

## 4. Corporate Governance

### 4.1 Management and Control

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#### 4.1.1 COMPOSITION, POWERS AND RULES

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Under the Articles of Association, the Board of Directors consists of at most 12 Directors, who each retire at the close of the **AGM** held three years following their appointment. Under the Board Rules, at least a majority of the Members of the Board of Directors (i.e., 7/12) must be European Union (“**EU**”) nationals (including the Chairman of the Board of Directors) and a majority of such majority (i.e., 4/7) must be both EU nationals and residents. No Director may be an active civil servant. The Board of Directors has one Executive Director and eleven non-Executive Directors. While the Board of Directors appoints the Chief Executive Officer of the Company (the “**CEO**”), the CEO is required to be an Executive Director and must be an EU national and resident; therefore it is anticipated that the Board of Directors will appoint as CEO the person appointed by the shareholders as an Executive Director. At least nine of the non-Executive Directors must be “Independent Directors” (including the Chairman of the Board of Directors).

Under the Board Rules, an “Independent Director” is a non-Executive Director who is independent within the meaning of the Dutch Code and meets additional independence standards. Specifically, where the Dutch Code would determine independence, in part, by reference to a Director’s relationships with shareholders who own at least 10% of the Company, the Board Rules determine such Director’s independence, in relevant part, by reference to such Director’s relationships with shareholders who own at least 5% of the Company. According to the criteria of the Dutch Code and the Board Rules, all non-Executive Directors (including the Chairman), presently qualify as an “Independent Director”<sup>2</sup>.

The Remuneration, Nomination and Governance Committee of the Board of Directors (the “**RNGC**”) is charged with recommending to the Board of Directors the names of candidates to succeed active Board Members after consultation with the Chairman of the Board of Directors and the CEO.

The Board of Directors, deciding by simple majority vote, proposes individuals to the shareholders’ meeting of the Company for appointment as Directors by the shareholders’ meeting. No shareholder or group of shareholders, or any other entity, has the right to propose, nominate or appoint any Directors other than the rights available to all shareholders under general Dutch corporate law.

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<sup>2</sup> Mr. Ralph D. Crosby, Jr. terminated his executive position within Airbus on 31 December 2011. He therefore qualifies as an Independent Director since 1 January 2017, i.e. after a five-year cooling-off period, according to the Board Rules and the Dutch Code.

In addition to the membership and composition rules described above, the RNGC, in recommending candidates for the Board of Directors, and the Board of Directors in its resolutions proposed to the shareholders' meeting regarding proposals to appoint or replace a resigning or incapacitated Director, are both required to apply the following principles:

- ▶ The preference for the best candidate for the position, and
- ▶ The maintenance, in respect of the number of Members of the Board of Directors, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of the Company (in particular among the nationals of the four Member States of the EU where these main industrial centres are located).

The Board of Directors is required to take into account, in the resolutions proposed in respect of the nomination of Directors presented to the shareholders' meeting, the undertakings of the Company to the French State pursuant to the amendment to the French State Security Agreement and to the German State pursuant to the German State Security Agreement, in each case as described more fully above. In practice, this means that (i) two of the Directors submitted to the shareholders for appointment should also be French Defence Outside Directors (as defined above) of the French Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the French State and (ii) two of the Directors submitted to the shareholders for appointment should also be German Defence Outside Directors (as defined above) of the German Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the German State.

The RNGC endeavours to avoid a complete replacement of outgoing Directors by new candidates and draws up an appointment and reappointment schedule for the Directors after consultation with the Chairman and the CEO. In drawing up such schedule, the RNGC considers the continuity of company-specific knowledge and experience within the Board while it takes into account that a Director should at the time of his appointment or re-appointment not be older than 75 years and ensuring that at least one third of Directors' positions are either renewed or replaced every year, provided that exceptions to these rules may be agreed by the Board if specific circumstances provide an appropriate justification for such exceptions.

## Voting and rules

Most Board of Directors' decisions can be made by a simple majority of the votes of the Directors (a "**Simple Majority**"), but certain decisions must be made by a 2/3 majority (i.e., eight favourable votes) of the Directors regardless of whether present or represented in respect of the decision (a "**Qualified Majority**"). In addition, amendments to certain provisions of the Board Rules require the unanimous approval of the Board of Directors, with no more than one Director not being present or represented (including provisions relating to nationality and residence requirements with respect to Members of the Board of Directors and the Group Executive Committee). However, no individual Director or class of Directors has a veto right with respect to any Board of Directors' decisions.

## Powers of the Members of the Board of Directors

The Board Rules specify that in addition to the Board of Directors' responsibilities under applicable law and the Articles of Association, the Board of Directors is responsible for certain enumerated categories of decisions. Under the Articles of Association, the Board of Directors is responsible for the management of the Company. Under the Board Rules, the Board of Directors delegates the execution of the strategy as approved by the Board of Directors and the day-to-day management of the Company to the CEO, who, supported by the Group Executive Committee, makes decisions with respect to the management of the Company. However, the CEO should not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

Matters that require Board of Directors' approval include among others, the following items (by Simple Majority unless otherwise noted):

























- ▶ Approving any change in the nature and scope of the business of the Company and Airbus;
- ▶ Debating and approving the overall strategy and the strategic plan of Airbus;
- ▶ Approving the operational business plan of Airbus (the "**Business Plan**") and the yearly budget of Airbus (the "**Yearly Budget**"), including the plans for Investment, Research and Development ("**R&D**"), Employment, Finance and, as far as applicable, major programmes;
- ▶ Nominating, suspending or revoking the Chairman of the Board of Directors and the CEO (Qualified Majority);
- ▶ Approving of all of the Members of the Group Executive Committee as proposed by the CEO and their service contracts and other contractual matters in relation to the Group Executive Committee and deciding upon the appointment and removal of the Secretary to the Board on the basis of the recommendation of the Remuneration, Nomination and Governance Committee;
- ▶ Approving the relocation of the headquarters of the principal companies of Airbus and of the operational headquarters of the Company (Qualified Majority);
- ▶ Approving decisions in connection with the location of new industrial sites material to Airbus as a whole or the change of the location of existing activities that are material to Airbus;
- ▶ Approving decisions to invest and initiate programmes financed by Airbus, acquisition, divestment or sale decisions, in each case for an amount in excess of € 300 million;
- ▶ Approving decisions to invest and initiate programmes financed by Airbus, acquisition, divestment or sale decisions, in each case for an amount in excess of € 800 million (Qualified Majority);
- ▶ Approving decisions to enter into and terminate strategic alliances at the level of the Company or at the level of one of its principal subsidiaries (Qualified Majority);
- ▶ Approving matters of shareholder policy, major actions or major announcements to the capital markets; and
- ▶ Approving decisions in respect of other measures and business of fundamental significance for Airbus or which involves an abnormal level of risk.

The Board of Directors must have a certain number of Directors present or represented at a meeting to take action. This quorum requirement depends on the action to be taken. For the Board of Directors to make a decision on a Simple Majority matter, a majority of the Directors must be present or represented. For the Board of Directors to make a decision on a Qualified Majority matter, at least ten of the Directors must be present or represented. If the Board of Directors cannot act on a Qualified Majority Matter because this quorum is not satisfied, the quorum would decrease to eight of the

Directors at a new duly called meeting.

In addition, the Board Rules detail the rights and duties of the Members of the Board of Directors and set out the core principles which each Member of the Board of Directors shall comply with and shall be bound by, such as acting in the best interest of the Company and its stakeholders, devoting necessary time and attention to the carrying out of their duties and avoiding any and all conflicts of interest.

 AIRBUS BOARD OF DIRECTORS FOR YEAR 2016

Name	Age	Since	Current term expires	Director expertise	Status	Primary occupation & Other mandates	Committee attendance		Remuneration Nomination and Governance
							Board attendance	Audit	
<b>Denis RANQUE</b>	65	 2013, re-election in 2016	2017		Independent	Chairman of the Board of Directors of Airbus Group SE	6/6		
<b>Thomas ENDERS</b>	58	 2012, last re-election in 2016	2019		Executive	Chief Executive Officer of Airbus Group SE	6/6		
<b>Ralph D. CROSBY, Jr.</b>	69	 2013, re-election in 2016	2017		Independent	Member of the Board of Directors of Serco Group plc and former Member of the Corporate Policy Council of Northrop Grumman Corporation	6/6		
<b>Catherine GUILLOUARD</b>	52	 2016	2019		Independent	Deputy Chief Executive Officer of Rexel* and Member of the Board of Directors of ENGIE	4/4 (from AGM 2016)	2/2 (from AGM 2016)	
<b>Hans-Peter KEITEL</b>	69	 2013, re-election in 2016	2018		Independent	Vice President of the Federation of German Industry (BDI) and Member of the Supervisory Board of Thyssenkrupp AG	6/6		3/3
<b>Hermann-Josef LAMBERTI</b>	61	 2007, last re-election in 2016	2017		Independent	Member of the Supervisory Board of ING Groep N.V. and former Member of the Management Board of Deutsche Bank AG	6/6	5/5	
<b>Lakshmi N. MITTAL</b>	66	 2007, last re-election in 2016	2017		Independent	Chairman and Chief Executive Officer of ArcelorMittal	6/6		3/3
<b>Amparo MORALEDA</b>	52	 2015	2018		Independent	Member of the Board of Directors of Solvay and former General Manager of IBM South Region	6/6	5/5	
<b>Claudia NEMAT</b>	48	 2016	2019		Independent	Member of the Board of Management of Deutsche Telekom AG	3/4 (from AGM 2016)	2/2 (from AGM 2016)	
<b>Sir John PARKER</b>	74	 2007, last re-election in 2016	2018		Independent	Chairman of the Board of Anglo American plc	6/6		3/3
<b>Carlos TAVARES</b>	58	 2016	2019		Independent	Chairman of the Managing Board of Peugeot SA	3/4 (from AGM 2016)		
<b>Jean-Claude TRICHET</b>	74	 2012, last re-election in 2016	2018		Independent	Honorary Governor of Banque de France and former President of the European Central Bank	6/6		3/3

5 meetings – 95% average attendance rate      3 meetings – 100% average attendance rate

Status as of the date of this Board Report. \* Until 20 February 2017.  
The professional address of all Members of the Board of Directors for any matter relating to Airbus Group SE is Mendelweg 30, 2333 CS Leiden, The Netherlands.

 Chairman   
  Member

 Global Business   
  Engineering & Technology   
  Manufacturing & Production   
  Aerospace Industry   
  Finance & Audit   
  Geopolitical Economics   
  Defence Industry   
  Information & Data Management   
  Asia

More details regarding the curriculum vitae and other mandates of all Members of the Board of Directors can be found at the Company's website [www.airbusgroup.com](http://www.airbusgroup.com).

Within the Company, each Member of the Board of Directors must have the required mix of experience, qualifications, skills and industrial knowledge necessary to assist the Company in formulating and achieving its overall strategy, together with the specific expertise required to fulfil the duties assigned to him or her as Member of one of the Board of Directors' committees. The Board of Directors also believes that a diverse composition among its Members with respect to gender, experience, national origin, etc. is valuable for the quality and efficiency of its work.

#### 4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2016

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##### Board of Directors meetings

The Board of Directors met six times during 2016 and was regularly informed of developments through business reports from the Chief Executive Officer, including progress on the strategic and operational plans. The average attendance rate at these meetings was 97%.

Throughout 2016, the Board of Directors reviewed and discussed the technical and commercial progress of significant programmes, such as the A400M, the Airbus A320neo, A330neo and A350XWB programmes; the different helicopter programmes; as well as the space business's next generation launcher Ariane 6 and OneWeb satellites constellation programme.

The off-site Board meeting in Mobile, Alabama, was dedicated to the review of the division and product strategies and the related business developments as well as the overall strategy of the company. The Board of Directors seized the opportunity to visit the US A320 final assembly line and to meet with local management and with the operative workforce as well as with local authorities. The second off-site Board meeting took place in the new operational headquarters – the Wings Campus - in Toulouse.

In 2016, the Board of Directors continued to support the digitalisation initiative, which was started last year to enhance the Company's ability to identify and capitalise on innovative and transformational technologies and business models. As an integral part of this initiative, the Board of Directors approved the reorganisation and refocussing of the CTO department on its fundamental tasks of guiding and coordinating overall activities, developing group wide roadmaps / demonstrators as well as technical expertise and blue-sky research.

The Board of Directors decided also on a further integration by merging its Group structure with its largest division Airbus Commercial Aircraft into a new entity. Lean structures and speedy decision-making are prerequisites for the success of digital transformation. The merger of Airbus Group and Airbus paves the way for an overhaul of the corporate set-up, simplifies the company's governance, eliminates redundancies and supports further efficiencies, while at the same time driving further integration of the entire Group. These latest efforts are the continuation of a number of integration and normalisation steps, which Airbus has taken in recent years.

Moreover, the Board of Directors engaged in Airbus' financial results and forecasts and reviewed thoroughly the Enterprise Risk Management reports and the internal audit plan and findings. It supported the corporate social responsibility initiatives and put emphasis on further strengthening the Airbus compliance programme, building on the 'Business Development Support Initiative' which was started in 2015. A comprehensive training programme was deployed throughout Airbus to raise awareness, to reduce risks and more generally to improve the culture of integrity of the Company.

## Board evaluation 2016

As a matter of principle, the Board of Directors has decided that a formal evaluation of the functioning of the Board of Directors and its Committees with the assistance of a third-party expert is conducted every three years. In the year succeeding the outside evaluation, the Board of Directors performs a self-evaluation and focuses on the implementation of the improvement action plan resulting from the third-party assessment. In the intervening second year, the General Counsel, being also the Secretary of the Board, issues a questionnaire and consults with Board Members to establish an internal evaluation which is then discussed with Board Members.

The year 2016 marked the end of this three-year cycle. In December 2016, the Board of Directors therefore carried out an internal evaluation based on a questionnaire issued by the General Counsel and circulated to each Board Member.

The questionnaire primarily covered governance, Board of Directors and Committees' effectiveness, Board of Directors and Committee composition, Board of Directors areas of expertise and working process, relationships between the Board of Directors, the Management, shareholders and stakeholders, as well as scope and composition of topics and the preparation for the future.

The Board of Directors was satisfied overall with the continuous progress made in 2015 and 2016 in the implementation of the improvement action plan recommended by the third-party expert, Spencer Stuart, following the formal evaluation conducted in December 2014.

