Airbus Operations Limited

Annual report and financial statements

Registered number 3468788

31 December 2021

Contents

Strategic Report

In accordance with applicable law and regulations, the directors of Airbus Operations Limited ("the Company") present the results of the financial year ended 31 December 2021.

Business Model

The Airbus group operates in three reportable segments (the "Divisions") which reflect the internal organisation and management structure according to the nature of the products and services provided: Airbus (formerly Airbus and Headquarters), Airbus Helicopters and Airbus Defence and Space.

Airbus Operations Limited is a subsidiary of Airbus Operations S.A.S., a company incorporated under French law, which in turn is owned by Airbus S.A.S., which is part of the Airbus division.

An Executive Committee, chaired by the Chief Executive Officer, with the heads of the Divisions and key functions, is responsible for the management of all Airbus activities, including the sales activities and the product policies. The chairman of the Board of Directors of Airbus Operations Limited reports to the Airbus CEO.

Section 172 Statement

In line with the Companies Act requirement, the Directors set out below their key considerations and steps taken with regard to the 'enlightened shareholder value' requirements of s172 in performing their duties.

The Board continuously reviews which relationships support the generation and preservation of value in the Company. The Directors have identified the following parties who have an interest in, or are impacted by, the decisions taken by the Company: customers, suppliers, employees, former employees (pension scheme members), shareholders, tax authorities, regulators, Her Majesty's Government, Welsh Assembly Government and local communities. All strategic decisions take into account these stakeholders' interested and the Directors consider that they have acted in a way that is most likely to promote the success of the Company for the benefit of its members as a whole. In particular, the Directors have considered the following matters:

- Long term factors affecting the Company – as explained in the 'Risks and Uncertainties' and 'Forecast Information' sections below, the group aligns its development and production strategy with the order book and forecast global demand alongside other factors such as suppliers' ability to ramp up and ramp down supply, global economic conditions and sustainability targets.
- Interests of the Company's employees and former employees (pension scheme members) – refer to 'Employee Engagement' in the 'Responsibility and Sustainability' section below.
- Business relationships with suppliers - supplier relationships are crucial to the success of the Company and are constantly monitored (refer to 'Dependence on key suppliers and subcontractors' in 'Risks and Uncertainties' section below).
- Business relationships with customers – as explained in note 1.14, the Company's main customers are intercompany. The performance of the Company's sites and plants is continually assessed and benchmarked against other group companies. Examples of best practice are shared between transnational sites and embedded wherever possible.
- Business relationships with others – the Company has a number of other stakeholders with which it has business relationships, notably HMRC, the Department for Business, Energy and Industrial Strategy and other Government bodies. The Company is an important contributor to the UK economy through job creation, tax payments and Research and Development. The Company always aims to be transparent, provide information in a timely manner and operate in a collaborative manner.
- Impact of the Company's operations on the community and the environment – refer to the 'Responsibility and Sustainability' section below.
- Reputation for high standards of business conduct – refer to 'Enterprise Risk Management' in 'Risks and Uncertainties' section below.
- Acting fairly between members of the Company – the Airbus Values, which underpin the day-to-day working environment in which the Company operates, include 'Respect', 'Integrity' and 'We Are One / Teamwork'. There is an expectation that all employees, at all levels in the group, 'live' these Values.

Strategic report *(continued)*

Corporate Governance

The Airbus group applies the principles of the Dutch Corporate Governance Code and will report any exceptions in the annually-produced, publicly-available Airbus SE Registration Document (latest version available at https://www.airbus.com/investors/financial-results-and-annual-reports.html#annualreports). The Board of Directors of the Company follows these principles through the adoption of group-wide policies and procedures.

In addition, the Directors set out below their considerations in relation to the six key principles of the Wates Corporate Governance Principles for Large Private Companies:

- Purpose and leadership – the Executive Committee of Airbus SE determines the strategy and business model of the group with a view to generating long term, sustainable value. The policies, values and culture are implemented group-wide and part of the role of the Board of Directors of each company in the group is to ensure compliance with these standards.
- Board composition – Airbus Operations Limited has a balanced Board, with an appropriate combination of skills, backgrounds, experience and knowledge. The Board comprises representatives from Legal, Finance, Engineering, Manufacturing and HR.
- Director responsibilities – in addition to sponsoring the application of, and adherence to, Group policies, procedures and ways of working, the Board has specific responsibility for:
    - reviewing and approving the statutory accounts;
    - ensuring compliance with UK-specific legislation (including Health & Safety requirements); and
    - assessing environmental data and KPIs, which are areas of increased focus.

  Conflicts of interests are documented and managed in line with the group Ethics and Compliance procedures (see 'Responsibility and Sustainability' section below and Airbus SE Registration Document).
- Opportunity and risk – as outlined in the 'Risks and Uncertainties' section below, the Group has established a robust internal control framework and actively considers risks and opportunities that might impact in the long or short term.
- Remuneration – remuneration for Directors and senior managers is aligned with performance, behaviours, and the achievement of company purpose, values and strategy. In particular, variable pay arrangements are linked to company and personal performance, while Long Term Investment Plans encourage greater accountability by linking this element of remuneration to the Airbus SE share price. Remuneration is set by the Group, not by the Board.
- Stakeholder relationships and engagement – as explained in the Section 172 Statement above, the Board actively considers the interests of all stakeholders when determining the strategic direction of the Company.

Programme overview

The performance of the Company should be taken in context with the performance of the Airbus division as a whole.

Deliveries

In 2021, Airbus delivered 611 commercial aircraft compared to 566 deliveries in 2020, of which:
- 497 aircraft delivered by Airbus SAS (compared to 487 in 2020);
- 64 Single Aisle aircraft delivered by Airbus Americas (compared to 41 in 2020);
- 50 A220 delivered by Airbus Canada Limited Partnership ("ACLP") (compared to 38 in 2020).

Backlog

Airbus's backlog increased by € 20.4 billion to € 345.1 billion as at 31 December 2021. The book to bill ratio in units was below 1 (calculated using units of new net orders, i.e. new net orders in units divided by deliveries in units). Total order backlog at Airbus amounted 7,082 aircraft at the end of 2021 (as compared 7,184 aircraft at the end of 2020). Order intake consisted of 507 net orders in 2021 (as compared to 268 in 2020), comprising 437 net firm orders of the A320 Family, 38 A220s produced by ACLP and 32 wide-bodies, including the first A350 Freighter orders.

Strategic report *(continued)*

***Programme overview** (continued)*

Production

Each task in the building of Airbus aircraft (from design to production) is allocated to a designated plant. The Airbus plants are typically organised around different aircraft components and sections, in component delivery teams. Each component delivery team is either in charge of one aircraft programme, or organised by manufacturing technology clusters depending on the optimum solution for each plant. Every plant is organised with production, engineering, quality, supply chain, manufacturing, engineering and logistics capabilities to ensure a seamless production flow of operations.

Following production by the respective plants, the various aircraft sections are transferred between the network of sites and the final assembly lines using dedicated transport means, such as the "Beluga" Super Transporters. To support production, a new super transporter, Beluga XL, has been developed with three aircraft in service as of 31 December 2021.

Programme management is then responsible for the final assembly line activities. The programme management works closely with the plants to secure delivery of aircraft sections to the final assembly lines on time, cost and quality.

In 2021, the achievement of 611 commercial aircraft deliveries was made possible thanks to the performance of Airbus's global production facilities in Europe, the US, Canada and China. The COVID-19 crisis has demonstrated the importance of proximity to Airbus's customers, especially in face of travel restrictions.

2021 delivery performance and rate evolution:

- A220 family: 50 A220 delivered. The A220 monthly production rate is five per month at the end of 2021. The rate is targeted to increase to around rate 6 per month in early 2022, with a monthly production rate of 14 envisaged by the middle of the decade.
- A320 family: 483 deliveries achieved. Airbus is on its trajectory to achieve rate 65 by summer 2023. A further increase to rate 75 in 2025 was announced on 4 May 2022.
- A330: 18 deliveries achieved. Airbus expects to increase the A330 production rate, from around two to almost three aircraft per month on average at the end of 2022.
- A350: 55 deliveries achieved. Airbus expects to increase the A350 production rate from around five per month to around six in early 2023.
- A380: 5 deliveries achieved. The last A380 was delivered at the end of 2021. A380s will continue to fly, with Airbus's support, for many years.

A220 Family

Complementing the A320 Family, the A220-100 and A220-300 models cover the segment between 100 and 150 seats and offer a highly comfortable five-abreast cabin. With the most advanced aerodynamics, carbon fibre reinforced polymer (CFRP) materials, high-bypass Pratt & Whitney PW1500G engines and fly-by-wire controls, the A220 delivers 25 percent lower fuel burn per seat compared with previous generation aircraft. In addition to the airliner versions, 2020 saw the launch of the ACJ Two Twenty business jet, based on the A220-100, combining an intercontinental capability of over 12 hours flight duration with unmatched personal space and comfort. Airbus manufactures, markets and supports A220 aircraft under the Airbus Canada Limited Partnership agreement finalised in 2018. In 2020, Airbus delivered the first US-assembled A220-300 aircraft from Mobile, Alabama.

A220 is produced by ACLP but Airbus SAS supports commercial and marketing development of the programme. Primary competitors to the A220 Family are the Embraer EMB190-E2 and EMB195-E2 and the Boeing 737 Max 7. During 2021, Airbus received 64 gross orders for the A220 Family of aircraft and 38 net orders, with 50 aircraft having been delivered.

Strategic report *(continued)*

***Programme overview** (continued)*

A320 Family

With more than 16,000 aircraft sold, and over 10,000 delivered by the end of 2021, the A320 family of single-aisle aircraft includes the A319 and A321 derivatives, as well as the corporate jet family. Each aircraft in the A320 Family shares the same systems, cockpit, operating procedures and cross-section.

At 3.95 metres diameter, the A320 Family has the widest fuselage cross-section of any competing single-aisle aircraft. This provides a roomy six-abreast passenger cabin, a high comfort level and a spacious under floor cargo volume. The A320 Family incorporates digital fly-by-wire controls, an ergonomic cockpit and a modern structural material selection. The A320 Family's primary competitor is the Boeing 737 series.

Airbus continues to invest in improvements across the product line, as exemplified by the development of the A320neo family, including the A319neo, A320neo, A321neo and ACJ variants of the A319neo & A320neo. The A320neo Family incorporates many innovations including latest generation engines and cabin improvements which together deliver up to 20% in fuel savings compared with earlier A320 family aircraft. The A320neo with Pratt & Whitney engines was the first variant to receive Type Certification, from EASA and FAA, in November 2015, followed by the A320neo with CFM engines in May 2016. The A321neo with Pratt & Whitney engines received Joint Type Certification in December 2016 and with CFM engines in March 2017. Type Certification for the A319neo with CFM engines was achieved in December 2018 with the Pratt & Whitney engine variant the following year.

The A320neo Family versions have over 95% airframe commonality with the A320ceo (current engine option) versions, enabling them to fit seamlessly into existing A320 Family fleets – a key factor for Airbus customers and operators.

All orders for the A318ceo have been met and a full transition to the Neo variants of the other models is nearing completion. Continuing support for the large in-service A320ceo fleet is undiminished as new opportunities arise, including those in developing passenger-to-freighter conversion market.

Recognising a market requirement for increasing range capability, the A321neo has been developed to incorporate additional flexibility in cabin configuration with optional design weight and fuel capacity enhancements to produce the 4,000nm range capable A321LR. In 2019, Airbus launched the A321XLR, combining single-aisle efficiency with widebody range and comfort, and resulting in an unmatched product offering for all operator types in the key mid-range market area.

Since its launch in December 2010, the A320neo Family has received 7,895 firm orders from more than 100 customers, with a total of 2,076 aircraft delivered to the end of 2021. A320neo deliveries commenced in February 2016 followed by the first A321neo in April 2017 and in August 2019 the first A319neo. Overall, the A320 family retains an approximate 60% share of the backlog against the Boeing 737 Family.

During 2021, Airbus received 661 gross orders for the A320 Family of aircraft and 437 net orders, with 483 aircraft having been delivered, thereof 459 A320neo.

On 28 October 2021, Airbus announced that it is working to secure the A320 Family programme ramp up and is on trajectory to achieve a monthly rate of 65 aircraft by summer 2023. Following an analysis of global customer demand as well as an assessment of the industrial ecosystem's readiness, Airbus announced on 4 May 2022 that it is now working with its suppliers and partners to enable monthly production rates of 75 in 2025.

A330 Family

With 1,839 aircraft sold (of which 353 A330neo) and 1,527 delivered, the A330 Family covers all market segments with one twin-engine aircraft type and is designed to typically carry between 250 and 300 passengers in three-class configurations or over 400 passengers in high-density. The A330 Family offers high levels of passenger comfort as well as large under-floor cargo areas. The A330-200 version is also offered as a military platform (MRTT) and as a cargo variant.

Strategic report *(continued)*

***Programme overview** (continued)*

A330 Family (continued)

The A330 MRTT, offers military strategic air transport as well as air-to-air refueling capabilities at the same time. Its large fuel tank capacity (111t), a benefit of the design of the commercial platform, allows it to dispense fuel in flight to many receiver aircraft without the need for additional fuel tanks. A passenger-to-freighter conversion is offered by the ST Engineering / EFW partnership for both the A330-200 & A330-300, meeting the logistical needs of the rapidly growing e-commerce market.

The competitors of the A330 Family are the Boeing 767, 777 and 787 aircraft series.

The latest evolution to the A330 Family is the A330neo (new engine option), comprising the A330-800 and A330-900 versions. These aircraft incorporate latest generation Rolls-Royce Trent 7000 engines and enhanced aerodynamics for improved fuel efficiency. The first flight of the A330-900 took place in October 2017 and both Type Certification and first delivery were achieved in 2018, with TAP Air Portugal taking delivery of its first three A330-900s during the year. Certification and first delivery of the A330-800, to Kuwait Airways, took place during 2020.

