

## 4. Corporate Governance

### 4.1 Management and Control

#### 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"; any reference in the Board Rules to the EU includes the United Kingdom ("UK") and its constituent countries, notwithstanding a withdrawal of the UK from the 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 11 non-Executive Directors. While the Board of Directors appoints 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 Corporate Governance Code (the "Dutch Code") and meets additional independence standards. Specifically, where the Dutch Code would determine non-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 non-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".

The Remuneration, Nomination and Governance Committee (the "RNGC") of the Board of Directors 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.

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 the renewal or appointment of Directors, are both required to apply the following principles:

- ▶ the preference for the best candidate for the position;
- ▶ the preference for gender diversity between equal profiles;
- ▶ the maintenance of appropriate skills mix and geographical experience;
- ▶ 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 Airbus (in particular among the nationals of France, Germany, Spain and the United Kingdom, where these main industrial centres are located); and
- ▶ at least a majority of the Members of the Board of Directors (i.e., 7/12) shall be EU nationals (including the Chairman), and a majority of such majority (i.e., 4/7) shall be both EU nationals and residents (including the UK and its constituent countries, notwithstanding a withdrawal of the UK from the EU).

In accordance with these principles, the Board of Directors shall continue to seek greater diversity with respect to gender, age, geography, education, profession and background.

In 2019, one new Member, Mr. Faury, joined the Board of Directors as new CEO replacing Mr. Enders. With his extensive operational knowledge, his global outlook and strong personal values, Mr. Faury has the right competencies, mind-set and personal skills to fulfil this position in line with the Board's expectations and the evolution of the Company's business.

At the end of 2019, the average age of the Members of the Board of Directors was 59. The proportion of female representatives is today at 25% compared to 0% seven years ago. The Board composition shows a balanced mix of experience with, for example, five Members having aerospace industry skills, seven having geopolitical or economics skills, five having information or data management skills and five having manufacturing and production skills. More details about the diversity of the Members of the Board of Directors are available in the table shown on page 21 (*Airbus SE Board of Directors until AGM 2020*).

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 at all times the Board of Directors needs to have: (i) two Directors who 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 Directors who 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 a schedule, the RNGC considers the continuity of company-specific knowledge and experience within the Board of Directors, also taking into account that a Director should at the time of his/her 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 for a term of three years. This is to avoid large block replacements of Directors at one single AGM, with the corresponding loss of experience and integration challenges, 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 cast by Directors (a "**Simple Majority**"), but certain decisions must be made by a two-thirds majority (i.e., eight favourable votes) of votes cast by the Directors regardless of whether they are 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 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 Executive Committee and its executive leadership team, 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.


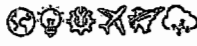




















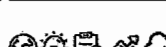



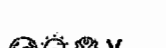
Matters that require Board of Directors' approval include among others, the following items (by Simple Majority unless otherwise noted):

- ▶ 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 Executive Committee as proposed by the CEO and their service contracts and other contractual matters in relation to the Executive Committee and deciding upon the appointment and removal of the Secretary to the Board on the basis of the recommendation of the RNGC;
- ▶ 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 his/her duties and avoiding any and all conflicts of interest.

## Airbus SE Board of Directors until AGM 2020

Board member Age*, Gender, Nationality	Status	Since	Term expires	Primary occupation & Other mandates	Director expertise	Committee attendance			
						Board attendance	Audit	RNGC	ECC
 <b>Denis RANQUE</b> 68, M, French	Independent	2013, previous re-election in 2017	2020	Chairman of the Board of Directors of Airbus SE		11/11			 6/6
 <b>Guillaume FAURY</b> 51, M, French	Executive	2019	2022	Chief Executive Officer of Airbus SE		8/8 (from AGM 2019)			
 <b>Victor CHU</b> 62, M, Chinese / British	Independent	2018	2021	Chairman and CEO of First Eastern Investment Group		11/11	5/7		
 <b>Jean-Pierre CLAMADIEU</b> 61, M, French	Independent	2018	2021	Chairman of the Board of Engie and member of the Board of AXA SA		10/11		6/7	3/4 (from AGM 2019)
 <b>Ralph D. CROSBY, Jr.**</b> 72, M, American	Independent	2013, previous re-election in 2017	2020	Member of the Board of Directors of American Electric Power Corp.		11/11	6/7		
 <b>Lord DRAYSON (Paul)**</b> 59, M, British	Independent	2017	2020	Founder and CEO of Sansyne Health plc and Co-Founder and Chairman of Drayson Technologies Group		10/11		6/7	5/6
 <b>Catherine GUILLOUARD</b> 55, F, French	Independent	2016, previous re-election in 2019	2022	Chairwoman and CEO of RATP Group and member of the Board of Systra		11/11	 7/7		5/6
 <b>Hermann-Josef LAMBERTI</b> 64, M, German	Independent	2007, previous re-election in 2017	2020	Member of the Board of Supervisory Board of ING Group N.V.		8/11	6/7		4/6
 <b>Amparo MORALEDA</b> 55, F, Spanish	Independent	2016, previous re-election in 2018	2021	Member of the Board of Directors of Solvay SA, CaixaBank SA and Vodefor e PLC		11/11		 7/7	6/6
 <b>Claudia NEMAT</b> 51, F, German	Independent	2016, previous re-election in 2019	2022	Member of the Board of Management of Deutsche Telekom AG		8/11		5/7	
 <b>René OBERMANN</b> 56, M, German	Independent	2018	2021	Managing Director of Warburg Pincus Deutschland GmbH		10/11	6/7		3/3 (from 30 July 2019)
 <b>Carlos TAVARES</b> 61, M, Portuguese	Independent	2016, previous re-election in 2019	2022	Chairman of the Managing Board of Peugeot SA and member of the Board of Directors of Total SA		9/11			
<b>Board and Committee meetings in 2019</b>						11	7	7	6
<b>Average attendance rate in 2019</b>						91%	85%	89%	87%

\* As of 12 February 2020.



\*\* To be re-elected in 2020.

The professional address of all Members of the Board of Directors for any matter relating to Airbus SE is Mendelweg 30, 2333 CS Leiden, The Netherlands.



 Global Business	 Engineering & Technology	 Manufacturing & Production	 Aerospace Industry	 Finance & Audit	 Geopolitical Economics	 Defence Industry	 Information & Data Management	 Asia
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## Changes in the composition of the Board in the course of 2019

Until AGM 2019			From AGM 2019*		
Name	Age	Status	Name	Age	Status
Mr. Thomas ENDERS	60	Executive	Mr. Guillaume FAURY	51	Executive

\* Further information on the Board members can be found in the above table "Airbus SE Board of Directors until AGM 2020".

## Changes in the Board Committee composition in the course of 2019

Committee	Until 2019 AGM*		From 2019 AGM		From July Board	
	Name	Status	Name	Status	Name	Status
Audit	Mr. Hermann-Josef LAMBERTI		Ms. Catherine GUILLOUARD			
	Ms. Catherine GUILLOUARD**	Member	Mr. Hermann-Josef LAMBERTI	Member		
Ethics and Compliance			Mr. Jean-Pierre CLAMADIEU	Member	Mr. René OBERMANN	Member

\* Further information on the Committee members can be found in the above tables "Airbus SE Board of Directors until AGM 2020" and "Changes in the Board Committee composition in the course of 2019".

\*\* Ms. Guillaouard replaced Mr. Lambert as Chair of the Audit Committee in 2019.

  Chair

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 2019

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### Board of Directors meetings

The Board of Directors met 11 times during 2019 and was regularly informed of developments through business reports from the CEO, including progress on the strategic and operational activities. The average attendance rate at these meetings was 91%.

Throughout 2019, the Board of Directors reviewed and discussed the technical and commercial progress of significant new and running programmes. For the Commercial Aircraft, this comprised inter alia the ramp-up in production of the A320 Family aircraft (and the A220) and the transition to the more efficient neo version, the ramp-up of the A350 aircraft and the mitigation measures taken in relation to the engine issues hampering the production at Airbus and the operations with the customers. It also concerned the launch of the new A321 XLR aircraft and the decision to cease A380 manufacturing in 2021 with the delivery of the last aircraft. For Defence and Space, it concerned notably the progress on the A400M programme military capabilities and on the retrofit and delivery plan in line with the agreement reached with OCCAR and the states, the development of the Eurodrone and of the Future Combat Air System. In addition, this covered the OneWeb satellite constellation programme and the evolution of the overall space competitive landscape. For the Helicopter business, the Board focused its review on the overall market situation, the development of the services activities and the preparation of the H160 programme for serial production.

The Board dedicated two full sessions in 2019 to the review of the Divisions and product strategies, as well as of the overall strategy of Airbus. During the off-site Board meeting held in September in Montreal (Canada), the Board continued to visit industrial sites, staying close to the products and businesses. It met management and employees at the A220 final assembly line at Mirabel, near Montreal.

In 2019, the Board of Directors continued to support the Company's digital journey and to enhance Airbus' ability to identify and capitalise on innovative technologies and business models. But it also asked management to remain vigilant about data and product safety and to shield the Company and products from any cyber-attack.

Moreover, the Board of Directors reviewed Airbus' financial results and forecasts and maintained an emphasis on both Enterprise Risk Management ("ERM") and internal control. A particular focus was also made on product safety and Airbus' responsibility, sustainability and environmental initiatives. The Board discussed in particular Airbus' ambition and future agenda with respect to the Company's position in society.

A substantial share of the Board activities was dedicated to compliance matters. The Board continued to closely monitor the Serious Fraud Office / Parquet National Financier / US Department of Justice / US Department of State investigations in relation to which settlements were reached with the French, UK and US authorities in January 2020. The commitment from the Board and its Ethics and Compliance Committee to provide full support to the investigations and the implementation of globally recognised compliance standards paved the way to these agreements. In addition, the "Independent Compliance Review Panel", which is composed of renowned international experts, carried on its advising role to the Board with respect to its compliance activities in order to build an Ethics & Compliance programme and organisation meeting internationally recognized standards.

The Board also reviewed and discussed other topics of significant importance to Airbus such as the measures taken to mitigate a no-deal Brexit situation, the application of tariffs on commercial aircraft being imported to the US by the USTR and crisis management /data security matters.

The year has been marked by major changes in Airbus' top Management, including the Company's CEO and a number of Executive Committee members, including the nomination of Julie Kitcher as Executive Vice-President Communications & Corporate Affairs, second female member of the Executive Committee. The Board has been involved in the selection process. It also played a key role in the succession planning of both the Chairman and Board members in preparation for the 2020 changes.

In 2019, in addition to the formal general meeting, the Chairman with the Airbus' team, sought regular engagements with major shareholders in order to understand their views on governance, remuneration and performance against the strategy for the Company.

## Board evaluation 2019

As a matter of principle, the Board of Directors implements a continuous evaluation process based on a three-year cycle. As part of this process, every three years, a formal evaluation of the functioning of the Board of Directors and its Committees is conducted with the assistance of a third-party expert. In the year succeeding such an 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 2019 was the third year of the three-year cycle started in 2017. In November 2019, 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 and Board topics, Board and Committees functioning, Board composition and selection process, dynamic between Board and Management and amongst Board members, Board decision-making process, Committees contributions, involvement of the Remuneration, Nomination and Governance Committee and Board Secretary support.

In its 2019 internal evaluation, the Board confirmed overall satisfaction with the progress made in the implementation of the "Improvement Action Plan" recommended by Heidrick & Struggles as its third-party expert, following the formal evaluation conducted in 2017.

2019 was a pivotal year with an almost entirely new management team in place making a remarkably encouraging start in interactions with the Board as per the results of the internal evaluation. In this transitioning context, the Company's governance, dynamic and performance is viewed as very satisfactory, with excellent quality of debate and relationships between the Management, the Chairman and the Board members and efficient decision-making process given the complexity of the topics.

The Board Members notably valued good Board meetings preparation, suitable time allocation to agenda items as well as satisfactory contributions of the Board Committees, elements which greatly contribute to Board's efficiency. In addition, the Board highlighted its collegial, cooperative and effective functioning as a team.

Following the last Board evaluation, frequency of participation of top management to Board meetings has significantly increased. The Board expects this trend to further improve.

The Board has spent additional time on strategy and succession planning, as well as on other important matters for which discussions would need to be further enhanced such as defence strategy and business challenges, innovation, competition, employee engagement, digitalisation and industrialisation, environment & sustainability, programme management, risk and crisis management.

The Directors underlined that the Board should as well spend further dedicated time on cybersecurity and IT, impact of geopolitical developments and product safety. In addition, executive succession planning is expected to be more extensively discussed by the Remuneration, Nomination, Governance Committee and Board.

Finally, the Board Members expressed their overall satisfaction with regards to the Board composition, selection and nomination process and highlighted the necessity to continue with the process of the staggered Board principle in order to further develop the diversity of expertise and gender within the Board.

### 4.1.3 BOARD COMMITTEES

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#### The Audit Committee

Pursuant to the Board Rules, the Audit Committee, which is required to meet at least four times a year, makes recommendations to the Board of Directors on the approval of the annual financial statements and the interim accounts (Q1, H1, Q3), as well as the appointment of external auditors and the determination of their remuneration. Moreover, the Audit Committee has 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 auditors their audit programme and the results of the audit of the financial statements, and it monitors the adequacy of Airbus' internal controls, accounting policies and financial reporting. It also oversees the operation of Airbus' Enterprise Risk Management ("ERM") system and keeps a strong link to the Ethics & Compliance Committee. For further details in this regard, see " - 4.5: Enterprise Risk Management System". Please refer to Annex E of the Board Rules for a complete list of responsibilities of the Audit Committee.