In the 2016 evaluation, the Board Members confirmed satisfaction with the Company's governance structure, Board of Directors' effectiveness and decision-making process. The Board Members notably valued adequate balance of powers and constructive interaction between the Board of Directors and the Management, open debates within the Board of Directors and positive contribution of the Board Committees. The Board of Directors' effectiveness is helped by consistent progress in the preparation of Board meetings, as well as the quality and level of information provided to the Board Members prior to and in-between Board meetings. The induction programme for new Board Members and off-site Board meetings are also appreciated.

The Board Members also highlighted that the Board of Directors should dedicate additional time to risk management, strategy and other topics, such as benchmarking on competitors and products, digital transformation, corporate and social responsibility and employee engagement. This would help to evaluate the performance and competitiveness of the Company, increase anticipation in a challenging environment and prepare for the future.

The year 2016 marked a substantial improvement of gender diversity within the Board of Directors. In addition, the Board Members highlighted the necessity to continue with the process of the staggering board principle, decided at the 2016 Annual General Meeting, in order to maintain the diversity of expertise and nationalities within the Board of Directors.

### 4.1.3 BOARD COMMITTEES

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#### The Audit Committee

Pursuant to the Board Rules, the Audit Committee makes recommendations to the Board of Directors on the approval of the annual financial statements and the interim (Q1, H1, Q3) accounts, as well as the appointment of external auditor and the determination of his remuneration. Moreover, the Audit Committee has the responsibility for verifying and making recommendations to the effect that the internal and external audit activities are correctly directed, that internal controls are duly exercised and that these matters are given due importance at meetings of the Board of Directors. Thus, it discusses with the auditor his audit programme and the results of the audit of the accounts, and it supervises the adequacy of Airbus' internal controls, accounting policies and financial reporting and the implementation thereof by the CEO and senior

management. It also oversees the operation of Airbus' Enterprise Risk Management ("ERM") system and the Compliance Organisation.

The Chairman of the Board of Directors and the Chief Executive Officer are invited to attend meetings of the Audit Committee. The Chief Financial Officer and the Head of Accounting Record to Report are requested to attend meetings to present management proposals and to answer questions. Furthermore, the Head of Corporate Audit and the Airbus Ethics and Compliance Officer are requested to report to the Audit Committee on a regular basis.

The Audit Committee is required to meet at least four times a year. In 2016, it met five times with an average attendance rate of 95%, it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

## The Remuneration, Nomination and Governance Committee

Pursuant to the Board Rules, the RNGC consults with the CEO with respect to proposals for the appointment of the Members of the Group Executive Committee and makes recommendations to the Board of Directors regarding the appointment of the Secretary to the Board of Directors. The RNGC also makes recommendations to the Board of Directors regarding succession planning (at Board, Group Executive Committee and Senior Management levels), remuneration strategies and long-term remuneration plans. Furthermore, the Committee decides on the service contracts and other contractual matters in relation to the Members of the Board of Directors and the Group Executive Committee. The rules and responsibilities of the RNGC have been set out in the Board Rules.

The Chairman of the Board of Directors and the Chief Executive Officer are invited to attend meetings of the RNGC. The Head of Airbus Human Resources is requested to attend meetings to present management proposals and to answer questions.

In addition, the RNGC reviews top talents, discusses measures to improve engagement and to promote diversity, reviews the remuneration of the Group Executive Committee Members for the current year, the Long Term Incentive Plan ("LTIP"), and the variable pay for the previous year.

Finally, the RNGC performs regular evaluations of the Company's corporate governance and makes proposals for changes to the Board Rules or the Articles of Association.

The guiding principle governing management appointments within Airbus is that the best candidate should be appointed to the position ("best person for the job"), while at the same time seeking to achieve a balanced composition with respect to gender, experience, national origin, etc. The implementation of these principles should not, however, create any restrictions on the diversity within the Company's executive management team.

The RNGC is required to meet at least twice a year. In 2016, it met three times with an attendance rate of 100%, it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

### 4.1.4 GROUP EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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The CEO proposes all of the Members of the Group Executive Committee of the Company (the "Group Executive Committee") for approval by the Board of Directors, after consultation with (i) the Chairman of the RNGC and (ii) the Chairman of the Board of Directors, applying the following principles:

- ▶ The preference for the best candidate for the position;
- ▶ The maintenance, in respect of the number of Members of the Group Executive Committee, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres Airbus (in particular among the nationals of the four Member States of the EU where these main industrial centres are located); and



- ▶ At least 2/3 of the Members of the Group Executive Committee, including the CEO and the Chief Financial Officer (“CFO”), being EU nationals and residents.

## Role of CEO and Group Executive Committee

The CEO is responsible for executing the strategy as approved by the Board of Directors and for managing the day-to-day operations of Airbus’ business and he shall be accountable for its proper execution accordingly. The Group Executive Committee supports the CEO in performing this task. The Group Executive Committee Members shall jointly contribute to the overall interests of the Company in addition to each Member’s individual operational or functional responsibility within Airbus. The CEO endeavours to reach consensus among the Members of the Group Executive Committee. In the event a consensus is not reached, the CEO is entitled to decide the matter.

## 4.2 Conflict of interest

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### Conflict of interest

The Company has a conflict of interest policy which sets out that any potential or actual conflict of interest between the Company and any Member of the Board of Directors shall be disclosed and avoided (please refer to the “Board Rules (Annex D – Article 8: Conflicts of interest)”) available on the Company’s website: [www.airbusgroup.com](http://www.airbusgroup.com) (Home / Group & Vision / Corporate Governance) and the related best practice provision II.3 of the Dutch Code (as such term is defined in section 4.3 “Dutch Corporate Governance Code” below), which the Company complied with in the year 2016. Pursuant to the Articles of Association and the Board Rules, a conflicted Member of the Board of Directors should abstain from participating in the deliberation and decision-making process relating to the matters concerned. The Board of Directors must approve any decision to enter into a transaction where a Director has conflicts of interest that are material to the Company or the individual Director.

In 2016 no transactions were reported. There were, however, related-party transactions: for an overview, please see: “Notes to the Consolidated Financial Statements (IFRS) – [Note 8]: Related Party Transactions”.

## 4.3 Dutch Corporate Governance Code

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In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code (the “**Dutch Code**”), which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While the Company, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the “comply or explain” principle, provide the explanations below.

On 8 December 2016, the Dutch corporate governance committee published the final version of a revision of the Dutch Code (the “**New Code**”). The New Code will apply to financial years starting on or after 1 January 2017. The New Code is restructured around a number of themes, as opposed to the current Dutch Code which is based on a functional division of roles and responsibilities within a company.

Airbus welcomes the updates to the Dutch Code and supports the emphasis of the New Code on topics such as long-term value creation and the importance of culture. Airbus already complies with a vast majority of the provisions of the New Code and will use the year 2017, to the extent required, to assess the need for a further alignment of its organisational structure and disclosures, with a view to its compliance with the New Code.

For the full text of the Dutch Code, as well as the New Code, please refer to:

[www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

For the financial year 2016 and in respect of compliance with the Dutch Code, the Company states the following:

### **1. Vice-Chairmanship**

Provision III.4.1(f) of the Dutch Code recommends the election of a vice-chairman, to, among other things, deal with the situation when vacancies occur.

The Board of Directors is headed by the Chairman of the Board of Directors and no Vice Chairman is appointed. In case of dismissal or resignation of the Chairman, the Board of Directors shall immediately designate a new Chairman. In Airbus' view there is no need for the appointment of a vice-Chairman to deal with such situations or other circumstances.

### **2. Termination indemnity**

Provision II.2.8 of the Dutch Code recommends that the maximum remuneration in the event of dismissal of an Executive Board Member be one year's salary, and that if the maximum of one year's salary would be manifestly unreasonable for an Executive Board Member who is dismissed during his first term of office, such Board Member be eligible for severance pay not exceeding twice the annual salary.

The Company foresees a termination indemnity for the sole Executive Board Member, the CEO equal to one and a half times the annual total target salary in the event that the Board of Directors has concluded that the CEO can no longer fulfil his position as a result of change of the Company's strategy or policies or as a result of a change in control of the Company. The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors would have been fulfilled by the CEO.

### **3. Securities in the Company as long-term investment**

Provision III.7.2 of the Dutch Code recommends that non-Executive Directors who hold securities in the Company should keep them as a long-term investment. It does not encourage non-Executive Directors to own shares.

The Company does not require its non-Executive Directors who hold shares in its share capital, to keep such shares as a long-term investment. Although non-Executive Directors are welcome to own shares of the Company, the Company considers it is altogether unclear whether share ownership by non-Executive Directors constitutes a factor of virtuous alignment with stakeholder interest or may be a source of bias against objective decisions.

### **4. Dealings with analysts**

Provision IV.3.1 of the Dutch Code recommends meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. In addition, it recommends that provisions shall be made for all shareholders to follow these meetings and presentations in real time and that after the meetings the presentations shall be posted on the company's website.

The Company does not always allow shareholders to follow meetings with analysts in real time. However, the Company ensures that all shareholders and other parties in the financial markets are provided with equal and simultaneous information about matters that may influence the share price.

## 5. Gender diversity

The Company strives to comply with composition guidelines whereby the Board of Directors would be composed in a balanced way if it contains at least 30% women and at least 30% men. These percentages are based on those included in a Dutch draft bill that is expected to come into force in the course of 2017 in continuation of previous legislation stipulating the same percentages. With the election of Amparo Moraleda at the AGM held on 27 May 2015 and the election of Catherine Guillaud and Claudia Nemat at the AGM held on 28 April 2016, the female representation on the Company's Board of Directors increased to 25%. The Company is pleased with this development and will continue to promote gender diversity within its Board of Directors by striving to increase the proportion of female Directors.

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For information on the operation of the shareholders' meeting and its key powers and on shareholders' rights and how they can be exercised, please refer to section 3.1 "Shareholding and voting rights – right to attend shareholders' meetings"

For information on the composition and operation of the Board of Directors and its respective committees, please refer to section 4.1.1 "Composition, power and rules", section 4.1.2 "Operation of the Board of Directors in 2016", and section 4.1.3 "Board Committees".

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to section 3.1 "Shareholding and voting rights – Shareholding structure at the end of 2016", section 3.2 "Relationships with Principal Shareholders", section 4.1.1 "Composition, powers and rules", section 3.1 "Shareholding and voting rights – Amendments to the Articles of Association" and section 3.1 "Shareholding and voting rights – Modifications of share capital or rights attached to shares".

## 4.4 Remuneration Report

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### 4.4.1 INTRODUCTION

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The **RNGC** is pleased to present the 2016 Remuneration Report.

The Report comprises the following sections:

- ▶ 4.4.2 presents the Company's Remuneration Policy;
- ▶ 4.4.3 illustrates how the Remuneration Policy was applied in 2016 in respect of the CEO, the only Executive Member of the Board of Directors (the cumulated remuneration of all Group Executive Committee Members is presented in the "Notes to the Consolidated Financial Statements (IFRS) – Note 8: Related Party Transactions");
- ▶ 4.4.4 illustrates how the Remuneration Policy was applied in 2016 in respect of the non-Executive Members of the Board of Directors;
- ▶ 4.4.5 miscellaneous.

No amendment to the Remuneration Policy (as adopted at the AGM held on 28 April 2016) will be proposed for adoption by the shareholders at the AGM to be held in 2017. The application of the Remuneration Policy in 2016 (see section 4.4.3: "Implementation of the Remuneration Policy in 2016: CEO" and section 4.4.4: "Implementation of the Remuneration Policy in 2016: Non-Executives") will be included as a separate agenda item for discussion at the AGM to be held in 2017.

## 4.4.2 REMUNERATION POLICY

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The Remuneration Policy covers all Members of the Board of Directors: the CEO (who is the only Executive Director) and the other Members of the Board (which is comprised of non-Executive Directors).

It should be noted that although the Policy relating to executive remuneration only refers to the CEO, these principles are also applied to the other Members of the Group Executive Committee, who do not serve on the Board of Directors, and to a large extent to all executives across Airbus. Upon proposal by the CEO, the RNGC analyses and recommends, and the Board of Directors decides, the remuneration of the Members of the Group Executive Committee.

### A — Executive Remuneration – Applicable to the CEO

#### a) Remuneration Philosophy

The Company's remuneration philosophy has the objective of providing remuneration that will attract, retain and motivate high-calibre executives, whose contribution will ensure that the Company achieves its strategic and operational objectives, thereby providing long-term sustainable returns for all shareholders.

The Board of Directors and the RNGC are committed to making sure that the executive remuneration structure is transparent and comprehensible for both executives and investors, and to ensure that executive rewards are consistent and aligned with the interests of long-term shareholders.

Before setting the targets to be proposed for adoption to the Board of Directors, the RNGC considers the financial outcome scenarios of meeting performance targets, as well as of maximum performance achievements, and how these may affect the level and structure of the executive remuneration.

#### b) Total Direct Compensation and Peer Group

The Total Direct Compensation for the CEO comprises a Base Salary, an Annual Variable Remuneration ("VR") and a Long-Term Incentive Plan ("LTIP"). The three elements of the Total Direct Compensation are each intended to comprise 1/3 of the total, assuming the achievement of performance conditions is 100% of target.

The level of Total Direct Compensation for the CEO is set at the median of an extensive peer group. The benchmark is regularly reviewed by the RNGC and is based on a peer group which comprises:

- Global companies in Airbus' main markets (France, Germany, UK and US); and
- Companies operating in the same industries as Airbus worldwide.

The elements of the Total Direct Compensation are described below:

Remuneration Element	Main Drivers	Performance Measures	Target and Maximum
<b>Base Salary</b>	Reflects market value of position.	Not applicable	1/3 of Total Direct Compensation (when performance achievement is 100% of target).
<b>VR</b>	Rewards annual performance based on achievement of company performance measures and individual objectives.	Collective (50% of VR): divided between EBIT <sup>3</sup> (45%); Free Cash Flow <sup>4</sup> (45%) and RoCE (10%). <hr/> Individual (50% of VR): Achievement of annual individual objectives, divided between Outcomes and Behaviour.	The VR is targeted at 100% of Base Salary for the CEO and, depending on the performance assessment, ranges from 0% to 200% of target. The VR is capped at 200% of Base Salary.
<b>LTIP</b>	Rewards long-term commitment and company performance, and engagement on financial targets subject to cumulative performance over a 3-year period.	Vesting ranges from 0% to 150% of initial grant, subject to performance over a three-year period. In principle, no vesting if cumulative negative EBIT. If cumulative EBIT is positive, vesting from 50% to 150% of grant based on EPS (75%) and Free Cash Flow (25%).	The original allocation to the CEO is capped at 100% of Base Salary at the time of grant. Since 2012, the following caps apply to Performance Units only: overall pay-out is capped at a maximum of 250% of the original value at the date of grant. The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.