In 2021, 18 A330 were delivered. On 28 October 2021, Airbus announced that the recent commercial success of the A330 programme enabled a monthly rate increase from around two to almost three aircraft at the end of 2022.

A350XWB Family

The A350 XWB is a family of wide-body aircraft, designed to typically accommodate between 325 and 400 passengers. The A350 XWB offers enhanced cabin features, Rolls-Royce Trent XWB engines, advanced aerodynamics and systems technology, with more than 50% composite materials in the fuselage structure. The A350 XWB's main competitors are the Boeing 787 and 777 aircraft series. Initial delivery of the A350-900 variant took place in December 2014 to Qatar Airways.

With the Ultra-Long Range (ULR) version of the A350-900 launched in 2015, the A350 XWB demonstrates its versatility by offering the capability to perform flights of up to 19 hours. The first A350-900 ULR was delivered in September 2018 to Singapore Airlines. Highlighting the type flexibility, Airbus delivered the first A350-900 Domestic to Japan Airlines during 2019.

Partnering the A350-900 is the seven metre longer A350-1000, which was delivered to its first customer, also Qatar Airways, in February 2018. Offering additional capacity for both passengers and cargo without compromising on range, the A350-1000 is the ideal replacement for previous generation aircraft in the 350-400 seat capacity market.

In 2021, Airbus launched the A350F freighter offering three tonnes more payload and more range than a competing 777F. With unbeatable efficiency in terms of fuel burn, CO_2 emissions and economics, the A350F is the only freighter capable of meeting the latest International Civil Aviation Organisation requirements.

At the end of 2021, the total orders for the A350XWB Family stood at 917 aircraft, including 11 for the A350F. With 461 aircraft having been delivered, including 55 during 2021, the backlog stood at 456 aircraft. On 28 October 2021, Airbus announced the A350 programme is expected to increase from around five to around six aircraft a month in early 2023.

A380 Family

The double-deck A380 is the world's largest commercial aircraft flying today. Its cross-section provides flexible and innovative cabin space, allowing passengers to benefit from wider seats, wider aisles and more floor space, tailored to the needs of each airline. The aircraft is capable of carrying 575 passengers in a comfortable four-class configuration over a range of 8,000 nm / 14,800 km.

In February 2019, following a review of its operations, Emirates announced the intention to reduce its A380 order book. As a consequence and given the lack of order backlog with other airlines, Airbus stopped production. The final five deliveries of the A380 took place during 2021.

Strategic report *(continued)*

Programme overview (continued)

A400M (military aircraft)

The A400M is designed to be the most capable new generation airlifter on the market today. It is designed to meet the needs of armed forces worldwide and potential operators for military, humanitarian and peacekeeping missions in the 21st century. The A400M can perform the job of three different types of military transport and tanker aircraft by providing different capabilities: tactical (short to medium range airlifter capability with short, soft and austere field operating performance), strategic transport (longer range missions for outsized loads) and tactical tanker.

A total of 176 aircraft have been ordered so far by the seven launch customer nations Belgium, France, Germany, Luxembourg, Spain, Turkey, the UK, as well as two export customers: Malaysia, recently joined by Kazakhstan (2 A400M ordered in 2021). Additionally, Indonesia has signed a letter of intent in 2021 to add air-to-air refuelling and heavy transport capabilities to their legacy transport fleet (2 A400M plus 4 optional).

Type Certificate and Initial Operating Clearance were achieved in 2013. Since then, 105 units have been delivered to eight nations as of 31 December 2021. The A400M is already deployed in operations since 2014, accumulating more than 110,000 flight hours in service. In 2019, a contract amendment was signed with launch customers on the Global re-baselining of the A400M programme, under which all parties have agreed to update the production plan and revise the capability roadmap. NSOC 2.0 Type Acceptance by customers was achieved in 2020, followed by NSOC 2.5 Type acceptance in 2021. The programme is now delivering in line with the revised schedule, and moving forward towards SOC3 (final development standard).

As of 31 December 2020, the Company has delivered a total of 105 A400M aircraft including 8 aircraft in 2021 and 9 aircraft in 2020. The COVID-19 pandemic is weighing on the performance of development, production, flight testing, aircraft delivery and retrofit activities of the programme. The Company has continued with development activities towards achieving the revised capability roadmap. Retrofit activities are progressing in close alignment with the customer. In 2020, an update of the contract estimate at completion was performed and a charge was recorded at group level reflecting mainly the variation of price escalation indexes. In 2021, an update of the contract estimate at completion has been performed and an additional charge has been recorded at Airbus SE level. This reflects mainly the updated estimates on the delivery pattern of the launch contract and the associated impact on unabsorbed costs. Risks remain on the development of technical capabilities and associated costs, on aircraft operational reliability in particular with regard to power plant, on cost reductions and on securing export orders in time as per the revised baseline.

Significant events in 2021

The following matters predominantly affect the Airbus division and will impact the Company via the share of the total 'Common activities' result from Airbus SAS (see note 1.14 for further details). Matters which are specific to the Company are identified as such.

A380 final delivery

Airbus SAS delivered the last 5 A380 aircraft in 2021. In 2021, a positive EBIT impact of €212m was recorded in the Airbus division, mainly reflecting the release of provisions recorded in 2018 on the former A380 Lagardère facility that will be used for the modernised A320 FAL.

Impact of the COVID-19 pandemic

In 2020 and 2021, the COVID-19 pandemic resulted in significant disruption to the Company's business operations and supply chain.

Strategic report *(continued)*

***Significant events in 2021** (continued)*

Impact of the COVID-19 pandemic (continued)

The Company's business, results of operations and financial condition have been and may continue to be materially affected by the COVID-19 pandemic, and the Company continues to face risks and uncertainties. In addition to its impact on the financial viability of operators, airlines and lessors and the reduction of commercial air traffic, new variants of the COVID-19 pandemic, lockdowns, travel limitations and restrictions around the world have posed logistical challenges and may cause disruptions to the Company's business, its operations and supply chain as well as customers' ability to take delivery of aircraft.

Airlines have reduced capacity, grounded portions of their fleets and sought to implement measures to reduce cash spending and secure liquidity. Some airlines have also sought arrangements with creditors, restructured or applied for bankruptcy or insolvency protection, which may have further consequences for Airbus and its order book as well as other consequences resulting from the related proceedings.

In 2021, the commercial environment has shown signs of improvements, in particular an increase in air travel demand. On 27 May 2021, Airbus provided suppliers with an update of its production plans based on its expectation that the commercial aircraft market may recover to pre-COVID levels between 2023 and 2025, led by the single-aisle segment. In anticipation of a continued recovering market, Airbus confirmed an average A320 Family production rate of 45 aircraft per month in the fourth quarter of 2021 and called on suppliers to prepare for the future by securing a firm rate of 64 by the second quarter of 2023.

On 28 October 2021, Airbus announced the A220 production rate, which was at 5 aircraft a month, is expected to increase to around rate 6 per month in 2022, with a monthly production rate of 14 envisaged by the middle of the decade. On the A320 Family programme, following an analysis of global customer demand as well as an assessment of the industrial ecosystem's readiness, Airbus announced on 5 May 2022 that it is now working with its suppliers and partners to enable monthly production rates of 75 in 2025. The recent commercial successes of the A330 programme enable a monthly rate increase from around 2 to almost 3 aircraft at the end of 2022. The A350 programme is expected to increase from around 5 to around 6 aircraft a month in early 2023.

Year-to-date financials reflect deliveries as well as efforts on cost containment and competitiveness. Furthermore, Airbus has performed a comprehensive review of provisions and depreciations, taking into account the amended production rates and expected future deliveries. Consequently, Airbus SAS recorded a €389m release of COVID-related provisions including restructuring in 2021.

The Company is monitoring the evolution of the COVID-19 pandemic and will continue to assess further impacts going forward. Management considers the Company has sufficient resources to continue operating for at least 12 months and that there are no material uncertainties about the Company's ability to continue as a going concern.

Workforce adaptation

In September 2020, a restructuring provision was recognised by the Company in response to the COVID-19 pandemic under other provisions for an amount of £93m including mainly the cost of voluntary and compulsory measures taking into account management's best estimate of the impact of the working time adaptation and government support measures.

As of 31 December 2021 and 31 December 2020, the restructuring provision in response to the COVID-19 pandemic amounted to £Nil and £23m respectively. The movement reflects the utilisation of the restructuring provision for an amount of £8m and the release of £15m primarily due to the implementation of a shorter working week at the Broughton plant which mitigated the need for certain redundancies.

Distressed aircraft

Considering customer economic difficulties, contract restructuration or cancellations requests, Airbus has performed a comprehensive review of produced aircraft held in inventories at risk and to be remarketed. As at 31 December 2021, all aircraft foreseen at risk as at 31 December 2020 have been sold or are under purchase agreement signed, which led to a €168m depreciation release recorded at Airbus division level.

Strategic report *(continued)*

***Significant events in 2021** (continued)*

Compliance investigation

The group reached final agreements ("the agreements") with the Parquet National Financier ("PNF"), the Serious Fraud Office ("SFO"), and the Department of Justice ("DoJ") resolving the authorities' investigations into allegations of bribery and corruption, as well as with the Department of State ("DoS") and the DoJ to resolve their investigations into inaccurate and misleading filings made with the DoS pursuant to the US International Traffic in Arms Regulations ("ITAR"). The agreements were approved and made public on 31 January 2020.

Under the terms of the agreements, the group (Airbus SE) agreed to pay penalties of €3,597,766,766 plus interest and costs to the French, UK and US authorities. This was recognised in the group's 2019 accounts. The settlements with each authority were as follows: PNF €2,083,137,455, the SFO € 983,974,311, the DoJ €526,150,496 and the DoS €9,009,008 of which €4,504,504 may be used for approved remedial compliance measures. All penalties have been paid.

The Company had an impact of £495m in the 2020 statutory accounts. This amount was invoiced by Airbus SAS using the Industrial Key 2020 (see note 1.14 for explanation of the Industrial Key).

Under the terms of the Convention Judiciaire d'Intérêt Public ("CJIP") with the PNF, the group has an obligation to submit its compliance programme to targeted audits carried out by the Agence Française Anticorruption ("AFA") over a period of three years.

Under the terms of the Deferred Prosecution Agreement ("DPA") with the SFO, no independent compliance monitor will be imposed on the group in light of the continuing monitoring to be conducted by the AFA.

Under the terms of the DPA with the DoJ, no independent compliance monitor will be imposed on Airbus under the agreement with the DoJ, but the group will periodically report on its continuing compliance enhancement progress during the three year term of the DPA and carry out further reviews as required by the DoJ.

The agreements result in the suspension of prosecution for a duration of three years whereupon the prosecutions will be extinguished if the group complies with their terms throughout the period.

Under the terms of the Consent Agreement with the DoS, the DoS has agreed to settle all civil violations of the ITAR outlined in the group's voluntary disclosures identified in the Consent Agreement, and the group has agreed to retain an independent export control compliance officer, who will monitor the effectiveness of the group's export control systems and its compliance with the ITAR for a duration of three years.

Any breach of the terms of the agreements by the group could lead to rescission by the authorities of the terms of the agreements and reopening of the prosecutions. Prosecution could result in the imposition of further monetary penalties or other sanctions including additional tax liability and could have a material impact on the financial statements, business and operations of the Company.

In addition to any pending investigation in other jurisdictions, the factual disclosures made in the course of reaching the agreements may result in the commencement of additional investigations in other jurisdictions. Such investigations could also result in (i) civil claims or claims by shareholders against the group, (ii) adverse consequences on the group's ability to obtain or continue financing for current or future projects, (iii) limitations on the eligibility of group companies for certain public sector contracts, and/or (iv) damage to the group's business or reputation via negative publicity adversely affecting the group's prospects in the commercial market place.

Airbus will continue to cooperate with the authorities in the future, pursuant to the agreements and to enhance its strong Ethics & Compliance culture within the group.

Several consultants and other third parties have initiated commercial litigation and arbitration against the group seeking relief. The agreements reached with authorities may lead to additional commercial litigation and arbitration against the group and tax liabilities, which could have a material impact on the financial statements, business and operations of the Company in the future.

Strategic report *(continued)*

Significant events in 2021 *(continued)*

Air France Flight 447 trial

On 1 June 2009, an A330 operated by Air France flight AF447 from Rio de Janeiro to Paris disappeared over the Atlantic Ocean with 228 persons onboard. The wreckage was located in April 2011 after several search campaigns organised by the Bureau d'Enquêtes et d'Analyses ("BEA"), which published its final investigation report in July 2012. In the wake of the accident, the prosecutor in Paris opened an investigation for involuntary manslaughter and Airbus SAS was charged in March 2011. In September 2019, the investigating magistrates closed the investigation and dismissed all criminal charges after a thorough analysis of the technical and legal elements of the case. However, the Paris Court of Appeal overturned the magistrates' decision and ordered trial for involuntary manslaughter. The group's appeal to the French Supreme Court has been dismissed. The trial is scheduled to take place in the fourth quarter of 2022. The criminal trial in the Paris Criminal Court and any judgment or decision unfavourable to the group could result in damage to its business or reputation.