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

In 2019, this Committee met seven times with an average attendance rate of 86%. It fully performed all of the duties and discussed all of the items described above. In particular, it performed reviews of internal controls, corporate audit (including major findings and audit plan for 2019) and accounts (i.e. 2018 full year accounts, 2019 Q1, H1 and Q3 accounts, 2019 forecasts). Regular ERM and Legal & Compliance updates were presented to the Audit Committee and discussed in meetings (including in relation to the compliance investigations).

#### The Ethics and Compliance Committee

To reinforce oversight of ethics and compliance matters at the Board of Directors level, a dedicated Ethics and Compliance Committee ("E&C Committee" or "ECC") was established in 2017 and the Board Rules have been amended accordingly. Pursuant to the Board Rules, the main mission of the E&C Committee is to assist the Board in monitoring Airbus' culture and commitment to ethical business and integrity. This committee is empowered to oversee Airbus' ethics and compliance programme, organisation and framework in order to make sure that Airbus ethics and compliance governance is effective (including all associated internal policies, procedures and controls). This includes the areas of money laundering and terrorist financing, fraud, bribery and corruption, trade sanctions and export control, data privacy, procurement and supply chain compliance and anti-competitive practices.

The E&C Committee makes recommendations to the Board of Directors and its Committees on all ethics and compliance-related matters and is responsible for providing to the Audit Committee any necessary disclosures on issues or alleged ethical and compliance breaches that are financial and accounting-related. The E&C Committee maintains a reporting line with the Chief Ethics and Compliance Officer, who is requested to provide periodic reports on its activities.

The Chairman of the Audit Committee and the Chairman of the RNGC are members of the E&C Committee. Unless otherwise decided by the E&C Committee, the CEO is invited to attend the meetings. From time to time, independent external experts and the Independent Compliance Review Panel are also invited to attend E&C Committee meetings.

The E&C Committee is required to meet at least four times a year. In 2019, the E&C Committee met in total six times with an average attendance rate of 87%. All of the above described items were discussed during the meetings and the E&C Committee fully performed all the above described duties.



## The Remuneration, Nomination and Governance Committee

Pursuant to the Board Rules, besides its role described in section 4.1.1 above, the RNGC consults with the CEO with respect to proposals for the appointment of the members of the 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, 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 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 CEO are invited to attend meetings of the RNGC. The Chief Human Resources Officer ("CHRO") is requested to attend meetings to present management proposals and to answer questions.

In addition, the RNGC reviews the Company's top talent, discusses measures to improve engagement and to promote diversity, reviews the remuneration of the Executive Committee Members, the Long-Term Incentive Plans ("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.

Pursuant to the Board Rules (as amended in December 2019), the Chair of the RNGC automatically fulfils the function of "Lead Independent Director". In this role he / she is responsible for (i) replacing the Chairman in his / her absence at meetings of the Board, (ii) organising the annual appraisal of the Chairman's performance by the Board and (iii) acting as an intermediary for and between the other Directors when necessary (e.g. acting as a spokesperson for the other Directors towards the Chairman, acting as a liaison for the Directors regarding the functioning of the Chairman and the Board).

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, however, not create any restrictions on the diversity within the Company's executive management team.

The RNGC is required to meet at least four times a year. In 2019, it met seven times with an attendance rate of 89%; it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

### 4.1.4 EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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The CEO proposes all the Members of the Executive Committee of the Company (the "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 Executive Committee, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of France, Germany, Spain and the United Kingdom, where these main industrial centres are located); and
- ▶ at least two-thirds of the Members of the Executive Committee, including the CEO and the CFO, being EU nationals and residents.

## Role of CEO and 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 with the support of the Executive Committee ("EC") and its executive leadership team through Executive Leadership Meetings ("ELM") to which the EC members participate. The CEO shall be accountable for the proper execution of the day-to-day operations of Airbus' business.

ELMs are held on a regular basis and aim at advising the CEO on his day-to-day role and ensuring that EC members report back on business progress, updates and concerns, addressing Airbus-wide topics including corporate matters, approving all vacancies and promotions above certain levels.

The EC further supports the CEO in performing these tasks. Under the leadership of the CEO, the EC is responsible for business strategy as well as organisational matters and management of the business, monitoring key projects/ products and major investments, overseeing performance targets, whether it be financial, individual, programmes or support functions, outlining policies to motivate, recruit and retain employees. It is also accountable for regulatory and statutory obligations along with policy matters, communications and market disclosures. It is also the forum where the information or requests for approval destined to the Board are discussed and approved. The EC 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 EC comprises the heads of the Divisions and key functions of the Company.

The CEO is the only Executive Director within the Board of Directors and represents the Company on the Board. But, depending on the topic, he usually asks the responsible EC member to join him at Board meetings to present the financials (CFO), programme/product topics (Division heads), HR matters (CHRO) or any other topic where a specialist is needed. This approach allows the Board Members to get to know the EC members and equips them to make judgements when it comes to decisions about key positions.

## 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, where possible, avoided (please refer to the "Board Rules (Annex D – Article 8: Conflicts of interest)"). This policy is available on the Company's website: [www.airbus.com](http://www.airbus.com) (Company / Corporate Governance / Governance Framework and Documents), as is the related best principle 2.7 of the Dutch Code (as such term is defined in section 4.3 "Dutch Corporate Governance Code" below), which the Company complied with during 2019. 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 a transaction where a Director has conflicts of interest that are material to the Company or the individual Director.

In 2019, no transactions were reported. There were, however, related-party transactions: for an overview, please refer to "Notes to the IFRS Consolidated Financial Statements – Note 9: 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 nearly all 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 Code was revised; its updated recommendations apply to financial years starting on or after 1 January 2017. Airbus welcomed the updates to the Dutch Code and continues supporting the emphasis of the revised Dutch Code on topics such as long-term value creation and the importance of culture.

For the full text of the Dutch Code, please refer to: [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

For the financial year 2019, and in respect of compliance with the Dutch Code, the Company states the following:

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

Provision 2.3.6 (ii) of the Dutch Code recommends the election of a vice-chairman, to, among other things, deal with the situation when vacancies occur.

In December 2019 and in line with this recommendation of the Dutch Code, Airbus revised its Board Rules to provide that the Chair of the RNGC automatically fulfils the position of "Lead Independent Director". In this role he / she is responsible for (i) replacing the Chairman of the Board in his / her absence at meetings of the Board, (ii) organising the annual appraisal of the Chairman's performance by the Board and (iii) acting as an intermediary for and between the other Directors when necessary (e.g. acting as a spokesperson for the other Directors towards the Chairman of the Board, acting as a liaison for the Directors regarding the functioning of the Chairman of the Board and the Board). Effectively, the Lead Independent Director carries out tasks that are materially identical as those which a vice-chairman would have under the Dutch Code. With the introduction of the position of Lead Independent Director in 2019, Airbus expects to be (and remain) fully compliant with provision 2.3.6 (ii) of the Dutch Code for subsequent financial years.

#### **2. Termination indemnity**

Provision 3.2.3 of the Dutch Code recommends that the maximum remuneration in the event of dismissal of an Executive Board Member be one year's salary. Under this provision of the Dutch Code, severance pay should not be awarded if the Board membership is terminated early at the initiative of the Executive Board Member, or in the event of seriously culpable or negligent behaviour on the part of the Executive Board Member.

As per the amendment to the remuneration policy approved at the 2019 AGM, and in line with the recommendation of the Dutch Code, the termination indemnity of the sole Executive Board Member, the CEO, is equal to one year's salary. Consequently, the CEO is entitled to an indemnity equal to one times the last Total Annual Remuneration (defined as Base Salary and VR most recently paid), subject to applicable local legal requirements if any. The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors had been fulfilled by the CEO. With this amendment to the termination indemnity in 2019, Airbus expects to be (and remain) compliant with provision 3.2.3 of the Dutch Code for subsequent financial years.

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

Provision 3.3.3 of the Dutch Code recommends that non-Executive Directors who hold securities in the Company should keep them as a long-term investment.

Although non-Executive Directors are welcome to own shares in the share capital of the Company, the Company does not require its non-Executive Directors who hold shares to keep such shares as a long-term investment. Airbus 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 4.2.3 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 composition guidelines regarding gender diversity under Dutch law pursuant to which the Board of Directors would be regarded as being composed in a balanced way if it contained at least 30% women and at least 30% men expired on 1 January 2020. Nevertheless, the Company will continue to promote gender diversity within its Board of Directors in accordance with the principles mentioned in section 4.1.1 above. In addition, the Company will continue to give due consideration to any applicable gender targets in its search to find suitable candidates and to actively seek female candidates. However, the Company believes that candidates should not be recruited based on gender alone; the capabilities and skills of potential candidates are most important in this respect. The proportion of the female representation on the Board of Directors is currently at 25% (against 0% seven years ago).

Furthermore, the Company is committed to supporting, valuing and leveraging the value of diversity. That being said, the importance of diversity, in and of itself, should not set aside the overriding principle that someone should be recommended, nominated and appointed for being "the right person for the job". Although the Company has not set specific targets with respect to particular elements of diversity, except for the principles described in 4.1.1 - "Composition, powers and rules" and those targets which apply by law, the Company is committed to seeking broad diversity in the composition of the Board of Directors and its Executive Committee and will consider attributes such as personal background, age, gender, experience, capabilities and skills when evaluating new candidates in the best interests of the Company and its stakeholders.

The Company believes that the composition of its Board of Directors and its Executive Committee is consistent with these diversity objectives.

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For information on the operation of the Shareholders' Meeting, its key powers, the shareholders' rights and how such powers and rights can be exercised, see " - 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, see " - 4.1.1: Composition, power and rules", " - 4.1.2: Operation of the Board of Directors in 2019", and " - 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, see " - 3.1: Shareholding and voting rights – Shareholding structure at the end of 2019", " - 3.2: Relationships with Principal Shareholders", " - 4.1.1: Composition, powers and rules", " -3.1: Shareholding and voting rights – Amendments to the Articles of Association" and " - 3.1: Shareholding and voting rights – Modification of share capital or rights attached to shares".

## 4.4 Remuneration Report

### 4.4.1 INTRODUCTION

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The RNGC is pleased to present the Remuneration Report which comprises the following sections:

Paragraph 4.4.2 presents the proposed Company's remuneration policy ("**Remuneration Policy**") for adoption at the Annual General Meeting to be held in 2020 ("AGM 2020") and to be applicable from 1 January 2020. Its structure and substance are materially identical to those of the policy currently applicable and approved by the general meeting. To comply with the requirements of new Dutch regulations, this Remuneration Policy has been further detailed and refined in certain aspects.

Paragraph 4.4.3 highlights also two proposed amendments to the Remuneration Policy: the introduction of an Responsibility & Sustainability ("**R&S**") criterion in replacement of the existing RoCE criterion in the calculation of the Annual Variable Remuneration (as defined in paragraph 4.4.2 B item b) below), and the move from defined benefit pension commitment to contributions based pension plans.

Paragraphs 4.4.4 and 4.4.5 respectively describe how the Remuneration Policy was implemented in 2019 in respect of the current and former CEO and of the Non-Executive Members of the Board of Directors.

*Note: Whilst this chapter 4.4 is presented as the Company's Remuneration Report, only the disclosure included in (or expressly incorporated by reference into) this paragraph 4.4.1 and paragraphs 4.4.4 and 4.4.5 constitute the remuneration report (bezoldigingsverslag) for purposes of Section 2:135b of the Dutch Civil Code and will be included as a separate agenda item for an advisory vote at the AGM 2020.*

*The cumulated remuneration of all Executive Committee Members is presented in the "Notes to the IFRS Consolidated Financial Statements – Note 34: Remuneration". To the extent that any information presented in this Note relates to matters referred to in Sections 2:383c through 2:383e of the Dutch Civil Code and is not also described in paragraph 4.4.4, such information is incorporated by reference into this Remuneration Report in order to satisfy the requirements of the Dutch Civil Code.*

### 4.4.2 REMUNERATION POLICY

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#### A — General

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 (who are the Non-Executive Directors).

Pursuant to a resolution to that effect, the General Meeting may (re)adopt, amend or supplement the Remuneration Policy on the basis of a proposal by the Board of Directors at the recommendation of the RNGC.

The Board of Directors, at the recommendation of the RNGC, may decide to deviate temporarily (and ultimately until the General Meeting adopts an amended version of the Remuneration Policy following the occurrence of such deviation) from any element of the Remuneration Policy as outlined below, if this is necessary to serve the long-term interests and sustainability of the Company or to assure its viability.

It is proposed to the AGM 2020 to adopt the Remuneration Policy in the form set out below in this chapter 4.4.2 with effect as of 1 January 2020. The substantive terms of the Remuneration Policy have not been revised since the most recent amendment approved by the general meeting; the proposed revisions relate to clarifications and technical improvements throughout the policy in order to comply with the recently introduced provisions of the Dutch Civil Code. Given the positive outcome of the most recent vote at the Company's general meeting on the Remuneration Policy, the Board of Directors does not believe that substantive amendments to the Remuneration Policy are required (except for the proposed amendments as described in chapter 4.4.3).

The Remuneration Policy shall be posted on the Company's website as part of the Company's annual report of the Board of Directors.

## B — Executive Remuneration – Applicable to the CEO

### a) Remuneration Philosophy

The Company's remuneration philosophy aims to provide remuneration that will attract, retain and motivate high-calibre executives, whose contribution will ensure that the Company achieves its strategic and operational objectives, thereby delivering long-term sustainable returns for all shareholders and other stakeholders in a manner consistent with the Company's identity, mission and corporate values.

