Report of the Board of Directors
(Issued as of 14 February 2018)
Dear Shareholders,

This is the Report of the Board of Directors (the “Board Report”) on the activities of Airbus SE (the “Company” and together with its subsidiaries “Airbus”) during the 2017 financial year, prepared in accordance with Dutch law.

For further information regarding Airbus’ business, finances, risk factors and corporate governance, please refer to the Company’s website: www.airbus.com

1. General Overview

With consolidated revenues of € 66.8 million in 2017, Airbus is a global leader in aeronautics, space and related services. Airbus offers the most comprehensive range of passenger airliners from 100 to more than 600 seats. Airbus is also a European leader providing tanker, combat, transport and mission aircraft, as well as Europe’s number one space enterprise and the world’s second largest space business. In helicopters, Airbus provides the most efficient civil and military rotorcraft solutions worldwide. In 2017, it generated approximately 85% of its total revenues in the civil sector and 15% in the defence sector. As of 31 December 2017, Airbus’ active headcount was 129,442 employees.

Mid-2017, in the latest phase of its integration journey that began in 2012, Airbus’ corporate structure has been fully merged with the commercial aircraft business, introducing a two division organisation – namely Helicopters and Defence and Space. In view of this simplification, Airbus introduced a single Airbus brand for the Company and all its subsidiaries, effective since January 2017.
2. Summary 2017

At the start of the year the Company set itself the following ‘Priorities’ for 2017, which were shared with all employees:

**Deliver critical programmes** (ramp-up A350 & A320, A400M) to secure EBIT and Free Cash Flow targets, retain market trust and ability to invest in future;

**Deliver customer value through improved operational performance and efficiency** (Quantum, Gemini, reduced CNQ, improved industrial performance of supply chain);

**Accelerate digital transformation and innovation**, partnering inside and out to secure key strategic orientations (Quantum, new CTO and DTO, A³, urban air mobility, DroneLab, The Hub, mobile solutions for all employees);

**Engage and develop our people worldwide** to excel today and tomorrow by adopting key digital skills and mind-set, reinforced ethics & compliance adherence and a strong focus on diversity. Create an inclusive, values-driven and engaging working environment with highest safety & environmental standards. Role model new ways of working to boost empowerment, accountability and collaboration. Develop current and future leaders for what’s next.

2017 was a year of progress and new organisational challenges for Airbus. It integrated the former Group structure with its largest division, Commercial Aircraft. Additionally, it passed a series of key milestones in major programmes, renewed and upgraded its product portfolio, and took important decisions to adapt and streamline its business portfolio:

- Airbus deliveries in 2017 were up for the 15th year in a row, reaching a new Company record of 718 aircraft to 85 customers. Deliveries were more than 4% higher than the previous record of 688 set in 2016.
- Airbus delivered its 100th A350 XWB, just some 30 months after the first delivery of the world’s most modern widebody aircraft in December 2014 and it also delivered its 50th A320 Family aircraft assembled in the U.S.
- The latest member of Airbus’ leading widebody family, the A350-1000, received Type Certification from the European Aviation Safety Agency (EASA) and the Federal Aviation Administration (FAA) less than one year after its first flight.
- The first A330neo took off for its maiden flight bringing together new-generation technology and high operational efficiency that builds on the in-service experience of its A330 and A350 XWB aircraft families.
- Emirates celebrated the milestone delivery of its 100th Airbus A380 aircraft at a special ceremony with Airbus.
- Airbus’ A340 laminar-flow “BLADE” (Breakthrough Laminar Aircraft Demonstrator in Europe) test demonstrator aircraft made its successful maiden flight for the EU-sponsored Clean Sky “BLADE” project which aims to improve aviation’s ecological footprint, bringing with it a 50% reduction of wing friction and up to 5% lower CO₂ emissions.
- The super medium helicopter H175 for which the avionics upgrade enhances the offshore mission capability providing fully automatic rig approaches and reinforces flight safety, has received EASA certification for the Rig’N Fly (Rig Integrated GPS approaches with eNhanced Flyability and safetY).
- Airbus Helicopters rolled-out the 700th H130 light single-engine helicopter that has so far accumulated more than 1.8M flight hours with 340 operators worldwide.
- The third H160 prototype (PT3) performed its maiden flight. It will contribute to certification activities and flight testing to ensure the aircraft’s level of maturity ahead of entry into service.
- The H145 simulator at the Airbus Helicopters Training Academy in Germany has been awarded level D status by the German Federal Aviation Office – the highest possible certification for a full flight simulator.
- EUTELSAT 172B, the first high power all-electric telecommunications satellite worldwide built by Airbus for Eutelsat, was successfully launched by Ariane 5 and reached geostationary orbit, breaking the record for the fastest satellite electric orbit raising (EOR).
Airbus Aerial was set up to develop new imagery services, using drone and satellite technology.

