion (H1 2005: €16.0 billion) and EBIT* grew to €1.6 billion, up six percent (H1 2005: €1.5 billion).

The increase in EADS revenues was achieved across all Divisions.

The Airbus contribution to the Group’s increased revenues resulted mainly from higher aircraft deliveries reaching record of 219 (H1 2005: 189).

Revenue growth in the Military Transport Aircraft Division was supported by higher revenue recognition in the A400M programme, while Eurocopter benefited from strong commercial momentum leading to a volume increase. The combined revenues from EADS defence businesses amounted to €4.1 billion (H1 2005: €3.1 billion). As in previous years top and bottom line contribution from the defence, helicopter and space businesses is much stronger in the second half of the year.

EBIT* increases compared to the same period of 2005 came from positive volume effects and ongoing EBIT* improvements in all Divisions, despite the strong Dollar headwind with hedges maturing at an average rate of €1 = US$ 1.08 (H1 2005: €1 = US$ 1.01), EADS Sogerma Services charges, additional costs related to the revised A380 delivery schedule and increases in Research & Development (R&D) expenses. The EBIT* margin amounted to 8.6 percent.

In the first half of 2006, self-financed R&D expenses amounted to €1,139 million (H1 2005: €950 million). This increase was mostly due to the development costs on the A350 programme. The five percent rise in EADS’ Net Income to €1,043 million
1) Earnings before interest, taxes, depreciation, amortization and exceptionals.
2) Earnings before interest and taxes, pre-goodwill impairment and exceptionals.
3) EADS continues to use the term Net Income. It is identical with Profit for the period attributable to equity holders of the parent as defined by IFRS Rules; Revised application of IAS 32 standards required changes regarding the accounting for the put option granted to BAE Systems as a minority shareholder of Airbus (20 percent).
4) Contributions from commercial aircraft activities to EADS Order Intake and Order Book based on list prices.

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### EADS Group (Amounts in Euros)

|                      | H1 2006 | H1 2005 | Change  
|----------------------|---------|---------|--------
| Revenues             | 18,980  | 16,020  | + 18%  
| Thereof defence      | 4,127   | 3,051   | + 35%  
| EBITDA(1)            | 2,405   | 2,240   | + 7%   
| EBIT(2)              | 1,632   | 1,540   | + 6%   
| Research and Development costs | 1,139   | 950     | + 20%  
| Net Income(3)        | 1,043   | 992     | + 5%   
| Earnings Per Share (EPS)(3), in Euros | 1.31 €   | 1.25 €  | + 0.06 €  
| Free Cash Flow (FCF) | 319     | 1,581   | – 80%  
| Free Cash Flow before Customer Financing | –216    | 1,477   | –      
| Order Intake(4)      | 14,153  | 25,424  | – 44%  

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### EADS Group (Amounts in Euros)

|----------------------|--------------|--------------|--------
| Order Book(4)        | 234,482      | 253,235      | – 7%   
| Thereof defence      | 51,098       | 52,363       | – 2%   
| Net Cash position    | 5,251        | 5,489        | – 4%   

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(H1 2005: € 992 million), or € 1.31 per share (H1 2005: € 1.25) reflects the Group EBIT* increase being partly offset by finance costs.

Free Cash Flow including customer financing stood at € 319 million (H1 2005: € 1,581 million).

The reduction compared to the same period of 2005 is mainly due to reduced contribution from pre-delivery payments and partly offset by a positive effect from customer financing. Consequently, Free Cash Flow before customer financing amounted to € –216 million (H1 2005: € 1,477 million).

At the end of June 2006, the Net Cash position stood at € 5.3 billion (year-end 2005: € 5.5 billion).

In the first six months of 2006, EADS’ order intake amounted to € 14.2 billion (H1 2005: € 25.4 billion).


In the first six months of 2006, EADS created more than 2,000 new jobs.

“Contributions from commercial aircraft activities are based on list prices.

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**REVENUES PROGRESS**

- **2006**: €18,980 M€
- **2005**: €16,020 M€
- **2004**: €14,567 M€

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Your EADS shares

Share price falls on delay announcements

On 10 September EADS confirmed it had received notification that the Russian state-owned Vneshtorgbank (VTB) had acquired a stake of 5.02% in EADS.

On 12 September, EADS share price rose 5.4% on rumours that Russia might increase its stake still further.

In the second half of September, the EADS share price dropped after an initial announcement of further delays in the A380 programme, speculation that Emirates could cancel A380 orders.

The share price stabilised at a lower level before coming under further pressure.

On 3 October, EADS and Airbus published the findings of the A380 programme review and announced a further 10-month delay in deliveries as well as the launch of Power8. Soon afterwards Christian Streiff resigned as Airbus CEO. By 9 October, EADS shares were down 11.0% at € 20.16.

Investors were concerned about management instability and that A380 delays might rob EADS of earnings growth for much of the current upturn in the aircraft market. The impact of the delays on net cash were also a cause for concern.

Despite relatively negative news flow on credit rating downgrades and speculation on increased government shareholdings, the EADS share price slightly rebounded and stabilised at a lower level following news flow after the EADS investor forum in Hamburg, which took place on 19 and 20 October and now fluctuates between € 20 and € 23.

Profile

ISIN Code NL0000235190

Number of issued shares as of May 15th, 2006 815 349 555

Offer price on July 10th, 2000 € 19 for institutional investors € 18 for retail investors

High in 2006 on Paris Stock Market € 35.42 on March 27th

Low in 2006 on Paris Stock Market € 16.75 on June 14th

Earnings per share (EPS) 2005 € 2.11

Dividend per share 2005, paid on June 1st, 2006 € 0.65
EADS nine month results

EADS results for the first nine months of the year show a record level for deliveries and future challenges.