The Board of Directors and the RNGC are committed to making sure that the Executive remuneration structure (i) is transparent and comprehensive for all stakeholders, (ii) is consistent and aligned with the interests of long-term shareholders, also taking into consideration the employment conditions of the Company's employees and (iii) incentivises R&S and furthers the Company's corporate values by basing variable remuneration components also on the achievement of non-financial targets and metrics using environmental, social or governance ("ESG") criteria.

Before setting the targets to be proposed for adoption by the Board of Directors, the RNGC considers the financial outcome scenarios of meeting performance targets, including achieving maximum performance thresholds, and how these may affect the level and structure of the Executive remuneration, as well as potential risks for the Company's business which may result from variable compensation. The Board of Directors shall also consider these aspects, based on the RNGC's recommendations.

Also, before making a recommendation relating to the remuneration of the CEO, the RNGC and the Board of Directors shall take note of the views of the CEO with regard to the amount, level and structure of his or her remuneration.

### b) Total Direct Compensation and Peer group

The CEO's total direct compensation ("**Total Direct Compensation**") comprises a base remuneration ("**Base Salary**"), an annual variable short-term remuneration ("**Annual Variable Remuneration**" or "**VR**") and a Long-Term Incentive Plan ("**LTIP**"). The three elements of the Total Direct Compensation are each intended to comprise one-third of the total, assuming the achievement of performance conditions is 100% of the applicable targets.

The level of the Total Direct Compensation for the CEO (Base Salary, VR and LTIP) is set by reference to the median of an extensive peer group (as described in paragraph 4.4.4 item a) below) and takes into account the scope of the role of the CEO and the level and structure of executive rewards within Airbus. The benchmark is regularly reviewed by the RNGC with the support of an independent consultant and is based on a peer group which comprises:

- ▶ global companies in Airbus' main markets (France, Germany, UK and US), excluding financial institutions; and
- ▶ companies operating in the same industries as Airbus worldwide.

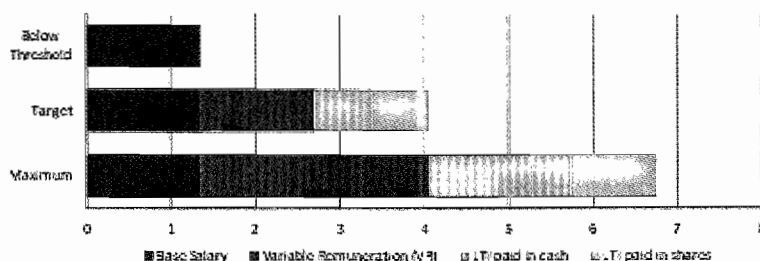
The elements of the Total Direct Compensation are described below:

Remuneration Element	Main Drivers	Performance Measures	Target and Maximum
Base Salary	Reflects market value of position.	Not applicable	1/3 of Total Direct Compensation (when performance achievement is 100% of target).
VR	Rewards annual performance based on achievement of Company performance measures and individual objectives.	<p>Collective (50% of VR): divided between EBIT<sup>2</sup> (40%); Free Cash Flow<sup>3</sup> (40%) and R&amp;S (20%).</p> <hr/> <p>Individual (50% of VR): Achievement of annual individual objectives, divided between Outcomes and Behaviour.</p>	<p>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.</p> <p>The VR is capped at 200% of Base Salary.</p>
LTIP	Rewards long-term commitment and Company performance, and engagement on financial targets subject to cumulative performance over a 3-year period.	<p>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%).</p>	<p>The original allocation to the CEO is capped at 100% of Base Salary at the time of grant.</p> <p>The following caps apply to Performance Units:</p> <ul style="list-style-type: none"> <li>- overall pay-out is capped at a maximum of 250% of the original value at the date of grant.</li> <li>- The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.</li> </ul>

<sup>2</sup> The Company 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>3</sup> Airbus defines the alternative performance measure Free Cash Flow ("FCF") as the sum of (i) cash provided by operating activities and (ii) cash used for investing activities, less (iii) change of securities, (iv) contribution to plan assets for pension schemes, (v) realised treasury swaps and (vi) bank activities. 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.

The following graphic depicts three relevant scenarios for the outcome of the Total Direct Compensation:



Indications assume a Base Salary of EUR 1.36 million, but the Board of Directors may revise the Base Salary based on the recommendations of the RNGC.

"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 final value of performance shares depends on the share price development which is not capped.

### c) Base Salary

The CEO's Base Salary 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 following the end of each financial year, depending on the achievement of specific and challenging performance targets as determined at the beginning of each financial year. The level of the CEO's Variable Remuneration is targeted at 100% of the Base Salary; it is capped at a maximum level of 200% of the Base Salary. The entire variable remuneration is at-risk, and therefore if performance targets are not achieved as per the defined objectives agreed by the Board of Directors, no variable remuneration is paid.

The performance measures that are considered when awarding the variable remuneration to the CEO are split between common collective performance measures and individual performance measures.

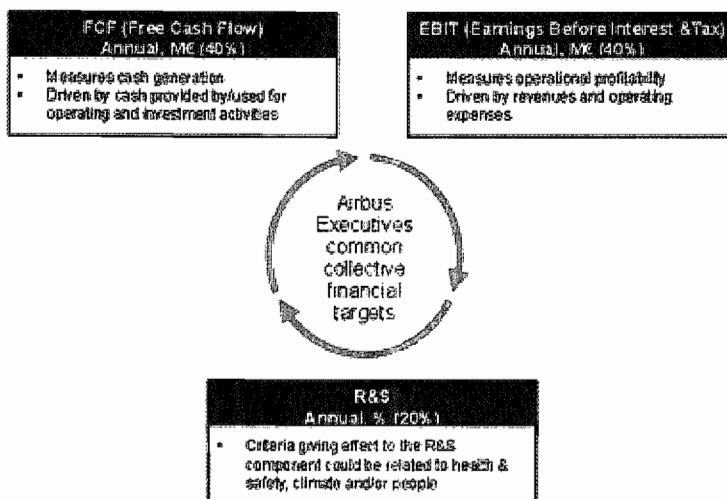
#### Common Collective Component

The common collective component is based on EBIT (40%), Free Cash Flow (40%) and R&S (20%) objectives (the "Common Collective Component"). At the beginning of each year, the Board of Directors sets the targets for these key value drivers at Company and Division levels. The common collective targets relate closely to internal planning and to guidance given to the capital markets (although there may be variations from these). The key value drivers that form the R&S component will be determined by the Board of Directors and disclosed in the implementation section of the Company's remuneration report for the relevant financial year. They can be related to matters such as health & safety, climate and/or people.

To calculate the common collective annual achievement levels, actual EBIT, Free Cash Flow and R&S performance is compared against the targets that were set for the year. This comparison forms the basis for computing achievement levels, noting that the actual EBIT, Free Cash Flow levels are occasionally normalised for a limited number of factors which are outside management's control (such as certain foreign exchange impacts or unplanned merger and acquisition activities). The RNGC's intention is to ensure ambitious financial and R&S targets and to incentivise the CEO's commitment to meeting these targets.



The graphic below illustrates the Common Collective Component, how it is measured and what the key value drivers are:



### Individual Component

The individual element ("Individual Component") focuses on Outcomes and Behaviour (as defined below). Individual performance is assessed in these two important dimensions, which both contribute to the Company's remuneration philosophy. Among other matters, corporate social responsibility and the Company's corporate values are considered as part of this assessment.

- ▶ **Outcomes** encompass various aspects of what the CEO can do to contribute to the success of the business: specific business results he achieves, projects he drives and processes he improves. The individual targets of the CEO are comprehensive and shared with all employees via the Top Company Objectives.
- ▶ **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 Executive Committee, quality of communication, encouragement of innovation, etc. A specific part of the behaviour assessment relates to ethics, compliance, quality and other sustainability matters.

The performance of the Individual Component is measured by the RNGC for the CEO and for all the other members of the Executive Committee.

The RNGC discusses the level of achievement of every single target and derives a combined target achievement level for the outcomes. The behavioural part of the Individual Component is also discussed by the RNGC and constitutes an adjustment factor for the target achievement of the outcomes. Finally, the RNGC proposes to the Board of Directors the compound Individual Component of the CEO target achievement made up from the outcomes and behavioural achievements.

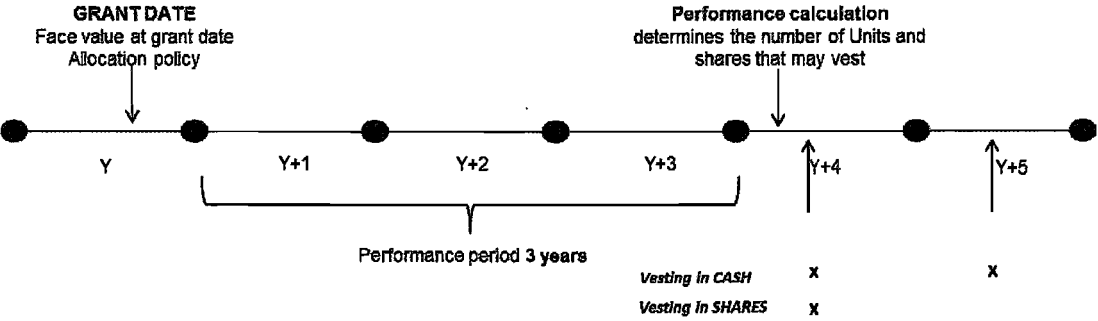
### e) Long-Term Incentive Plan

The CEO participates in the Company's Long Term Incentive Plan ("LTIP") in order to increase the alignment with shareholders' interests. The LTIP allows the award of performance units ("Performance Units" or "Units") and/or performance shares ("Performance Shares" or "Shares").

The value of the CEO's LTIP allocation is capped at 100% of the Base Salary at the date of grant and subject to performance conditions. The achievement of the performance criteria is assessed by the RNGC after a three-year period based on relevant financial criteria during this period of three years with stringent targets set in advance and agreed by the Board of Directors at the recommendation of the RNGC.

At the end of this three-year period, the grant is subject to a performance calculation to determine whether and to what extent it should vest. Depending on this calculation (i) Performance Units will vest in two tranches, the payment of which

takes place approximately 6 and 18 months following the end of the performance period and (II) Performance Shares will vest in one tranche, approximately 6 months following the end of the performance period. This is depicted in the graphic below:



The level of vesting of Performance Shares and Units is subject to the following performance measures:

- ▶ 0-50% of the allocation: In principle, this element of the Performance Unit/Share award will not vest if the Company reports negative cumulated EBIT results. Nonetheless, in case the Company's EBIT results are impacted by exceptional and unpredictable circumstances, the Board of Directors, upon recommendation of the RNGC, may decide that a maximum portion of 50% of the allocation will vest;
- ▶ 50-150% of the allocation: This element of the Performance Unit/Shares vests based on the two following performance criteria: average earnings per share (75%) ("Earnings per Share" or "EPS") and cumulative Free Cash Flow (25%).

<b>Earnings per Share</b> Average over 3 years, €	<b>Free Cash Flow</b> Cumulated over 3 years, M€
<ul style="list-style-type: none"> <li>Measures profitability</li> <li>Driven by net income and number of shares</li> </ul>	<ul style="list-style-type: none"> <li>Measures cash generation</li> <li>Driven by cash provided by/used for operating and investment activities</li> </ul>

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; and
- ▶ the overall pay-out is capped at 250% of the value at the date of grant.

Performance Units and Performance Shares that vest in accordance with the terms and conditions applicable to them are settled without further action being required by the beneficiary.

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.

**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 the Base Salary and to hold them throughout his or her tenure.

**g) Benefits**

The benefits offered to the CEO are similar to the benefits granted to other executives of the Company and comprise, among other matters, medical, death and disability coverage (both through a social security system or a company plan, depending on the contractual agreement with the CEO), a company car and usual facilities.

Unless the law provides otherwise, the costs and expenses of the CEO are covered, including reasonable costs of defending claims, under the conditions set forth in the insurance policy subscribed by the Company. Under circumstances excluded by the insurance policy, such as an act or failure to act by the CEO that can be characterised as intentional, intentionally reckless, or seriously culpable, there will be no entitlement to any coverage.

#### **h) Retirement**

The CEO is entitled to retirement benefits through mandatory applicable state and collective pension plans.

The CEO participates also in a Company pension contributions based plan. This plan consists of an annual pension contribution of 20% of the annual pensionable remuneration (as described in paragraph 4.4.4 item h) below) subject to applicable local practices (if any).

#### **i) Clawback**

In accordance with Dutch law, the Board of Directors may adjust a "bonus" (as defined under Dutch law, including short-term remuneration and awards under the Long-Term Incentive Plan subject to performance criteria) awarded to the CEO to a suitable level, if payment or satisfaction of that bonus would be unacceptable under the standards of reasonableness and fairness. Also, the Company may reclaim a bonus already paid, in whole or in part subject to applicable local legal requirements if any, to the extent that such payment was made on the basis of incorrect information regarding the achievement of the targets, objectives and/or conditions underlying the bonus or regarding the circumstances on which the bonus was dependent. The Non-Executive Directors, or a special representative designated by the General Meeting, may demand such repayment on the Company's behalf.

Any such adjustment or clawback will be reported in the notes of the relevant financial statements of the Company.