A OneWeb satellite production line was inaugurated in Toulouse.

Airbus, Rolls-Royce, and Siemens have formed a partnership which aims at developing a near-term flight demonstrator that will be a significant step forward in hybrid-electric propulsion for commercial aircraft.

In 2017, the Airbus Foundation sent aid to the victims of hurricane “Irma” to multiple islands in the Caribbean and to the earthquake victims in Mexico. In total, it performed 16 humanitarian flights carrying 117 tonnes. The flagship programme Flying Challenge received three awards recognising the positive impact on communities and its deployment continued covering now 15 sites across the world. Additionally, the Airbus Little Engineer programme was deployed in Kenya, Nigeria, Singapore and India. Finally, in 2017, the Airbus Foundation opened the Discovery Space Centre offering students the opportunity to combine STEM (science, technology, engineering and mathematics) learning by observing engineers working on a real project, such as Exo Mars Rover.

3. Share Capital and Stock Price Evolution

3.1 Shareholding and voting rights

Issued share capital

As of 31 December 2017, the Company’s issued share capital amounted to €774,556,062 divided into 774,556,062 shares of a nominal value of €1 each. The issued share capital of the Company as of such date represents 25.82% of the authorised share capital of €3 billion comprising 3 billion shares. The holder of one issued share has one vote and is entitled to profit in proportion to his participation in the issued share capital.

Modification of share capital or rights attached to shares

The shareholders’ meeting has the power to authorise the issuance of shares. The shareholders’ meeting may also authorise the Board of Directors, for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances.

Holders of shares have a pre-emptive right to subscribe for any newly issued shares in proportion to the aggregate nominal value of shares held by them, except for shares issued for consideration other than cash and shares issued to employees of Airbus. For the contractual position as to pre-emption rights, see “- 3.2.: Relationship with Principal Shareholders”.

The shareholders’ meeting also has the power to limit or to exclude pre-emption rights in connection with new issues of shares, and may authorise the Board of Directors, for a period of no more than five years, to limit or to exclude pre-emption rights. All resolutions in this context must be approved by a two-thirds majority of the votes cast during the shareholders’ meeting in the case where less than half of the capital issued is present or represented at said meeting.

However, the Articles of Association provide that a 75% voting majority is required for any shareholders’ resolution to issue shares or to grant rights to subscribe for shares if the aggregate issue price is in excess of €500 million, per share issuance, and no preferential subscription rights exist in respect thereof. The same voting majority requirement

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1 Except for the shares held by the Company itself.
applies if the shareholders’ meeting wishes to designate the Board of Directors to have the authority to resolve on such share issuance or granting of rights.

Pursuant to the shareholders’ resolutions adopted at the Annual General Meeting (“AGM”) held on 12 April 2017, the powers to issue shares and to grant rights to subscribe for shares and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors for the purpose of:

1. Employee share ownership plans and share-related long-term incentive plans, provided that such powers shall be limited to 0.14% of the Company’s authorised share capital, and
2. Funding the Company and any of its subsidiaries, provided that such powers shall be limited to 0.3% of the Company’s authorised share capital.

Such powers have been granted for a period expiring at the AGM to be held in 2018, and shall not extend to issuing shares or granting rights to subscribe for shares (i) if there is no preferential subscription right (by virtue of Dutch law, or because it has been excluded by means of a resolution of the competent corporate body) and (ii) for an aggregate issue price in excess of €500 million per share issuance.

At the AGM held on 12 April 2017, the Board of Directors was authorised for a period of 18 months from the date of such AGM to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company would not hold more than 10% of the Company’s issued share capital and at a price per share not less than the nominal value and not more than the higher of the price of the independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out.