#### Policy from 2016 (approved by 2016 AGM)

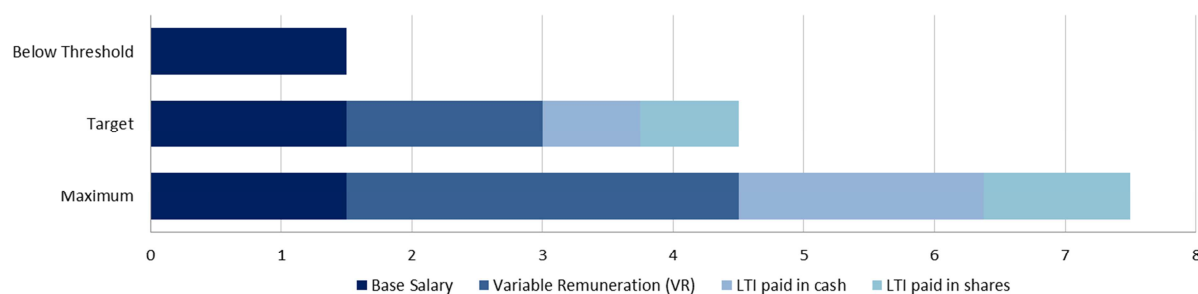
The RNGC regularly benchmarks the CEO's Total Direct Compensation (Base Salary, Annual Variable Remuneration and LTIP) against an extensive peer group. The relevant peer group was composed with the assistance of an independent consultant, Willis Towers Watson, and comprised 31 companies having comparable economic indicators such as revenues, number of employees and market capitalisation. Financial institutions were excluded from the peer group (you may refer to Paragraph 4.4.3 below for further details).

Following the change approved at the AGM in 2016, and as illustrated in the table below, the structure of the CEO's Total Direct Compensation will remain unchanged in 2017. Indeed, the on-target levels of VR and LTIP will each amount to 100% of the CEO's base salary.

<sup>3</sup> Airbus will no longer measure and communicate its performance on the basis of "EBIT\*" but on the basis of "EBIT" (reported), as the difference between the two KPIs, the so called "pre-goodwill and exceptionals" is immaterial. Airbus continues to use the term EBIT (Earnings before interest and taxes). It is identical to Profit before finance cost and income taxes as defined by IFRS Rules.

<sup>4</sup> Airbus defines the alternative performance measure Free Cash Flow as the sum of (i) cash provided by operating activities and (ii) cash used for investing activities, minus (iii) change of securities, (iv) contribution to plan assets of pension schemes and (v) realised foreign exchange results on treasury swaps. It is a key indicator which allows the Company to measure the amount of cash flow generated from operations after cash used in investing activities

## SCENARIOS CEO TOTAL DIRECT COMPENSATION



Indications are in million euros.

"Below Threshold" includes annual base Salary; VR at 0%; LTIP not vesting.

"Target" includes Base Salary, VR at target and LTIP grant face value in cash and in shares.

"Maximum" includes Base Salary; maximum VR value (200% of VR at target); maximum LTIP cash grant projected at vesting date (250% of grant value); maximum performance applicable to the number of shares granted (150%). The share price development is unpredictable. The final value of performance shares cannot be capped.

### c) Base Salary

The Base Salary of the CEO is determined by the Board of Directors, taking into account the peer group analysis mentioned above.

### d) Annual Variable Remuneration

The variable remuneration is a cash payment that is paid each year, depending on the achievement of specific and challenging performance targets. The level of the variable remuneration for the CEO is targeted at 100% of Base Salary; it is capped at a maximum level of 200% of Base Salary. The entire variable remuneration is at-risk, and therefore if performance targets are not achieved sufficiently, no variable remuneration is paid.

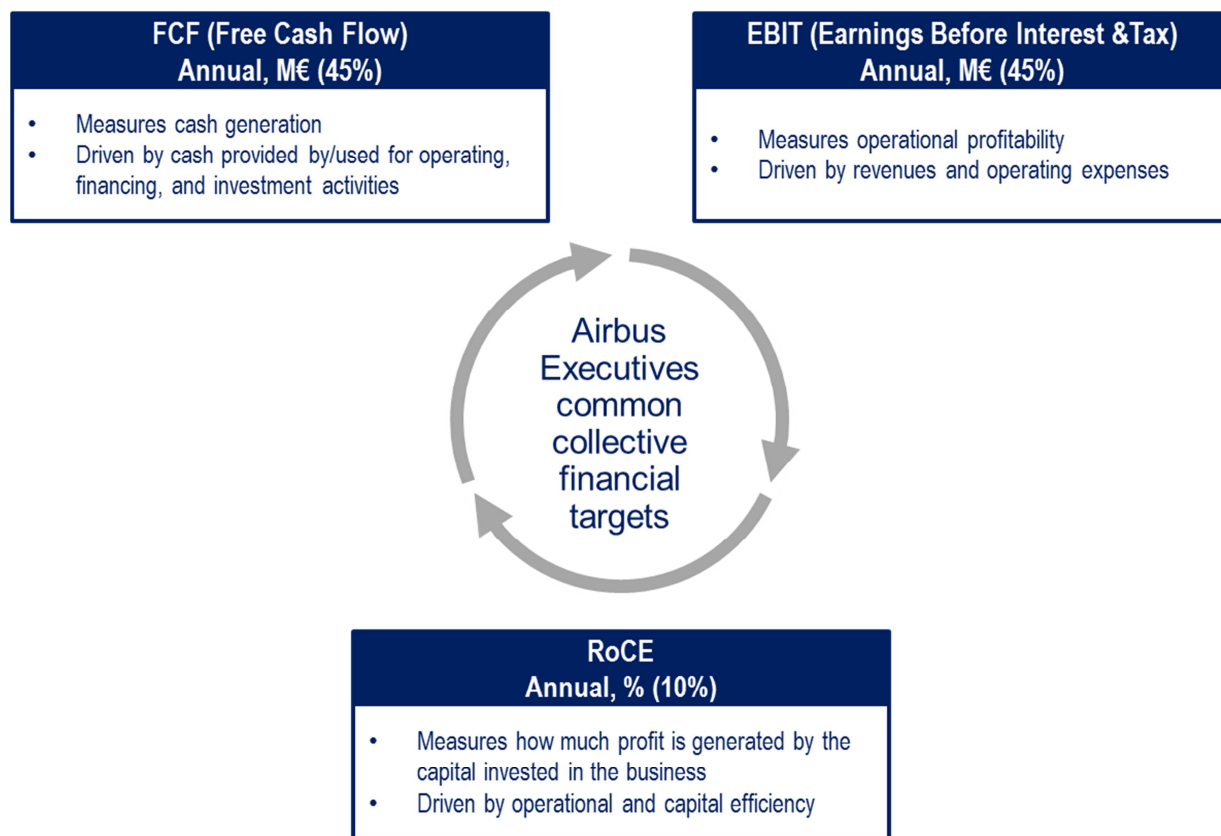
The performance measures that are considered when awarding the variable remuneration to the CEO are split equally between Common Collective performance measures and Individual performance measures.

#### Common Collective Component

The Common Collective component is based on EBIT (45%), Free Cash Flow (45%) and RoCE (10%) objectives. Each year, the Board of Directors sets the goals for these key value drivers at Group and Division levels. The Common Collective financial targets relate closely to internal planning and to guidance given to the capital markets (although there may be variations therefrom).

To calculate the Common Collective annual achievement levels, actual EBIT, Free Cash Flow and RoCE performance are compared against the targets that were set for the year. This comparison forms the basis to compute achievement levels, noting that the actual EBIT, Free Cash Flow and RoCE levels are occasionally adjusted for a limited number of factors which are outside management control (such as certain foreign exchange impacts or unplanned Merger and

Acquisition activities). The RNGC's intention is to ensure ambitious financial targets and to incentivise the CEO's commitment to meeting these targets.



### Individual

The Individual element focuses on **Outcomes and Behaviour**. Individual Performance is assessed in these two important dimensions:

- ▶ **Outcomes** encompass various aspects of what the CEO can do to contribute to the success of the business: specific business results he helps achieve, projects he drives and processes he helps improve. The individual targets of the CEO are comprehensive and shared with all employees via the Company Top Priorities;
- ▶ **Behaviour** refers to the way results have been achieved, which is also critical for long-term success: how the CEO and the Board of Directors work as a team, how the CEO leads the Group Executive Committee, quality of communication, encouragement of innovation, etc. A specific part of the behaviour assessment relates to ethics, compliance and quality issues.

### e) Long-Term Incentive Plan

There are two types of Long-Term Incentive Plans: until 2015, LTIP was made of Performance Units only. In 2016, following the approval of amendments by shareholders at 2016 AGM, the LTIP is now made of a mix of Performance Units and Performance Shares.

The value of the CEO's LTIP allocation is capped as a percentage of Base Salary at the date of grant and subject to performance conditions.

The performance conditions are assessed over a three-year period based on relevant financial criteria with stringent targets set, as demonstrated by past Company practices.

Both Performance Units and Performance Shares that vest can vary between 0% and 150% of the Units and Shares granted, subject to cumulative performance over a three-year period. The level of vesting is subject to the following performance measures:

- 0-50% of the allocation: The Board of Directors has the discretion to decide that this element of the Performance Unit / Share award will not vest if the Company reports negative cumulated **EBIT** results;
- 50-150% of the allocation: This element of the Performance Unit/Shares vest based on the two following performance criteria: average **Earnings Per Share** (75%) and cumulative **Free Cash Flow** (25%). Before the 2013 plan, it used to vest according to one performance criteria only: average **Earnings Per Share**.

Earnings per Share Average over 3 years
<ul style="list-style-type: none"><li>• Measures profitability</li><li>• Driven by net income and number of shares</li></ul>

Free Cash Flow Cumulated over 3 years, M€
<ul style="list-style-type: none"><li>• Measures cash generation</li><li>• Driven by cash provided by/used for operating, financing, and investment activities</li></ul>

For reasons of confidentiality, the precise targets set for the cumulated Free Cash Flow and average EPS, even though they have been properly established in a precise manner, cannot be publicly disclosed as these objectives are in part linked to the Company's strategy. Nonetheless, for the sake of transparency and to ensure compliance with best market practices, retrospective information demonstrating the stringency of the targets set by the Board of Directors is provided for the previous long-term incentive plans.

The vesting of Performance Units and Shares is subject to the following maximum cap:

- the maximum level of vesting is 150% of the number of Units/Shares granted.

The vesting of Performance Units is subject to the following maximum caps:

- the value that could result from share price increases is capped at 200% of the reference share price at the date of grant;
- the overall pay-out is capped at 250% of the value at the date of grant.



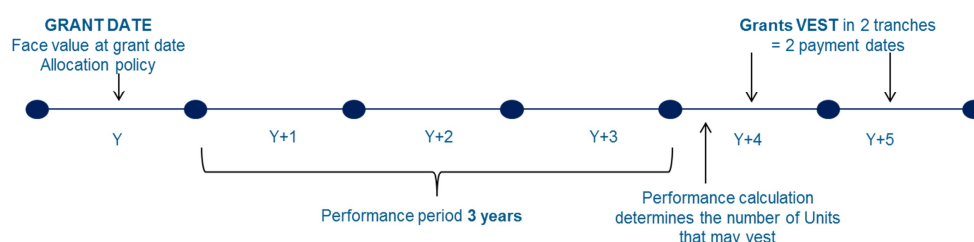
### Performance Units plan characteristics (until and including 2015 plan)

Performance Units are the long-term equity-related incentive awards that are currently granted to the CEO. LTIP awards are granted each year. Each grant is subject to a three-year cumulative performance objective. At the end of the three-year period, the grant is subjected to a performance calculation to determine whether and to what extent it should vest. Depending on continued employment, grants attributed until 2013 will vest in four tranches, the payment of which takes place approximately 6, 12, 18 and 24 months following the end of the performance period. Depending on continuous employment, grants attributed from 2014 would vest in two tranches, the payment of which would take place approximately 6 and 18 months following the end of the performance period.

At the date of grant, the CEO must decide what portion of the allocation (subject to the performance calculation) would be released as cash payments and what portion would be converted into shares. At least 25% (and up to 75%) of the award must be deferred into shares, and would only be released on the last vesting date. For the conversion into shares, one Unit corresponds to one Airbus share.

For each payment in cash, one Unit is equal to the value of one Airbus share at the time of vesting. The Airbus share value is the average of the opening share price, on the Paris Stock Exchange, during the 20 trading days preceding and including the respective vesting dates.

#### LTIP-SCHEME FROM 2014 TO 2015



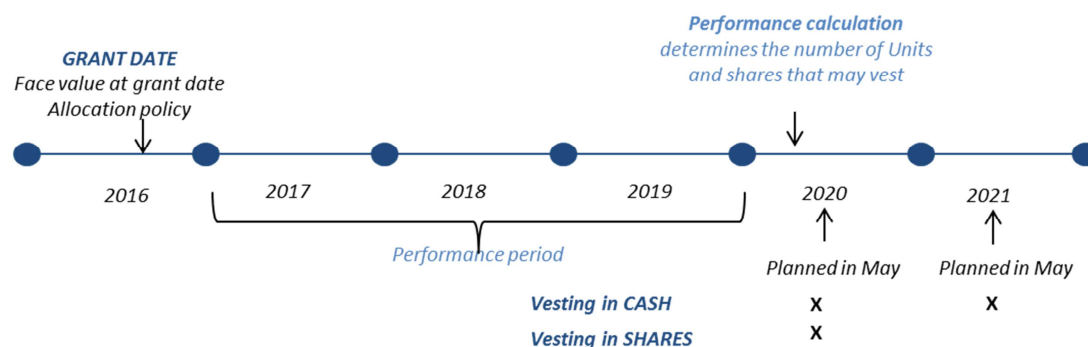
### Performance Units & Performance Shares characteristics (since 2016)

For the CEO and since the 2016 plan, the Company's current LTIP is comprised of a mix of Performance Units and Performance Shares.

Previously, the LTIP was only comprised of Performance Units. The proposed change was designed to increase the alignment with shareholders' interests and to ensure that both the Company's and the beneficiaries' benefit from new tax and social regimes (offered by the Macron Act in France in favour of French tax resident employees).