#### **j) Loans**

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

#### **k) Severance**

In case of termination of the CEO's duties at the initiative of the Board of Directors, the CEO shall be entitled to an indemnity equal to one (1) time the last Total Annual Remuneration (defined as Base Salary and VR most recently paid) subject to applicable local legal requirements if any, and provided that the performance conditions (as described in paragraph 4.4.4 item k) below) assessed by the Board of Directors have been fulfilled. If the CEO's appointment as member of the Board of Directors terminates within a period of 12 months or less prior to his retirement date, the termination indemnity will be limited by pro-rating its amount. This will not apply if the CEO's mandate is terminated for cause (misconduct), in case of resignation or termination on or after his retirement date.

The CEO's appointment terms and conditions include a non-compete clause, which applies for a maximum of one year. The compensation under the non-compete clause is equal to 50% of the last Total Annual Remuneration (defined as Base Salary and VR most recently paid) subject to applicable local legal requirements if any and paid in monthly instalments.

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 for a reason other than cause (misconduct). The vesting of past LTIP awards follows the rules and regulations of the LTIP including performance conditions and is not accelerated in any case. LTIP awards are forfeited for executives who leave the Company at their own initiative, but this is subject to review by the Board of Directors.

The term of the CEO's appointment is linked to his or her mandate as member of the Board of Directors. The termination of the CEO's appointment may be subject to a notice period of six months, except if the CEO's appointment is terminated for cause (misconduct), in which case the CEO's appointment may be terminated immediately, or in case of non-renewal of the CEO's mandate by the General Meeting.

## C — Non-Executive Remuneration – Applicable to Non-Executive Directors

The Company's Remuneration Policy with regard to Non-Executive Directors aims at ensuring fair compensation and protecting the independence of the Board's Members. Their remuneration should be commensurate to the time spent and the responsibilities of their role on the Board of Directors.

### Fees and Entitlements

Non-Executive Directors are entitled to the following remuneration components:

- ▶ a base fee for membership or chair of the Board;
- ▶ a Committee fee for membership or chair on each of the Board's Committees; and
- ▶ an attendance fee for the attendance of Board meetings (subject to such conditions as may be imposed by the Board of Directors at the recommendation of the RNGC); and
- ▶ an attendance fee for the attendance of Committee meetings if and when such Committees would have more than four Committee meetings per year (whether these meetings are held physically or by phone).

Each of these fees is a fixed amount that is determined by the Board of Directors from time to time, at the recommendation of the RNGC.

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).

Non-Executive Directors 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.

The Company does not provide loans or advances to the Non-Executive Directors.

Unless the law provides otherwise, the Non-Executive Directors shall be reimbursed by the Company for various costs and expenses, including 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.

#### 4.4.3 PROPOSED AMENDMENTS INCLUDED IN THE REMUNERATION POLICY

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The Company's Remuneration Policy that will be proposed for adoption at the AGM 2020, and as presented in paragraph 4.4.2 above, contains the following amendments:

##### ***Proposal to include an R&S component in the Variable Remuneration of the CEO***

The current Common Collective Component of the Variable Remuneration of the CEO is based only on financial key value drivers. In line with market practices and as announced in the Company's 2018 Report of the Board of Directors, in order to reinforce the alignment between the Company's strategy, values and remuneration structure, the Board proposes the introduction of an R&S component in the Common Collective Component of the CEO's Variable Remuneration. The R&S component will replace the existing RoCE criterion and will represent 20% of the Common Collective Component. Consequently, it is proposed that the new partition of the components be as follows from 1 January 2020: EBIT (40%), FCF (40%) and R&S (20%). Among other matters, criteria giving effect to the R&S component can be related to health & safety, climate and/or people in line with the Company's Priorities. These principles will also apply to the other members of the Executive Committee, who do not serve on the Board of Directors, and to a large extent to all Executives employed by Airbus. For information, the contemplated R&S target for 2020 is a 15% reduction in our accident frequency rate (measured through the rate "FR1" equal to the number of lost time accident per million of hours worked) compared to 2019.

##### ***Proposal to amend the CEO's pension policy***

In line with market practices, the Board also proposes to amend the CEO's pension policy and to move from a defined benefit commitment to a contribution based pension plan. From 1 January 2020, in addition to local applicable mandatory collective and state pension plans, the annual accrued pension rights of the CEO will be built through a contribution of 20% of the annual pensionable remuneration, subject to applicable local practices (if any). This change also applies to the majority of the members of the Executive Committee and will apply to all future members of the Executive Committee.

#### 4.4.4 IMPLEMENTATION OF THE REMUNERATION POLICY: CEO

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##### A — General

This paragraph 4.4.4 describes how the Remuneration Policy was implemented in 2019 with respect to the CEO: Section B relates to the current CEO (Mr Guillaume Faury) and section C relates to the former CEO (Mr Thomas Enders).

In line with the Remuneration Policy and the expectation of the RNGC and the Board of Directors, the implementation thereof with regard to the CEOs results in a remuneration that will retain and motivate high-calibre executive. It will ensure that the Company achieves its strategic and operational objectives, thereby delivering long-term sustainable returns for all shareholders and other stakeholders in a manner consistent with the Company's identity, mission and corporate values.

##### B — Implementation of the Remuneration Policy in 2019: Current CEO

As announced on 31 January 2020, Airbus has reached final agreements with the French Parquet National Financier (PNF), the U.K. Serious Fraud Office (SFO), and the U.S. Department of Justice (DoJ) resolving the authorities' investigations into allegations of bribery and corruption, as well as with the U.S. Department of State (DoS) and the DoJ to resolve their investigations into inaccurate and misleading filings made with the DoS pursuant to the U.S. International Traffic in Arms Regulations (ITAR). In this context, Airbus has agreed to pay penalties of € 3,598 million plus interest and costs to the French, U.K. and U.S. authorities. These agreements relate to legacy behaviour. With the full support of the Company's Board of Directors and its Ethics and Compliance Committee, considerable steps have been taken over the past years to design and implement an effective ethics and compliance programme and organisation across Airbus, meeting globally recognised standards. The fact that Airbus has reached agreements with multiple authorities is

clear recognition of the substantial progress made on the Company's compliance programme in recent years. The Company's executive team reported to the authorities and demonstrated exemplary cooperation along the whole process. For these reasons, the Committee has concluded that the impact of the penalties should not be considered in the assessment of the 2019 Variable Remuneration and the ongoing and future incentive plans.

**a) Benchmarking**

The latest benchmark performed in November 2018 was based on the relevant peer group composed of 76 companies selected from CAC40 in France, DAX 30 in Germany, FTSE 100 in the UK and DJ 30 in the US as well as large European companies having comparable economic indicators such as revenues, number of employees and market capitalisation. Financial institutions were excluded from the peer group.

Based on a review performed by the RNGC in 2018 with the assistance of an independent consultant, Willis Towers Watson, it was concluded that the CEO's Total Direct Compensation was at the median level of the peer group as defined in paragraph 4.4.2.B item (b) above.

**b) Base Salary**

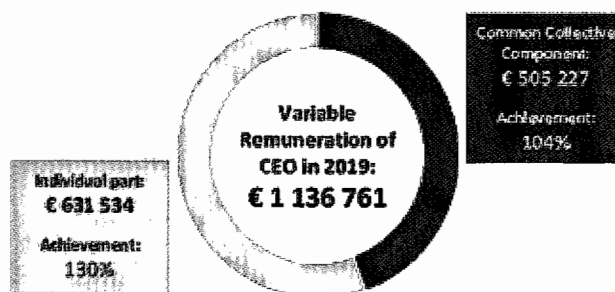
The CEO's Base Salary level on a full year basis is € 1,350,000.

The prorated Base Salary paid to the CEO calculated from his appointment in April 2019 until and including 31 December 2019 amounts to € 971,591.

**c) Annual Variable Remuneration**

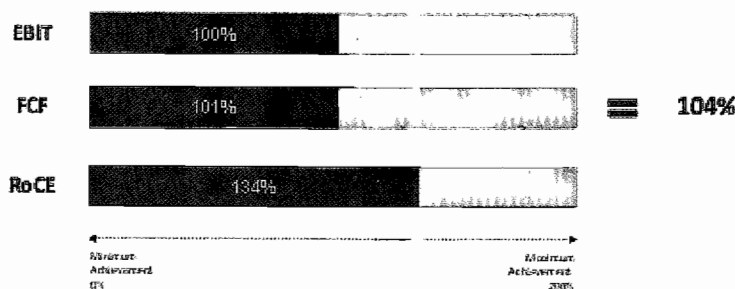
As stipulated in the Company's Remuneration Policy, the CEO's VR is targeted at 100% of the Base Salary and capped at 200% of the Base Salary. It is subject to the fulfilment of collective and individual performance targets.

For 2019, the VR prorated of the CEO amounts to an aggregate of € 1,136,761 composed of € 505,227 (104%) for the Common Collective Component and € 631,534 (130%) for the Individual Component.



**PERFORMANCE ACHIEVEMENT - COMMON COLLECTIVE COMPONENT**

According the policy applicable for the financial year 2019, the Common Collective Component results from a composite 104% achievement of EBIT (100%), Free Cash Flow (101%) and RoCE (134%) objectives.



This achievement mainly reflects a solid EBIT and Free Cash Flow generation against the budgeted targets. The main drivers were the strong underlying financial performance with record deliveries, progress on A350 program, healthy pre-

delivery payments inflows, disciplined inventory management on wide-body and sound CapEx spending, offsetting the industrial challenges. Finally, RoCE was above the target.

Normalisations were made to exclude exceptional events such as currency exchange differences or those arising from phasing mismatches.

**Note for information on the collective component contemplated for 2020:** Subject to approval by the AGM 2020 of the proposed Remuneration Policy as described in paragraph 4.4.2 (including the replacement of the RoCE (10%) criterion by an R&S (20%) component), the Board of Directors decided to select a health & safety value driver for the 2020 R&S component in line with its significant impact in the materiality assessment of Airbus' approach to R&S (see: Chapter 6 – Non financial information and other corporate activities – Materiality matrix and paragraph c- Health and Safety in Chapter 6 – 6.1.4 – Responsible Employer). As one of the Company's Priorities is to provide a safe and inclusive working environment, it was decided that the R&S target for 2020 should be a 15% reduction in our accident frequency rate (measured through the rate "FR1" equal to the number of lost time accident per million of hours worked) compared to 2019. Safety is reviewed across the whole group on a daily basis and Airbus' FR1 performance is reported on a monthly basis to the CEO who in turn reviews the improvement plans and adapts actions across the business.

### PERFORMANCE ACHIEVEMENT - INDIVIDUAL COMPONENT

The Individual Component in 2019 results from an achievement level of 130% out of 200%, assessed by the RNGC and approved by the Board of Directors on the basis of the CEO's performance and behaviour, mostly with respect to the Airbus priorities agreed at the start of 2019 (see: Chapter 2 – Summary 2019). For each of these outcomes, leadership, personal performance and contributions were examined.

The factors determining the assessment were among other achievements:

- ▶ Strong underlying financial performance of the Company; achievement of the 2019 FY guidance; increased consolidated revenues by 11% and EBIT Adjusted by 19%;
- ▶ New Company and industry record of Commercial Aircraft deliveries with 863 aircraft delivered to 99 customers; almost 100 deliveries more than in 2018; breakeven target for the A350 achieved;
- ▶ Very successful launch of the 321XLR counting over 300 orders with more than 10 airlines;
- ▶ Successful Type Certification of the Beluga XL by the European Aviation Safety Agency (EASA): paves the way to entry-into-service in early 2020; key enabler for production ramp-up beyond 2019;
- ▶ Successful A220 post-merger integration: market development, ramp-up and cost reduction on track;
- ▶ Single Aisle industrial transformation launched and set as a Company Priority; first results delivered in 2019;
- ▶ Solid sales performance in Airbus Helicopters with highest-ever bookings in value achieved in 2019 (more than € 7 billion); notable evolution of services activities; unveiling of new version of the H145 light twin-engine helicopter with increase in overall performance; delivery of the 1000th Super Puma helicopter and of the first NH90 Sea Lion naval multi-role helicopter;
- ▶ Key successes on MRTT and on the Future Combat Air System with the delivery of a joint industrial proposal to the governments of France and Germany for the first Demonstrator Phase of the programme and joint concept study tranche one completed; major milestones achievement in the A400M programme with new capabilities introduced; 18 new satellites in orbit and 11 new satellites under contract;
- ▶ Good progress on UAV and green aircraft roadmaps;
- ▶ Solid progress on digital roadmap for DDMS and Skywise: number of airlines on Skywise more than doubled since the end of 2018 (>100 airlines);
- ▶ Effective ethics and compliance programme and organisation designed and implemented across Airbus: allowed finalisation of agreements with the French, U.K. and U.S. authorities in January 2020;

- ▶ Key advancement in the Company's transformation programme with successful management transition, including structuring and empowerment of the new leadership organisation; reinforced efforts on diversity in all its forms, including the appointment of a second woman at the Executive Committee; strong emphasis on responsibility & sustainability raised at the heart of the Company's Priorities, including the reorganisation of the responsibility & sustainability teams to ensure the development of a strong responsibility & sustainability culture across the Company.

#### **d) Long-Term Incentive Plan**

##### **Granting 2019**

Under the Company's Remuneration Policy, the CEO is eligible to receive a Performance Units and Performance Shares award under the Company's LTIP. The value of the Performance Unit and Share award is capped at 100% of the Base Salary at the date of grant. During 2019, the CEO was granted an aggregate of 11,060 of Performance Units and Performance Shares. The LTIP awards during 2019, in line with the Remuneration Policy (4.4.2 B item b)), represent one third of the CEO's target Total Direct Compensation.