Qatar Airways commercial litigation

Citing surface degradation on some of its A350 fleet and alleging an underlying "design defect", Qatar Airways filed a legal claim against the group in the London Commercial Court on 17 December 2021. The claim seeks (a) liquidated damages for aircraft grounded by the Qatar Civil Aviation Authority, (b) an order that Airbus must deliver a full root cause analysis for surface degradation issues, and (c) a declaration by the court that Airbus may not deliver any further A350 aircraft to Qatar Airways until alleged "design defects" are cured. Airbus rejects Qatar Airways' mischaracterisation of the non-structural surface degradation and the attendant grounding of the aircraft, which underpin the claim. Accordingly, the group will defend itself vigorously in the proceedings. The consequences of such litigation and the outcome of the proceedings cannot be fully assessed at this stage, but any judgment or decision unfavourable to the group could have a material adverse impact on the Financial Statements, business and operations of the group as well as its reputation.

Financial performance

Significant comparative key data of Airbus Operations Limited is shown below:

	2021 (£m)	2020 (£m)
Turnover	3,256	2,925
Research and development costs	202	260
Profit/(loss) for the financial year	373	(616)
Net assets	802	138

As a consequence of the revenue recognition mechanism (refer to note 1.14), the performance of the Company should be taken in context with the performance of the Airbus division as a whole. There is a positive earnings allocation for the Common Business (activity relating to Airbus). Allocation based on the Industrial Key (mechanism by which costs are collated, analysed and results are shared) resulted in the Company having a proportionate profit of £407m (2020: proportionate loss of £232m) of the allocable total results of the Airbus Common Business, which is reported in turnover and reflected in an increase in intercompany debtors.

The increase in the Common Business earnings allocation between 2020 and 2021 is driven by the delivery performance and efforts on cost containment and competitiveness after the COVID-19 crisis.

The proportionate result of the UTE (being the allocations of the results of the A400M programme) established for the A400M series business for the Company (refer to note 1.14), which is similarly reported in turnover, has improved compared to the prior year and amounts to £-78m (2020: £-91m). The decrease in the UTE loss share is mainly driven by a decrease in the number of aircrafts delivered (8 in 2021 vs. 9 in 2020).

Strategic report *(continued)*

***Financial performance** (continued)*

Included within operating loss in 2020 is £495m relating to compliance fines. Further detail is provided in the 'Compliance Investigation' section in 'Significant Events in 2021' above.

Other interest receivable and similar income has reduced from £40m in 2020 to £Nil in 2021 while interest payable and similar expenses has increased from £6m to £20m. This is primarily due to the foreign exchange impact being a gain of £32m in 2020 compared to a loss of £7m in 2021, together with the fair value movement on financial liabilities being a gain of £8m in 2020 compared to a loss of £11m in 2021.

There is a tax credit of £25m against a profit before tax of £348m in 2021. Excluding the impact of the future tax rate changes on deferred tax balances, there is a tax charge of £61m. This represents an effective tax rate of 18% compared to the actual current UK tax rate of 19%.

On the balance sheet, fixed asset investments have increased from £Nil to £264m after the Company invested £264m in Airbus UK Limited, a wholly owned subsidiary. Airbus UK Limited subsequently purchased land and buildings at the Company's sites in Broughton and Filton, and now acts as lessor of these sites to the Company. The investment is the main reason for the increase in amounts owed to group undertakings, from £792m in 2020 to £1,013m in 2021, in 'Creditors: amounts due within one year'.

Following the delivery of the last A380 aircraft to end customer in 2021, the gross value of intangible fixed assets and tangible fixed assets relating to the A380 programme have reduced by £134m and £348m respectively. Since these assets were fully amortised / depreciated at the end of 2020, there was no impact in the Profit and Loss Account, nor on tangible and intangible asset net book values.

Debtors have increased from £834m in 2020 to £1,553m in 2021. This is primarily because the 2020 earnings allocation for the Common Business was £-232m; the equivalent figure for 2021 is £407m.

Trade creditors have increased from £309m in 2020 to £619m in 2021. This is primarily due to the timing of payment runs, with the early settlement of certain invoices at the end of 2020.

Other provisions have reduced from £107m in 2020 to £40m in 2021 primarily because the restructuring provision has been fully utilised/released in 2021 (2020: £23m) and the asset retirement obligation provision (£30m) is no longer considered to be required as agreed with the new landlord, and 100% owned subsidiary, Airbus UK Limited.

There has been a significant reduction in the pension deficit from £947m to £598m. This is mainly attributable to an increase in the discount rate applied against scheme liabilities together with an increase in asset values, in particular equities, as the global economy starts to recover from the global pandemic.

Key Performance Indicators

Key performance indicators against which Airbus Operations Limited measures the success of its strategy are turnover per full time equivalent employee £466,542 *(2020: £357,186)*, research and development expenditure (net of research and development expenditure tax credit) per full time equivalent employee £26,364 *(2020: £29,918)* and capital expenditure per full time equivalent employee £6,878 *(2020: £4,396)*.

Strategic report *(continued)*

Research and development (R&D)

The R&D programme is primarily targeted at maintaining the highest level of safety, creating innovative solutions to address market requirements, enabling the business to reduce its manufacturing costs, improve its products' performance and time to market, and to improve the in-service support required by our customers.

Total R&D costs incurred amounted to £202m, compared to £260m in 2020. Continued cost reduction measures in response to the impact of the global pandemic were the key factors behind the overall decrease in R&D expenditure year-on-year. Costs incurred by programme in 2021 are as follows:

	2021 (£m)	2020 (£m)
A380 Family	5	12
A350XWB Family	41	64
A330 Family (including Beluga)	18	28
A320 Family	65	88
A400M	13	11
R&T / other (non-programme specific)	60	57
Total	**202**	**260**

Risks and uncertainties

The following matters predominantly affect the Airbus division and will impact the Company via the share of the total 'Common activities' result from Airbus SAS (see note 1.14 for further details). Matters which are specific to the Company are identified as such.

Enterprise Risk Management

The Company does not have its own individual risk management and internal control system, but is embedded in the group-wide Enterprise Risk Management System ("ERM") designed and determined by Airbus.

ERM is a crucial mechanism for both mitigating the risks faced by the company and identifying future opportunities.

The aim of the ERM system is to provide management with an enhanced instrument for the effective approach to uncertainties and the risks accompanying the business of the Airbus.

ERM is used throughout Airbus, the subsidiaries and significant component suppliers with a largely uniform understanding, methods and practice. In the main, guidelines, reports, training sessions, internal controls and IT systems are available to this end. ERM comprises a hierarchical bottom-up and top-down reporting procedure, with which the risks and opportunities of the group can be presented more transparently.

The Airbus ERM system is augmented by:

- Communication and training sessions, and E-learning modules (Ethics & Compliance)
- ERM specialists support the individual areas of the company with reports and training offers
- Guidelines (e.g. the Accounting Manual)
- Early warning system (OpenLine alert system), which is accessible to all employees on a confidential basis.

Strategic report *(continued)*

***Risks and uncertainties** (continued)*

Enterprise Risk Management (continued)

Within the framework of the financial accounting system, the bookkeeping is organized in accordance with the segregation of duties in separate departments based on the sub-ledgers (accounts payable/receivable, cost accounting, fixed assets, etc.). The respective working results for the financial statements are passed on to the Financial Accounting department, which, based on this, accumulates the relevant information for the Company's accounting and prepares it in turn for the Consolidation Department for the consolidated financial statements. Employees are allocated to the accounting tasks via job descriptions.

Airbus and the Company are subject to many risks and uncertainties that may affect their financial performance. Their business, results of operations or financial position could be materially adversely affected by the risks described below. These are not the only risks they face. Additional risks and uncertainties not presently known or that are currently considered immaterial may also impair their business and operations.

Foreign currency exposure

Airbus is exposed to certain price risks such as foreign exchange rate as well as interest rate risks, changes in commodity prices and in the price of its own stocks. Adverse movements of these prices may jeopardise Airbus's profitability if not hedged. Airbus intends to generate profits only from its operations and not through speculation on the development of such prices. Airbus uses hedging strategies to manage and minimise the impact of such price fluctuations on its profits, including foreign currency derivative contracts, interest rate and equity swaps and other non-derivative financial assets or liabilities denominated in a foreign currency.

The major part of its hedging activities is devoted to foreign exchange risks, as a significant portion of Airbus's revenues is denominated in US dollars, while a major portion of its costs is incurred in Euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that Airbus 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. Airbus has therefore implemented a long-term hedging portfolio to help secure the rates at which a portion of its future US dollar-denominated revenues (arising primarily at Airbus) are converted into Euro or pound sterling. The Company does not engage in any hedging activity and is not therefore exposed to hedging risk other than through the future share of Common Business earnings.

The corresponding impact affects the Company via the Common Business result.

Although the majority of exchange rate risk for the Company is mitigated due to the Advanced Pricing Agreement (refer to turnover accounting policy in note 1.14), the Company's annual share of the Common Business result is denominated in Euros and therefore the Company's profitability is impacted by Euro exchange fluctuations.

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 and systems 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.

Strategic report *(continued)*

***Risks and uncertainties** (continued)*

Dependence on key suppliers and subcontractors (continued)

A Supplier's performance and financial health may be negatively impacted by a variety of topics including: the COVID-19 pandemic and its resulting economic impact; loss of skilled resources as a result of workforce reduction and difficulties to re-staff due to market employment tensions; need for working capital increase while state/bank loans obtained to weather through the crisis have reached maturity; difficulty gaining access to material and components, including semiconductors, in the necessary quantity and time frame and at competitive conditions as well as transport and logistic means availability; cyber security threats; geopolitical unrest; export controls evolving regulations and embargoes; and environmental issues.

Changes to the group's production or development schedules may impact suppliers so that they initiate claims under their respective contracts for financial compensation or do not fulfil their on time and on quality delivery commitments. This may have a negative effect on the financial condition and results of operations of the Company through the future share of Common Business earnings.

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.

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. The Company has implemented a robust governance to prevent, anticipate and monitor supply chain disruption risks and/or ensure efficient management of issues.

Brexit

On 29 March 2017, the UK triggered Article 50 of the Lisbon Treaty, the mechanism to leave the European Union ("Brexit"). The UK left the EU in an orderly manner on 31 January 2020 under the terms of the Withdrawal Agreement.

Brexit could lead to a reduced degree of political alignment between the Airbus home nations of UK, France, Germany and Spain, and more widely with EU institutions, now that the UK is no longer a member of the EU.

The risk of fragmentation could also impact the availability of public financing sources for our sector. This could, for instance, materialise in relation to COVID-19 crisis recovery plans, investment necessary to support our industry's climate transition, financing of defence and security activities, or of research and development.

The Trade and Cooperation Agreement ("TCA") concluded between the EU and the UK provides an adequate basis to support Airbus's and its supply chain industrial operations. Nevertheless, the existence of divergences between the EU and UK's positions on certain significant issues, for instance in relation to Northern Irish border controls, migration flows or regulatory alignment, could trigger tensions which, in turn, could impact the implementation of the TCA and the associated benefits for our sector.

Airbus has four major engineering and manufacturing facilities and continues to employ a substantial number of highly skilled employees in the UK. Given its shared industrial footprint, the Company must remain vigilant in the medium and long term on the evolution of applicable laws and regulations in the EU and in the UK and the complexities arising thereof in order to avoid disruptions and greater costs to the Company's operations.

Strategic report *(continued)*

***Risks and uncertainties** (continued)*

COVID-19

Over the last two years, new variants and the successive waves of the COVID-19 pandemic, the resulting health and economic crisis and actions taken in response to the spread of the pandemic, including government measures, lockdowns, travel limitations and restrictions, have resulted in significant disruption to the Company's business, operations and supply chain.

The aerospace industry, the financial health of operators, airlines, lessors and suppliers, commercial aircraft market, demand for air travel and commercial air traffic have been severely impacted by the COVID-19 pandemic and the resulting health and economic crisis. As a result, airlines have reduced capacity, grounded large portions of their fleets for months, sought to implement measures to reduce cash spending and secure liquidity. Some airlines are also seeking arrangements with creditors, restructuring or applying for bankruptcy or insolvency protection, which may have further consequences for Airbus and its order book as well as other consequences resulting from the related proceedings. The Company will continue to face additional risks and uncertainties resulting from future consequences of the health and economic crisis on operators, airlines, lessors, suppliers and other actors in the air transport industry.

Over the last two years, a number of measures have been taken by Airbus to implement stringent health and safety procedures while taking account of stock levels and production lead-times. The COVID-19 crisis may lead to further disruptions to the Company's internal operations and to its ability to deliver products and services.

In addition to its impact on the financial viability of operators, airlines and lessors and the reduction of commercial air traffic, lockdowns, travel limitations and restrictions around the world have posed logistical challenges and may cause disruptions to Airbus's business, its operations and supply chain. These measures have and may continue to adversely affect the Group's ability to deliver products and services as well as customers' ability to take delivery of aircraft.

Airbus has been adversely affected by weak market and economic conditions in markets around the world. Protracted weaker market and economic conditions and their knock-on effects could result in (i) additional requests by customers to postpone delivery or cancel existing orders for aircraft or other products including services, (ii) decisions by customers to review their fleet strategy, (iii) weak levels of passenger demand for air travel and cargo activity more generally, (iv) a sustained reduction in the volume of air travel for business purposes, and (v) prolonged or additional travel limitations and restrictions, which could negatively impact Airbus's results of operations.

In 2021, Airbus delivered 611 commercial aircraft, 8% more than in 2020 (566 commercial aircraft in 2020, which was 34% fewer than in 2019, in line with Airbus's adaptation plan). This reflects customer requests to defer deliveries as well as other factors related to the ongoing COVID-19 crisis. In 2021, Airbus recorded 264 cancellations (compared to 115 cancellations in 2020).

On 21 January 2021, Airbus announced it is updating its production rate planning for its A320 Family aircraft in response to the market environment.