The shareholders’ meeting may reduce the issued share capital by cancellation of shares or by reducing the nominal value of the shares by means of an amendment to the Articles of Association. The cancellation of shares requires the approval of a two-thirds majority of the votes cast during the shareholders’ meeting in the case where less than half of the capital issued is present or represented at the meeting; the reduction of nominal value by means of an amendment to the Articles of Association requires the approval of a two-thirds majority of the votes cast during the shareholders’ meeting (unless the amendment to the Articles of Association also concerns an amendment which under the Articles of Association requires a 75% voting majority).

At the AGM held on 12 April 2017, the Board of Directors and the Chief Executive Officer (“CEO”) were authorised, with powers of substitution, to implement a cancellation of shares held or repurchased by the Company, including the authorisation to establish the exact number of the relevant shares thus repurchased to be cancelled.

Securities granting access to the Company’s capital

Except for convertible bonds (See “Notes to the IFRS Consolidated Financial Statements — Note 34.3: Financing Liabilities”), there are no securities that give access, immediately or over time, to the share capital of the Company.

The table below shows the total potential dilution that would occur if all the convertible bonds issued as of 31 December 2017 were exercised:

<table>
<thead>
<tr>
<th>Total number of the Company’s shares issued as of 31 December 2017</th>
<th>Number of shares</th>
<th>Percentage of diluted capital</th>
<th>Number of voting rights</th>
<th>Percentage of diluted voting rights*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of the Company’s shares which may be issued following exercise of the convertible bonds</td>
<td>5,022,990</td>
<td>0.644%</td>
<td>5,022,990</td>
<td>0.644%</td>
</tr>
<tr>
<td>Total potential share capital of the Company</td>
<td>779,579,052</td>
<td>100%</td>
<td>779,449,527</td>
<td>100%</td>
</tr>
</tbody>
</table>

(*) The potential dilutive effect on capital and voting rights of the exercise of these convertible bonds may be limited as a result of the Company’s share repurchase programmes and in the case of subsequent cancellation of repurchased shares.
Changes in the issued share capital in 2017

In the course of 2017, a total number of 1,643,193 new shares were issued, all in the framework of the 2017 Employee Share Ownership Plan ("ESOP").

Repurchases and cancellations of shares in 2017

During 2017 (i) the Company did not repurchase any shares and (ii) none of the treasury shares were cancelled. As of 31 December 2017, the Company held 129,525 treasury shares.

Shareholding structure at the end of 2017

As of 31 December 2017, the French State held 11.08% of the outstanding Company shares through Société de Gestion de Participations Aéronautiques ("Sogepa"), the German State held 11.07% through Gesellschaft zur Beteiligungsverwaltung GZBV mbH & Co. KG ("GZBV"), and the Spanish State held 4.17% through Sociedad Estatal de Participaciones Industriales ("SEPI"). The public (including Airbus' employees) and the Company held, respectively, 73.66% and 0.02% of the Company’s share capital.

The diagram below shows the ownership structure of the Company as of 31 December 2017 (% of capital and of voting rights (in parentheses) before exercise of the convertible bonds).

Shareholders may have disclosure obligations under Dutch law. These apply to any person or entity that acquires, holds or disposes of an interest in the Company's voting rights and/or capital. Disclosure is required when the percentage of voting rights or capital interest reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% (whether because of an acquisition or disposal of shares or other instruments, or because of a change in the total voting rights or capital issued). Disclosures must be made to the Netherlands
Authority for the Financial Markets ("AFM") immediately.

In 2017, the below listed entities have notified the AFM of its substantial interest in the Company. For further details, please refer to the website of the AFM at: www.afm.nl

- Capital Group International Inc. owns 10.06% of the voting rights via Capital Research and Management Company.

Right to attend shareholders’ meetings

Each holder of one or more shares may attend shareholders’ meetings, either in person or by written proxy, speak and vote according to the Articles of Association. However, under (and subject to the terms of) the Articles of Association these rights may be suspended under certain circumstances. A shareholder, or another person who has the right to attend a shareholders’ meeting, can be represented by more than one proxy holder, provided that only one proxy holder can be appointed for each share.

The persons who have the right to attend and vote at shareholders’ meetings are those who are on record in a register designated for that purpose by the Board of Directors on the 28th day prior to the day of the shareholders’ meeting (the “Registration Date”), irrespective of who may be entitled to the shares at the time of that meeting.