The table below gives an overview of the Performance Units and Performance Shares granted to the CEO in 2019 pursuant to the LTIP:

<b>Unit plan: number of Performance Units</b>		
	<b>Granted in 2019</b>	<b>Vesting dates</b>
Guillaume Faury	5,530	Vesting schedule is made up of 2 tranches over 2 years: (i) 50% expected in May 2023 (ii) 50% expected in May 2024

<b>Share plan: number of Performance Shares</b>		
	<b>Granted in 2019</b>	<b>Vesting dates</b>
Guillaume Faury	5,530	Vesting schedule is made up of 1 tranche: (i) 100% expected in May 2023

The grants in 2019 were performed in compliance with the performance measures (average EPS (75%) and cumulative FCF (25%)) described in paragraph 4.4.2 B item e).

#### **Vesting values in 2019**

In 2019, the CEO received both cash payments and vested shares in connection with the vesting of 2014 and 2015 LTIP awards:

- ▶ **Cash:** the total cash payment to the CEO amounted to € 697,383 in 2019.
- ▶ **Shares:**
  - In connection with the 2014 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the CEO received 2,528 vested shares on the second vesting date for LTIP 2014 (31 May 2019).
  - In connection with the 2015 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the vesting of 1,998 Performance Units for the LTIP 2015 will be released in the form of shares on the second vesting date for the 2015 LTIP (which will take place in 2020).

## LTIP overview: granting and vesting

Date of grants	Grant Type	Number	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(*)
2014	Units	12,640	€ 47.45	€ 599,768	Conditional	80%	10,112	2 vestings in 2018 - 2019	1st vesting – 3 May 2018: € 94.40 2nd vesting – 31 May 2019: € 94.90
2015	Units	10,656	€ 56.31	€ 600,039	Conditional	75%	7,992	2 vestings in 2019 - 2020	1st vesting- 31 May 2019: € 112.62
2016	Units	5,696	€ 52.67	€ 300,008	Conditional	75%	4,272	2 vestings in 2020 - 2021	Not yet known
2016	Shares	5,696	€ 52.67	€ 300,008	Conditional	75%	4,272	1 vesting in 2020	Not yet known
2017	Units	4,404	€ 73.81	€ 325,059	Conditional	Not yet known	Not yet known	2 vestings in 2021 - 2022	Not yet known
2017	Shares	4,404	€ 73.81	€ 325,059	Conditional	Not yet known	Not yet known	1 vesting in 2021	Not yet known
2018	Units	4,208	€ 106.94	€ 450,004	Conditional	Not yet known	Not yet known	2 vestings in 2022 - 2023	Not yet known
2018	Shares	4,208	€ 106.94	€ 450,004	Conditional	Not yet known	Not yet known	1 vesting in 2022	Not yet known
2019	Units	5,530	€ 122.06	€ 674,992	Conditional	Not yet known	Not yet known	2 vestings in 2023 - 2024	Not yet known
2019	Shares	5,530	€ 122.06	€ 674,992	Conditional	Not yet known	Not yet known	1 vesting in 2023	Not yet known

Calculations may involve rounding to the nearest unit.

\* Vesting will occur according to the respective rules and regulations of each plan.

NOTE: 2014 to 2018 awards were granted to Mr Faury before his appointment as CEO and should vest during his mandate.

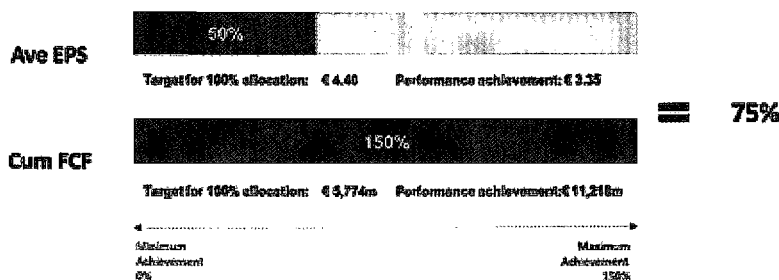
### Performance Conditions of LTIP 2016:

- ▶ The performance conditions for LTIP 2016 were determined as follows: if Airbus reports negative cumulated EBIT results, the Board of Directors can decide at its sole discretion to review the vesting of the Performance Units, including the 50% portion which is not subject to performance conditions.
- ▶ 50% to 150% of the allocation would be granted depending on the compounded achievement of the two following performance criteria:
  - 75% of average EPS ("Ave EPS"): determined on a linear basis depending on three-year Ave EPS for the 2017, 2018 and 2019 fiscal years, with the three-year Ave EPS target for an allocation of 100% equal to € 4.40; and
  - 25% of cumulative FCF ("Cum FCF"): determined on a linear basis depending on three-year Cum FCF for the 2017, 2018 and 2019 fiscal years, with the three-year Cum FCF target for an allocation of 100% equal to € 5,774 million.

## Review of Achievement of Performance Conditions:

The Board of Directors on 12 February 2020 noted the achievement of the performance conditions of the 2016 plan, i.e. for the 2017, 2018 and 2019 fiscal years. The three-year Ave EPS was € 3.35 and the three-year Cum FCF was € 11,218 million, after normalisation to align them with policies in force when setting the target (notably IFRS 15 and A220 impacts).

### LTIP 2016 PERFORMANCE ACHIEVEMENT



For reasons of confidentiality, the precise targets set for the average EPS and cumulative Free Cash Flow, even though they have been properly established in a proper 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 practices, retrospective information demonstrating the stringency of the targets set by the Board of Directors is provided for the previous LTIP, as follows:

Date of grants	KPI	Number of units	Target for a 100% allocation	Achieved	Performance achievement in percentage	Compounded performance achievement in percentage	Resulting vesting in number	For comparison, average EPS for the last 3 reported years at the date of grant
2014	Ave EPS	12,640	€ 3.31	€ 2.81	56%	80%	10,112	€ 1.51*
	Cum FCF		€ 4,298m	€ 9,741m	150%			
2015	Ave EPS	10,656	€ 4.02	€ 2.95	50%	75%	7,992	€ 2.10**
	Cum FCF		€ 8,281m	€ 10,469m	150%			
2016	Ave EPS	11,392	€ 4.40	€ 3.35	50%	75%	8,544	€ 2.76***
	Cum FCF		€ 5,774m	€ 11,218m	150%			

\* Average EPS of 2013, 2012 and 2011.

\*\* Average EPS of 2014, 2013 and 2012.

\*\*\* Average EPS of 2015, 2014 and 2013.

#### e) Share Ownership

The CEO owned 8,407 Company shares on 31 December 2019. The CEO has engaged a personal investment plan in Airbus' shares to reach the target of 200% of the Base Salary by 2021.

Please refer to the AFM website [www.afm.nl](http://www.afm.nl) for any further information related to the transactions of the CEO.

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

In March 2019, the Company offered all eligible employees the opportunity to subscribe to a share matching plan, through which the Company matches a certain number of directly acquired shares with a grant of matching shares. This ratio varies depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 44%. The total offering was up to 2.2 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 2019, a dedicated UK tax advantageous Share Incentive Plan ("SIP") was also deployed in March 2019.

Although the CEO was eligible for the plan, he did not participate in the ESOP 2019 plan favouring the development of a shareholding among other employees of the Company.

#### **g) Benefits**

Costs of benefits provided through applicable mandatory collective and social security plans are accounted for among social charges (please refer to Note 34 to the IFRS Consolidated Financial Statements for further details). The monetary value of other benefits provided to the CEO in 2019 amounts to €33,802.

#### **h) Retirement**

Considering the seniority of the CEO, the new pension policy proposed in paragraphs 4.4.2 item h) and 4.4.3 will coexist with the former pension plan.

Until the end of 2019, the retirement benefit of the CEO accrued through a defined benefit commitment which consists of granting a pension at retirement age equal to 50% of the Base Salary for five years of service in the Executive Committee, including mandatory applicable collective and state pension plans. Such a percentage of pension would accrue gradually to 60% of the Base Salary after ten years of service within the Executive Committee.

Following the Board decision to move from defined benefit commitment to contributions based plans and in line with a new French regulation, the accrued pension rights under this commitment have been frozen based on the seniority of the CEO as Executive Committee member at the end of 2019. A target replacement ratio has therefore been set at 52% of his Base Salary (i.e. 26% of the sum of his Base Salary and his target VR) and will no longer accrue. The pension rights under this commitment remain unvested until the retirement date of the CEO.

The pension rights arising from the Company's defined contribution plan (i.e. contribution of 20% of the pensionable remuneration, which is the Base Salary and the most recently paid VR) are deducted from the frozen pension rights described above.

The present value of the remaining CEO's pension obligation related to the frozen defined benefit commitment is estimated annually by an independent actuarial firm according to the international accounting standard IAS19 as applied by the Company for post-employment benefits. As of 31 December 2019, the defined benefit obligation amounted to €9,167,371. This obligation has been accrued in the 2019 Consolidated Financial Statements and will be updated annually up to the retirement date of the CEO considering future changes on economic assumptions or other factors like salary increase.

For the fiscal year 2019, the cost related to the CEO's pension rights accrued under Company's plans during the year represented a net profit of € (2,814,868) composed by an expense of € 812,005 and the effect of the freeze of the defined benefit commitment of € (3,626,873).

The annual cost of pension rights accrued under applicable mandatory collective and state pension plans are accounted for among social charges (please refer to Note 34 to the IFRS Consolidated Financial Statements for further details).

#### **i) Clawback**

The Board of Directors did not apply any clawback in 2019.

#### **j) Pay ratio**

The Dutch Corporate Governance Code recommends that the Company provides a ratio comparing the compensation of the CEO and that of a "representative reference group" determined by the Company.

The Airbus pay ratio is calculated by comparing the cash compensation of the CEO with the average compensation of full-time equivalent permanent employees from France, Germany, the U.K. and Spain for Airbus, excluding subsidiaries (encompassing around 94,000 employees).

The aggregate cash compensation over the 2019 fiscal year was used as a reference amount (i.e., excluding the value of equity incentive awards and other non-cash compensation components). To calculate the ratio, the gross sum of the Base Salary, annual bonus, profit and success sharing, overtime, premium for work conditions and other premiums was taken into account.

Based on this methodology, the ratio between the cash compensation of the CEO (i.e. the aggregated Base Salary amount for the former and current CEO and VR related to 2018) and the average compensation of full-time equivalent permanent employees for the fiscal year to which this report relates is 49 (for 2018: 50 as restated based on exact figures) (rounded to the nearest integer).

#### **k) Severance**

No payment has been made to the CEO in 2019 related to severance or other termination indemnity.

Under the current CEO's appointment terms and conditions, the payment of an indemnity in case of termination would be subject to performance conditions. These conditions would be fulfilled if the collective and individual components of the VR for the last 2 financial years preceding the financial year during which the termination occurs have been assessed by the Board of Directors at 100% or more.

### **C — Implementation of the Remuneration Policy in 2019: former CEO**

On 10 April 2019, Thomas Enders left the Company as CEO and Executive Member of the Board of Directors.

As disclosed in the 2018 Report of the Board of Directors, Mr Enders received for the year 2019 € 420,455 as prorated Base Salary and € 416,096 as prorated VR in 2019.

As already mentioned in the 2018 Report of the Board of Directors, Mr Enders was entitled to a non-compete remuneration, which lead to a payment of € 2,134,838 in 2019.

For further details please refer to chapter 4.4.4 of the 2018 Report of the Board of Directors available on the Company's website ([www.airbus.com](http://www.airbus.com)).

## D — Development of the compensation

The table below provides an overview of the development of the direct cash compensation paid to the CEO during a financial year composed by the Base Salary plus the VR (as defined below) and of the Employee Compensation (as defined below).

Financial year	2019	2018	2017	2016	2015
<b>I. CEO's direct cash compensation</b>					
Annual Base Salary (k€)	1,392(1)	1,500	1,500	1,500	1,400
VR (k€) (2)	2,318	2,168	1,913	1,932	1,939
<b>Total</b>	<b>3,710</b>	<b>3,668</b>	<b>3,413</b>	<b>3,432</b>	<b>3,339</b>
Annual Variation	+1.1%	+7.5%	-0.6%	+2.8%	
<b>II. Long Term Incentive Plan (k€) (3)</b>					
	1,350	-	1,500	1,500	1,400
<b>III. Company Performance</b>					
EBIT Adjusted (m€) (4)	6,946	5,834	4,253	3,955	4,132
Annual Variation	+19%	+37%	+8%	-4%	
FCF before M&A and customer financing (m€)					
(4)	3,509	2,912	2,949	1,408	1,175
Annual variation	+21%	-1%	+109%	+20%	
<b>IV. Employee Compensation (k€) (5)</b>					
	75,1	73,6	71,0	71,1	70,6
Annual Variation	+2.0%	+3.6%	0.0%	+0.6%	

(1) Base salary 2019 relates to the former CEO up to 10 April 2019 and to the current CEO from 10 April 2019.

(2) VR paid during the financial year at stake in relation to the previous financial year.

(3) Face value of LTIP granted in the financial year. No LTIP were granted in 2018 to the CEO due to his future departure.

(4) Before 2016, Airbus used the key indicators "EBIT before one-offs" and "FCF before M&A".

(5) Average compensation of full-time equivalent permanent employees from France, Germany, the U.K. and Spain for Airbus, excluding subsidiaries, composed by gross sum of the Base Salary, annual bonus, profit and success sharing, overtime, premium for work conditions and other premiums. For the 2019 financial year, the amount presented is still an estimate and will be adjusted next year.