On 27 May 2021, Airbus provided suppliers with an update of its production plans based on its expectation that the commercial aircraft market may recover to pre-COVID levels between 2023 and 2025, led by the single-aisle segment. In anticipation of a continued recovering market, Airbus confirmed an average A320 Family production rate of 45 aircraft per month in the fourth quarter of 2021 and called on suppliers to prepare for the future by securing a firm rate of 64 by the second quarter of 2023. The A220 monthly production rate is confirmed to rise to around six in early 2022. The A350 production rate is expected to increase to six by Autumn 2022 while A330 production is expected to remain at an average monthly production rate of two per month.

On 28 October 2021, Airbus announced the A220 production rate, which was at five aircraft a month, is expected to increase to around rate six per month in early 2022, with a monthly production rate of 14 envisaged by the middle of the decade. On the A320 Family programme, Airbus is working to secure the ramp up and is on trajectory to achieve a monthly rate of 65 aircraft by summer 2023. The recent commercial successes of the A330 programme enable a monthly rate increase from around two to almost three aircraft at the end of 2022. The A350 programme is expected to increase from around five to around six aircraft a month in early 2023.

Strategic report *(continued)*

***Risks and uncertainties** (continued)*

COVID-19 (continued)

On 4 May 2022, Airbus announced that it is working with suppliers to achieve an increase in A320 production rates to 75 in 2025.

Airbus continues to monitor the market closely. With these revised rates, the group preserves its ability to meet customer demand while protecting its ability to further adapt as the global market evolves. The group expects the commercial aircraft market to return to pre-COVID levels by 2023 to 2025.

Airbus is monitoring the evolution of the COVID-19 crisis and will continue to evaluate further impacts and additional measures going forward while taking into account the latest industry outlook.

Although the full impact of the COVID-19 pandemic and the resulting health and economic crisis cannot reasonably be assessed at this time given its uncertain duration and extent, the group's business, its operations and supply chain are likely to be further disrupted by new variants and successive waves of the pandemic, the uncertainty it creates and the resulting health and economic crisis.

Airbus's business, results of operations and financial condition have been and will continue to be materially affected by the COVID-19 pandemic, and the group continues to face significant risks and uncertainties related to new variants and successive waves of the COVID-19 pandemic and its resulting health and economic crisis.

Cyber security risks

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

Airbus 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. Some of the objectives of an attacker are espionage, influence, obstacle to functioning or lucrative. The main cyber security risks for Airbus are intrusion in systems leading to data leakage, attacks impacting the resilience of industrial systems and compromising products and services.

All of the above mentioned risks are heightened in the context of the increasingly common use of digital solutions by Airbus (including greater use of cloud services, mobile devices, "internet of things"), increasingly capable adversaries and integration with the extended enterprise. Risks related to Airbus's industrial control systems, manufacturing processes and products are growing with the increase of interconnectivity and digitalisation. Moreover, a main challenge is to maintain an appropriate level of security of complex and legacy industrial systems to face attacks from hackers, who are improving their techniques and skills at incredible speed.

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

Airbus continues to make significant efforts to prevent such risks from materialising. Targeted investments will reduce but not eradicate likelihood and impact through strengthening the business's 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. Loss of personal data may result in administrative, civil or criminal liabilities including significant fines and penalties.

Strategic report *(continued)*

***Risks and uncertainties** (continued)*

Ukraine crisis

Russia's invasion of Ukraine on 24 February 2022 and the resulting export control restrictions and international sanctions against Russia, Belarus and certain Russian entities and individuals have resulted in disruption to Airbus's business, its operations, data management and supply chain.

Following the imposition of export control restrictions and sanctions by the EU, the UK, the US and other countries that are relevant to the Company's business, Airbus announced in March 2022 it has suspended the delivery of aircraft and support services to Russian customers, as well as the supply of spare parts, equipment and software to Russia. Airbus is complying with all applicable regulations and sanctions to its facilities and operations in Russia.

The crisis has increased Airbus's exposure to supply chain disruption risk. Part of the titanium used by Airbus is sourced from Russia, both directly and indirectly through the group's suppliers. While geopolitical risks are integrated into Airbus's titanium sourcing policies, the impact of Russia's invasion of Ukraine on the Company's ability to source materials and components and any future expansion of sanctions is being reviewed.

Due to the above mentioned export control restrictions and sanctions, Airbus has been unable to physically deliver two aircraft previously recorded as sold at 31 December 2021. As a result, the associated revenues and margin have been derecognised as of 31 March 2022. These aircraft are being remarketed.

Airbus has activated a crisis management organisation in response to Russia's invasion of Ukraine and is monitoring the situation and evaluating the impacts to cyber security, operations, production, deliveries, logistics and transport, as well as impacts on materials and components sourcing, inflation, oil and energy prices.

Although the full impact cannot reasonably be assessed at the time of this report, Airbus's business, results of operations and financial condition may be materially affected by the direct and indirect impacts of Russia's invasion of Ukraine and the resulting international sanctions.

Forecast information

Airbus faces the following main challenges on its commercial programmes:

- adapt to rate and stabilise operational performance post-COVID-19 while maintaining high safety and quality standards;
- monitor and support the supply chain;
- accompany customers and facilitate deliveries to customers including by remote delivery process;
- ensure a strong customer focus to support return to operations; and
- protect priority projects and deliver developments as per revised plan including A321XLR, A350 Step7 (Standard 2022), A350 Freighter, A330-800, A330-800 251t MTOW (Maximum Take Off Weight), A330 Step4, A330 Bridge Tanker and Digital (DDMS and Skywise).

A320

In response to the new COVID-19 market environment, the commercial aircraft production rate for the A320 Family was adapted to 40 per month in June 2020. In 2021, Airbus announced demand for the A320 Family is expected to lead to a gradual increase in production from the current rate of 40 per month to 43 in Q3 2021, to 65 by summer 2023 and to 75 in 2025. The group monitors proactively and constantly the backlog, the internal and external supply chain, including engines, so as to ensure readiness for further rate adaptations in accordance with traffic evolution, to minimise inventory levels, and secure aircraft storage capacity.

In connection with the A320 Family programme, Airbus faces the following challenges: ensure the A321XLR on-track development including A321XLR certification topics with primary airworthiness authorities, adapt and upgrade the industrial system and capability to meet the growing market demands and corresponding product mix within the family. Market demand for single aisle aircraft, production and supply chain capabilities will evolve in the next few years and Airbus will closely monitor these evolutions including a projected significant increase in A321 production. Attention will remain high on ramp up engine availability and engine maturity in-service.

Strategic report *(continued)*

***Forecast information** (continued)*

A350XWB

In connection with the A350 XWB programme, Airbus faces the following main challenges: to secure revised quarterly delivery targets post-COVID-19, monitor and support the supply chain, reduce recurring costs to improve competitiveness within a widebody market recovering at a slower pace, deliver 'Step 7' competitiveness project as per adapted plan and develop the A350 Freighter. Decisions on further rate adaptation will depend on traffic evolution.

A330

In response to the new COVID-19 market environment, the commercial aircraft production rate for the A330 programme was adapted to two per month in June 2020. Then, following new orders, the decision was taken in Q3 2021 to increase the production rate to almost three in 2023. Decisions on further rate adaptation will depend on traffic evolution. In connection with the A330 programme, the main challenges Airbus faces are to secure product competitiveness in the widebody market segment, monitor and support the supply chain. The developments were on track in 2021: A330neo low speed performance improvement certification in February 2021, A330-900 first aircraft ever to receive EASA CO_2 certification in May 2021, A330neo alternate Centre of Gravity option certification in September 2021.

A220

In connection with the A220 programme, the main challenges Airbus faces are to secure the A220 cost reduction trajectory with a strong focus on its Design to Cost roadmap and recurring cost reduction, and to ensure an A220 book to bill above one to fill current open slots. As a consequence of the COVID-19 pandemic, the commercial aircraft production rates were adapted to rate five per month (in Mirabel and in Mobile) in 2020-2021 and will be increased to rate six in 2022. Attention will remain high on engine maturity in service.

A380

In connection with the A380 programme, Airbus faces the following main challenges: secure in service support for the next decades and long-term competitiveness.

A400M

After Airbus signed a contract amendment to restructure the contract, risks remain on development of technical capabilities (development effort as well as possible commercial agreement associated costs in order to reach Type Acceptance) and the associated costs, on securing sufficient export orders in time, on aircraft operational reliability in particular with regards to power plant and on cost reductions as per the revised baseline.

Research & Technology

The Research & Technology programme is primarily targeted at maintaining the highest level of safety, creating innovative solutions to address market requirements, enabling the business to reduce its manufacturing costs, improve its products' performance and time to market, and to improve the in-service support required by customers.

The technology strategy and programme content in the UK is developed as part of a holistic approach consistent with the group, and currently covers metallics, composites, next generation composite manufacturing capability, electric/hybrid technology, Sustainable Aviation Fuels (SAFs), advanced wing engineering and systems. The work programme is developed to facilitate full co-operation with our research partners in government, industry, laboratories and universities.

Airbus is a key partner in the Aerospace Growth Partnership (AGP) which brings government and industry together to secure the long-term future of the UK aerospace sector. We are a major partner in the Aerospace Technology Institute (ATI), which is positively promoting research and development into new technology for the aircraft of the future.

Strategic report *(continued)*

Responsibility and Sustainability

Airbus understands that contributing to a sustainable society must be achieved not just through what it does but also how it does it, aiming at minimising negative impact and maximising positive. In order to give direction and focus, in 2020, Airbus updated its sustainability strategic framework around the below-listed four sustainability priority commitments that apply across its entire value chain:

- Lead the journey towards clean aerospace;
- Respect human rights and foster inclusion;
- Build our business on the foundation of safety and quality; and
- Exemplify business integrity.

Several sources were essential in deciding on the four commitments, including the 2019 materiality assessment, a thorough benchmark, an analysis of market and regulatory trends, an evaluation of ESG risks in the group's risk report, a gap analysis and the consideration of the group's values.

The objective is to set clear ambitions across each commitment with agreed key performance indicators and targets enabling the group to monitor progress towards these ambitions. This process began in 2020 and will continue to mature over the coming years.

A brief review of our actions follows. For further information, see the 2021 Report of the Board of Directors published on airbus.com on the Investors Relations webpage.

Respect for Human Rights

During 2021 Airbus continued to drive actions in support of its human rights ambition 'to embed and advance human rights throughout our business, organisation and supply chain' in relation to activities under its full, direct control. For further information, see the 2021 Report of the Board of Directors, published on airbus.com on the Investors Relations webpage.

UK Modern Slavery Act

As part of its obligations under the UK Modern Slavery Act, and in recognition of the global aim of this topic, Airbus SE published its latest Modern Slavery Statement in 2021 covering the year ended 31 December 2020. Modern slavery, including forced, child, bonded and indentured labour, is a topic progressed through the human rights roadmap.

Gender Pay Gap report

In 2021, Airbus published its latest Gender Pay Gap report. Airbus takes gender equality seriously. In 2021, its average UK gender pay gap was 14% which was higher than the 8% reported in 2020. The increase was a result of the one-time impact of the Government's Furlough Scheme amid the worst crisis in the history of Commercial Aviation. In 2021 Airbus's current proportion of female employees globally was 19%; Airbus is committed to advancing women in the workplace and has set an annual target of 30% of all annual recruitment to be women (22% in 2021). In addition to specific internal programmes aimed at promoting gender equality, Airbus is actively involved in a number of activities to attract more women into its business, including leading the development of the 'Women in Aviation and Aerospace Charter'.

Duty to report Payment Practices and Performance

In 2021, in accordance with new regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015, Airbus published its twice-yearly payment practices and performance report, details of which can be found on the specific Government website. Our results reflect the unique nature of the aerospace industry and the long lead times taken to produce, deliver and receive payments for our products.

Strategic report *(continued)*

***Responsibility and Sustainability** (continued)*

Sustainable Supply Chains

Airbus strives to make environmental and social responsibility a core element of its procurement strategy. This includes managing the relationships with suppliers throughout the sourcing strategy, supplier selection, contract management, supplier monitoring and development. Airbus suppliers must comply with all applicable laws and regulations. In addition, all business shall be conducted by suppliers in compliance with the principles of the Company's Supplier Code of Conduct, which is the document of reference for the Company's responsible supplier management. This Supplier Code of Conduct represents the group-wide values and principles in line with internationally recognised standards and conventions (such as OECD and ILO).

Airbus is also proud to be a co-founder of the International Forum on Business Ethical Conduct (IFBEC), which supports the application of global standards for business ethics and compliance in the aerospace and defence industries. The IFBEC Model Supplier Code of Conduct expresses the minimum ethical standards that suppliers must comply with. Airbus has used this IFBEC Model Supplier Code of Conduct as the basis for its own Supplier Code of Conduct (revised in 2020) which continued to be rolled out to suppliers during 2021.

Responsibility to the Environment

As air transport as a whole represents approximately 2% of global human-induced Greenhouse Gas (GHG) emissions, Airbus recognises its role in contributing to mitigating the global footprint of the sector and the importance of aligning and respecting the commitments of the Paris Agreement. Airbus has the ambition to reduce its Scope 1 and Scope 2 industrial emissions by up to 63% by 2030. The revised targets are in line with a 1.5°C pathway and include the target to neutralise residual emissions by 2030 following a Science-Based approach. In the last 50 years, the aviation industry has cut fuel consumption and CO_2 emissions per seat / kilometre by more than 80%, NOx emissions by 90% and noise by 75% per aircraft operation. Whilst this performance is impressive, Airbus and the aviation industry recognise the importance to continue improving the sector's environmental performance in all areas – from noise to air quality and GHG emissions, notably CO_2.

Due to the industry's short to medium-term reliance on fossil-based fuels as well as potential additional impacts from non-CO_2 factors, the reduction of aviation's impact on climate change remains an environmental challenge. Airbus is fully committed to supporting and promoting the decarbonisation of the aviation industry as we 'pioneer sustainable aerospace for a safe and united world'.