As a prerequisite to attending the shareholders’ meeting and to casting votes, the Company, or alternatively an entity or person so designated by the Company, should be notified in writing by each holder of one or more shares and those who derive the aforementioned rights from these shares, not earlier than the Registration Date, of the intention to attend the meeting in accordance with the relevant convening notice.

Shareholders holding their Company shares through Euroclear France S.A. who wish to attend general meetings will have to request from their financial intermediary or accountholder an admission card and be given a proxy to this effect from Euroclear France S.A. in accordance with the relevant convening notice. For this purpose, a shareholder will also be able to request that its shares be registered directly (and not through Euroclear France S.A.) in the register of the Company. However, only shares registered in the name of Euroclear France S.A. may be traded on stock exchanges.

In order to exercise their voting rights, the shareholders will also be able, by contacting their financial intermediary or accountholder, to give their voting instructions to Euroclear France or to any other person designated for this purpose, as specified in the relevant convening notice.

Pursuant to its Articles of Association, the Company may provide for electronic means of attendance, speaking and voting at the shareholders’ meetings. The use of such electronic means will depend on the availability of the necessary technical means and market practice.

Mandatory Disposal Threshold Restricting Ownership to 15%

The Articles of Association prohibit any shareholder from holding an interest of more than 15% of the share capital or voting rights of the Company, acting alone or in concert with others (the “Mandatory Disposal Threshold”). An interest ("Interest") includes not only shares and voting rights, but also other instruments that cause shares or voting rights to be deemed to be at someone’s disposal pursuant to the Dutch Financial Supervision Act, and must be notified to the Dutch regulator, the AFM, if certain thresholds are reached or crossed. Any shareholder having an interest of more than the Mandatory Disposal Threshold must reduce its interest below the Mandatory Disposal Threshold, for instance by disposing of its Excess Shares, within two weeks. The same applies to concerts of shareholders and other persons who together hold an interest exceeding the Mandatory Disposal Threshold. Should such shareholder or concert not comply with not exceeding the 15% Mandatory Disposal Threshold by the end of such two-week period, their Excess Shares would be transferred to a Dutch law foundation ("Stichting"), which can, and eventually must, dispose of them.
The Dutch law foundation would issue depositary receipts to the relevant shareholder in return for the Excess Shares transferred to the foundation, which would entitle the relevant shareholder to the economic rights, but not the voting rights attached to such Company shares. The foundation’s Articles of Association and the terms of administration governing the relationship between the foundation and the depositary receipt holders provide, inter alia, that:

- The Board Members of the foundation must be independent from the Company, any grandfathered persons and their affiliates (see “— 3.1 Exemptions from Mandatory Disposal Threshold”) and any holder of depositary receipts and their affiliates (there is an agreement under which the Company will, inter alia, cover the foundation’s expenses and indemnify the Board Members against liability);

- The Board Members are appointed (except for the initial Board Members who were appointed at incorporation) and dismissed by the Management Board of the foundation (the Company may however appoint one Board Member in a situation where there are no foundation Board Members);

- The foundation has no discretion as to the exercise of voting rights attached to any of the Company’s shares held by it and will in a mechanical manner vote to reflect the outcome of the votes cast (or not cast) by the other shareholders, and the foundation will distribute any dividends or other distributions it receives from the Company to the holders of depositary receipts; and

- No transfer of a depositary receipt can be made without the prior written approval of the foundation’s Board.

For any shareholder or concert, the term “Excess Shares”, as used above, refers to such number of shares comprised in the interest of such shareholder or concert exceeding the Mandatory Disposal Threshold which is the lesser of: (i) the shares held by such shareholder or concert which represent a percentage of the Company’s issued share capital that is equal to the percentage with which the foregoing interest exceeds the Mandatory Disposal Threshold; and (ii) all shares held by such person or concert.

This restriction is included in the Articles of Association to reflect the Company’s further normalised governance going forward, aiming at a substantial increase of the free float and to safeguard the interests of the Company and its stakeholders (including all its shareholders), by limiting the possibilities of influence above the level of the Mandatory Disposal Threshold or takeovers other than a public takeover offer resulting in a minimum acceptance of 80% of the share capital referred to below.

Exemptions from Mandatory Disposal Threshold

The restrictions pursuant to the Mandatory Disposal Threshold under the Articles of Association do not apply to a person who has made a public offer with at least an 80% acceptance (including any Company shares already held by such person). These restrictions also have certain grandfathering exemptions for the benefit of shareholders and concerts holding interests exceeding the Mandatory Disposal Threshold on the date when the current Articles of Association entered into force (the “Exemption Date”).