### 4.4.5 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2019: NON-EXECUTIVE DIRECTORS

This section describes how the Remuneration Policy was implemented in 2019 in respect of the Non-Executive Directors. In line with the Remuneration Policy, the implementation thereof with regard to the Non-Executive Directors aims at ensuring fair compensation and protecting the independence of the Board's Members. Their remuneration should be commensurate to the time spent and the responsibilities of their role on the Board of Directors.

The last review of the Board remuneration was undertaken in 2018 with the support of an independent consultant. The Board remuneration is in line with market practice, incentivises attendance and recognises 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.

In 2019, Non-Executive Members of the Board were entitled to the following fees:

#### a) Board fees:

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

- Chairman of the Board: 210,000
- Member of the Board: 80,000

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

- Chairman: 15,000
- Member: 10,000

Attendance fees shall decrease by 50% in case of an attendance by phone or a Board meeting held by phone.

**b) Committee fees:**

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

- Chairman: 30,000
- Member of a Committee: 20,000

► **Attendance fee for membership of a Committee applicable to chair and members (EUR / additional meeting above four meetings per Committee per year, whether these meetings were held physically or by phone):**

- Physical participation: 3,000 if the chair or member is based in Europe and double attendance fee amount, i.e. 6,000 if the chair or member is based outside Europe
- Participation by phone (whether the meeting is held physically or by phone): 1,500

For personal reasons, and with regards to the implementation of the Remuneration Policy approved at the Annual General Meeting in 2016, 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, based on six meetings per year and including chairmanship Board fixum and attendance fees) until further notice.

Taking into account the increased number of Board meetings in 2019, the remuneration of Denis Ranque for 2019 as Chairman of the Board of Directors (Board chairmanship fixum and attendance fees) is € 275,000.

Therefore, the Board recommended that the remuneration exceeding € 275,000 would be converted into an annual contribution to the Airbus Foundation, as long as Denis Ranque waived this part of his remuneration which corresponds to € 77,500 based on the number of Board meetings in 2019.

The remuneration of the Non-Executive Members of the Board of Directors was as follows:

(In €)	2019			2018		
	Fixum (1)	Attendance Fees (2)	Total	Fixum (1)	Attendance Fees (2)	Total
<b>Non-Executive Board Members</b>						
Denis Ranque	210,000	101,000	311,000	210,000	75,000	285,000
Victor Chu (3)	100,000	107,000	207,000	72,376	50,000	122,376
Jean-Pierre Clamadieu (4)	114,176	105,000	219,176	72,376	50,000	122,376
Ralph D. Crosby Jr.	100,000	108,500	208,500	100,000	75,000	175,000
Lord Drayson (5)	120,000	105,000	225,000	114,475	55,000	169,475
Catherine Guillaouard (6)	127,265	95,500	222,765	120,000	75,000	195,000
Hermann-Josef Lamberti	122,735	77,500	200,235	130,000	65,000	195,000
María Amparo Moraleda Martínez	130,000	105,000	235,000	127,238	65,000	192,238
Claudia Nemat	100,000	74,500	174,500	100,000	75,000	175,000
René Obermann (7)	100,000	102,000	202,000	72,376	55,000	127,376
Carlos Tavares	80,000	65,000	145,000	80,000	50,000	130,000
<b>Former Non-Executive Board Members</b>						
Hans-Peter Kettel (8)	0	0	0	27,900	10,000	37,900
Sir John Parker (8)	0	0	0	36,270	10,000	46,270
Jean-Claude Trichet (8)	0	0	0	27,900	10,000	37,900
<b>Total</b>	<b>1,304,176</b>	<b>1,046,000</b>	<b>2,350,176</b>	<b>1,290,910</b>	<b>720,000</b>	<b>2,010,910</b>

- (1) Fixum includes a base fee for Board membership and Committee membership within the Audit Committee, the RNGC and/or the E&C Committee as the case may be. The fixum for the year 2019 was paid 50% in July 2019 and 50% in January 2020. The fixum for the year 2018 was paid 50% in January 2018 and 50% in July 2018.
- (2) 2019 attendance fees include the board attendance fees and the fees in relation to Audit Committee, RNGC and E&C Committee meetings. The Board attendance fees related to the first semester 2019 were paid in July 2019, those related to the second semester 2019 were paid in January 2020. The Committee attendance fees related to full year 2019 were paid in January 2020.
- (3) Member of the Board of Directors and the Audit Committee since 11 April 2018.
- (4) Member of the Company Board of Directors and the RNGC since 11 April 2018. Member of the E&C Committee since 10 April 2019.
- (5) Member of the E&C Committee since 11 April 2018.
- (6) Chair of the Audit Committee since 10 April 2019.
- (7) Member of the Board of Directors and the Audit Committee since 11 April 2018. Member of the E&C Committee since 30 July 2019.
- (8) Member of the Company Board of Directors until 11 April 2018.

The total aggregated remuneration (i.e. fixum and attendance fee) of the Non-Executive Members of the Board of Directors were respectively € 2,080,403 in 2017, € 1,750,768 in 2016 and € 1,521,668 in 2015.

#### 4.4.6 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 Enterprise Risk Management System

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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 is a permanent top-down and bottom-up process, which is executed across Divisions at each level of the organisation. It is designed to identify and manage risks and opportunities. A strong focus is put on the operational dimension due to the importance of Programmes and Operations for Airbus.

ERM is an operational process embedded into the day-to-day management activities of Programmes, Operations and Functions. The top risks and their mitigations are reported to the Board of Directors through a reporting synthesis, consolidated on a quarterly basis.

**The ERM system is articulated along five axes:**

- ▶ Anticipation: early risk reduction and attention to emerging risks;
- ▶ Speak-up & early warnings;
- ▶ Robust risk mitigations;
- ▶ Opportunities; and
- ▶ Strong Governance.

### 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 which contribute to the Company's ERM system include the standards as defined by the International Organisation for Standardisation ("ISO").

**The ERM process consists of three elements:**

- ▶ a strong operational dimension - derived from ISO 31000 - to enhance operational risk and opportunity management, looking in particular at identifying and mitigating Single Points of Failure (SPOF);
- ▶ a reporting dimension (bottom up and top down), which contains procedures for the status reporting of the ERM system and the risk/opportunity situation; and
- ▶ an ERM confirmation dimension, which comprises procedures to assess the effectiveness of the ERM system.

The ERM process applies to all relevant sources of risks and opportunities that potentially affect the Company's activities, its businesses and its organisation in the short-, mid- and long-term. The ERM process is part of the management process and inter-related with the other processes.

All Airbus organisations, including Divisions, subsidiaries and controlled participations, commit to and confirm the effective implementation of the ERM system. The annual ERM Confirmation Letter issued by each organisation is the formal acknowledgement about the effectiveness of the ERM system.

For the main risks to which Airbus is exposed, see "— Chapter 4.6 (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 with support of the Audit Committee 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 ERM, and the ERM system design and process implementation;
- ▶ the Head of ERM 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 by challenging the business. The risk management organisation is structured as a cross-divisional Centre of Competence (“CoC”) and pushes for a proactive risk management; and
- ▶ the management at executive levels has responsibility for the operation and monitoring of the ERM system in its respective areas of responsibility and for the implementation of appropriate response activities to reduce risks and seize opportunities, considering the recommendations of the internal and external auditors.

## ERM Effectiveness

The ERM effectiveness is analysed by:

- ▶ 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);
- ▶ Risk & Opportunity Deep Dives performed by the ERM CoC; and
- ▶ Corporate Audit, based on internal corporate audit reports.

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

Organisation	Explanations
Board of Directors/ Audit Committee	<p><b>Regular monitoring</b></p> <p>The Board of Directors and the Audit Committee review, monitor and supervise the ERM system. Any material failings in, material changes to, and/or material improvements of the ERM system which are observed, made and/or planned are discussed with the Board and the Audit Committee.</p>
Top Management	<p><b>ERM as part of the regular divisional business reviews</b></p> <p>Results of the operational risk and opportunity management process, self-assessments and confirmation procedures are presented by the Divisions or other Airbus' organisations to top management.</p>
Management	<p><b>ERM confirmation letter procedure</b></p> <p>Entities and department heads that participate in the annual ERM compliance procedures must sign ERM Confirmation Letters.</p>
ERM CoC	<p><b>ERM effectiveness measurement</b></p> <p>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).</p>
Corporate Audit	<p><b>Audits on ERM</b></p> <p>Provide independent assurance to the Audit Committee on the effectiveness of the ERM system.</p>
E&C	<p><b>Alert System</b></p> <p>Detect deficiencies regarding conformity to applicable laws and regulations as well as to ethical business principles.</p>

## Board Declaration

Based on the Company's current state of affairs, the reports made directly available to the Board of Directors, coming from different processes, audits and controls and the information it received from management, the Board of Directors believes to the best of its knowledge that:

- ▶ the internal risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- ▶ this report provides sufficient insight into any material failings in the effectiveness of the internal risk management and control systems;
- ▶ it is justified that the financial statements have been prepared on a going concern basis; and
- ▶ this report states the material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of 12 months after the preparation of the report.

It should be noted that no matter how well designed, the internal risk management and control system has inherent limitations, such as vulnerability to circumvention or overrides of the controls in place. Consequently, no assurance can be given that the Company's internal risk management and system and procedures are or will be, despite all care and effort, entirely effective.

## 4.6 Risk Factors

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The Company is subject to the risks and uncertainties described below that may materially affect its business, results of operations and financial condition. 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.

### 4.6.1 FINANCIAL MARKET RISKS

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#### Global Economic Concerns

***The Company's business, results of operations and financial condition are materially affected by global economic conditions.***

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 the impact of Brexit, discussed below and global policy including in the US, European Union, China). The current US administration has introduced greater uncertainty with respect to US tax and trade policies, tariffs and government regulations affecting trade between the US and other countries. Such measures may affect countries where our customers and suppliers are located or where the Company has an operational presence or to which its financing activities are linked. See " – Risk Factors – Financial Market Risks – The Company's business, results of operations and financial condition could be materially affected by Brexit" and " – Risk Factors – Business-Related Risks – Availability of Government and other Sources of Financing".

The Company's global presence includes France, Germany, Spain and the United Kingdom ("UK"), fully-owned subsidiaries in the United States ("US"), China, Japan, India and in the Middle East, and spare parts centres in Hamburg, Frankfurt, Washington, Beijing, Dubai and Singapore. The Company also has engineering and training centres in Toulouse, Miami, Mexico, Wichita, Hamburg, Bangalore, Beijing and Singapore, as well as an engineering centre in Russia. There are also hubs and field service stations around the world. The Company also relies on industrial co-operation and partnerships with major companies and a wide network of suppliers. This global presence entails the risk of being affected by weak market and economic conditions in particular in Europe, the US and Asia where it manufactures and to which it sells the majority of its products.

As of 31 December 2019, the Company's workforce amounted to 134,931 employees of which over 15,000 employed outside our core countries. In terms of nationalities, 35.6% of the Company's employees are from France, 31.6% from Germany, 8.5% from the UK and 10.1% from Spain. US nationals account for 2.1% of employees. The remaining 12% are employees coming from a total of 142 other countries. In total, 90.1% of the Company's active workforce is located in Europe on more than 100 sites.

It is a priority to ensure that the Company can attract, develop and retain a world-class competent, motivated and flexible workforce, which fits current and future business requirements in each of the countries in which we have a presence. A

change in economic conditions in any of the geographies in which we have significant numbers of employees or key employees may therefore impact our ability to compete effectively for employees in such countries.

Approximately 24,000 suppliers from more than 100 countries supply parts, components, systems and services to the Company. In 2018, the overall external sourcing volume of the Company was valued at around €52 billion. We require our suppliers' and subcontractors' services in order to deliver our products and generate revenue and profit. Therefore financial instability in any part of the world that would affect our suppliers or subcontractors, including financial conditions resulting in their inability to obtain credit or even insolvency, could impact the Company's ability to meet its customer obligations in a satisfactory and timely manner. In addition, financial instability affecting suppliers or subcontractors could impact such parties' ability to meet their obligations under risk sharing partnership agreements entered into with the Company.

The behaviour of our customers and by extension, the demand for, and supply of, the Company's products and services may be materially affected by global economic conditions. Historically, the Company has experienced that 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 including gross domestic product ("GDP") growth and private consumption levels. A downturn in economic factors driving our commercial airline business, could lead to a weakening demand for our commercial aircraft. The significant growth of our commercial aircraft business relative to our Defence, Space and Government activities has diluted the latter's ability to serve as an effective tool to counter commercial cycles.

Demand for military and parapublic products may be further affected by governmental budget constraints caused by economic pressure.

Therefore weak global economic conditions could directly result in:

- ▶ requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decisions 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, which could negatively impact the Company's results of operations;
- ▶ variations in public spending for defence, homeland security and space activities, which may lead to termination or reduction of future funding or cancellations or delays impacting existing contracts which could negatively impact the Company's results of operations; and
- ▶ 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. See "— Risk Factors – Financial Market Risks – Sales Financing Arrangements".

In addition, in the Commercial Aircraft industry it is the industry standard to include revision clauses in sales and supplier contracts due to the long terms of such contracts. Such revision clauses can be based on one or multiple indices and, therefore, can evolve due to changes in economic measures on which such indices are based, thereby potentially negatively impacting the Company's results.

The Company generally finances its manufacturing activities and product development programmes, and in particular the development of new commercial aircraft, through a combination of flows generated by operating activities, customer advances, European Governments' refundable advances and risk-sharing partnerships with subcontractors. In addition, the Company's military activities benefit from government-financed research and development contracts. If necessary, the Company may raise funds in the capital markets. Weak economic circumstances leading to liquidity constraints or reduced availability of finance for the Company's customers, suppliers, European and other governments, and other risk sharing partners may affect the Company's ability to finance its product development programmes and raise funds in the capital markets.