Decarbonisation requires a basket of measures such as new technologies, hydrogen fuels, Sustainable Aviation Fuels (SAFs), new operating procedures and market based measures. Airbus intends to bring to the first zero exhaust CO_2 emission ("zero emission") commercial aircraft to the market by the middle of the next decade. The three concept aircrafts are being evaluated with decisions to be made in the mid to late 2020s. However, this does not exclude SAFs which are available now, reduce emissions by over 70% on a life cycle basis, are drop-in fuels, and can be made from a variety of raw materials but especially waste, which have no impact on land use.

Airbus is a full member of the Jet Zero Council, a government and industry partnership created to accelerate the decarbonisation of the UK aviation industry and is focused on technology development and accelerating the up-scaling for the production of SAFs.

New technologies are constantly in development at Airbus with investment in R&D projects and collaborations increasing, including working closely with the ATi (Aerospace Technology institute) on the FlyZero program, to which a number of Airbus employees have been seconded, and this will develop technology building blocks for future aircraft designs.

Strategic report *(continued)*

Responsibility and Sustainability *(continued)*

Ethics and Compliance

Airbus is committed to the highest ethical standards of integrity, transparency and professionalism and this commitment has continued to be met throughout the recent health and business crisis caused by the COVID pandemic. All Airbus employees are expected to uphold the Airbus Values and adhere to the Airbus Code of Conduct in all aspects of business life. The Code is widely available to all employees online, on mobile devices and hardcopy. This document outlines the guiding principles for daily business, including our relationships with business partners, fellow employees, shareholders and governmental authorities. This key aspect of working life is supported by regular training and awareness sessions for managers and staff, which is mandated in the Airbus performance management system.

Airbus reached final agreements ("the agreements") with the French Parquet National Financier ("PNF"), the UK Serious Fraud Office ("SFO"), and the US Department of Justice ("DoJ"), resolving the authorities' investigations into allegations of bribery and corruption, as well as with the US Department of State ("DoS") and the DoJ to resolve their investigations into inaccurate and misleading filings made with the DoS pursuant to the US International Traffic in Arms Regulations. The agreements were approved and made public on 31 January 2020.

Airbus Foundation

The Airbus Foundation prioritises its philanthropic activities around three key areas: humanitarian aid - supporting the work of disaster relief and emergency responders through the use of Airbus products, services and innovation; youth development and inclusion - inspiring the next generation through science, technology, engineering and maths (STEM) as they prepare their future; and the environment - supporting NGO partners in their climate change and nature preservation actions. During 2021, the Airbus Foundation supported eight requests from humanitarian partners, delivering aid around the world to help fight COVID-19 and respond to natural disasters. It supported 110 helicopter hours and 93 requests for satellite imagery. The Foundation continued to inspire young people throughout the world with its youth activities, including through its digital platform, the Airbus Foundation Discovery Space. Also during 2021 the Foundation joined forces with the Connected Conservation Foundation in a new partnership aimed at preserving wildlife and natural ecosystems through shared technologies and resources, and it also finalised a cooperation agreement with the International Union for Conservation of Nature.

Impact on the UK economy

Aviation continues to play a vital role in the UK economy. The UK aerospace sector is the third largest in the world. A recent independent assessment by Oxford Economics (see https://bit.ly/3wMM1Vf) estimated that Airbus' global operations in 2020 supported around 86,000 UK jobs including an extended supply chain of almost 3,000 UK companies, including around 700 SMEs.

Airbus also recognises the importance of its local communities to its business. Every year Airbus supports many community activities focused on youth, education and the environment. The impacts of COVID-19 and its restrictions were still felt in 2021 which meant that we were not able to be as active in our community as previous years. Airbus did however succeed in supporting over 110 local community projects from running youth development programmes, supporting local environment projects, donating IT equipment to schools and donations to local charity and community group projects.

Attracting Talent to our Business

Attracting a steady flow of talent into our business is crucial. Many Airbus employees and senior managers are involved in initiatives to inspire young people, influence education policies and champion the need to invest in and foster engineering talent in particular. Airbus in the UK has an award-winning apprenticeship programme responsible for enrolling around 3,000 apprentices over the last three decades. More than 250 apprentices are currently in the scheme. We take on new apprentices every year across a range of schemes including Engineering, IT, Procurement and Business Degree Apprenticeship programmes. For example, those joining the Engineering Degree Apprenticeship, study for a BEng (Hons) in Aerospace Engineering (Manufacturing) while working in a salaried role over three years.

Strategic report *(continued)*

***Responsibility and Sustainability** (continued)*

Attracting Talent to our Business (continued)

Airbus also attends and runs events to inspire young people in STEM subjects and in particular, in aviation. In addition, to encourage more girls into engineering, through the Engineering Development Trust's Industrial Cadets initiative, Airbus has mentored over 1,500 girls (age 11 to 14) in the Go4Set environment programme since 2013. We have also trained 350 Airbus employee volunteer mentors to support our school activities. School engagement activity was put on pause for much of 2021 due to the COVID-19 pandemic. However, we have continued to work on our virtual offering, including a fully virtual Work Experience in 2020 and 2021 that attracted 8,500 participants.

Employee Engagement

Organisations across industries are increasingly realising how essential their employees are as stakeholders in the conversations driving their business. At Airbus, this is no exception. Airbus engages its employees through regular internal communication on specific corporate and local topics of interest. In 2021, COVID-19 remained a significant topic for communication and Airbus enhanced the reach of its communication to all employees by launching regular communication direct to employees' personal email addresses. This ensured employees who chose to provide their personal contact details could receive important messaging at any time. This was particularly important as large groups of employees were furloughed and/or did not have easy and regular access to an Airbus email address (e.g. production workers). A support network called The Change League was also established in response to COVID-19 and since early 2020 has been dedicated to providing resources and tools to help managers and employees manage issues such as mental wellbeing and coping with change. The network still operates in the UK and provides a vital source of support, feedback and best practice sharing amongst employees.

Other means of engagement include an employee intranet portal, direct emails, Airbus TV, regular e-newsletters (COVID-19 response specific) and monthly communication briefing sessions for managers, who then cascade messaging to their own teams. Ad-hoc large-scale virtual meetings are also held as and when required for "hot topics".

All communication techniques are evaluated. Trends and themes identified are used to inform future communication techniques. In addition, employees are regularly asked to pose questions to the leadership team. Responses are fed back using the monthly cascade route.

This is over and above Airbus's regular global-scale engagement efforts - for example, further to a worldwide survey focused on 'my working environment', new tools have been launched which provide managers with the opportunity to launch engagement surveys and action plans on an ongoing basis with their teams.

Environment Health and Safety

The health and safety of our employees remains a top priority for Airbus. Our Environment, Health and Safety management system enables employees to work safely, by providing relevant skills, training, information and enabling identification and appropriate control of risks. Regular performance reports are provided to senior management. Our safety performance has improved significantly as a result of our consistent approach at all levels of the organization aiming to identify and eliminate the causes of accidents and to manage risks appropriately, including requirements for reporting and thorough investigation of injuries. Our successful 'near-miss' reporting continues to identify areas of improvement to drive down accidents at work and improve our overall safety performance.

In another year dominated by the pandemic we have ensured those employees that can work remotely do so and re-engineered our manufacturing operations to ensure those that cannot work from home have a safe and covid-secure working environment. Additional mental health and well-being support has been deployed to help colleagues manage through these difficult times regardless of where they are working.

Strategic report *(continued)*

Environment Health and Safety (continued)

Our in-house Occupational Health team manages all appropriate health surveillance and any work related health issues are followed up and reported appropriately. Occupational Health continues to offer employees significant health support which includes a range of physiotherapy treatments and comprehensive mental health assessment and support. Health promotion is carried out on a regular basis and five self- operated health check machines are in use, covid permitting.

Airbus takes its environmental responsibilities seriously and our Environmental Management System is accredited to ISO 14001. We constantly strive to reduce emissions, waste, water and energy usage to minimise any adverse environmental impact our activities may create. Regular sustainability reviews are held at both UK sites developing new ideas and driving environmental improvements driving towards the Airbus purpose to pioneer sustainable aerospace for a safe and united world.

We are working in close partnership with our Trade Union colleagues on health and safety. Trade Union Safety Representatives attend health and safety review meetings and Senior operational and EHS managers attend Trade Union safety meetings. This integrated approach has been instrumental in our EHS improvement journey.

Post Balance Sheet Events – creation of new Aerostructures Assembly companies

Airbus Atlantic, a wholly-owned Airbus subsidiary, was officially established on 1 January 2022. The new company groups the strengths, resources and skills of Airbus's sites in Nantes and Montoir-de-Bretagne, the central functions associated with their activities, as well as the Stelia Aerospace activities worldwide. This unification is part of the transformation project announced in April 2021, aimed at strengthening the value chain of aerostructure assembly within Airbus's industrial setup.

In addition, the group has now reached a preliminary understanding concerning the establishment of a new aerostructures assembly company in Germany, as well as the future of the Detail Parts and sub-assembly activities at Premium Aerotec. Some of the aerostructures assembly of aircraft fuselages, currently spread across the group, could be merged and fully integrated into Airbus as a core activity on 1 July 2022.

The Company is impacted via the share of the total 'Common activities' result from Airbus SAS (see note 1.14 for further details).

Post Balance Sheet Events – Ukraine crisis

Russia's invasion of Ukraine has had a number of significant impacts on Airbus. Further detail is provided in the Risks and Uncertainties section above,

By order of the board

P McKinlay
Director

Pegasus House
Aerospace Avenue
Filton
Bristol
BS34 7PA

11 May 2022

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2021.

Principal activities

Airbus Operations Limited undertakes aerospace activities comprising the design and production of wings and associated equipment for the Airbus range of aircraft.

Airbus is one of the world's leading aircraft manufacturers of passenger airliners. The activities of Airbus are the development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats; aircraft conversion and related services; development, manufacturing, marketing and sale of regional turboprop aircraft and aircraft components.

Airbus Commercial Aircraft's comprehensive product line comprises successful families of jetliners ranging in capacity from 100 to more than 600 seats: the A220 Family (formerly Bombardier Inc.'s C Series), the single-aisle A320 Family, which is civil aviation's best-selling product line; the A330 Family; the new-generation widebody A350 XWB; and the double-deck A380.

Proposed dividend

The directors do not recommend the payment of a dividend *(2020: £Nil).*

Directors and directors' interests

The directors who held office during the year were as follows:

Christophe Bardin
Mark Stewart
Katherine Bennett (resigned 1 June 2021)
John Harrison (Chairman)
Trevor Higgs (resigned 24 February 2022)
Paul McKinlay (appointed 29 April 2022)

Certain directors benefit from qualifying third party indemnity provisions in place at the date of this report.

Employees

All employment policies include a commitment to equal opportunities regardless of sex, race, colour, nationality, ethnic origin or disability, subject only to considerations of national security. The company's policy is to provide, wherever possible, employment opportunities for disabled people and ensure that disabled people joining the company and employees who become disabled whilst in our employment benefit from training and career development opportunities.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year *(2020: £Nil).*

Directors' report *(continued)*

Streamlined Energy and Carbon Reporting

Airbus Operations Limited is committed to improving its environmental footprint and is undertaking activities framed within the UN Sustainable Development Goals. In 2019, Airbus rolled out High5+, a plan to reduce the environmental footprint of its activities globally by 2030. These objectives have been set in absolute value compared to 2015 levels to reduce energy consumption, CO_2 emissions, water consumption, Volatile Organic Compound (VOC) emissions and waste production. High5+ engages sites and functions, making sure that each area plays its part in delivering the global 2030 objectives. Specifically on energy and CO_2, the objective is to reduce energy consumption by 20% and reduce Scope 1 and Scope 2 net Greenhouse Gas (GHG) emissions by 63%. This target has been set following the 'Science Based Targets' methodology in line with the 1.5° C scenario. Longer term, Airbus has set as its own ambition to reach net-zero GHG emissions for its manufacturing sites and its site operations by 2050.

In addition to clear annual targets for each site, local sustainability teams have been set up at all large sites to develop initiatives and maintain progress. In the UK all sites are certified to ISO 14001:2015. Airbus in the UK has continued to participate in the Climate Change Agreement scheme, improving performance aligned to the commitments.

In line with the Government's Streamlined Energy and Carbon Reporting requirements, the Board of Directors set out below details of emissions and actions undertaken.

Methodology and findings

The following methodologies have been used to calculate the below CO_2e emissions:

- The conversion factors used to calculate emissions due to natural gas and company vehicle fuel usage (Scope 1) are the IEA 2021 conversion factors (natural gas) and DEFRA UK Fuels Standard Set (Diesel Average Biofuel Blend) Scope 1 2021 v2. The use of these conversion factors is in line with Airbus global reporting for carbon emissions and are used for consistency; and
- The conversion factors used for carbon emissions due to electricity usage (Scope 2) are the DEFRA UK Electricity Standard Set Scope 2 2021 v2 conversion factors.