Different grandfathering regimes apply to such shareholders and concerts, depending on the interests and the nature thereof held by each such shareholder or concert on the Exemption Date.

The Company has confirmed that (i) the specific exemption in article 16.1.b of the Articles of Association applies to Sogepa, as it held more than 15% of the outstanding Company’s voting rights and shares including the legal and economic ownership thereof on the Exemption Date; and (ii) the specific exemption in article 16.1.c applies to the concert among Sogepa, GZBV and SEPI, as they held more than 15% of the outstanding Company’s voting rights and shares including the legal and economic ownership thereof on the Exemption Date.

Mandatory public offer under Dutch law

In accordance with Dutch law, shareholders are required to make a public offer for all issued and outstanding shares in the Company’s share capital if they – individually or acting in concert (as such terms are defined under Dutch law summarized below), directly or indirectly – have 30% or more of the voting rights (significant control) in the Company.
In addition to the other available exemptions that are provided under Dutch law, the requirement to make a public offer does not apply to persons, who at the time the takeover provisions under Dutch law came into force, already held – individually or acting in concert – 30% or more of the voting rights in the Company. In the case of such a concert, a new member of the concert can be exempted if it satisfies certain conditions.

Amendments to the Articles of Association

According to the Articles of Association, resolutions to amend the Articles of Association require a two-thirds majority of the votes validly cast at a general meeting of shareholders, unless they concern amendments to a limited number of provisions thereof, in which case a 75% voting majority will be required. The proposal containing the literal text of a proposed amendment must be available for inspection by shareholders at the Company’s headquarters, from the day the meeting is convened until after the end of the meeting.

3.2 Relationship with Principal Shareholders

In 2013, GZBV, a subsidiary of Kreditanstalt für Wiederaufbau ("KfW"), a public law institution serving domestic and international policy objectives of the Government of the Federal Republic of Germany, Sogepa and SEPI, entered into a shareholders’ agreement (the “Shareholders’ Agreement”). The Shareholders’ Agreement, further details of which are set out in more detail below, does not give the parties to it any rights to designate Members of the Board of Directors or management team or to participate in the governance of the Company. The Company has also entered into state security agreements with each of the French State and German State, which are also described in more detail below.

3.2.1 CORPORATE GOVERNANCE ARRANGEMENTS

Corporate governance arrangements of the Company were substantially changed in 2013, resulting in changes in the composition of the Board of Directors and its internal rules, as well as amendments to the Articles of Association of the Company. These changes were intended to further normalise and simplify the Company’s corporate governance, reflecting an emphasis on best corporate governance practices and the absence of a controlling shareholder group. Changes to the Company’s corporate governance arrangements in the Articles of Association, included (i) disclosure obligations for shareholders that apply when their interests in the Company reach or cross certain thresholds and (ii) ownership restrictions prohibiting any shareholder from holding an interest of more than 15% of the share capital or voting rights of the Company, acting alone or in concert with others.

3.2.2 SHAREHOLDER ARRANGEMENTS

Grandfathering Agreement

The French State, Sogepa, the German State, KfW and GZBV (all parties together the “Parties” and each, individually, as a “Party”) entered into an agreement with respect to certain grandfathering rights under the Articles of Association. Below is a summary of such agreement.

Individual Grandfathering Rights

A Party that is individually grandfathered pursuant to Article 16.1.b of the Articles of Association (such Party holding “Individual Grandfathering Rights”) shall remain individually grandfathered in accordance with the Articles of Association if the concert with respect to the Company (the “Concert”) is subsequently terminated (for instance by terminating the Shareholders’ Agreement) or if it exits the Concert.
Loss of Individual Grandfathering Rights

A Party holding Individual Grandfathering Rights as well as any of its affiliates who are grandfathered pursuant to Article 16.1.b in conjunction with Article 16.3 of the Articles of Association (such affiliates holding “Derived Grandfathering Rights”, and the Individual Grandfathering Rights and the Derived Grandfathering Rights, together, the “Grandfathering Rights”) shall all no longer be entitled to exercise their Grandfathering Rights in the event:

- The Concert is terminated as a result of it or any of its affiliates having actually or constructively terminated such Concert; or
- It or its relevant affiliate(s) exit(s) the Concert,

and such termination or exit is not for good cause and is not based on material and on-going violations of the Concert arrangements, including, without limitation, of the Shareholders’ Agreement, by the other principal Member of the Concert.