For each payment in cash, one Unit is equal to the value of one Airbus share at the time of vesting. The Airbus share value is the average of the opening share price, on the Paris Stock Exchange, during the 20 trading days preceding and including the respective vesting dates.

For the CEO, the value of the Performance Unit and Share allocation is capped, at the time of grant, at 100% of Base Salary. At the end of the three-year period, the grant is subject to a performance calculation to determine whether and to what extent it should vest. Depending on continued employment, Performance Units attributed in 2016 will vest in two tranches, the payment of which takes place approximately 6 and 18 months following the end of the performance period. Performance Shares would vest in one tranche, approximately six months following the end of the performance period.



**f) Share Ownership Guideline**

The Board of Directors has established a share ownership guideline pursuant to which the CEO is expected to acquire Airbus shares with a value equal to 200% of Base Salary and to hold them throughout his tenure.

**g) Benefits**

The benefits offered to the CEO comprise a company car and accident insurance. Travel cost reimbursements are based on the Company travel policy as applicable to all employees.

**h) Retirement**

The CEO is entitled to a retirement benefit. The Company’s policy is to provide a pension at retirement age that equals 50% of Base Salary, once the CEO has served on the Group Executive Committee for five years. This pension can increase gradually to 60% of Base Salary, for executives who have served on the Group Executive Committee for over ten years, and have been employed for at least 12 years.

**i) Contracts and Severance**

In the case of contract termination, the CEO is entitled to an indemnity equal to 1.5 times the Total Target Remuneration (defined as Base Salary and target Annual Variable Remuneration) with respect to applicable local legal requirements if any. This will not apply if the CEO mandate is terminated for cause, in case of dismissal, if he resigns or if the CEO has reached retirement age.

The CEO’s contract includes a non-compete clause which applies for a minimum of one year and can be extended at the Company’s initiative for a further year. The Board of Directors has the discretion to invoke the extension of the non-compete clause. The compensation for each year that the non-compete clause applies is equal to 50% of the last Total Annual Remuneration (defined as Base Salary and VR most recently paid) with respect to applicable local legal requirements if any.

Past LTIP awards may be maintained, in such cases as in the case of retirement or if a mandate is not renewed by the Company without cause. The vesting of past LTIP awards follows the plans’ rules and regulations and is not accelerated in any case. LTIP awards are forfeited for executives who leave the Company on their own initiative, but this is subject to review by the Board of Directors.

#### **j) Clawback**

Recent changes to Dutch law introduced the possibility for the Company to deduct or claw back part of the CEO's variable cash remuneration (i.e. VR) or equity-related remuneration (excluding the LTIP element settled in cash) served by the Company if certain circumstances arise.

Any revision, claw back, or amounts deducted from the CEO's remuneration will be reported in the notes of the relevant financial statements.

#### **k) Loans**

The Company does not provide loans or advances to the CEO.

### **B — Non-Executive Remuneration – Applicable to non-Executive Members of the Board**

The Company's Remuneration Policy with regard to non-Executive Members of the Board of Directors is aimed at ensuring fair compensation and protecting the independence of the Board's Members.

#### **Fees and Entitlements**

Non-Executive Members of the Board are currently entitled to the following:

- ▶ a base fee for membership or chair of the Board;
- ▶ a Committee fee for membership or chair on each of the Board's Committees;
- ▶ an attendance fee for the attendance to Board meetings.

Each of these fees is a fixed amount. Non-Executive Members of the Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company in the frame of their mandate, except what they would receive in the frame of a current or past executive mandate. These measures are designed to ensure the independence of Board Members and strengthen the overall effectiveness of the Company's corporate governance.

The Company does not encourage non-Executive Directors to purchase Company shares.

Under the current policy and since 2016, the fees were reviewed to recognise the increase in Board Members' responsibilities, their greater time commitment and Airbus' continuous need to attract and retain highly competent Members. To incentivise Board attendance, the attendance fees have doubled. Members of the Board are entitled to the following fees:

#### **Fixed fee for membership of the Board (EUR / year):**

Chairman of the Board: 210,000

Member of the Board: 80,000

#### **Fixed fee for membership of a Committee (EUR / year):**

Chairman of a Committee: 30,000

Member of a Committee: 20,000

#### **Attendance fees (EUR / Board meeting):**

Chairman: 15,000

Member: 10,000

Attendance fees shall decrease by 50% in case of an attendance by phone.

Committee chairmanship and Committee membership fees are cumulative if the concerned non-Executive Director belongs to two different Committees. Fees are paid twice a year at the end of each semester (as close as possible to the Board meeting dates).

For personal reasons, Denis Ranque decided in 2016 and onwards, to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds € 240,000 (his total target remuneration for 2015) until further notice. The Board recommended that the remuneration exceeding € 240,000 would be converted into an annual contribution to the Company's Foundation as long as Denis Ranque waives this part of his remuneration; which would correspond to € 60,000 based on six meetings per year.

## C – Employee Share ownership plan (ESOP)

Enabling employees to participate in the results of the Company is a key element in the Airbus benefits policy. Since its creation, the Company has developed a philosophy based on sharing the added value created by the Company with all employees (including the CEO). Therefore, the Company has regularly offered qualifying employees the opportunity to purchase shares on favourable terms through the ESOP.

Pursuant to shareholders' resolutions adopted at the AGM, the powers to issue shares and to set aside preferential subscription rights of existing shareholders have been granted to the Board of Directors at the 2016 AGM. Such powers include the approval of ESOP.

The Company intends to implement an ESOP in 2018, subject to approval by the Board of Directors, open to all qualifying employees (including the CEO). With future ESOP, the Company intends to offer shares to eligible employees through the issuance of shares or free distribution of shares or other existing or new securities giving access to the capital as a matching contribution. This plan would aim at favouring the development of employee shareholding.

### 4.4.3 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016: CEO

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#### a) Benchmarking

Based on a review the RNGC performed in 2014 with the assistance of an independent consultant, Willis Towers Watson, it was concluded that the CEO's Total Direct Compensation was slightly below the median level of the peer group. It was thus proposed to increase the remuneration of the CEO as described below. This increase took into consideration the track record of the CEO and was in line with the salary policy applied to employees across Airbus over that period.

#### b) Base Salary

For 2016, the Base Salary was set by the Board of Directors at € 1,500,000. The CEO's Base Salary level was reviewed in 2015 and approved by shareholders at 2016 AGM. Any future review of the CEO's Base Salary will also take into consideration salary increases of employees across the group.

#### c) Annual Variable Remuneration

As stipulated in the Company's Remuneration Policy, the CEO's VR is targeted at 100% of the Base Salary and capped at 200% of the Base Salary. It is subject to the fulfilment of Collective and Individual performance targets.

For 2016, the VR amounted to an aggregate € 1,912,500 composed of € 975,000 for the Common Collective Component (130%), and € 937,500 for the Individual part (125%).

The **Common Collective Component** results from a composite 130% **achievement** of EBIT, Free Cash Flow and RoCE objectives.

This achievement mainly reflects a significant **Free Cash Flow** Reported over-performance against the budgeted target. The main drivers of that success were the solid operational performance, healthy pre-delivery payments inflows, and on-going efforts to control working capital during programme ramp-up phase.

**EBIT**, compared to the budgeted target was globally positive despite an unplanned A400M provision. Finally, **RoCE** was slightly below the target.

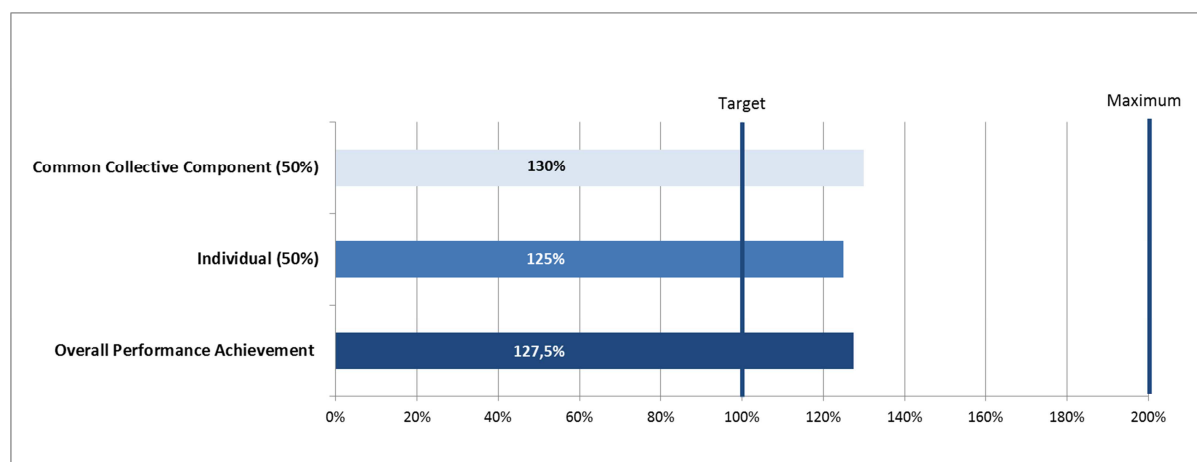
**Normalisation adjustments** of EBIT and RoCE were made to exclude currency exchange differences or those arising from phasing mismatches.

The **Individual part** results from a good achievement level of 125% out of 200%, assessed by the RNGC and approved by the Board on the basis of the CEO's performance and behaviour, mostly with respect to the six Airbus priorities agreed at the start of the year (see: Chapter 2 – Summary 2016). For each of these outcomes, leadership, personal performance and contributions were examined.

The **factors determining the good assessment** were among other achievements:

- ▶ Solid financial figures achieving the envisaged targets to a large extent despite set-backs on the A400M programme.
- ▶ Excellent operational performance with a record number of aircraft deliveries mastering the strong ramp-up of the A350 and A320 programmes while starting the transition from the ceo to the new neo version.
- ▶ Continuous lead on the civil and parapublic helicopter market against a challenging market backdrop while maintaining the position on the military market.
- ▶ Timely achievement of foreseen milestones in key development programmes Airbus A350-1000, Airbus Helicopters H160 and Ariane 6.
- ▶ Good execution of planned divestments, realising the desired alignment of business portfolio and generating a strong contribution to the cash generation.
- ▶ Rapid implementation of the digital roadmap including the appointment of a Chief Digital Officer and the new set-up of the Chief Technical Officer department and processes.
- ▶ Further Group integration through the "Gemini" project calling for a merger of Airbus and Airbus Group for a leaner and more efficient management of the company.
- ▶ Strong focus on enhancement of Group wide Compliance standards and processes as well as coordinated Corporate Social Responsibility activities.
- ▶ Reinforced efforts on gender and international diversity as well as implementation of new HR transformation and management development programmes.

## Performance against Target



### d) Long-Term Incentive Plan

#### Granting 2016

As stipulated in the Company's Remuneration Policy, the CEO is eligible for a Performance Unit and Performance Shares award under the Company's LTIP 2016. The value of the Performance Unit and Share award is capped at 100% of Base Salary at the date of grant. During 2016, the CEO was granted 28,480 in total of both Performance Units and Performance Shares.

The table below gives an overview of the Performance Units and Performance Shares granted to the CEO in 2016 pursuant to the LTIP:

Unit plan: number of Performance Units		
	Granted in 2016	Vesting dates
Thomas Enders	14,240	Vesting schedule is made up of 2 tranches over 2 years: (i) 50% expected in May 2020; (ii) 50% expected in May 2021.

\* There is no obligation under the Dutch Financial Supervision Act to notify the cash units under the LTIP to the AFM. The CEO's cash units are therefore no longer reflected in the AFM register.

Share plan: number of Performance Shares		
	Granted in 2016	Vesting dates
Thomas Enders	14,240	Vesting schedule is made up of 1 tranche: (i) 100% expected in May 2020

## Vesting values in 2016

In 2016, the CEO received both cash payments and vested shares in connection with the vesting of 2011 and 2012 LTIP awards:

- ▶ **Cash:** the total cash payment to the CEO amounted to € 2,279,709 in 2016 vs. € 3,148,629 in 2015.
- ▶ **Shares:**
  - In connection with the 2011 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the CEO received 16,448 vs. 18,496 vested shares in 2015 on the fourth vesting date for the 2011 LTIP (31 October 2016).
  - In connection with the 2012 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the vesting of 5,596 Performance Units vs. 8,224 for the LTIP 2011 was delayed and these will be released in the form of shares on the fourth vesting date for the 2011 LTIP (which will take place in 2017).

## LTI overview: granting and vesting

Date of grants	Grant Type	Share price at grant date	Value at grant date (Un)conditional	Performance achievement	Units with performance achievement	Dates of vesting	Share value at vesting dates	
							1 <sup>st</sup> vesting – 6 May 2015: € 62.17	
							2 <sup>nd</sup> vesting – 4 November 2015: € 57.97	
							3 <sup>rd</sup> vesting – 3 May 2016: € 56.57	
2011	Units	51,400	€ 21.41	€ 1,100,474	Conditional	128%	65,792	4 <sup>th</sup> vesting – 4 vestings in 2015 - 2016 31 October 2016: € 53.77
								1 <sup>st</sup> vesting – 3 May 2016: € 55.66*
2012	Units	50,300	€ 27.83	€ 1,399,849	Conditional	89%	44,768	2 <sup>nd</sup> vesting – 4 vestings in 2016 - 2017 31 October 2016: € 53.77
2013	Units	30,300	€ 46.17	€ 1,398,951	Conditional	75%	22,725	4 vestings in 2017 - 2018 Not yet known
2014	Units	29,500	€ 47.45	€ 1,399,775	Conditional	Not yet known	Not yet known	2 vestings in 2018 - 2019 Not yet known
2015	Units	24,862	€ 56.31	€ 1,399,979	Conditional	Not yet known	Not yet known	2 vestings in 2019 - 2020 Not yet known
2016	Units	14,240	€ 52.67	€ 750,021	Conditional	Not yet known	Not yet known	2 vestings in 2020 - 2021 Not yet known
2016	Shares	14,240	€ 52.67	€ 750,021	Conditional	Not yet known	Not yet known	1 vesting in 2020 Not yet known

Calculations may involve rounding to the nearest unit.

\* For the first vesting 2012 the cap applicable to the share price was applied

### Performance Conditions of 2012 LTIP:

The performance conditions were determined as follows:

- ▶ if Airbus reports negative cumulated EBIT results, the definitive grant shall be 0%.
- ▶ 50% to 150% of the allocation would be granted on a linear basis depending on three year average earnings per share (“EPS”) for the 2013, 2014 and 2015 fiscal years, with the three year average EPS target for an allocation of 100% equal to € 2.75.