2021

Emissions Source	Energy Consumption (kWh)	CO_2e (tonnes)
Scope 1 – Natural Gas and Company Vehicle Fuel	146,559,000	29,893
Scope 2 – Electricity	50,092,000	10,636
Total (Scope 1 + 2)	**196,651,000**	**40,529**
Turnover (£m)	3,256	
Intensity Ratio: tCO_2e/turnover £m	12.45	

2020

Emissions Source	Energy Consumption (kWh)	CO_2e (tonnes)
Scope 1 – Natural Gas and Company Vehicle Fuel	165,651,298	33,857
Scope 2 – Electricity	34,703,196	8,572
Scope 3 – Personal Cars used for Business Purposes	91,615	21
Total (Scope 1 + 2 + 3)	**200,446,109**	**42,450**
Floor Area (m^2)	716,674	
Intensity Ratio: tCO_2e/floor area m^2	0.059	
Intensity Ratio: kgCO2e/floor area m2	59.23	

Directors' report *(continued)*

***Streamlined Energy and Carbon Reporting** (continued)*

Methodology and findings (continued)

The increase in Scope 2 emissions in 2021 is due to the increase in operational activity following a reduction during Covid. However, due to a reduction in the availability of Combined Heat and Power at the Broughton site, gas consumption (Scope 1) has reduced. As less gas was used to generate electricity the amount of electricity imported from the national grid increased.

The Intensity Ratio in 2021 has been reported as tCO2e per turnover £m rather than the floor area m2 to align with Airbus reporting requirements. This is to provide consistency between global and national reporting of energy consumption and emissions data. For comparison with 2020 data, the Intensity Ratio tCO2e per floor area m2 is 0.057 for 2021.

Scope 3 (personal car usage for business travel) emissions have not been included in the table above on the grounds that they are not material in relation to the Company as a whole (the Scope 3 emissions account for approximately 0.05% of total emissions). Estimated Scope 3 figures for 2021 were 90,000kWh energy consumption / 20 tonnes CO2e.

Energy Efficiency

As part of its strategy to improve energy efficiency, Airbus Operations Ltd is not only looking at specific energy improvement projects but also maintenance driven replacements. This means that replacements under maintenance will no longer be replaced on a like for like basis, but instead with the latest energy standard.

As many Airbus in the UK sites include large buildings for manufacturing and testing activities, lighting is a significant electricity use. During 2021, over 30% of electricity purchased came from renewable energy and 500 lights were replaced with LEDs. The sites underwent energy flow mapping to inform our metering strategy. A campaign was launched to switch off large energy consuming assets out of hours and during non-operational times, which included installing timers to power down extraction systems out of hours.

During and following the COVID-19 pandemic, Airbus has undertaken a review of its flexible working policy, which includes an increased level of home working and revised working patterns. The updated policy has created an opportunity to review the use of buildings, to achieve an increase in energy savings and to empower energy users to plan for further savings.

During 2021, an external consultancy was commissioned to support the development of long term roadmaps to achieve the energy efficiency and carbon reduction targets on its two sites in Filton and Broughton. The output of these site studies will detail the energy efficiency and local heat decarbonisation projects needed to bridge any gaps to target.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

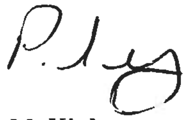
An indication of likely future developments in the business, particulars of significant events which have occurred since the end of the financial year and an indication of the activities in the field of research and development have been included in the Strategic Report. Also included in the Strategic Report is disclosure on engagement with employees, suppliers and customers, corporate governance code and environmental matters.

Directors' report *(continued)*

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



P McKinlay

Director

Pegasus House
Aerospace Avenue
Filton
Bristol
BS34 7PA

11 May 2022

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Airbus Operations Limited

Opinion

We have audited the financial statements of Airbus Operations Limited ("the company") for the year ended 31 December 2021 which comprise the Profit and Loss Account, Other Comprehensive Income, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard, as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

The Company is part of an inter-company process for the ultimate design and manufacture of commercial and military aircraft. As a result, the ability of the Company to continue as a going concern is based on the ability of the Airbus group to continue as a going concern. We used our knowledge of the Company and Airbus group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The ability and intent of Airbus group to provide the financial support which the Company requires.
- The timing of forecast aircraft deliveries by Airbus group and the associated cash flows from customers.

We also considered less predictable but realistic second order impacts, such as the ongoing economic effect of the Coronavirus pandemic and the impact on the industry, customer orders, and the supply chain.

Given the level of financial resources, and the risks inherent in the cash flows associated with forecast aircraft deliveries, our evaluation of the Directors' going concern assessment was of particular significance in our audit.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Airbus group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Independent auditor's report to the members of Airbus Operations Limited *(continued)*

Going concern *(continued)*

Our procedures included:

- Critically assessing assumptions in base case and downside aircraft delivery scenarios relevant to Airbus group's ability to provide the support the Company is reliant on by:
    - comparing past delivery forecasts to actual deliveries to assess Airbus group's track record of forecasting accurately.
    - challenging delivery assumptions by benchmarking these against external market forecasts and analyst reports as well as our knowledge of Airbus group and the sector in which it operates.
- Comparing the level of financial support which the directors' going concern assessment indicates is required to the available liquidity in the Airbus group forecasts.
- Inspecting the letter received by the directors from Airbus group indicating Airbus group's intention to provide financial support throughout the period of the directors' going concern assessment.
- Critically assessing the intention of Airbus group to make available the financial support which the directors' going concern assessment indicates is required by making inquiries of the directors and Airbus group to evaluate and challenging the economic rationale for Airbus group to provide the required financial support.

We considered whether the going concern disclosure in note 1.2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1.2 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is wholly derived from recharging costs to a fellow group company and a share of group profits under contractual arrangements which management cannot control. As a result, neither the performance of the Company nor of management is measured based on revenue targets.

Independent auditor's report to the members of Airbus Operations Limited *(continued)*

Fraud and breaches of laws and regulations – ability to detect *(continued)*

Identifying and responding to risks of material misstatement due to fraud (continued)

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unrelated accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions regulation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law and environmental law, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the members of Airbus Operations Limited *(continued)*

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Airbus Operations Limited *(continued)*

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

J Long

Joseph Long (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
20 May 2022

Profit and Loss Account
for year ended 31 December 2021

	Note	**2021 £m**	**£m**	2020 £m	£m
Turnover					
Continuing operations	*2*		**3,256**		2,925
Change in stocks of finished goods and work in progress		**53**		(5)	
Raw materials and consumables		**2,089**		2,375	
Other external expenses		**28**		24	
Staff costs	*4*	**448**		491	
Coronavirus Job Retention Scheme credit	*4*	**(8)**		(31)	
Exceptional cost - restructuring	*4*	**(15)**		93	
Depreciation and other amounts written off tangible and intangible fixed assets		**123**		142	
Exceptional cost – compliance fine	*3*	**-**		495	
Other operating expenses		**168**		101	
			(2,886)		(3,685)
Operating profit/(loss)	*3*		**370**		(760)
Other interest receivable and similar income	*6*		**-**		40
Interest payable and similar expenses	*7*		**(22)**		(6)
Profit/(loss) before taxation			**348**		(726)
Tax on profit/(loss)	*8*		**25**		110
Profit/(loss) for the financial year			**373**		(616)

The notes on pages 37 to 60 form an integral part of the financial statements.

Other Comprehensive Income
for year ended 31 December 2021

	Note	**2021** **£m**	2020 £m
Profit/(loss) for the year		**373**	(616)
Other comprehensive income			
Remeasurement of the net defined benefit liability	*18*	**337**	(388)
Income tax on other comprehensive income		**(46)**	90
Other comprehensive income for the year, net of income tax		**291**	(298)
Total comprehensive income/(loss) for the year		**664**	(914)

The notes on pages 37 to 60 form an integral part of the financial statements.

Balance Sheet
at 31 December 2021

	Note	**2021**		2020	
		£m	**£m**	£m	£m
Fixed assets					
Intangible assets	*9*		**109**		129
Tangible assets	*10*		**874**		944
Investments	*11*		**264**		-
			1,247		1,073
Current assets					
Stocks	*12*	**524**		591	
Debtors (including £490m *(2020: £573m)* due after more than one year)	*13*	**1,553**		834	
		2,077		1,425	
Creditors: amounts falling due within one year	*14*	**(1,884)**		(1,306)	
Net current assets			**193**		119
Total assets less current liabilities			**1,440**		1,192
Provisions					
Other provisions	*17*	**(40)**		(107)	
Employee benefits	*18*	**(598)**		(947)	
			(638)		(1,054)
Net assets			**802**		138
Capital and reserves					
Called up share capital	*19*		**1,467**		1,467
Share premium account			**534**		534
Capital contribution reserve			**572**		572
Profit and loss account			**(1,771)**		(2,435)
Shareholders' funds			**802**		138

These financial statements were approved by the board of directors on 11 May 2022 and were signed on its behalf by:

P McKinlay
Director

Company registered number: 3468788

The notes on pages 37 to 60 form an integral part of the financial statements.

Statement of Changes in Equity

	Called up Share capital £m	Share Premium account £m	Capital contribution reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2020	1,467	534	572	(1,521)	1,052
Total comprehensive loss for the period					
Loss for the year	-	-	-	(616)	(616)
Other comprehensive expense	-	-	-	(298)	(298)
Balance at 31 December 2020	**1,467**	**534**	**572**	**(2,435)**	**138**

	Called up Share capital £m	Share Premium account £m	Capital contribution reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2021	1,467	534	572	(2,435)	138
Total comprehensive income for the period					
Profit for the year	-	-	-	373	373
Other comprehensive income	-	-	-	291	291
Balance at 31 December 2021	**1,467**	**534**	**572**	**(1,771)**	**802**

The notes on pages 37 to 60 form an integral part of the financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Airbus Operations Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 3468788 and the registered address is Pegasus House, Aerospace Avenue, Filton, Bristol, UK, BS34 7PA.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1million.

The Company's ultimate parent undertaking, Airbus SE, includes the Company in its consolidated financial statements. The consolidated financial statements of Airbus SE are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Mendelweg 30, 2333 CS Leiden, The Netherlands. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Airbus SE include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments;* and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified at fair value through the profit or loss.

1.2 Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

As described further in 1.14 below, the Company is part of an inter-company process for the ultimate design and manufacture of commercial and military aircraft. As a result the ability of the Company to continue as a going concern is based on the ability of the Airbus group (the 'group') to continue as a going concern. The Company has a long-established expertise in relation to wings and associated equipment. This expertise and manufacturing capability is not available elsewhere in the group or externally to the group and could not realistically be replaced in the short to medium term.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

Further, the directors considered the most recent economic outlook and the group's response to the Coronavirus pandemic. There remains uncertainty in relation to the impact on the group's customers, which could impact on the timing of aircraft deliveries and associated cash payments and in extreme circumstances the loss of certain customers and their orders. Further information is provided in the 'COVID-19' part of the 'Risks and Uncertainties' section of the Strategic Report.

The group has prepared forecasts considering a severe but plausible downside scenario for aircraft deliveries, which the Directors have reviewed, covering the period of at least 12 months, which indicate that the group will be able to continue to operate within the facilities in place.

Airbus group has significant liquidity available to cope with additional cash requirements. As of 31 December 2021, the group had a net cash position of € 7.6 billion (2020: € 4.3 billion). In 2021 the group was able to generate operating cash flows of €4.6 billion and a net cash flow of €0.1 billion after the repayment of €2.3 billion of financing liabilities.

The Company is dependent on Airbus SE not seeking repayment of the amounts currently due to the group, which at 31 December 2021 amounted to £1,013m, and providing additional financial support during that period. Airbus SE has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Non-derivative financial instruments

In accounting for its financial instruments, the Company applies the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and the presentation and disclosure requirements of FRS 102 Sections 11 and 12.

Non-derivative financial instruments comprise trade and other receivables, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Non-derivative financial instruments (continued)

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.5 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.15 below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account for each period or production unit as relevant. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

Buildings – short leasehold	-	33 years, or the remaining lease term if shorter
Computing equipment, motor vehicles and short life works equipment	-	3 to 5 years
Other equipment	-	10 to 15 years, or the project life if shorter
A400M jigs and tools	-	over 170 production wing sets
A350XWB jigs and tools	-	over 1,200 production wing sets
Single Aisle Neo jigs and tools	-	over 2,400 production wing sets
A330neo jigs and tools	-	over 600 production wing sets

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Capitalised development costs are amortised over the estimated number of units expected to be produced. The estimated useful lives are as follows:

A350 development costs	-	over 1,200 production wing sets
Single Aisle Neo development costs	-	over 2,400 production wing sets
A330 Neo development costs	-	over 600 production wing sets

A400M development costs are not capitalised.

The cost of wing sets that are used on test aircraft in the A380, A350 XWB, SA Neo and A330 Neo testing programmes that will be retained by Airbus for the life of the aircraft are included in intangible assets and amortised over 10 years. The cost of wing sets used on test aircraft that may be sold by Airbus are amortised over the flight test period to a residual value equal to the estimated sales proceeds.

The Company reviews the amortisation period when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.8 Government grants and Coronavirus Job Retention Scheme

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

Monies received through the Government's Coronavirus Job Retention Scheme is recorded in operating profit/(loss).

1.9 Refundable Government advances

Refundable advances from the UK Government are provided to the Company to finance research and development activities for certain projects on various risk-sharing bases, i.e. the repayment to the Government varies dependent on the success of the project in line with the relevant agreement. Repayment of the advances and the return thereon is made by way of levies on aircraft sales with any outstanding amounts included in creditors. Once the advances have been fully repaid, further payments may be due by way of royalties.

Due to their specific nature, namely their risk-sharing features and the fact that such advances are generally granted to the Company on the basis of significant development projects, the UK Government's refundable advances are accounted for by the Company within "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year" on the balance sheet.

Refundable Government advances are accounted for as liabilities held at amortised cost in accordance with IAS 39. This requires that the amortised cost is recalculated to reflect changes in expected cash flows with the new carrying amount being the present value of the revised estimate of future cash flows, discounted at the original effective interest rate. The difference between the revised carrying amount and the previous carrying amount is recognised immediately in profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.11 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Employee benefits

Employees of the Company are members of several pension schemes (defined contribution and defined benefit) operated by BAE Systems plc and Airbus Defence & Space Limited.