In the event that in the future the voting rights in the Company of the other principal Member of the Concert together with those of its affiliates would for an uninterrupted period of three months represent less than 3% of the outstanding aggregate voting rights of the Company, the Grandfathering Rights of the Party including its affiliates which were no longer entitled to use their Grandfathering Rights shall from then on revive and Sogepa and GZBV shall jointly notify the Company to that effect.

Notification to the Company

The Company will not be required to take any of the actions provided for in Article 15 of the Articles of Association pursuant to the post-concert Grandfathering Agreement unless and until it receives (i) a joint written instruction from Sogepa and GZBV with respect to the taking of any of the actions provided for in Article 15 of the Articles of Association pursuant to the post-concert Grandfathering Agreement, or (ii) a copy of a binding advice rendered by three independent, impartial and neutral Expert Adjudicators in order to settle any dispute between the Parties arising out of or in connection with the post-concert Grandfathering Agreement.

The Company will not incur any liability to any of the Parties by taking such actions following receipt of any such joint instruction or binding advice and the Company will not be required to interpret the post-concert Grandfathering Agreement or any such joint instruction or binding advice. Notwithstanding the description under “Various provisions – Jurisdiction” below, the courts of the Netherlands will have exclusive jurisdiction to resolve any dispute, controversy or claim affecting the rights or obligations of the Company under the post-concert Grandfathering Agreement.

Various provisions

Termination. The post-concert Grandfathering Agreement terminates only if either the French State and its affiliates or the German State and its affiliates no longer hold shares in the Company.

Governing law. Laws of the Netherlands.

Jurisdiction. The courts of the Netherlands shall have exclusive jurisdiction. This is binding advice for any dispute, controversy or claim arising out of or in connection with the post-concert Grandfathering Agreement in accordance with the procedure set forth in the post-concert Grandfathering Agreement; provided, however, that application to the courts is permitted to resolve any such dispute controversy or claim.

Governance of the Company

Below is a further description of the Shareholders’ Agreement, based solely on a written summary of the main provisions of the Shareholders’ Agreement that has been provided to the Company by Sogepa, GZBV and SEPI (all parties together the “Shareholders”).

Appointment of the Directors: The Shareholders shall vote in favour of any draft resolution relating to the
appointment of Directors submitted to the shareholders’ meeting of the Company in accordance with the terms and conditions of the German State Security Agreement and the French State Security Agreement (as described below).

If, for whatever reason, any person to be appointed as a Director pursuant to the German State Security Agreement or the French State Security Agreement is not nominated, the Shareholders shall exercise their best endeavours so that such person is appointed as a Director. Sogepa and GZBV shall support the appointment of one Spanish national that SEPI may present to them as Member of the Board of Directors of the Company, provided such person qualifies as an independent Director pursuant to the conditions set forth in the rules governing the internal affairs of the Board of Directors (the “Board Rules”), and shall vote as Shareholders in any Shareholders’ meeting in favour of such appointment and against the appointment of any other person for such position. If, for whatever reason, the French State Security Agreement and/or the German State Security Agreement has/have been terminated, KfW or Sogepa, as the case might be, shall propose two persons, and the Shareholders shall exercise their best endeavours so that these persons are appointed as Directors.

**Modification of the Articles of Association:** Sogepa and GZBV shall consult each other on any draft resolution intending to modify the Board Rules and/or the Articles of Association. Unless Sogepa and GZBV agree to vote in favour together of such draft resolution, the Shareholders shall vote against such draft resolution. If Sogepa and GZBV reach a mutual agreement on such draft resolution, the Shareholders shall vote in favour of such draft resolution.

**Reserved Matters:** With respect to the matters requiring the approval of a Qualified Majority at the Board level (“Reserved Matters”), all the Directors shall be free to express their own views. If the implementation of a Reserved Matter would require a decision of the Shareholders’ meeting of the Company, Sogepa and GZBV shall consult each other with a view to reaching a common position. Should Sogepa and GZBV fail to reach a common position, Sogepa and GZBV shall remain free to exercise on a discretionary basis their votes.