### Review of Achievement of Performance Conditions:

The Board of Directors on 23 February 2016 noted the achievement of the performance conditions of the 2012 plan, i.e. for the 2013, 2014 and 2015 fiscal years: The three year average EPS was € 2.63, after normalisation to align it with policies in force when setting the target (notably IAS11).

Furthermore the Board of Directors on 21 February 2017 noted the achievement of the performance conditions of the 2013 plan, i.e. for the 2014, 2015 and 2016 fiscal years. The three year average EPS (“Ave EPS”) was €2.28 after normalisation to align it with policies in force when setting the target (notably IAS11). The three year cumulative FCF (“Cum FCF”) before M&A was €3,440m.

Date of grants	KPI	Number of units	Target for a	Achieved	Resulting	Resulting	For comparison, average EPS for the last 3 reported years at the date of grant
			100% allocation		vesting in percentage	vesting in number	
2011	Ave EPS	51,400	€ 1.55	€ 2.10	128%	65,792	€ 0.56*
2012	Ave EPS	50,300	€ 2.75	€ 2.63	89%	44,768	€ 0.34**
2013	Ave EPS	30,300	€ 3.64	€ 2.28	50%	22,725	€ 1.15***
	Cum FCF before M&A		€ 2,650m	€ 3,440m	150%		

\* Average EPS of 2010, 2009 and 2008.  
\*\* Average EPS of 2011, 2010 and 2009  
\*\*\* Average EPS of 2012, 2011 and 2010

#### e) Share Ownership

The CEO owned 80,969 Company shares on 31 December 2016, which represents more than 200% base salary. He herewith respects Airbus' share ownership policy.

#### f) Employee Share Ownership Plan (ESOP)

In March 2016, the Company offered to all eligible employees to subscribe for a share matching plan whereby the Company matched a certain number of directly acquired shares with a grant of matching shares. This ratio varied depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 50%. The total offering was up to 2 million shares of the Company, open to all qualifying employees. Information about the plan can be found on the Company's website.



Under the umbrella of the ESOP 2016, a dedicated UK tax advantageous Share Incentive Plan (“SIP”), was also deployed in March 2016.

Although the CEO was eligible to the plan, he did not participate to the ESOP 2016 plan favouring the development of a shareholding among other employees of the Company.

#### **g) Benefits**

As stipulated in the Company’s Remuneration Policy, the CEO’s benefits comprise a Company car and accident insurance. The monetary value of these benefits for 2016 amounted to € 71,755.

#### **h) Retirement**

As of 31 December 2016, the present value of the CEO’s pension defined benefit obligation, including deferred compensation, amounted to € 21,251,788 vs. € 17,118,048 a year ago. While the plan benefits remain identical, the present value of the pension obligation was calculated applying a 1,7% discount rate in 2016 compared to a 2.3% discount rate in 2015, which mainly explains the change in value. For the fiscal year 2016, the current service and interest costs related to the CEO’s pension promise represented an expense of € 1,075,888. This obligation has been accrued in the Consolidated Financial Statements.

The defined benefit obligation for the CEO’s Company pension results from the Company’s pension policy as described above and takes into account (i) the seniority of the CEO in the Company and on its Group Executive Committee and (ii) the significantly lower public pension promise deriving from the German social security pension system, compared to a pension resulting from membership in the French pension system.

#### **i) Clawback**

The Board has not applied any clawback in 2016.

### **4.4.4 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016: NON-EXECUTIVE FEES**

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In order to recognise the increase in responsibilities, greater time commitment and the continuous need to attract and retain highly competent Board Members, a review of the Board remuneration policy was undertaken in 2015, the first comprehensive revision since 2007. As per the new remuneration policy approved by shareholders at 2016 AGM, the RNGC recommended and the Board of Directors increased, the remuneration of the Chairman and that of the non-Executive Board Members to be in line with market practice, incentivise attendance and recognise the strategic role played by the Board of Directors in Airbus’ developments. The CEO is the only Member of the Board of Directors who is not entitled to any Board membership fee.

Summary table of the 2016 and 2015 fees of all non-Executive Members of the Board (current and former):

**Table re. Directors' remuneration FY2016**

	Directors' remuneration related to 2016			Directors' remuneration related to 2015		
	Fixum*	Attendance Fees**	Total	Fixum	Attendance Fees	Total
	(in €)	(in €)	(in €)	(in €)	(in €)	(in €)
<b>Non Executive Board Members</b>						
Denis Ranque	180,000	60,000	240,000	180,000	70,000	250,000
Manfred Bischoff	26,154	20,000	46,154	80,000	25,000	105,000
Ralph D. Crosby Jr.	80,000	50,000	130,000	80,000	35,000	115,000
Catherine Guillouard***	67,582	40,000	107,582	N/A	N/A	N/A
Hans-Peter Keitel	100,000	60,000	160,000	100,000	35,000	135,000
Hermann-Josef Lamberti	110,000	55,000	165,000	110,000	30,000	140,000
Anne Lauvergeon	32,692	10,000	42,692	100,000	30,000	130,000
Lakshmi N. Mittal	100,000	50,000	150,000	100,000	35,000	135,000
María Amparo Moraleda Martínez	100,000	55,000	155,000	50,000	20,000	70,000
Claudia Nemat***	67,582	30,000	97,582	N/A	N/A	N/A
Sir John Parker	110,000	60,000	170,000	110,000	30,000	140,000
Michel Pébereau	32,692	20,000	52,692	100,000	25,000	125,000
Carlos Tavares****	54,066	20,000	74,066	N/A	N/A	N/A
Jean-Claude Trichet	100,000	60,000	160,000	100,000	35,000	135,000

Former Executive Board Members	Non						
Josep i Camps	Piqué	N/A	N/A	N/A	41,668	0	41,668
<b>TOTAL</b>		<b>1,160,768</b>	<b>590,000</b>	<b>1,750,768</b>	<b>1,151,668</b>	<b>370,000</b>	<b>1,521,668</b>

\*The Fixum related to 2015 was paid in 2016; the Fixum related to 2016 was paid 50% in December 2015 and 50% in July 2016.

\*\*The Attendance Fees are paid at the end of each semester.

\*\*\*Member of the Company Board of Directors and Audit Committee as of 28 April 2016.

\*\*\*\*Member of the Company Board of Directors as of 28 April 2016.

#### 4.4.5 MISCELLANEOUS

##### Policy for Loans and Guarantees Granted

The Company's general policy is not to grant any loan to the Members of the Board of Directors. Unless the law provides otherwise, the Members of the Board of Directors shall be reimbursed by the Company for various costs and expenses, like reasonable costs of defending claims. Under certain circumstances, such as an act or failure to act by a Member of the Board of Directors that can be characterised as intentional, intentionally reckless, or seriously culpable, there will be no entitlement to this reimbursement. The Company has also taken out liability insurance ("D&O" – Directors & Officers) for the persons concerned.

## 4.5 Ethics and Compliance Organisation

In June 2013 the CEO described the importance of the Company's dedication towards Ethics and Compliance ("E&C") in the following way: "Within the Airbus Group, it's not just our results that matter – it's the way we achieve them". The Airbus Ethics and Compliance Programme (the "Airbus E&C Programme") seeks to ensure that the Airbus' business practices conform to applicable laws and regulations as well as to ethical business principles and thus establish a culture of integrity.

There are two foundation documents in the Airbus E&C Programme: the "Standards of Business Conduct" and "Our Integrity Principles" which summarise Airbus' six key E&C commitments.

These foundation documents are in turn complemented by dedicated policies to address specific compliance risk areas. As announced last year, Airbus has determined to enhance certain of its policies, procedures and practices, including ethics and compliance. This started by combining the various group-wide compliance policies dealing with Business Ethics/Anti-Corruption into a single framework in 2016. First, we implemented an updated policy for the vetting of consultants engaged in sales support, to add a second layer of internal review and strengthen payment approval procedures. Second, we issued a new Anti-Corruption Policy that summarises the prohibition against bribery and corruption for employees and other stakeholders, while providing an overview of the main elements of our anti-corruption compliance programme designed to mitigate this risk. Third, we updated our policies relating to Gift & Hospitality and Sponsorship & Donations. Finally, we adopted a new policy related to Anti-Money Laundering. In each

case, we will seek to support implementation of these policies by developing new standardised processes and IT tools, to ensure that evaluation of compliance risk is more fully integrated into business decisions by management.

The work to enhance our E&C programme will continue in 2017, not only in the area of Business Ethics/Anti-Corruption but across the ethics and compliance spectrum more generally in order to capitalise on our values.

In 2016 the E&C organisation was renewed and strengthened. New Division E&C Officers were appointed across the group, and some former positions were merged into one single position (Airbus Head of Ethics & Compliance, Business & Programme), to enhance management of Business Ethics/Anti-Corruption risk in particular. More generally, the E&C community was reviewed entirely and made more efficient throughout Airbus.

These changes build on those of 2015, pursuant to which the E&C organisation was integrated with the Legal Department under the ultimate responsibility of the Airbus General Counsel. The Airbus General Counsel reports to the CEO and is a Group Executive Committee Member and reports to the Board. In order to maintain the necessary independence, the Airbus Ethics and Compliance Officer (“**ECO**”), reports to the Airbus General Counsel and has access to the Audit Committee of the Board of Directors.

This integration at group level is replicated at Division level. As a result, the Divisions’ Ethics and Compliance Officers report to their respective Division General Counsel who themselves report to the Airbus General Counsel. The Divisions’ Ethics & Compliance Officers also have a dotted line to the Airbus ECO.

The E&C organisation is made of four pillars:

- ▶ The Airbus Head of Ethics & Compliance, Business & Programme has overall responsibility for the Company-wide development, deployment and monitoring of the E&C programme, including all anti-corruption policies, procedures and controls, and also has responsibility for the validation and monitoring of the relationship with the business partners and other business development initiatives;
- ▶ The Export Compliance Officer has overall responsibility for the development, deployment and monitoring of the export control compliance programme and ensures that the activities of the Company comply with all relevant export control rules and with the internal “sensitive countries” policy;
- ▶ The Procurement Compliance Officer supervises compliance in the supply chain; while
- ▶ The Data Protection Compliance Officer is in charge of data privacy risk.

Under the responsibility of the Airbus General Counsel, each Division has a Divisional Ethics and Compliance organisation that is embedded within the business through a network of E&C representatives. In recent years, we have enlarged our footprint of E&C representatives and they are now present in all functions and locations of the business.

Furthermore, in 2016 we maintained five E&C Country Managers in the following zones: Brazil-Latin America, India, China-Asia Pacific, Middle East and Africa and Russia. The E&C Country Managers report to the Airbus Ethics & Compliance organisation.

Like previous years, E&C was a top priority for the Company in 2016 and the E&C Organisation had a set of objectives to fulfil. Similarly, each of our Group Executive Committee Members had E&C objectives to meet and cascade down within their respective areas.

Employees, customers, suppliers, and third-party intermediaries are encouraged to freely share their E&C concerns with the management or with E&C resources. While we have a non-retaliation principle, we recognise that a confidential channel for reporting may be useful and we have an alert system called OpenLine. Subject to local legal restrictions, OpenLine is available to employees of controlled entities in France, Germany, Spain, the UK, Australia,

Brazil, Canada, China, India, Mexico and Saudi Arabia. A separate system is also available for the US. The OpenLine can be used by employees to raise concerns in relation with Corruption and Bribery, Accounting, Finance, Anti-Competitive practices, Harassment, Conflicts of Interest, Quality or Product Safety.

The Airbus General Counsel reports quarterly to the Audit Committee. The report contains details on Group significant compliance allegations, including the allegations described above under “Notes to the Consolidated Financial Statements (IFRS) — Note 36: Litigation and claims”. As a matter of transparency and to leverage on lessons learnt, this report is shared with the top management.

## 4.6 Enterprise Risk Management System

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The aerospace and defence industry’s complex programmes are delivered over volatile market cycles, amplifying risk and opportunity. Airbus’ long-term development and production lifecycle make Enterprise Risk Management (“ERM”) a crucial mechanism for both mitigating the risks faced by the Company and identifying future opportunities.

Applied across the Company and its main subsidiaries, ERM facilitates achieving and applying common understanding, methodology, practice and language. ERM is a permanent top-down and bottom-up process, which is executed across Airbus Divisions on each level of the organisation. It is designed to identify and manage risks and opportunities focusing on business-relevant aspects. A particular focus is put on the operational dimension due to the importance of Programmes and Operations for Airbus.

### **Required key activities in Risk and Opportunity Management are:**

- ▶ Anticipation of future events and conditions;
- ▶ Early warning;
- ▶ Early risks reduction;
- ▶ Seizing and capturing of opportunities.

Enterprise Risk Management is an operational process embedded into day-to-day management activities of Programmes, Operations and Functions. A reporting synthesis is made and consolidated on a regular basis (quarterly and yearly).

### **The aim of the ERM process is to:**

- ▶ Identify, assess, control and mitigate risks, and seize and capture opportunities;
- ▶ Monitor the ERM process and to report status and results;
- ▶ Allow risk-adjusted decisions and management processes (e.g. planning; decision-making);
- ▶ Enhance risk-response/opportunity-capture decisions and actions;
- ▶ Identify and manage cross-enterprise risks/opportunities by understanding interrelated impacts.

### **Through ERM, Airbus Management enables the:**

- ▶ Management of the risk profile associated to the Company’s strategy;
- ▶ Management of the risks associated with the Company activities;
- ▶ ERM reporting to the Board of Directors and Audit Committee (AC) respectively.

### **The Company’s Board of Directors supervises the:**

- ▶ Corporate strategy and the risks inherent to the business activities;
- ▶ Design and effectiveness of the internal risk management and control systems.

### ERM Process

The objectives and principles for the ERM system as endorsed by the Board of Directors are set forth in the Company's ERM Policy and communicated throughout Airbus. The Company's ERM Policy is supplemented by directives, manuals, guidelines, handbooks, etc. External standards that contribute to the Company's ERM system include the standards as defined by the International Organisation for Standardisation ("ISO").

The ERM system comprises an integrated hierarchical bottom-up and top-down process to enable better management and transparency of risks and opportunities. At the top, the Board of Directors and the Audit Committee discuss major risks and opportunities, related risk responses and opportunity capture as well as the status of the ERM system, including significant changes and planned improvements. This is based on systematic bottom-up information including management judgement. The results are then fed back into the organisation.