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans and other long term employee benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability taking account of changes arising as a result of contributions and benefit payments.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Employee benefits (continued)

Defined benefit plans (continued)

The discount rate is the yield at the balance sheet date on AA credit rated corporate bonds (excluding government backed bonds) denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Group Plans

Certain of the Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan and the net defined benefit liability are recognised fully by the company which is legally responsible for the plan, which is Airbus Defence and Space Limited, another member of the group. The Company then recognises a cost equal to its contribution payable for the period.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

1.13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.14 Turnover

In Europe, Airbus's aircraft development and production are spread over four entities, Airbus Operations GmbH (Germany), Airbus Operations SAS (France), Airbus Operations Ltd (UK) and Airbus Operations SL (Spain). They are coordinated by Airbus S.A.S.

In 2004, a specific agreement ("Advanced Pricing Agreement" or "APA") was signed by the tax administrations of the four countries. This agreement includes the 'Common activities' executed by Airbus SAS and the four national entities, which includes the development, production and assembly of commercial passenger aircraft and freighters as well as support services for the in-service Airbus fleet. 'Common activities' costs are invoiced by the Company each month to Airbus SAS and recognised as turnover. At the end of the year, the Company receives a share of the total 'Common activities' result from Airbus SAS, which is also recognised in turnover. The result is allocated to the companies concerned in accordance with their contributions to the industrial cost base using the "Industrial Key". Transactions with third parties, primarily with public sector customers for military aviation products and the financial earnings, remain in the national entities as part of the "Specific Business".

Both results are subject jointly to the national tax regulations. The Airbus civil APA, which is in place since January 2004 and has been systematically renewed, has expired as at 31 December 2019. In accordance with the agreement, a renewal request for the period 2020 to 2024 has been filed with the four tax administrations in June 2019. There is currently no element identified which could prevent the renewal of this agreement.

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Turnover (continued)

A specific transfer pricing agreement has been signed in 2013 by the four tax administrations for the development, production and sale of the military aircraft A400M to the company Airbus Military SL. The entities concerned are the same as for the commercial APA, except Airbus Operations SL, plus Airbus Defense and Space SAU and Airbus Defense and Space GmbH. Invoices are raised by the Company for each aircraft delivery to end customer. The result is consolidated and shared by a Spanish entity, UTE (Union Temporal de Empresas), with reference to the A400M Industrial Key. Invoices are settled, incorporating the shared result, annually. This APA does not cover support and services activities related to A400M, which are accounted for on an accruals basis. The agreement is being renewed for the period 2020-2024. There is currently no element identified which could prevent the renewal of this agreement.

Turnover for activities outside the intercompany process are derived from the net value of deliveries made, work completed or services rendered during the period.

1.15 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested, net foreign exchange gains and adjustments to recalculate amortised cost to reflect changes in expected cash flows.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.16 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes *(continued)*

1 Accounting policies *(continued)*

1.16 Taxation (continued)

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Turnover

All turnover originated in the UK and relates to the Company's principal activities, namely the design and manufacture of wings and associated equipment for a range of commercial and military aircraft.

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2021	2020
	£m	£m
Exceptional cost – compliance fine	**-**	495
Government grants	**(20)**	(16)
Royalties payable to UK Government	**14**	13
Research and development expensed as incurred	**202**	260
Research and development expenditure tax credit	**(18)**	(15)

The background behind the compliance fine cost in 2020 is explained in detail in the 'Significant Events in 2021' section of the Strategic Report.

The above Government Grants represent UK Government and EC Research funding and Regional grants for training.

Auditor's remuneration:

	2021	2020
	£000s	£000s
Audit of these financial statements	**312**	293
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit -related assurance services	**68**	74
	380	367

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of staff **2021**	2020
Manufacturing	**3,675**	4,470
Engineering	**1,448**	1,614
Administration and support	**1,856**	2,105
	6,979	8,189

The aggregate payroll costs of these persons were as follows:

	2021 £m	2020 £m
Wages and salaries	**306**	343
Social security costs	**31**	44
Contributions to defined contribution plans	**41**	25
Expenses related to defined benefit plans (see note 18)	**70**	79
Total (excluding Coronavirus Job Retention Scheme credit and termination costs)	**448**	491

As a result of the impact of the global pandemic on the aviation industry and the consequent reduction in production rates, the Company had to use the Government's Job Retention Scheme in 2020 and 2021. Although this allowed resource adaptation measures to be avoided in the short term, the depth of the crisis was such that a comprehensive restructuring plan was required which commenced in 2020. In 2021 the restructuring plan continued to be enacted. A release of £15m was recorded in 2021 following finalisation of the measures required.

The credit recognised in relation to the Coronavirus Job Retention Scheme was as follows:

	2021 £m	2020 £m
Coronavirus Job Retention Scheme credit	**(8)**	(31)

The (credit)/costs recognised in relation to the restructuring plan were as follows:

	2021 £m	2020 £m
Termination costs including social security and pensions	**(15)**	93

Notes *(continued)*

5 Directors' remuneration

	2021	2020
	£000	£000
Directors' remuneration	**315**	329
Amounts receivable under long term incentive schemes	**33**	16
Company contributions to pension plans	**37**	35
	385	380

The above amounts represent the amounts attributable to services provided to the Company by the directors in respect of their activities for the Company paid by the Company or fellow group Company.

The above disclosure represents the remuneration for two directors (*2020: one director*) in respect of their activities for the Company. The remuneration of the other directors in relation to their activities as board members is incidental compared to their other activities within the group and is not recharged to the Company.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director in relation to their activities for the Company was £226,823, and company pension contributions were made on their behalf of £14,758.

Two directors are accruing benefits under a defined benefit scheme as part of remuneration for services provided to the Company.

6 Other interest receivable and similar income

	2021 £m	2020 £m
Net foreign exchange gain	**-**	32
Net gain on financial liabilities measured at fair value through profit or loss (excluding derivatives used in hedging relationships)	**-**	8
Total interest receivable and similar income	**-**	40

7 Interest payable and similar expenses

	2021 £m	2020 £m
On funding accounts with Airbus SE	**4**	1
Movement in refundable Government advances measured at amortised cost	**-**	5
Net foreign exchange loss	**7**	-
Net loss on financial liabilities measured at fair value through profit or loss (excluding derivatives used in hedging relationships)	**11**	-
Total other interest payable and similar expenses	**22**	6

As explained in note 1.9, refundable Government advances measured at amortised cost are recalculated to reflect changes in expected cash flows. In 2020, the remaining refundable Government advance balance was repaid in full.

Notes *(continued)*

8 Taxation

Total tax expense/(credit) recognised in the profit and loss account, other comprehensive income and equity

	2021		2020	
	£m	**£m**	£m	£m
Current tax				
Current tax on income for the period	**4**		(10)	
Adjustments in respect of prior periods	**(17)**		(16)	
Total current tax		**(13)**		(26)
Deferred tax (see note 16)				
Origination and reversal of timing differences	**174**		(100)	
Adjustments in respect of previous years	**13**		(27)	
Impact of change in tax rate	**(153)**		(47)	
Total deferred tax		**34**		(174)
Total tax expense/(credit)		**21**		(200)

	2021			2020		
	£m	**£m**	**£m**	£m	£m	£m
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**(13)**	**(12)**	**(25)**	(26)	(84)	(110)
Recognised in other comprehensive income	**-**	**46**	**46**	-	(90)	(90)
Total tax	**(13)**	**34**	**21**	(26)	(174)	(200)

Reconciliation of effective tax rate

	2021	2020
	£m	£m
Profit/(loss) for the year	**373**	(616)
Total tax credit	**(25)**	(110)
Profit/(loss) excluding taxation	**348**	(726)
Tax using the UK corporation tax rate of 19% (2020 19%)	**66**	(138)
Impact of change in tax rate on deferred tax balances	**(86)**	(31)
Non-deductible expenses	**6**	96
Income taxed at lower rate of tax (Patent Box)	**-**	6
Adjustments in respect of previous years	**(11)**	(43)
Total tax credit included in profit or loss	**(25)**	(110)

£94m of the non-deductible expenses reconciling item in 2020 relates to the compliance fine (see note 3 for further details).

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future tax charge accordingly. The deferred tax asset at 31 December 2021 has been recognized partially at 19% and partially at 25%, dependent on its forecast utilisation.

Notes *(continued)*

9 Intangible assets

	Development costs £m
Cost	
Balance at 1 January 2021	899
Other acquisitions – internally developed	7
Disposals	(134)
Balance at 31 December 2021	772
Amortisation and impairment	
Balance at 1 January 2021	770
Amortisation for the year	27
Disposals	(134)
Balance at 31 December 2021	663
Net book value	
At 1 January 2021	129
At 31 December 2021	**109**

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with FRS 102 Section 18.

Development costs relate to A380, A350 XWB, Single Aisle ("SA") Neo and A330 Neo research and development expenditure, including wingsets that are used as test aircraft. No costs have been capitalised on A400M since they do not meet the criteria for capitalisation. 'Transfer to WIP' occurs when flight test aircraft are expected to be sold.

Following the delivery of the last A380 aircraft to end customer in 2021, the A380 development costs (£134m), which were fully amortised at the end of 2020, were written off from the intangible assets register.

Amortisation of A350XWB research and development expenditure commenced in 2014 and it is straight line over 1,200 aircraft which reach Station 50 (the date when the forward, centre and aft fuselage sections are joined). As at the end of 2020, 509 A350XWB wing sets had reached Station 50.

Amortisation of SA Neo research and development expenditure commenced in 2015 and it is straight line over 2,400 aircraft which reach Station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2020, 2,237 SA Neo wing sets had reached Station 40.

Amortisation of A330 Neo research and development expenditure commenced in 2016 and it is straight line over 600 aircraft which reach Station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2020, 95 A330 Neo wing sets had reached Station 40.

Amortisation of wingsets that are used on test aircraft commenced on the date of the aircraft's first flight.

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £m	Plant and Equipment £m	Jigs & tools £m	Under construction £m	Total £m
Cost					
Balance at 1 January 2021	581	622	1,490	88	2,781
Additions	-	-	-	48	48
Transfers	10	20	-	(30)	-
Disposals	(31)	-	(348)	-	(379)
Balance at 31 December 2021	560	642	1,142	106	2,450
Depreciation and impairment					
Balance at 1 January 2021	309	557	971	-	1,837
Depreciation charge for the year	15	31	50	-	96
Disposals	(9)	-	(348)	-	(357)
Balance at 31 December 2021	315	588	673	-	1,576
Net book value					
At 1 January 2021	272	65	519	88	944
At 31 December 2021	**245**	**54**	**469**	**106**	**874**

Following the delivery of the last A380 aircraft to end customer in 2021, the A380 jig & tools costs (£348m), which were fully depreciated at the end of 2020, were written off from the tangible fixed assets register.

Tangible fixed assets under construction

The amount of borrowing costs capitalised during the period was £nil (2020: £nil).

Included in the cost of tangible fixed assets is £2m (2020: £2m) in respect of capitalised finance costs.

Land and Buildings

The net book value of land and buildings comprises:

	2021 £m	2020 £m
Freehold	**70**	73
Short leasehold	**175**	199
	245	272

Notes *(continued)*

11 Fixed asset investments

Investments in subsidiary companies – cost and net book value	
Balance at 1 January 2021	-
Acquisitions	264
Balance at 31 December 2021	**264**

On 30 March 2021, the Company invested £263,936,339 in Airbus UK Limited, a wholly owned subsidiary. Airbus UK Limited subsequently purchased land and buildings at the Company's sites in Broughton and Filton, and now acts as lessor of these sites to the Company.

Following this investment, the Company has the following fixed asset investments, with a total carrying value of £263,944,459 (2020: £8,120).

	Address of registered office	**Class of shares held**	**Ownership 2021 %**	**Ownership 2020 %**
Subsidiary Undertakings				
Airbus Filton Limited	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Limited	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100

12 Stocks

	2021 £m	2020 £m
Raw materials and consumables	**267**	309
Work in progress	**56**	64
Finished goods	**99**	102
Payments on account	**102**	116
	524	591

Notes *(continued)*

13 Debtors

	2021 £m	2020 £m
Trade debtors	**24**	25
Amounts owed by group undertakings	**886**	142
Other debtors including taxation	**105**	71
Deferred tax assets (see note 16)	**523**	557
Prepayments and accrued income	**14**	27
Other financial assets (see note 15)	**1**	12
	1,553	834
Due within one year	**1,063**	261
Due after more than one year	**490**	573
	1,553	834

The balance due after more than one year comprises deferred tax assets of £478m *(2020: £557m)* and prepayments and accrued income of £12m *(2020: £16m).*

14 Creditors: amounts falling due within one year

	2021 £m	2020 £m
Trade creditors	**619**	309
Amounts owed to group undertakings	**1,109**	826
Other creditors including social security	**46**	53
Accruals	**41**	41
Deferred income	**69**	77
	1,884	1,306

Included in amounts owed to group undertakings is £1,013m *(2020: £792m)* which relates to Airbus SE. The balance is repayable on demand and attracts interest at GBP LIBOR + 0.3%.

Deferred income includes advanced payments made by the UK Government in relation to the A400M programme. This is released to the profit and loss account in line with A400M aircraft deliveries to customers.

Notes *(continued)*

15 Other financial assets and liabilities

This note provides information about the Company's other financial assets and liabilities, which are measured at amortised cost or fair value through profit or loss.

	2021 £m	2020 £m
Amounts falling due within one year		
Financial assets/(liabilities) designated as fair value through profit or loss	**1**	12

Financial liabilities designated as fair value through profit or loss

Embedded derivatives – the Company enters into certain transactions in US dollars in order to provide a natural hedge for the group's end sale of aircraft and services in US dollars. Where US dollar is the functional currency of neither contracting party, this gives rise to an embedded derivative.