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.

Although the potential negative impact of global economic conditions cannot reasonably be assessed, the consequences thereof could have a material effect on the Company's business, results of operations and financial condition, and in particular if these were to impact the Company's commercial aviation activities or otherwise impact its access to financing.

***The Company's business, results of operations and financial condition could be materially affected by Brexit.***

On 29 March 2017, the UK triggered Article 50 of the Lisbon Treaty, the mechanism to leave the European Union ("Brexit"), before having achieved a roadmap for the complex negotiations. The UK Government's Withdrawal Agreement was ratified and the UK left the EU in an orderly manner on 31 January 2020, opening a transition period until 31 December 2020. During this transition period, the European Union and the UK are continuing to negotiate their future long-term relationship, including around alignment of the regulatory framework for aviation. The full impact of Brexit on our business, results of operations and financial condition will only become clear once the negotiations between the European Union and the UK regarding withdrawal after the end of the transition period have concluded and clarified the general nature of the post-Brexit relationship. However, the Company's business and supply chain in particular may be materially affected by this uncertainty and by potentially a lack of agreement on the future long term relationship and/or divergent national laws and regulations between the European Union and the UK.

The critical issues amongst others are the increased cost base due to trade procedures, airworthiness efforts and difficulty to move people. For trade procedures (non-tariff cost) alone, an OECD study estimates the range of the recurring extra cost between 2% and 15% of overall trade. Because of the unprecedented and evolving nature of Brexit, it is difficult to estimate the cost impact it may have on the company. The Company recently generated a UK turnover of approximately £6 billion. Greater restrictions on the import and export of goods and services between the UK and the European Union in which the Company operates, along with increased regulatory and legal complexities, may lead to disruptions and greater costs in the Company's operations and supply chain. The Company has more than 2,000 suppliers in the UK and an integrated supply chain with parts crossing the Channel multiple times. More than 10,000 original aircraft parts originate in the UK. The Company's supply chain is operated on a just-in-time basis relying on frictionless trade today provided by the combination of the EU Customs Union and Single Market rules. Changes in the customs regime between the UK and the European Union could result in significant changes at borders and customs controls. An insufficient level of preparedness for such changes could significantly delay the import and export of goods, including goods which are transferred between Airbus (and its suppliers') entities in the UK and Airbus (and its suppliers') entities in the European Union, which may have a direct industrial and cost impact.

The design, production, maintenance, repair and overhaul and use of parts originating from UK aerospace companies follow tight regulations controlled by the UK certification authority within EASA, who delivers, for example, necessary Design Organisation Approval (DOA), Production Organisation Approval (POA) and Maintenance Organisation Approval (MOA). In the absence of a Brexit agreement, UK aerospace companies may not be covered anymore under existing regulatory approvals including EASA approvals. To secure transition without disruption, UK companies shall transfer their DOA, POA and MOA into the EU-27 and/or adhere to EASA's third country approval scheme.

Airbus has four major engineering and manufacturing facilities in the UK, 14,000 employees at 25 sites. Our people make 80,000 business trips between the UK and the European Union a year and we have 1,900 expatriates.

The Company employs a substantial amount of highly skilled employees in the UK. Limitations on the free movement of people and skilled labour could negatively affect competitiveness, in particular compared to market participants that are less reliant on movement of people and goods between the UK and the European Union, and have a material adverse effect on the Company's results. See also "— Risk Factors – Business-Related Risks – Major Research and Development Programmes".

The Company launched a major Brexit planning project in order to understand, eradicate and/or mitigate risks in the following areas: People, Certifications, Customs, Procurement & Supply Chain, Transport and Logistics, Export Control, Environment, Security, Capital & Financial Services, Legal.

The Company has been working with suppliers and partners to stockpile parts, prepare our customs and regulatory systems and mitigate impacts where possible, for example transport where the Company prepared additional means in advance of 31 March 2019, 31 October 2019 and 31 January 2020. The Company has been working with suppliers and partners to assess and improve their readiness level, and encouraging them to do the same with their supply chains.

In addition, the Company has established a quick reaction crisis management organisation to address any unknown events / risks which may occur.

Because the risk of the UK not reaching agreement with the European Union during the transitional period, or reaching an agreement that might have material consequences for the Company's business, cannot be excluded, the commercial aerospace, defence, space and security industries in which the Company operates may plunge into unknown territory, and the Company's operations and supply chain may still suffer from disruptions, the nature, materiality and duration of which is impossible to predict with any level of certainty. If the UK, either during the transitional period or following such period, would be considered by the European Union to be a third country without a privileged relationship with the European Union, the Company's business, results of operations and financial condition could be materially affected.

#### **Foreign Currency Exposure**

At the end of 2019, more than 75% of the Company's revenues are denominated in US dollars, with approximately 60% of such currency exposure "naturally hedged" by US dollar-denominated costs. 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.

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 has been the case in the past and as 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 financial condition and results of operations. 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 fluctuations in exchange rates, which may be significant. As of 31 December 2019, the total hedge portfolio with maturities up to 2026 amounts to US\$ 92.7 billion and covers a major portion of the foreign exchange exposure expected over the period of the operative planning.

Furthermore, the Company is exposed to certain other price risks such as interest rate risks, changes in commodity prices and in the price of its own stocks. Adverse movements of these prices may jeopardise the Company's profitability if not hedged.

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 results, assets, liabilities and equity.

#### **Sales Financing Arrangements**

In support of sales, the Company may agree to participate in the financing of selected customers. Over the last three years (2017 to 2019), the average number of aircraft delivered in respect of which financing support has been provided by Airbus amounted to close to 0% of the average number of deliveries over the same period, i.e. one aircraft financed per year out of 794 deliveries per year on average.

The risks arising from the Company's sales financing activities may be classified into two categories: (i) credit risk, which relates to 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. Defaults by its customers or significant decreases in the value of the financed aircraft in the resale market may materially adversely affect the Company's business, results of operations and financial condition.

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 the date of 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. 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.

In addition, the Company has backstop commitments to provide financing related to orders on Airbus' and ATR's backlog. The Company's sales financing exposure could rise in line with future sales growth depending on the agreement reached with customers. 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 financial condition and results of operations.



## 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 (\$97.1 billion nominal value at 31 December 2019) and cash investments (\$20.4 billion nominal value at 31 December 2019). However, the Company 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 and Moody's. If neither is present, Fitch ratings is used. 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.

As of 31 December 2019 the credit exposure had been estimated as follows:

Source of risk	Exposure	Unexpected Loss Contribution
Banks	4,277	45
Corporates	8,046	190
Sovereign Issuers	1,011	6
Money Market Funds	7,012	10
<b>Total</b>	<b>20,346</b>	<b>251</b>

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 financial condition and results of operations.

Moreover, the progressive implementation of new financial regulations (MiFID II / MiFIR, CRD4, Bank Restructuring Resolution Directive, 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.

## Pension Commitments

The Company participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. As of 31 December 2019, the provision for retirement plans and similar obligations amounted to €8.353 billion. For information related to these plans, please refer to the "Notes to the IFRS Consolidated Financial Statements — Note 31: Post-employment Benefits". 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) behavioural assumptions regarding beneficiaries, and (iv) 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.

## 4.6.2 BUSINESS-RELATED RISKS

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### **Commercial Aircraft Market Factors**

Historically, the Company has experienced that 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 third party financing for aircraft purchases, (vi) evolution of fuel price, (vii) regulatory environment, (viii) environmental constraints imposed upon aircraft operations, such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), carbon standards and other environmental taxes; 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 factors described above may have a material impact on the commercial aircraft industry and, therefore, on the Company's financial condition and results of operations. In 2019, the commercial aircraft business segment of Airbus recorded total revenues of € 54.77 billion – representing 75% of the Company's revenues. The significant growth of our commercial aircraft business relative to our Defence, Space and Government activities has diluted the latter's ability to serve as an effective tool to counter commercial cycles.

The commercial helicopter market in which the Company operates has shown cyclical trends and could also be influenced by factors listed above. In addition, the civil & parapublic and in particular the oil & gas market softness has led to, and may in future lead to, a postponement of investments in the acquisition of new platforms and a reduction of flight hours. Structural changes in demand for helicopters in the oil & gas segment are not anticipated at current oil price levels. However, this may change as oil & gas prices fluctuate. The uncertainty on the lead time of the civil and parapublic market recovery may have an impact on Airbus Helicopters' financial results and could lead to cancellations or loss of bookings and services.

### **Cyber Security Risks**

The Company's extensive information and communications systems, industrial environment and products are exposed to cyber security risks. Cyber security threats are rapidly changing and scenarios of attacks are becoming more sophisticated.

The Company is exposed to a number of different cyber security risks, directly or through its supply chain, arising from actions that may be intentional and hostile, accidental or negligent. Intrusion in systems, leakage of information or theft including industrial espionage, sabotage, corruption and availability of data and destabilisation are the main cyber security risks that the Company faces.

All of the above mentioned risks are heightened in the context of the Company's digital transformation, including greater use of cloud services, increasingly capable adversaries, integration with the extended enterprise, increasing use of the "Internet of things" and the growing prevalence of mobile devices. Risks related to the Company's industrial control systems, manufacturing processes and products are growing with the increase of interconnectivity and digitalisation. The growing gap developing between the defences of legacy industrial systems and the capabilities of potential attackers as well as an increasingly competitive landscape of the Company is also at stake.

Finally, the Company is exposed to reputational damage and destabilisation from the growing volume of false and malicious information injected to media and social networks.

While the Company continues to make significant efforts to prevent such risks from materialising, making targeted investments will reduce but not eradicate likelihood and impact through strengthening the business cyber resilience.

The materialisation of one or several of such risks could lead to severe damage including but not limited to significant financial loss, need for additional investment, contractual or reputational performance degradation, loss of intellectual property, loss of business data and information, operational business degradation or disruptions, and product or services malfunctions.

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

Past terrorist attacks and the spread of disease (such as the Coronavirus or the H1N1 flu pandemic or the Ebola epidemic in 2013-2016) 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, personnel security and physical security and may arise from terrorism, natural disasters, fire, damaging weather, and other types of incidents such as drone air traffic disruption. Any resulting impact on the Company's production, services or information systems could have a significant adverse effect on the Company's operations, financial condition and results of operations as well as on its reputation and on its products and services.

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

The Company is dependent on numerous key suppliers and subcontractors to provide it with the raw materials, parts, assemblies, systems, equipment and services that it needs to manufacture its products.

The Company relies upon the good performance and financial health of its suppliers and subcontractors to meet the obligations defined under their contracts. A supplier's performance and health may be negatively impacted by a variety of topics including a concentrated customer base.

The Company cannot fully protect itself from non-performance of a supplier which could disrupt production and in turn may have a negative effect on its financial condition and results of operations.

Changes to the Company's production or development schedules may impact suppliers so that they initiate claims under their respective contracts for financial compensation. This may have a negative effect on the financial condition and results of operations of the Company.

As the Company's global sourcing footprint extends, some suppliers (or their sub-tier suppliers) may have production facilities located in countries that are exposed to socio-political unrest or natural disasters which could interrupt deliveries. This may have a negative effect on the financial condition and results of operations of the Company. See

“— Risk Factors – Financial Market Risks – The Company’s business, results of operations and financial condition could be materially affected by Brexit”.

#### **Industrial Ramp-Up**

As a result of the large number of new orders for aircraft recorded in recent years, the Company continues the process of sustainable production increase 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 engines and 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 Airbus and the two Divisions, which carry their own resource demands. Therefore, failures relating to any or all of these factors could lead to missed or delayed 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. The associated risks may increase as the Company and its competitors announce further production rate increases. For more details on specific programme ramp-up risks, see “— Programme-Specific Risks” below.

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

The Company offers its customers products and services that are technologically advanced, so 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. Throughout the lifecycle of its products, the Company performs checks and inspections, which may result in modifications, retrofits or other corrective actions, each of which may have an adverse effect on production, operations, in-service performance or financial condition. 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 A220, A350-900 and -1000 XWB, A400M, H175, H160 or Ariane 6 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, performance or safety of the Company’s products and services could have a significant adverse effect on the Company’s financial condition and results of operations 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. Any termination or reduction of future funding or cancellations or delays impacting existing contracts may have a negative effect on the Company's financial condition and results of operations. In instances 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 financial condition and results of operations generated in those regions.

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

From 1992 to 2004, the European Union and the US 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 unilaterally withdrew from this agreement, which eventually led to the US and the European Union 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.

Separately, Brazil has initiated WTO proceedings citing Canadian support to the C-Series aircraft, the aircraft that the Company manufactures, markets and supports as the A220 aircraft under the Airbus Canada Limited Partnership (prior to 1 June 2019 known as the "C Series Aircraft Limited Partnership" (CSALP)) agreement, finalised in 2018. Here too, a negotiated outcome would be preferable. Domestic proceedings in the US based on alleged subsidies to the C-Series were dismissed. The terms and conditions of any new agreement, or the final outcome of the formal WTO or other trade law 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 involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the Company.

On 18 October 2019, the US imposed, among other targeted goods, a tariff of 10% on new aircraft exported from the European Union to the US. Airbus deliveries to the US from the FAL in Mobile are exempted from tariffs. Considering the current political environment and absent an agreed negotiated settlement, the tariffs affect the delivery of new Airbus aircraft to the US market and may have a negative effect on the Company's financial condition and results of operations. The Company cannot predict at this time the impact on it or on the industry as a result of the imposition of tariffs, and accordingly cannot give any assurance that it will not be adversely affected. See WTO in "— Risk Factors – Legal Risks – Legal and Regulatory Proceedings".