EADS’ results for the first nine months of 2006 reflect high delivery levels throughout the Group as well as anticipation of the challenges ahead. From January to September 2006, EADS increased its revenues across all Divisions by 17 percent to €27.5 billion (9m 2005: €23.4 billion). The Group achieved an EBIT* (pre-goodwill and exceptional) of €1.4 billion (9m 2005: 2.1 billion), a reduction attributable to the A380 delays and the US Dollar devaluation against the Euro.

"EADS financials remain sound based on good performance of the Airbus delivery programmes and the helicopter, defence and space businesses. Nevertheless, the struggle to reverse the A380 problems imposes a severe burden on our financial performance," said EADS CEOs Thomas Enders and Louis Gallois. "This together with the Dollar devaluation requires drastic measures to remain competitive. Therefore the ‘Power8’ programme in Airbus and structural streamlining of the Group has top priority.”

The rescheduling of the A380 delivery plan in early October overshadowed the progress in the A380 type certification process as well as Airbus’ record nine month deliveries of 320 aircraft.

The Airbus Division revenues grew by 16 percent to €18,570 million (9m 2005: €16,033 million) mainly driven by ramped-up aircraft deliveries of 320 in the first nine months of 2006 (271 in the same period of the previous year). EBIT* contracted by 38 percent to €1,141 million (9m 2005: €1,854 million). A positive volume effect and Route06 savings were more than offset by charges associated with the A380 delay (€–1.0 billion), a significant dollar impact and higher R&D expenses. Airbus received 226 gross orders during the first three quarters of 2006. At the end of September 2006, the Airbus order book amounted to €183.8 billion based on list prices, representing a total of 2,061 aircraft (year-end 2005: 2,177 aircraft).

Eurocopter performed well in the rapidly growing helicopter market. Revenues strongly improved by 17 percent to €2,364 million (9m 2005: €2,021 million) driven by higher helicopter deliveries (257 compared to 210 in the same period of the previous year). EBIT* grew to €125 million (9m 2005: €105 million). This 19 percent improvement was achieved by a positive volume effect in series helicopter production and despite a detrimental US Dollar impact.

The Military Transport Aircraft Division accounted revenues of €1,699 million (9m 2005: €504 million). From January to September 2006 it recorded a strengthened EBIT* of €22 million compared to €1 million in the same period of 2005, reflecting higher revenue recognition in the A400M programme. Production of the A400M is underway and the Cockpit Mock-up milestone was reached in accordance with the contractual schedule.

The Space Division recorded 17 percent higher revenues of €1,960 million (9m 2005: €1,670 million). Main drivers were the ramp-up of Ariane 5 production and progress in military satellite communications such as SkyNet 5 or SatcomBw. EBIT* surged to €45 million in the first nine months compared to €10 million in the same period of 2005.

EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance. The term “exceptionals” refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges thereon.

During the first nine months of 2006, orders placed with EADS amounted to €25.7 billion. Eurocopter (87 percent increase in orders) and the Space division (130 percent increase in orders) have benefited from a major trade expansion.

At the end of September, EADS orders amounted to €236.5 billion (end of 2005: €253.2 billion).
EADS
Nine Month Results 2006
(Amounts in Euro)

EADS GROUP (amounts in millions) 01-09 2006 01-09 2005 Change
Revenues 27,469 23,446 + 17%
Thereof defence 5,921 4,877 + 21%
EBITDA(1) 2,531 3,370 – 25%
EBIT(2) 1,393 2,099 – 34%
Research and Development costs 1,691 1,431 + 18%
Net Income(2) 848 1,271 – 33%
Earnings Per Share (EPS)(2), in euros € 1.06 € 1.60 – € 0.54
Order Intake(2) 25,688 38,802 – 34%

Order Book(2), in millions 236,524 253,235 – 7%
Thereof defence, in millions 52,626 52,363 + 1%
Employees 116,146 113,210 + 3%

1) Earnings before interest, taxes, depreciation, amortization and exceptionals
2) Earnings before interest and taxes, pre-goodwill impairment and exceptional
3) EADS continues to use the term Net Income. It is identical with Profit for the period attributable to equity holders of the parent as defined by IFRS Rules. Revised application of IAS 32 standards required changes regarding the accounting for the put option formerly granted to BAE Systems as a minority shareholder of Airbus (20 percent). In the first nine months of 2006, these changes contributed € 133 million to Net Income (9m 2005: € 246 million) or € 0.17 to earnings per share (9m 2005: € 0.21). These changes also resulted in the recognition of the put option in the balance sheet as a liability for puttable instruments (€ 2.75 billion; year-end 2005: € 3.5 billion). The liability replaces the minority interest for BAE Systems’ 20 percent Airbus stake in EADS’ balance sheet. The acquisition of BAE Systems’ stake in Airbus was closed in October 2006. The impact will therefore be accounted for in the fourth quarter 2006.
4) Contributions from commercial aircraft activities to EADS Order Intake and Order Book based on list prices.

Outlook 2006
Based on the expectation of 430 Airbus aircraft deliveries in 2006 and strong contributions from its helicopters, defence and space businesses EADS is set to achieve revenues of well above € 37 billion for the full year as announced on 27 July 2006. EADS withdrew its previously provided 2006 EBIT* and Free Cash Flow guidance on 3 October 2006. As already announced, EADS will not issue an updated 2006 outlook until further notice.

Nevertheless, due to the seasonality of all EADS businesses except from Airbus, the EBIT* of Military Transport Aircraft, Eurocopter, Space and Defence & Security Systems Divisions is traditionally stronger in the fourth quarter than in the previous quarters of the year.

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