#### The ERM process consists of four elements:

- ▶ The operational process - derived from ISO 31000 - to enhance operational risk and opportunity management;
- ▶ The reporting process, which contains procedures for the status reporting of the ERM system and the risk/opportunity situation;
- ▶ The ERM compliance process, which comprises procedures to assess the effectiveness of the ERM system; and
- ▶ The support process, which includes procedures to maintain and increase the quality of the ERM system.

The ERM process applies to all relevant sources of risks and opportunities, which are potentially affecting the Company activities, its businesses as well as its organisation in the short-, mid- and long-term. The ERM process is part of the management process and interrelated with the other processes. The details of application of the ERM process vary with the risk appetite and the size, structure and nature of the organisational unit, programme/project, department or process. Nonetheless, the fundamental principles of the Company's ERM Policy generally apply.

**For the main risks to which Airbus is exposed, see “— Chapter 4.7 (Risk Factors)” of this document.**

### ERM Governance and Responsibility

The governance structure and related responsibilities for the ERM system are as follows:

- ▶ The Board of Directors supervises the strategy and business risk and opportunities as well as design and effectiveness of the ERM system;
- ▶ The CEO, with the Top Management, is responsible for an effective ERM system. He is supported by the CFO, who supervises the Head of Risk and Opportunity Management, and the ERM system design and process implementation;
- ▶ The Head of Risk and Opportunity Management has primary responsibility for the ERM strategy, priorities, system design, culture development and reporting tool. He supervises the operation of the ERM system and is backed by a dedicated risk management organisation in the Company focusing on the operational dimension, early warning and anticipation culture development while actively seeking to reduce overall risk criticality. The risk management organisation is structured as a cross-divisional Centre of Competence (“CoC”) and pushes for a proactive risk management culture;
- ▶ The management on executive levels has the responsibility for the operation and monitoring of the ERM system in their respective areas of responsibility and for the implementation of appropriate response activities to reduce risks and seize opportunities.

## ERM Effectiveness

The ERM effectiveness is analysed by:

- ▶ Corporate Audit, based on internal corporate audit reports;
- ▶ ERM CoC, based on ERM reports, confirmation letters, in situ sessions (e.g. risk reviews), participation to key controls (e.g. major Programme Maturity Gate Reviews).

The combination of the following controls is designed to achieve reasonable assurance about ERM effectiveness:

Organisation	Explanations
Board of Directors/ Audit Committee	<b>Regular monitoring</b> The Board of Directors and the Audit Committee review, monitor and supervise the ERM system.
Top Management	<b>ERM as part of the regular divisional business reviews</b> Results of the operational risk and opportunity management process, self-assessments and confirmation procedures are presented by the Divisions or Business Units to top management.
Management	<b>ERM confirmation letter procedure</b> Entities and department heads that participate in the annual ERM compliance procedures have to sign ERM confirmation letters.
ERM CoC	<b>ERM effectiveness measurement</b> Assess ERM effectiveness by consideration of ERM reports, ERM confirmations, in situ sessions (risk reviews etc.), participation to key controls (e.g. major Programme Maturity Gate Reviews).
Corporate Audit	<b>Audits on ERM</b> Provide independent assurance to the Audit Committee on the effectiveness of the ERM system.
E&C	<b>Alert System</b> Detect deficiencies regarding conformity to applicable laws and regulations as well as to ethical business principles.

## Board Declaration

The Board of Directors believes to the best of its knowledge that the internal risk management and control system over financial reporting has worked properly in 2016 and provides reasonable assurance that the financial reporting does not contain any errors of material importance.

No matter how well designed, all ERM systems have inherent limitations, such as vulnerability to circumvention or overrides of the controls in place. Consequently, no assurance can be given that the Company's ERM system and procedures are or will be, despite all care and effort, entirely effective.

## 4.7 Risk Factors

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The Company is subject to many risks and uncertainties that may affect its financial performance. The business, results of operation or financial condition of the Company could be materially adversely affected by the risks described below. These are not the only risks the Company faces. Additional risks and uncertainties not presently known to the Company or that it currently considers immaterial may also impair its business and operations.

Although a certain degree of risk is inherent in the Company's business (as described in the risk factors mentioned in this section), the Company endeavours to minimise risk to the extent reasonably possible. To achieve its strategy, the Company is prepared to take modest or low event risks to provide sufficient predictability on profitability and cash flow given the necessity to stay competitive, invest in R&D and manage the diversified portfolio of business in a world of uncertain market and economic conditions. Due to the importance of programmes and operations for the Company, a particular focus is put on the operational dimension of risk identification and management. Within the area of legal and compliance risks, the Company seeks to ensure that its business practices conform to applicable laws, regulations and ethical business principles, while developing a culture of integrity. Regarding financial risks, our risk approach can be qualified as prudent and the Company aims to minimise the downside risk through appropriate liquidity buffer, the use of hedging derivatives and other insurance products.

### 4.7.1 FINANCIAL MARKET RISKS

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#### Global Economic Concerns

As a global company, the Company's operations and performance depend significantly on market and economic conditions in Europe, the US, Asia and the rest of the world. Market disruptions and significant economic downturns may develop quickly due to, among other things, crises affecting credit or liquidity markets, regional or global recessions, sharp fluctuations in commodity prices (including oil), currency exchange rates or interest rates, inflation or deflation, sovereign debt and bank debt rating downgrades, restructurings or defaults, or adverse geopolitical events (including Brexit impact, US policy and elections in Europe). Any such disruption or downturn could affect the Company's activities for short or extended periods and have a negative effect on the Company's future results of operation and financial condition.

Two geopolitical events in 2016 in particular could cause potential disruptions to and create uncertainty surrounding the Company's business, including affecting our relationships with our existing and future customers, suppliers and employees: (i) the public referendum in June 2016 where a majority of UK voters approved leaving the European Union (commonly referred to as "Brexit") and (ii) the US presidential election in November 2016.

Although the terms of the UK's post-Brexit relationship with the EU are still unknown, the Company may be affected by potentially divergent national laws and regulations between the EU and the UK. This may include greater restrictions on the importing and exporting of goods and services between the UK and EU countries in which the Company operates along with costly new tariffs and increased regulatory and legal complexities. The free movement of people and skilled labour may also be limited by new border controls.

The results of the US presidential election have introduced greater uncertainty with respect to US tax and trade policies, tariffs and government regulations affecting trade between the US and other countries.

Although it is too early for the impact of these geopolitical events to be reasonably assessed, the consequences could have a negative effect on the Company's future results of operation and financial condition.



If economic conditions were to deteriorate, or if more pronounced market disruptions were to occur, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in credit, currency, commodity and equity markets. This could have a number of effects on the Company's business, including:

- requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decision by customers to review their order intake strategy due to, among other things, lack of adequate credit supply from the market to finance aircraft purchases or change in operating costs or weak levels of passenger demand for air travel and cargo activity more generally;
- an increase in the amount of sales financing that the Company must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interests the Company might have in the underlying aircraft;
- further reductions in public spending for defence, homeland security and space activities, which go beyond those budget consolidation measures already proposed by governments around the world;
- financial instability, inability to obtain credit or insolvency of key suppliers and subcontractors, thereby impacting the Company's ability to meet its customer obligations in a satisfactory and timely manner;
- continued de-leveraging as well as mergers, rating downgrades and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by the Company for its businesses or restrict its ability to implement desired foreign currency hedges;
- default of investment or derivative counterparties and other financial institutions, which could negatively impact the Company's treasury operations including the cash assets of the Company; and
- decreased performance of Airbus' cash investments due to low and partly negative interest rates.

The Company's financial results could also be negatively affected depending on gains or losses realised on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realised in the future on the Company's financial instruments differing significantly from the fair values currently assigned to them.

In the Commercial Aircraft activities, revision clauses in sales contracts and in supplier contracts can be based on different indexes and therefore can evolve differently.

### **Foreign Currency Exposure**

A significant portion of the Company's revenues is denominated in US dollars, while a major portion of its costs is incurred in euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that the Company does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies. The Company has therefore implemented a long-term hedging portfolio to help secure the rates at which a portion of its future US dollar-denominated revenues (arising primarily at Airbus) are converted into euro or pound sterling, in order to manage and minimise this foreign currency exposure.

There are complexities inherent in determining whether and when foreign currency exposure of the Company will materialise, in particular given the possibility of unpredictable revenue variations arising from order cancellations, postponements or delivery delays. The Company may also have difficulty in fully implementing its hedging strategy if its hedging counterparties are unwilling to increase derivatives risk limits with the Company, and is exposed to the risk of non-performance or default by these hedging counterparties. The exchange rates at which the Company is able to hedge

its foreign currency exposure may also deteriorate, as the euro could appreciate against the US dollar for some time as it has been the case in the past and as the higher capital requirements for banks result in higher credit charges for uncollateralised derivatives. Accordingly, the Company's foreign currency hedging strategy may not protect it from significant changes in the exchange rate of the US dollar to the euro and the pound sterling, in particular over the long term, which could have a negative effect on its results of operation and financial condition. In addition, the portion of the Company's US dollar-denominated revenues that is not hedged in accordance with the Company's hedging strategy will be exposed to changes in exchange rates, which may be significant.

Currency exchange rate fluctuations in currencies other than the US dollar in which the Company incurs its principal manufacturing expenses (mainly the euro) may affect the ability of the Company to compete with competitors whose costs are incurred in other currencies. This is particularly true with respect to fluctuations relative to the US dollar, as many of the Company's products and those of its competitors (e.g., in the defence export market) are priced in US dollars. The Company's ability to compete with competitors may be eroded to the extent that any of the Company's principal currencies appreciates in value against the principal currencies of such competitors.

The Company's consolidated revenues, costs, assets and liabilities denominated in currencies other than the euro are translated into the euro for the purposes of compiling its financial statements. Changes in the value of these currencies relative to the euro will therefore have an effect on the euro value of the Company's reported revenues, costs, earnings before interest and taxes ("EBIT"), other financial result, assets and liabilities

### **Sales Financing Arrangements**

In support of sales, the Company may agree to participate in the financing of selected customers. As a result, the Company has a portfolio of leases and other financing arrangements with airlines and other customers. The risks arising from the Company's sales financing activities may be classified into two categories: (i) credit risk, which concerns the customer's ability to perform its obligations under a financing arrangement, and (ii) aircraft value risk, which primarily relates to unexpected decreases in the future value of aircraft. Measures taken by the Company to mitigate these risks include optimised financing and legal structures, diversification over a number of aircraft and customers, credit analysis of financing counterparties, provisioning for the credit and asset value exposure, and transfers of exposure to third parties. No assurances may be given that these measures will protect the Company from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market.

The Company's sales financing arrangements expose it to aircraft value risk, because it generally retains security interests in aircraft for the purpose of securing customers' performance of their financial obligations to the Company, and/or because it may guarantee a portion of the value of certain aircraft at certain anniversaries from their delivery to customers. Under adverse market conditions, the market for used aircraft could become illiquid and the market value of used aircraft could significantly decrease below projected amounts. In the event of a financing customer default at a time when the market value for a used aircraft has unexpectedly decreased, the Company would be exposed to the difference between the outstanding loan amount and the market value of the aircraft, net of ancillary costs (such as maintenance and remarketing costs, etc.). Similarly, if an unexpected decrease in the market value of a given aircraft coincided with the exercise window date of an asset value guarantee with respect to that aircraft, the Company would be exposed to losing as much as the difference between the market value of such aircraft and the guaranteed amount, though such amounts are usually capped. The Company regularly reviews its exposure to asset values and adapts its provisioning policy in accordance with market findings and its own experience. However, no assurances may be given that the provisions taken by the Company will be sufficient to cover these potential shortfalls. Through the Airbus Asset Management department or as a result of past financing transactions, the Company is the owner of used aircraft, exposing it directly to fluctuations in the market value of these used aircraft.

Due to the suspension of Export Credit Agency financing, there is a risk that additional customer financing will need to be provided, which could increase the customer financing exposure. See Legal Risks and Section 1.1.8 “Legal and Arbitration Proceedings” below.

In addition, the Company has outstanding backstop commitments to provide financing related to orders on Airbus’ and ATR’s backlog. While past experience suggests it is unlikely that all such proposed financing actually will be implemented, the Company’s sales financing exposure could rise in line with future sales growth depending on the agreement reached with customers. Despite the measures taken by the Company to mitigate the risks arising from sales financing activities as discussed above, the Company remains exposed to the risk of defaults by its customers or significant decreases in the value of the financed aircraft in the resale market, which may have a negative effect on its future results of operation and financial condition

### **Counterparty Credit**

In addition to the credit risk relating to sales financing as discussed above, the Company is exposed to credit risk to the extent of non-performance by its counterparties for financial instruments, such as hedging instruments and cash investments. However, Airbus has policies in place to avoid concentrations of credit risk and to ensure that credit risk exposure is limited.

Counterparties for transactions in cash, cash equivalents and securities as well as for derivative transactions are limited to highly rated financial institutions, corporates or sovereigns. The Company’s credit limit system assigns maximum exposure lines to such counterparties, based on a minimum credit rating threshold as published by Standard & Poor’s, Moody’s and Fitch Ratings. Besides the credit rating, the limit system also takes into account fundamental counterparty data, as well as sector and maturity allocations and further qualitative and quantitative criteria such as credit risk indicators. The credit exposure of the Company is reviewed on a regular basis and the respective limits are regularly monitored and updated. The Company also seeks to maintain a certain level of diversification in its portfolio between individual counterparties as well as between financial institutions, corporates and sovereigns in order to avoid an increased concentration of credit risk on only a few counterparties.

However, there can be no assurance that the Company will not lose the benefit of certain derivatives or cash investments in case of a systemic market disruption. In such circumstances, the value and liquidity of these financial instruments could decline and result in a significant impairment, which may in turn have a negative effect on the Company’s future results of operation and financial condition.

Moreover, the progressive implementation of new financial regulations (Basel III, EMIR, CRD4, Bank Restructuring Resolution Directive, Dodd Frank Act, Volcker Rules, etc.) will have an impact on the business model of banks (for example, the split between investment banking and commercial banking activities) and on the capital structure and cost of such banks’ activities in relation to over-the-counter derivatives, and therefore on the funding consequences of central clearing and collateralisation of over-the-counter derivatives for corporations like the Company. This may ultimately increase the cost and reduce the liquidity of the Company’s long-term hedges, for example, as banks seek to either pass-on the additional costs to their corporate counterparties or withdraw from low-profit businesses altogether.

### **Equity Investment Portfolio**

The Company holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. Equity investments are either accounted for using the equity method (joint ventures and associated companies), if the Company has the ability to exercise joint control or significant influence, or at fair value. If fair value is not readily determinable, the investment is measured at cost.