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 appropriate 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. With regard to the Company's commercial aircraft business for aircraft with more than 150 seats, the Company today operates in a competitive duopoly. The design, development and production of commercial aircraft involves high barriers to entry (including certification requirements, large investment needs, skilled competencies and access to technology) and the two main market participants have secured significant order backlogs.

In some areas, competitors may have more extensive or more specialised engineering, manufacturing and marketing capabilities. 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 and alternative technologies 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. For the year 2019, research and development expenses were € 3.4 billion. For the year 2018, research and development expenses were € 3.2 billion, mainly reflecting development cost on the A320neo.

Due to the technologically advanced complex nature of the products that the Company produces and the long period, including ramp up time, it takes to produce them, 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. The Company's attrition rate in 2019 was 4.4% overall (incl. subsidiaries) and 8.43% in subsidiaries only (compared to 4.9% overall and 8.51% in subsidiaries only in 2018). There can be no assurances that the Company will attract and retain the personnel it requires to conduct its operations successfully and in particular to attract and retain aerospace engineers and other professionals with the technical skills and experience required for its research and development programmes. Failure to attract and retain such personnel or an increase in the Company's employee turnover rate could negatively affect the Company's financial condition and results of operations more generally and particularly its ability to successfully execute its research and development programmes.

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 financial condition and results of operations and competitiveness.

In the context of the post-Brexit relationship between the UK and the European Union, there is a risk that the Company might lose access to pooled expertise and knowledge and could face disruptions within its interdependent and extensively integrated research and innovation networks across the UK and the European Union countries. The Company may also face lack of certainty with respect to intellectual property rights for existing or new programmes and established or potential partnerships with private or public organisations, academic institutions and research councils, charities and government departments, where the relevant intellectual property frameworks or user-rights/ownership governing those relationships is dependent on the UK's status as a member state of the European Union.

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

As part of its business strategy, the Company may acquire or divest businesses and/or form joint ventures or strategic alliances. Executing acquisitions and divestments can be difficult and costly due to the complexities inherent in integrating or carving out people, operations, technologies and products. There can be no assurance that any of the businesses that the Company intends to acquire or divest can be integrated or carved out successfully, as timely as originally planned or that they will perform well and deliver the expected synergies or cost savings once integrated or separated. In addition, regulatory, administrative or other contractual conditions can prevent transactions from being finalised. The Company's business, results of operations and financial condition may be materially affected if these transactions will not be successfully completed or do not produce the expected benefits.

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

Defence customers may request proposals and grant contracts under schemes known as public-private partnerships ("PPPs"). PPPs 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 private finance initiatives ("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 life-time 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 ongoing 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 that could have a material impact on the Company's financial condition and results of operations:

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: A320neo (new engine option) ramp up including the A321neo ACF (Airbus Cabin Flex) with its new airframe and cabin design; management of the internal and external supply chain pressure as a result of the industrial ramp-up; ensuring maturity and high quality service support for a growing number of operators of A320neo. The main focus will be with the further ramp-up for the Company and both engine suppliers. For both engine suppliers, challenges are to (i) meet the delivery commitments in line with agreed schedule and ensure sufficient engine availability; (ii) fix in-service maturity

issues in line with the Company and customer expectations and mitigate the associated consequences; (iii) manage engine upgrades and performance. Two new versions will be launched for the A320 family: the Airspace Cabin and the A321 XLR, respectively in early 2021 and in 2023.

**A400M programme.** The Company signed a contract amendment to restructure the contract. Risks remain on development of technical capabilities and the associated costs, on securing sufficient export orders in time, on aircraft operational reliability in particular with regards to engines and on cost reductions as per the revised baseline. For further information, please refer to the “Notes to the IFRS Consolidated Financial Statements — Note 10: Revenues and Gross Margin”.

**A350 XWB programme.** In connection with the A350 XWB programme, 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; reducing recurring costs during the ongoing ramp-up; maintaining customisation and ramp-up of Heads of Version; maintaining the development schedule in line with learning curve assumptions beyond the initial ramp up phase of A350-1000 XWB; maintaining attention on engine development; and customer support for new type in service.

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges: programme wind-down and manage in service issues.

**A330 programme.** In connection with the A330 programme, the main challenge the Company faces is to manage the new production plan of the A330neo. Given the current overall customer demand for widebody aircraft, the Company will retain a 3.5 rate. The A330neo development progresses. For the engine supplier, the main challenges relate to meeting the delivery commitments and ensuring engine maturity.

**A220 programme.** In connection with the A220 programme, the main challenges the Company faces are to build commercial momentum, ramp up production and reduce costs.

**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 (LN-OJF accident), the Company is dealing with protective measures validated by EASA who lifted the flight suspension on 7 October 2016 and by UK and Norwegian aviation authorities on 7 July 2017 to put the fleet back into flight operations. Publication of the final AIBN report in July 2018 confirmed the work on incremental improvements on the H225 as part of its ongoing, continuous improvement. The contributing factors of the LN-OJF accident have been identified, and the sequence of events has been understood and reproduced during recent testing. Airbus Helicopters continues to drive improvements across its product range as part of its commitment to raise safety standards and increase the robustness and reliability of dynamic components. The new challenge of the programme is to secure the industrial ramp-up in order to fulfil 2020 and 2021 deliveries.

**H175 programme.** In connection with the H175 programme produced in cooperation with Avic, the Company faces the following main challenges: today, the VIP and Public Services configurations are in delivery mode, the Company is now working on the maturity plan of the aircraft with the associated customer support. Exchanges took place in 2019 with key H175 customers to review the proposed maturity plan, share and challenge the identified solutions and prepare the deployment plan.

**NH90 and Tiger programmes.** In connection with the NH90 programme, the Company is working to mitigate possible impact on the 2020-2021 deliveries of the interruption of the Titanium supply due to the export license withdrawn by the Russian export authorities. In connection with multiple fleets entering into service, the NH90 programme faces the challenge of assuring support readiness while working on the deliveries of new contracts signed in 2018 and 2019. As for the Tiger programme, the last serial aircraft will be delivered Q1 2020. The Company is working on the conversion from HAP to HAD.

**H160 programme.** In connection with the H160 programme, the Company is completing the last paperwork activities to get the EASA Type Certification and then the FAA validation. The following challenges include the delivery of the first



helicopter for an EIS by year-end 2020, together with a mature support environment (tech pub, tools, training). Another challenge is to manage the industrial ramp-up of the supply chain.

**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. Due to the repeatedly prolonged suspension of defence export licenses to Saudi Arabia by the German Government, and the consequential inability of the Company to execute a customer contract, a revised Estimate at Completion (EAC) was performed. As a result a € 221 million impairment charge mainly on inventories on top of a € 112 million financial expense related to hedge ineffectiveness, have been recognised as of 30 September 2019. The Company is engaging with its customer to agree a way forward on this contract. The outcome of these negotiations is presently unclear but could result in significant further financial impacts.

### 4.6.3 LEGAL RISKS

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#### Legal and Regulatory Proceedings

The Company is currently engaged in a number of active legal and regulatory proceedings.

For example, the WTO litigation, which is described in “— Risk Factors – Business-Related Risks – Availability of Government and other Sources of Financing”, is ongoing. The United States Trade Representative (“USTR”) imposed tariffs on a range of imports to the US from the EU, including 10% on the importation of large civil aircraft from the EU. Those tariffs went into effect on 18 October 2019. The duration of the tariffs (and any change to the amount thereof) will depend on the USTR, and could have a material impact on the financial statements, business and operations of the Company. At this stage it is too early to determine the full extent of any financial impact on the Company. For more information on the WTO litigation and trade dispute, please refer to the “Notes to the IFRS Consolidated Financial Statements — Note 38: Litigation and Claims”.

The Company expects to continue to spend time and incur expenses associated with its defence of legal and regulatory proceedings, 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 operations and financial condition. An unfavourable ruling could also negatively impact the Company’s stock price and reputation.

In addition, the Company is from time to time 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 operations and financial condition. See “— Non-Financial Information — 6.1.3(a) Responsible Business — Ethical Business Practices”.

For the investigation by the UK Serious Fraud Office (SFO), France’s Parquet National Financier (PNF), and the US Departments of State and Justice, which is described in “— Risk Factors – Legal Risks – Anticorruption Laws and Regulations”, the Company has reached an agreement with the authorities, which was approved by the French and UK courts and US court and regulator on 31 January 2020. The agreement resulted in a fine totalling € 3.6 billion plus costs to the French, UK, and US authorities. For more information about the investigation, please refer to the “Notes to the IFRS Consolidated Financial Statements — Note 38: Litigation and Claims” (Investigation by the UK SFO, France’s PNF, and US Departments of State and Justice and Related Commercial Litigation).

### 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.

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, results of operations and financial condition.

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 SFO announced that it had opened a criminal investigation into allegations of fraud, bribery and corruption in the civil aviation business of the Company, relating to irregularities concerning third party consultants. Airbus was subsequently informed that the French authorities, the PNF, had also opened a preliminary investigation into the same subject and that the two authorities will act in coordination going forward. The Company engaged with the government of the US (Department of State and Department of Justice) relating to conduct forming part of the SFO/PNF investigation that could fall within US jurisdiction. The Company also engaged with the government of the US concerning potential issues of ITAR Part 130 and related matters. On 31 January 2020, the French and UK courts and US court and regulator approved an agreement reached by the Company with the authorities. For more information, please refer to the "Notes to the IFRS Consolidated Financial Statements — Note 38: Litigation and Claims".

### 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 control requirements, notably by the UK, France, Germany and Spain, where the Company carries out its principal activities relating to military products and services as well as by other countries where suppliers are based, 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 operations 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 regimes 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.

### **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: ArianeGroup, ATR, Airbus Canada (formerly CSALP) and MBDA.

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.

### **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.

While the Company believes that its insurance programmes are adequate to protect it from such liabilities, claims may arise in the future and insurance coverage related to such claims may be inadequate. The Company follows a policy of seeking to transfer the insurable risk of the Company to external insurance markets at reasonable rates, on customised and sufficient terms and limits as provided by the international insurance markets. The insurance industry remains unpredictable. There may be future demands to change scope of coverage, premiums and deductible amounts. No assurance can be given that the Company will be able to maintain its current levels of coverage nor that the insurance coverages in place are adequate to cover all significant risk exposure of the Company.

Any problems in this respect may also have a significant adverse effect on the reputation of the Company and lead to a decline in demand for its products and services. Any reputational damage faced by the Company may be exacerbated due to the Company's visibility.

The Company cannot predict at this time the impact on it as a result of any product liability or warranty claims as such will depend on the nature and size of any such claim.

### **Intellectual Property**

The Company continuously seeks to develop and deliver new products to meet customers' evolving needs, while also improving its existing product lines. Technological innovation has been at the core of the Company's strategy since its creation. The Company's innovations often provide distinct competitive advantages, with many becoming standard in the aircraft industry. In addition, the Company designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. Therefore, intellectual property (IP) is one of the Company's most valuable assets and the protection of IP is critical to its business.

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 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. The Company may also face lack of certainty with respect to intellectual property rights for existing or new research and development programmes and established or potential partnerships with private or public organisations, academic institutions and research councils, charities and government departments, where the relevant intellectual property frameworks or user-rights/ownership governing those relationships is dependent on the UK's status as a member state of the European Union.

In the event the Company is unable to adequately procure and protect critical IP it could potentially not implement its business strategy.

The Company has been accused of infringement on occasion and could have additional claims asserted against it in the future. These claims could harm its reputation, result in financial penalties or 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, harm 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 losses.

#### 4.6.4 ENVIRONMENT, HUMAN RIGHTS, HEALTH & SAFETY RISKS

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The Company's expenditure associated with environmental and health and safety challenges may increase due to both increased costs of compliance with regulations in those areas as well as potential reputational and litigation risks.

Given the scope of its activities and the industries in which it operates, the Company is subject to stringent environmental, human rights, 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 and human rights. Health and safety expenditures include investments in the identification and the prevention, elimination or control of physical and psychological risks to people arising from work, including chemical, mechanical and physical agents. Risks that could arise from work activities include the possibility of injury, physical and mental ill-health, damage to equipment, business interruption and regulatory action. Any reputational risk and claims against the Company that may result will also need to be managed and may lead to additional health and safety expenditure being required. Environmental protection expenditures include 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. Analysis of the current trends shows that regulatory pressure on the international scene to reduce the environmental footprint of industry is steadily growing (circular economy and resources efficiency, energy transition and climate change engagement, air and water quality improvement). Moreover, new laws and regulations, the imposition of tougher license 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 financial condition and results of operations.

If the Company fails to comply with environmental, human rights, health and safety 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, human rights, health and safety laws can be imposed retrospectively, on a joint and several basis, and, in relation to contaminated sites, 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 financial condition and results of operations.

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 or communities, 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 thereby incurring significant additional costs. 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 lead to a decline in demand for its products and services.

Despite compliance with all applicable laws and regulations, the Company's reputation and the demand for its products may also be affected by the public perception of environmental and societal impacts of the Company's products in operation (such as the emission of greenhouse gases or noise) and of the local impacts of the Company and its supply chain industrial operations on local communities, the environment and air and water quality.

The Company cannot predict at this time, the impact on it as a result of environmental, human rights, health and safety matters, and may be adversely affected by them in the manner described above. For more information on sustainability-related risks, see 6.1 "Non-Financial Information".