The basis for assessing fair value of the above derivatives is disclosed in note 20 (b).

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Accelerated capital allowances	**(33)**	(57)	**-**	-	**(33)**	(57)
Employee benefits	**(151)**	(188)	**-**	-	**(151)**	(188)
Temporary differences on Airbus result	**(96)**	(104)	**-**	-	**(96)**	(104)
Unused tax losses	**(229)**	(191)	**-**	-	**(229)**	(191)
Other	**(14)**	(17)	**-**	-	**(14)**	(17)
Tax (assets) / liabilities	**(523)**	(557)	**-**	-	**(523)**	(557)

As at 31 December 2021, £45m of the net deferred tax asset was expected to be utilised within one year.

Notes *(continued)*

17 Provisions

	Supplier claims £m	Restructuring provision £m	Other provisions £m	Total £m
Balance at 1 January 2021	53	23	31	107
Provisions made during the year	35	-	12	47
Provisions used during the year	(37)	(8)	-	(45)
Provisions released during the year	(24)	(15)	(30)	(69)
Balance at 31 December 2021	**27**	**-**	**13**	**40**

Supplier claims generally arise when there is a change in specification resulting in additional costs being incurred by the supplier. The provision is based on the Company's best estimate of the likely settlement value and is expected to be utilised within one year.

As explained in note 4, a company restructuring plan was implemented in 2020 in order to mitigate the financial consequences of the global pandemic. The provision has been fully utilised / released in 2021.

Other provisions in the prior year included £30m in relation to asset retirement obligations. Following the purchase of the land at the Filton and Broughton sites by Airbus UK Limited, a wholly owned subsidiary of the Company, the asset retirement obligation has been waived and therefore the provision has been released.

Other provisions also includes a new provision booked in 2021 in relation to A380 Jigs and Tools decommissioning costs. This provision is expected to be utilised within one year.

Accounting estimates and judgements are discussed further in note 25.

18 Employee benefits

Group plans

As explained in note 1.12, the Company's employees are members of a group wide defined benefit pension plan. The net defined benefit liability is recognised fully by Airbus Defence and Space Limited, another member of the group. The Company then recognises a cost equal to its contribution payable for the period.

The Scheme is a registered pension scheme under the Finance Act 2004. The Trustees' only formal funding objective is the statutory funding objective under the Pensions Act part 6 2004, which is to have sufficient and appropriate assets to cover the Scheme's obligations. Since 1 November 2013, this plan is generally closed for new joiners, who participate in a separate defined contribution plan.

Notes *(continued)*

18 Employee benefits *(continued)*

Multi-employer plans (BAE Systems)

The Company participates in several funded trustee-administered pension plans for both executive and non-executive employees with BAE Systems being the principal employer. Participating Company employees have continued to remain members in the BAE Systems UK pension plans due to the UK pension agreement between the Company and BAE Systems and a change in UK pensions legislation enacted in April 2006.

For the most significant of these BAE Systems Pension Schemes, the Main Scheme, BAE Systems, the Company and the scheme Trustees agreed on a sectionalisation, which was implemented on 1 April 2016. Though BAE Systems remains the only principal employer of the Scheme, the Company has obtained powers in relation to its section which are the same as if it were the principal employer. The deficit of the Main Scheme was allocated between BAE Systems and the Company based in principle on each member's last employer, which was done in December 2015.

The other schemes qualify as multi-employer defined benefit pension plans but are accounted for as if they were defined contribution schemes. This is on the grounds that there is insufficient information to appropriately and reliably estimate the share of the Company's participation in the schemes, i.e. its share in plan assets, defined benefit obligation ("DBO"), and pension costs.

Based on the funding situation of the respective pension schemes, the pension plan trustees determine the contribution rates to be paid by the participating employers to adequately fund the schemes. The different UK pension plans in which the Company participates are currently underfunded. The Company (for its section of the Main Scheme) and BAE Systems (for the other schemes) have agreed with the trustees various measures designed to make good the underfunding. These include (i) regular contribution payments for active employees well above such which would prevail for funded plans and (ii) extra employers' contributions.

In the event that an employer who participates in the BAE Systems pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Company considers the likelihood of this event as remote. However, for the Main Scheme, the Company considers that its obligation is in principle limited to that related to its section.

The information disclosed below is in respect of the whole of the plans for which the Company is either legally responsible or has been allocated a share of cost under an agreed group policy throughout the periods shown.

Net pension liability

	2021 £m
Defined benefit obligation	**(3,864)**
Plan assets	**3,266**
Net pension liability	**(598)**

Notes *(continued)*

18 Employee benefits *(continued)*

Movements in present value of defined benefit obligation

	2021
	£m
At 1 January 2021	**(3,929)**
Current service cost	**(55)**
Interest expense	**(53)**
Remeasurement: actuarial gains/(losses)	**31**
Contributions by members	**(1)**
Benefits paid	**143**
At 31 December 2021	**(3,864)**

Movements in fair value of plan assets

	2021
	£m
At 1 January 2021	**2,982**
Interest income	**38**
Remeasurement: return on plan assets less interest income	**306**
Contributions by employer	**82**
Contributions by members	**1**
Benefits paid	**(143)**
At 31 December 2021	**3,266**

Expense recognised in the profit and loss account

	2021	2020
	£m	£m
Current service cost	**55**	68
Past service credit – curtailment	**-**	43
Termination benefits	**-**	(43)
Net interest on net defined benefit liability	**15**	11
Total expense recognised in profit or loss (see note 4)	**70**	79

Notes *(continued)*

18 Employee benefits *(continued)*

The fair value of the plan assets was as follows:

	2021 Fair value £m	2020 Fair value £m
Equities	**852**	886
Government debt	**348**	393
Corporate bonds	**808**	839
Property	**269**	260
Other	**989**	604
	3,266	2,982

Risks

The defined benefit obligation exposes the Company to actuarial risks, including the following ones:

Market price risk – The return on plan assets is assumed to be the discount rate derived from AA-rated corporate bonds. If the actual return rate of plan assets is lower than the applied discount rate, the net defined benefit liability increases accordingly. Moreover, the market values of the plan assets are subject to volatility, which also impacts the net liability.

Interest rate risk – The level of the defined benefit obligation is significantly impacted by the applied discount rate. Low interest rates lead to a relatively high net pension liability. If the decline in returns of corporate bonds will continue, the defined benefit obligation will further increase in future periods, which can only be offset partially by the positive development of market values of those corporate bonds included in plan assets. Generally, the pension obligation is sensitive to movements in the interest rate leading to volatile results in the valuation.

Inflation risk – The pension liabilities can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increasing liability. Since the pension plans are directly related to salaries, increases in compensations could result in increasing pension obligations.

Longevity risk – The pension liabilities are sensitive to the life expectancy of its members. Rising life expectancies lead to an increase in the valuation of the pension liability.

Principal actuarial assumptions at the year end were as follows:

	2021 %	2020 %
Discount rate	**1.9**	1.4
Future salary increases	**3.1**	2.6
Rate of pension payment increase	**3.1**	2.7
Inflation rate (RPI)	**3.2**	2.8
Inflation rate (CPI)	**2.6**	2.1

Notes *(continued)*

18 Employee benefits *(continued)*

The valuation assumptions used for the disclosures are broadly in line with those used for the final actuarial valuation results as of 31 March 2020 undertaken by independent qualified actuaries as updated to assess the obligation and plan asset at 31 December each year.

In valuing the liabilities of the pension fund at 31 December 2021, mortality assumptions have been made for the Main Scheme based on various mortality tables with varying scalings.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables calculated using scheme specific Club Vita curves and include an allowance for future improvements in longevity. The future improvements in longevity have been updated to reflect the CMI 2020 projection model, 1.25% long-term rate default smoothing and 2020 weight parameters and an initial addition parameter of 0.25% p.a..

The Company has not updated the mortality assumption as at 31 December 2021 to reflect the potential effects of COVID-19 on the grounds that there remains uncertainty of the COVID-19 impact on long term mortality rates for pension scheme members. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Member currently aged 65: 21.4 years (male), 23.6 years (female).
- Member currently aged 45: 22.7 years (male), 25.2 years (female).

Due to a change in the classification system of the underlying bond universe the discount rate method has been refined for the selection of high-quality corporate bonds. As a result, bonds in the categories "Government-Related" and "Securitised" are removed and "Special Purpose Vehicles" bonds of the "Corporate" sub-category are added. The impact of this change in methodology is to reduce the balance sheet liabilities by approximately £110m at 31 December 2021.

Membership data is based on the dataset as at 31 March 2021, updated for mortality and salary increase assumptions, as set out above.

Following the 31 March 2020 actuarial valuation, the Company is required to make certain contributions towards the funding shortfall. This includes lump sum payments of £173m in 2022 and £43m in 2023.

Defined contribution plans

The Company participates in a number of defined contribution pension plans. The total expense relating to these plans in the current year was £7m *(2020: £6m).*

A further expense of £34m (*2020: £19m*) has been recognised in relation to group defined benefit plans, accounted for as defined contribution plans.

19 Capital and reserves

	2021	2020
	£m	£m
Allotted, called up and fully paid		
1,467,301,548 ordinary shares of £1 each	**1,467**	1,467

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Notes *(continued)*

20 Financial instruments

20 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2021 £m	2020 £m
Trade debtors	**24**	25
Amounts owed by group undertakings	**886**	142
Other debtors including taxation	**105**	71
Prepayments and accrued income	**14**	27
Assets measured at fair value through profit or loss	**1**	12
Trade creditors	**(619)**	(309)
Amounts owed to group undertakings	**(1,109)**	(826)
Other creditors including social security	**(46)**	(53)
Accruals and deferred income	**(110)**	(118)

20 (b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of embedded derivatives is determined by the exchange rate prevailing at the date the relevant contract was entered into compared to the rate prevailing at the year end.

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2021 £m	2020 £m
Less than one year	**26**	26
Between one and five years	**58**	83
More than five years	**1**	1
	85	110

During the year £28m was recognised as an expense in the profit and loss account in respect of operating leases *(2020: £25m)*. As disclosed in note 11, Airbus UK Limited has taken over as the lessor of the main sites in Filton and Broughton. There have been no changes to the terms and conditions of the lease.

22 Commitments

Capital commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £27m *(2020: £36m)*.

Notes *(continued)*

23 Related parties

Transactions between related parties take place on an arm's length basis and relate to trading activities. As at 31 December 2021, there are no outstanding balances with non-wholly owned subsidiaries of Airbus SE or other related parties.

24 Ultimate parent Company and parent Company of larger group

The Company is a subsidiary undertaking of Airbus Operations SAS.

The largest group in which the results of the Company are consolidated is that headed by Airbus SE, whose registered address is PO Box 32008, 2303 DA Leiden, The Netherlands. The smallest group in which they are consolidated is that headed by Airbus SAS, whose registered address is 2 Rond-point Emile Dewoitine, 31700, Blagnac, France. The consolidated financial statements of Airbus SE are available to the public and may be obtained from PO Box 32008, 2303 DA Leiden, The Netherlands.

25 Accounting estimates and judgements

The Company's significant accounting policies, as described in note 1, are essential for the understanding of the Company's results of operations and financial position. Certain of these accounting policies require accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change.

Judgments have to be made in particular when assessing provisions and contingent liabilities for litigations and claims. Accounting estimates could change from period to period and might have a material impact on the Company's results of operations and financial positions.

The assumptions and estimates used by the Company's management are based on parameters which are derived from the knowledge at the time of preparing the financial statements. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed, and beyond the control of the Company, the actual figures may differ from those anticipated. In such cases, the assumptions, and if necessary, the carrying amounts of the assets and liabilities concerned, are adjusted accordingly.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Subjects that involve assumptions and estimates and that have a significant influence on the amounts recognised in the financial statements are further described or are disclosed in the respective notes mentioned below.

Employee benefits (Defined Benefit Obligation) — The Company accounts for certain pension and other post-retirement benefits in accordance with actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions including the discount rate, expected inflation and mortality rates. The actuarial assumptions, which are disclosed in Note 18 Employee Benefits, are based on management's best estimates of current and future conditions, incorporating advice from specialist advisors. The application of these assumptions results in a valuation of the Defined Benefit Obligation of £3,864m *(2020: £3,929m)* at 31 December 2021. The actuarial assumptions may differ materially from actual developments due to changing market and economic conditions and therefore result in a significant change in post-retirement employee benefit obligations and the related future expense. Further detail on the assumptions adopted at 31 December 2021 are provided in Note 18 Employee Benefits.

Notes *(continued)*

25 Accounting estimates and judgements *(continued)*

Employee benefits (Plan Assets) — Pension assets, totalling £3,266m at 31 December 2021, are held in a diversified range of assets. The breakdown of asset value by category of asset is provided in Note 18 Employee Benefits. Many of these assets have readily-available market values and are therefore able to be valued without significant estimate or judgement. However, there are assets where the year-end balance is subject to significant levels of estimation uncertainty. These assets include:

- Property assets of £269m (*2020: £260m*), the valuation of which involves the estimation of key assumptions including occupancy and rental yields. The valuations are made using third party experts in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards.
- Infrastructure and alternative investments of £989m (*2020: £604m*) which are categorised as Other assets and Private equity investments of £266m (*2020: £174m*) which are included in Equities. The fair value is based on valuations obtained from third parties which employ a variety of methods the most prevalent being net asset valuation which involves a higher degree of estimation and subjectivity than a market price.

26 Post Balance Sheet Events

As explained in the Strategic Report on pages 1 to 22, there have been a number of non-adjusting subsequent events which warrant disclosure in these statutory accounts. The subsequent events disclosed are:

- Creation of new Aerostructures Assembly companies
- Ukraine crisis