As of 31 December 2016, the Company’s remaining investment in Dassault Aviation’s share capital is classified as other investments and measured at fair value, amounting to € 0.9 billion at year-end 2016. For equity investments

which make up only a fraction of the Company's total assets, the Company regards the risk of negative changes in fair value or impairments on these investments as non-significant.

### **Pension Commitments**

The Company participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. For information related to these plans, please refer to the "Notes to the IFRS Consolidated Financial Statements — Note 29.1: Post-employment benefits — Provisions for retirement plans". Although the Company has recorded a provision in its balance sheet for its share of the underfunding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading the Company to record additional provisions in respect of such plans.

Necessary adjustments of such provisions include but are not limited to (i) the discount factor (dependent in part on interest rates) and the inflation rate applied to calculate the net present value of the pension liabilities, (ii) the performance of the asset classes which are represented in the pension assets, and (iii) additional cash injections contributed by the Company from time to time to the pension assets. The Company has taken measures to reduce potential losses on the pension assets and to better match the characteristics of the pension liabilities with those of the pension assets as a long-term objective. Nevertheless, any required additional provisions would have a negative effect on the Company's total equity (net of deferred taxes), which could in turn have a negative effect on its future financial condition

### **Tax Exposure**

As a multinational group with operations and sales in various jurisdictions, the Company is subject to a number of different tax laws. It is the Company's objective to adhere to the relevant tax regulations in the different countries and to ensure tax compliance while structuring its operations and transactions in a tax-efficient manner. The structure of the Company's organisation and of the transactions it enters into are based on its own interpretations of applicable tax laws and regulations, generally relying on opinions received from internal or independent tax counsel, and, to the extent necessary, on rulings or specific guidance from competent tax authorities. There can be no assurance that the tax authorities will not seek to challenge such interpretations, in which case the Company or its affiliates could become subject to tax claims. Moreover, the tax laws and regulations that apply to the Company's business may be amended by the tax authorities, which could affect the overall tax efficiency of the Company.

## **4.7.2 BUSINESS-RELATED RISKS**

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### **Commercial Aircraft Market Factors**

Historically, order intake for commercial aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel and the air cargo share of freight activity, which are in turn driven by a range of economic variables, such as gross domestic product ("GDP") growth, private consumption levels or working age population size. Other factors, however, play an important role in determining the market for commercial aircraft, such as (i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken out of service and parked pending potential return into service, (iii) passenger and freight load factors, (iv) airline pricing policies and resultant yields, (v) airline financial health and the availability of outside financing for aircraft purchases, (vi) evolution of fuel price, (vii) regulatory environment, (viii) environmental constraints imposed upon aircraft operations and (ix) market evolutionary factors such as the growth of low-cost passenger airline business models or the impact of e-commerce on air cargo volumes. The market for commercial aircraft could continue to be cyclical, and downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

The commercial helicopter market could also be influenced by a number of factors listed above and in particular with the significant drop of the price of oil since 2015, the Company is impacted by a postponement of investments in the

acquisition of new platforms by offshore helicopter players and a reduction of flight hours. The uncertainty on the lead time of the market recovery and the low oil price may have an impact on Airbus Helicopters financial results and could lead to cancellations or loss of bookings.

### **Physical Security, Terrorism, Pandemics and Other Catastrophic Events**

Past terrorist attacks and the spread of pandemics (such as H1N1 flu or Ebola) have demonstrated that such events may negatively affect public perception of air travel safety, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest or uncertainties may also affect the willingness of the public to travel by air. Furthermore, major aircraft accidents may have a negative effect on the public's or regulators' perception of the safety of a given class of aircraft, a given airline, form of design or air traffic management. As a result of such factors, the aeronautic industry may be confronted with sudden reduced demand for air transportation and be compelled to take costly security and safety measures. The Company may therefore suffer from a decline in demand for all or certain types of its aircraft or other products, and the Company's customers may postpone delivery or cancel orders.

In addition to affecting demand for its products, catastrophic events could disrupt the Company's internal operations or its ability to deliver products and services. Disruptions may be related to threats to infrastructure and personnel physical security, terrorism, natural disasters, damaging weather, and other crises. Any resulting impact on the Company's production and services could have a significant adverse effect on the Company's future results of operation and financial condition as well as on its reputation and its products and services

### **Cyber Security Risks**

The Company's extensive information and communications systems are exposed to cyber security risks, which are rapidly changing, and increasing in sophistication and potential impact.

The Company is exposed to a number of different types of potential security risks, arising from actions that may be intentional and hostile, or negligent. Industrial espionage, cyber-attacks such as Advanced Persistent Threat (APT), including systems sabotage, data breaches (confidential data, personal data and intellectual property), and data corruption and availability are the main risks that the Company may face. Risks in our industrial control systems, manufacturing processes and products is growing, with the increase of interconnectivity and digitalization, and with a growing gap developing between the defences of older, relatively insecure industrial systems and the capabilities of potential attackers.

All of the above mentioned risks are increased in the context of greater use of cloud services, integration with extended enterprise, growing use of sophisticated mobile devices and the "internet of things" to access the Company's IT systems.

Moreover, the extended use of social media may expose the Company to reputational damage from the growing volume of false and malicious information injected.

While the Company continues to undertake significant efforts to prevent such events from happening, no assurance can be given that these efforts will successfully prevent them or their consequences.

The occurrence of one or several of such risks could lead to severe damage including but not limited to significant financial (including through additional investment required), contractual or reputation performance degradation as well as loss of intellectual property data and information, operational business degradation or disruptions, and product or services malfunctions.

### **Dependence on Key Suppliers and Subcontractors**

The Company's extensive information and communications systems are exposed to cyber security risks, which are rapidly changing, and increasing in sophistication and potential impact.

The Company is exposed to a number of different types of potential security risks, arising from actions that may be intentional and hostile, or negligent. Industrial espionage, cyber-attacks such as Advanced Persistent Threat (APT), including systems sabotage, data breaches (confidential data, personal data and intellectual property), and data corruption and availability are the risks that the Company may face. Risks in our industrial control systems, manufacturing processes and products is growing, with the increase of interconnectivity and digitalization, and with a growing gap developing between the defences of older, relatively insecure industrial systems and the capabilities of potential attackers.

All of the above mentioned risks are increased in the context of greater use of cloud services, integration with extended enterprise, growing use of sophisticated mobile devices and the “internet of things” to access the Company’s IT systems.

Moreover, the extended use of social media may expose the Company to reputational damage from the growing volume of false and malicious information injected.

While the Company continues to undertake significant efforts to prevent such events from happening, no assurance can be given that these efforts will successfully prevent them or their consequences.

The occurrence of one or several of such risks could lead to severe damage including but not limited to significant financial (including through additional investment required), contractual or reputation performance degradation as well as loss of intellectual property data and information, operational business degradation or disruptions, and product or services malfunctions.

### **Industrial Ramp-Up**

As a result of the large number of new orders for aircraft recorded in recent years, the Company intends to accelerate its production in order to meet the agreed upon delivery schedules for such new aircraft. The Company’s ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given the high demand by the Company and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of buyer-furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, across the three Divisions, which carry their own resource demands. Therefore, the failure of any or all of these factors could lead to missed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers’ rescheduling or terminating their orders. This risk increases as the Company and its competitors announce even higher production rates. Good progress has been made in 2015 and the supply chain is in general more stable. Specific areas of risk with suppliers of cabin equipment continue to be carefully managed.

### **Technologically Advanced Products and Services**

The Company offers its customers products and services that are technologically advanced, the design, manufacturing, components and materials utilised can be complex and require substantial integration and coordination along the supply chain. In addition, most of the Company’s products must function under demanding operating conditions. Even though the Company believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that the Company’s products or services will be successfully developed, manufactured or operated or that they will perform as intended.

Certain of the Company’s contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, to provide cancellation rights, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should the Company fail to meet delivery schedules or other measures of contract performance — in particular with respect to new development programmes such

as the A350-900 and -1000 XWB, A400M, H175 or H160 and to modernisation programmes such as the A320neo and the A330neo. See “— Programme-Specific Risks” below.

In addition to the risk of contract cancellations, the Company may also incur significant costs or loss of revenues in connection with remedial action required to correct any performance issues detected in its products or services. Moreover, to the extent that a performance issue is considered to have a possible impact on safety, regulators could suspend the authorisation for the affected product or service.

Any significant problems with the development, manufacturing, operation or performance of the Company’s products and services could have a significant adverse effect on the Company’s future results of operation and financial condition as well as on the reputation of the Company and its products and services.

### **Dependence on Public Spending and on Certain Markets**

In any single market, public spending (including defence and security spending) depends on a complex mix of geopolitical considerations and budgetary constraints, and may therefore be subject to significant fluctuations from year to year and country to country. Due to the overall economic environment and competing budget priorities, several countries have reduced their level of public spending, especially with respect to defence and security budgets. Any termination or reduction of future funding or cancellations or delays impacting existing contracts may have a negative effect on the Company’s future results of operation and financial condition. In the case where several countries undertake to enter together into defence or other procurement contracts, economic, political or budgetary constraints in any one of these countries may have a negative effect on the ability of the Company to enter into or perform such contracts.

The Company has a geographically diverse backlog. Adverse economic and political conditions as well as downturns in broad economic trends in certain countries or regions may have a negative effect on the Company’s future results of operation generated in those regions and its financial condition.

### **Availability of Government and Other Sources of Financing**

Since 1992, the EU and the US have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US sought to unilaterally withdraw from this agreement, which eventually led to the US and the EU making formal claims against each other before the World Trade Organization (“WTO”). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues. The terms and conditions of any new agreement, or the final outcome of the formal WTO proceedings, may limit access by the Company to risk-sharing-funds for large projects, may establish an unfavourable balance of access to government funds by the Company as compared to its US competitors or may in an extreme scenario cause the European Commission and the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the Company.

In prior years, the Company and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future, in part as a result of the proceedings mentioned above. Moreover, the availability of other outside sources of financing will depend on a variety of factors such as market conditions, the general availability of credit, the Company’s credit ratings, as well as the possibility that lenders or investors could develop a negative perception of the Company’s long- or short-term financial prospects if it incurred large losses or if the level of its business activity decreased due to an economic downturn. The Company may therefore not be able to successfully obtain additional outside financing on favourable terms, or at all, which may limit the Company’s future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

## Competition and Market Access

The markets in which the Company operates are highly competitive. In some areas, competitors may have more extensive or more specialised engineering, manufacturing and marketing capabilities than the Company. In addition, some of the Company's largest customers and/or suppliers may develop the capability to manufacture products or provide services similar to those of the Company. This would result in these customers/suppliers marketing their own products or services and competing directly with the Company for sales of these products or services, all of which could significantly reduce the Company's revenues. Further, new players are operating or seeking to operate in the Company's existing markets which may impact the structure and profitability of these markets. In addition, enterprises with different business models could substitute some of the Company's products and services. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that the competitive pressures it faces in all business areas will not result in reduced revenues, market share or profit.

In addition, the contracts for many aerospace and defence products are awarded, implicitly or explicitly, on the basis of home country preference. Although the Company is a multinational company which helps to broaden its domestic market, it may remain at a competitive disadvantage in certain countries, especially outside of Europe, relative to local contractors for certain products. The strategic importance and political sensitivity attached to the aerospace and defence industries means that political considerations will play a role in the choice of many products for the foreseeable future.

## Major Research and Development Programmes

The business environment in many of the Company's principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. The business plans underlying such investments often contemplate a long payback period before these investments are recouped, and assume a certain level of return over the course of this period in order to justify the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

Successful development of new programmes also depends on the Company's ability to attract and retain aerospace engineers and other professionals with the technical skills and experience required to meet its specific needs. Demand for such engineers may often exceed supply depending on the market, resulting in intense competition for qualified professionals. There can be no assurances that the Company will attract and retain the personnel it requires to conduct its operations successfully. Failure to attract and retain such personnel or an increase in the Company's employee turnover rate could negatively affect the Company's future results of operation and financial condition.

No assurance can be given that the Company will achieve the anticipated level of returns from these programmes and other development projects, which may negatively affect the Company's future results of operation and financial condition.

## Digital Transformation, Integration, Continuous Improvement and Competitiveness Programmes

In order to improve current operational performance while preparing for the future and building resilience, the Company has launched the integration of its headquarters and corporate functions with the largest division, Commercial Aircraft, and has initiated a wide-reaching digital transformation programme, Quantum. In parallel, the traditional continuous improvement and competitiveness programmes running in all businesses are pursued.

### Integration

The merger of the Group structure with its largest division, Airbus Commercial Aircraft, into a new entity to be called, simply, Airbus, is contemplated to be completed in mid-2017. This next level of integration aims to improve performance and efficiency across the group, ensuring clear focus on operational business imperatives. The new organisation with



leaner functions should ease collaboration, reduce bureaucracy and allow for faster decision making at all levels and across divisions thus laying solid foundations for digital transformation and catalysing all group transformation initiatives already underway in support functions. The streamlined set-up also brings consolidation and cost reduction opportunities at the top of the organization, which should benefit Helicopters and Defence & Space. Some 1,100 positions will be reduced in the functions concerned, while around 230 new positions are to be created mainly in the DTO and new CTO organisations. The net impact would lead to an overall headcount reduction of around 9%.

#### Digital transformation

The Quantum transformation programme was launched to accelerate transformation of end to end operations and to define our future set-up (operations, new services, new business model) driven by customer requirements. In the short to mid-term Quantum will focus on accelerating and industrialising the most promising digitally-enabled performance improvement initiatives permitting a step change. In the longer term, Quantum will redesign end to end digital operations and enable new profitable business model and services for our customers. Quantum is supported by the DTO and CTO organisations and each key streams is led by a division head.

#### Traditional cost-saving and competitiveness programmes in each division

To improve competitiveness in soft markets, offset costs and achieve profitability targets, among other things, the Company and its Divisions have launched several restructuring, cost saving and competitiveness programmes over the past several years. These include Boost Competitiveness in Commercial Aircraft, Adapt in Helicopters and Compete in Defence and Space.

In addition to the risk of not achieving the anticipated level of cost savings, efficiency gains and other benefits from these programmes, the Company may also incur higher than expected implementation costs. In many instances, there may be internal resistance to the various organisational restructuring and cost reduction measures contemplated. Restructuring, closures, site divestitures and job reductions may also harm the Company's labour relations and public relations, and have led and could lead to work stoppages and/or demonstrations. In the event that these work stoppages and/or demonstrations become prolonged, or the costs of implementing the programmes above are otherwise higher than anticipated, the Company's future results of operation and financial condition may be negatively affected.

#### Acquisitions, Divestments, Joint Ventures and Strategic Alliances

As part of its business strategy, the Company may acquire or divest businesses and form joint ventures or strategic alliances. Acquisitions and divestments are inherently risky because of difficulties that may arise when integrating or carving out people, operations, technologies and products. There can be no assurance that any of the businesses that the Company acquires can be integrated or carved out successfully and as timely as originally planned or that they will perform well and deliver the expected synergies once integrated or separated. In addition, the Company may incur significant acquisition or divestment, administrative and other costs in connection with these transactions, including costs related to integration or separation of acquired businesses. While the Company believes that it has established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful.

#### Public-Private Partnerships and Private Finance Initiatives

Defence customers may request proposals and grant contracts under schemes known as public-private partnerships ("PPPs") or private finance initiatives ("PFIs"). PPPs and PFIs differ substantially from traditional defence equipment sales, as they often incorporate elements such as:

- the provision of extensive operational services over the life of the equipment;

- continued ownership and financing of the equipment by a party other than the customer, such as the equipment provider;
- mandatory compliance with specific customer requirements pertaining to public accounting or government procurement regulations; and
- provisions allowing for the service provider to seek additional customers for unused capacity.

The Company is party to PPP and PFI contracts, for example Skynet 5 and related telecommunications services, and in the AirTanker (FSTA) project both with the UK MoD. One of the complexities presented by PFIs lies in the allocation of risks and the timing thereof among different parties over the lifetime of the project.

There can be no assurances of the extent to which the Company will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the on-going provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. The Company may also encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

### Programme-Specific Risks

In addition to the risk factors mentioned above, the Company also faces the following programme-specific risks (while this list does not purport to be exhaustive, it highlights the current risks believed to be material by management and could have a significant impact on the Company's results and financial condition):

**A350 XWB programme.** In connection with the A350 XWB programme, after 49 successful deliveries to 10 airlines in 2016, the Company faces the following main challenges: ensuring satisfaction of operators and high quality support to their operations; maintaining supply chain performance and production ramp-up; controlling and reducing the level of outstanding work in final assembly line; managing recurring costs during the ongoing ramp-up; maintaining customisation and ramp-up of Heads of Version; and maintaining the development schedule in line with learning curve assumptions beyond the initial ramp up phase of A350-1000 XWB to ensure entry in service as planned in agreement with first customer.

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: The transition from A320ceo (current engine option) to A320neo has started in 2016 with 68 deliveries and will finish in 2019. Main challenges; management of stress in the internal and external supply chain as a result of the industrial ramp-up; ensuring maturity and high quality service support for 17 operators of A320neo (new engine option). The main focus will be with the further ramp-up for Airbus and both engine partners. For the Pratt & Whitney engine, challenges are to (i) meet the delivery commitments in line with agreed schedule; (ii) fix in-service maturity issues in line with Airbus and customer expectations.

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges: secure future order flow to mitigate the risk of a decreasing backlog; ramp down the yearly production rate towards rate 12 in 2018 and reduce fixed costs to the new production plan to protect break even at lower volumes; make continued improvements to lower the resources and costs associated with designing each customised "head of version" aircraft for new customers; and manage maturity in service.

**A330 programme.** The A330 programme has successfully been transitioned to rate 6 per month from rate 10 per month both commercially and industrially. The A330neo development progresses aiming at first flight in 2017 with attention on the engine development.

**A400M programme.** Progress has been made in 2016 in implementing industrial recovery measures and management is focused on delivery, but the Company continues to face the following significant challenges: meeting contractual technical

and military capabilities; commercial exposure; the revised engine programme and its associated recovery plan, including the Propeller Gear Box quality issues; technical issues related to the aluminium alloy used for some parts within the aircraft; recurring cost convergence issues; some delays, escalation and cost overruns in the development programme; and securing sufficient export orders in time.

The key capabilities to be achieved remain cargo management and aerial load delivery, self-defence and protection, paratrooper aerial delivery and air to air refuelling. In addition, the A400M programme continues to face challenges in production ramp-up; management of the retrofit campaign as well as providing support to enable high levels of in-service availability. Management continues to work closely with the customers to have a cohesive schedule for military capability enhancement and aircraft delivery.

Management will look to enter into negotiations with customers to cap some of the capability risks and limit additional commercial exposure.

For further information, please refer to the “— Notes to the IFRS Consolidated Financial Statements — Note 10: Revenues, cost of sales and gross margin”.

**Border security.** In connection with border security projects, the Company faces the following main challenges: meeting the schedule and cost objectives taking into account the complexity of the local infrastructures to be delivered and the integration of commercial-off-the-shelf products (radars, cameras and other sensors) interfaced into complex system networks; assuring efficient project and staffing; managing the rollout including subcontractors and customers. Negotiations on change requests and schedule re-alignments remain ongoing.

**H225 programme and AS332 L2 fleet.** In connection with the H225 programme and the AS332 L2 fleet, the Company faces the following main challenges: Since the crash in April 2016 of a H225 in Norway, the Company is dealing with protective measures validated by EASA who lifted the flight suspension on 7 October 2016 to put the fleet back into flight operations; providing assistance to the investigation team and the authorities ahead of the publication of the final accident report; working with the relevant stakeholders to allow the return to service of aircraft that are still under temporary flight suspensions that remain in place in the UK and Norway, following-up with retrofits and dealing with customer claims.

**NH90 and Tiger programmes.** In connection with the NH90 and Tiger programmes, the Company is delivering according to contracts whilst negotiations for the end of some contracts and some new contract amendments are still ongoing. In connection with multiple fleets entering into service it faces the challenge of assuring support readiness.

**H175 programme.** In connection with the H175 programme produced in cooperation with Avic, the Company faces the following main challenges: after the delivery of the first H175 in VIP configuration in 2016, the Company is mastering the maturity plan of the aircraft and the certification of the Search and Rescue mission planned for 2017 and is proceeding with the industrial ramp-up.

### 4.7.3 LEGAL RISKS

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#### Dependence on Joint Ventures and Minority Holdings

The Company generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings. These arrangements include primarily:

- the Eurofighter and AirTanker consortia; and
- four principal joint ventures: MBDA, ATR, Airbus Safran Launchers and Atlas Elektronik .

The formation of partnerships and alliances with other market players is an integral strategy of the Company, and the proportion of sales generated from consortia, joint ventures and equity holdings may rise in future years. This strategy

may from time to time lead to changes in the organisational structure, or realignment in the control, of the Company's existing joint ventures.

The Company exercises varying and evolving degrees of control in the consortia, joint ventures and equity holdings in which it participates. While the Company seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all members with regard to major decisions and specify limited exit rights. The other parties in these entities may also be competitors of the Company, and thus may have interests that differ from those of the Company.

In addition, in those holdings in which the Company is a minority partner or shareholder, the Company's access to the entity's books and records, and as a consequence, the Company's knowledge of the entity's operations and results, is generally limited as compared to entities in which the Company is a majority holder or is involved in the day-to-day management.

### **Product Liability and Warranty Claims**

The Company designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. The Company is subject to the risk of product liability and warranty claims in the event that any of its products fails to perform as designed. While the Company believes that its insurance programmes are adequate to protect it from such liabilities, no assurances can be given that claims will not arise in the future or that such insurance coverage will be adequate.

### **Intellectual Property**

The Company relies upon patents, copyright, trademark, confidentiality and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property (IP) rights in its products and services and in its operations. Despite these efforts to protect its IP rights, any of the Company's direct or indirect IP rights could be challenged, invalidated or circumvented. Further, the laws of certain countries do not protect the Company's proprietary rights to the same extent as the laws in Europe and the US. Therefore, in certain jurisdictions the Company may be unable to protect its proprietary technology adequately against unauthorised third-party copying or use, which could adversely affect its competitive position.

In addition, although the Company believes that it lawfully complies with the monopolies inherent in the IP rights granted to others, it has been accused of infringement on occasion and could have additional claims asserted against it in the future. These claims could harm its reputation, incur financial penalty and prevent it from offering certain products or services which may be subject to such third-party IP rights. Any claims or litigation in this area, whether the Company ultimately wins or loses, could be time-consuming and costly, injure the Company's reputation or require it to enter into licensing arrangements. The Company might not be able to enter into these licensing arrangements on acceptable terms. If a claim of infringement were successful against it, an injunction might be ordered against the Company, causing further damages.

### **Export Controls Laws and Regulations**

The export market is a significant market for the Company. In addition, many of the products the Company designs and manufactures for military use are considered to be of national strategic interest. Consequently, the export of such products outside of the jurisdictions in which they are produced may be restricted or subject to licensing and export controls, notably by the UK, France, Germany and Spain, where the Company carries out its principal military activities as well as by other countries where suppliers come from, notably, the US. There can be no assurance (i) that the export controls to which the Company is subject will not become more restrictive, (ii) that new generations of the Company's products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors or changing international

circumstances will not make it impossible to obtain export licenses for one or more clients or constrain the Company's ability to perform under previously signed contracts. Reduced access to military export markets may have a significant adverse effect on the Company's business, results of operation and financial condition.

Operating worldwide, the Company must comply with several, sometimes inconsistent, sets of sanctions laws and regulations implemented by national / regional authorities. Depending on geopolitical considerations including national security interests and foreign policy, new sanctions programmes may be set up or the scope of existing ones may be widened, at any time, immediately impacting the Company's activities.

Although the Company seeks to comply with all such laws and regulations, even unintentional violations or a failure to comply could result in suspension of the Company's export privileges, or preclude the Company from bidding on certain government contracts (even in the absence of a formal suspension or debarment).

Furthermore, the Company's ability to market new products and enter new markets may be dependent on obtaining government certifications and approvals in a timely manner.

### **Anti-Corruption Laws and Regulations**

The Company is required to comply with applicable anti-bribery laws and regulations in jurisdictions around the world where it does business. To that end, an anti-corruption programme has been put in place that seeks to ensure adequate identification, assessment, monitoring and mitigation of corruption risks. Despite these efforts, ethical misconduct or non-compliance with applicable laws and regulations by the Company, its employees or any third party acting on its behalf could expose it to liability or have a negative impact on its business.

In 2016, for example, the Company announced that it had discovered misstatements and omissions in certain applications for export credit financing for Airbus customers, and had engaged legal, investigative and forensic accounting experts to conduct a review. Separately, the UK Serious Fraud Office announced that it had opened a criminal investigation into allegations of fraud, bribery and corruption in the civil aviation business of Airbus, relating to irregularities concerning third party consultants.

The Company cannot predict at this time the impact on it as a result of these matters, and accordingly cannot make any assurance that it will not be adversely affected. In addition to the temporary suspension of export credit financing, the Company may be subject to administrative, civil or criminal liabilities including significant fines and penalties, as well as suspension or debarment from government or non-government contracts for some period of time. The Company may also be required to modify its business practices and compliance programme and/or have a compliance monitor imposed on it. Any one or more of the foregoing could have a significant adverse effect on the Company's reputation and its business, financial condition or results of operations.

### **Legal and Regulatory Proceedings**

The Company is currently engaged in a number of active legal and regulatory proceedings. Please refer to "Notes to the Consolidated Financial Statements (IFRS) — Note 36: Litigation and claims". The Company expects to continue to incur time and expenses associated with its defence, regardless of the outcome, and this may divert the efforts and attention of management from normal business operations. Although the Company is unable to predict the outcome of these proceedings, it is possible that they will result in the imposition of damages, fines or other remedies, which could have a material effect on the Company's business, results of operation or financial condition. An unfavourable ruling could also negatively impact the Company's stock price and reputation.

In addition, the Company is sometimes subject to government inquiries and investigations of its business and competitive environment due, among other things, to the heavily regulated nature of its industry. In addition to the risk of an unfavourable ruling against the Company, any such inquiry or investigation could negatively affect the Company's

reputation and its ability to attract and retain customers and investors, which could have a negative effect on its business, results of operation and financial condition. See “— Corporate Governance — 4.5 Ethics and Compliance Organisation”.

#### 4.7.4 INDUSTRIAL AND ENVIRONMENTAL RISKS

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Given the scope of its activities and the industries in which it operates, the Company is subject to stringent environmental, health and safety laws and regulations in numerous jurisdictions around the world. The Company therefore incurs, and expects to continue to incur, significant capital expenditure and other operating costs to comply with increasingly complex laws and regulations covering the protection of the natural environment as well as occupational health and safety. This expenditure includes the identification and the prevention, elimination or control of physical and psychological risks to people arising from work, including chemical, mechanical and physical agents. Environmental protection includes costs to prevent, control, eliminate or reduce emissions to the environment, waste management, the content of the Company's products, and reporting and warning obligations. Moreover, new laws and regulations, the imposition of tougher licence requirements, increasingly strict enforcement or new interpretations of existing laws and regulations may cause the Company to incur increased capital expenditure and operating costs in the future in relation to the above, which could have a negative effect on its results of operation and financial condition.

If the Company fails to comply with health, safety and environmental laws and regulations, even if caused by factors beyond its control, that failure may result in the levying of civil or criminal penalties and fines against it. Regulatory authorities may require the Company to conduct investigations and undertake remedial activities, curtail operations or close installations or facilities temporarily to prevent imminent risks. In the event of an industrial accident or other serious incident, employees, customers and other third parties may file claims for ill-health, personal injury, or damage to property or the environment (including natural resources). Further, liability under some environmental laws relating to contaminated sites can be imposed retrospectively, on a joint and several basis, and without any finding of non-compliance or fault. These potential liabilities may not always be covered by insurance, or may be only partially covered. The obligation to compensate for such damages could have a negative effect on the Company's results of operation and financial condition.

In addition, the various products manufactured and sold by the Company must comply with relevant health, safety and environmental laws, for example those designed to protect customers and downstream workers, and those covering substances and preparations, in the jurisdictions in which they operate. Although the Company seeks to ensure that its products meet the highest quality standards, increasingly stringent and complex laws and regulations, new scientific discoveries, delivery of defective products or the obligation to notify or provide regulatory authorities or others with required information (such as under the EU Regulation known as “REACH”, which addresses the production and use of chemical substances) may force the Company to adapt, redesign, redevelop, recertify and/or eliminate its products from the market. Seizures of defective products may be pronounced, and the Company may incur administrative, civil or criminal liability. Any problems in this respect may also have a significant adverse effect on the reputation of the Company and its products and services.