**Prior consultation:** Sogepa and GZBV shall consult each other on any draft resolution submitted to the Shareholders’ meeting other than related to Reserved Matters and the Board Rules.

**Balance of interests**

The Shareholders agree to pursue their common objective to seek a balance between themselves and their respective interests in the Company as follows:

- To hold as closely as reasonably possible to 12% of the voting rights for Sogepa, together with any voting rights attributable to Sogepa and/or to the French State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other parties;

- To hold as closely as reasonably possible to 12% of the voting rights for GZBV, together with any voting rights attributable to GZBV and/or to the German State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other parties; and

- To hold as closely as reasonably possible to 4% of the voting rights for SEPI, together with any voting rights attributable to SEPI and/or to the Spanish State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other parties.

**Mandatory Takeover Threshold**

The total aggregate voting rights of the Shareholders shall always represent less than 30% of the voting rights of the Company, or less than any other threshold the crossing of which would trigger for any Shareholder a mandatory takeover obligation (the “MTO Threshold”). In the event that the total aggregate voting rights of the Shareholders exceed the MTO Threshold, the Shareholders shall take all appropriate actions as soon as reasonably practicable, but in any event within 30 days, to fall below the MTO Threshold.
Transfer of Securities

Permitted transfer. Transfer of securities by any Shareholder to one of its affiliates.

Pre-emption right. Pro rata pre-emption rights of the Shareholders in the event any Shareholder intends to transfer any of its securities to a third party directly or on the market.

Call option right. Call option right for the benefit of the Shareholders in the event that the share capital or the voting rights of any Shareholders cease to be majority owned directly or indirectly by the French State, the German State or the Spanish State as applicable.

Tag-along right. Tag-along right for the benefit of SEPI in the event that Sogepa, the French State or any of their affiliates and any French public entity and GZBV, the German State or any of their affiliates and any public entity propose together to transfer all of their entire voting rights interests.

Various provisions

Termination. The Shareholders’ Agreement may cease to apply in respect of one or more Shareholders and/or their affiliates, subject to the occurrence of certain changes in its or their shareholding interest in the Company or in its or their shareholders.

Governing law. Laws of the Netherlands.

Jurisdiction. Arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce, with the seat of arbitration in The Hague (the Netherlands).

3.2.3 UNDERTAKINGS WITH RESPECT TO CERTAIN INTERESTS OF CERTAIN STAKEHOLDERS

The Company has made certain undertakings and entered into certain agreements in connection with certain interests of its former core shareholders and the German State.

State Security Agreements and Related Undertakings

The Company and the French State have entered into an amendment to the existing convention between the French State and the Company relating to the ballistic missiles business of the Company (as so amended, the “French State Security Agreement”). Under the French State Security Agreement, certain sensitive French military assets will be held by a Company subsidiary (the “French Defence Holding Company”). At the Consummation, the Company contributed certain sensitive French military assets to the French Defence Holding Company. The French State has the right to approve or disapprove of – but not to propose or appoint – three outside Directors to the Board of Directors of the French Defence Holding Company (the “French Defence Outside Directors”), at least two of whom must qualify as Independent Directors under the Board Rules if they were Members of the Board. Two of the French Defence Outside Directors are required to also be Members of the Board. French Defence Outside Directors may neither (i) be employees, managers or corporate officers of a company belonging to the Company (although they may be Members of the Board) nor (ii) have material on-going professional relationships with Airbus.

The Company and the German State have entered into an agreement relating to the protection of essential interests to the German State’s security (the “German State Security Agreement”). Under the German State Security Agreement, certain sensitive German military assets are held by a Company subsidiary (the “German Defence Holding Company”). The German State has the right to approve or disapprove of – but not to propose or appoint – three outside Directors to the supervisory board of the German Defence Holding Company (the “German Defence Outside Directors”), at least two of whom must qualify as Independent Directors under the Board Rules if they were Members of the Board. Two of the German Defence Outside Directors are required to also be Members of the Board. The qualifications to serve as a German Defence Outside Director are comparable to those to serve as a French
Defence Outside Director, with the additional requirement that a German Defence Outside Director may not be a civil servant. The Company has agreed to negotiate with the Spanish State in order to reach a special security agreement relating to the protection of the essential security interests of the Spanish State.

**Dassault Aviation**

The Company entered into an agreement with the French State pursuant to which the Company:

- Grants the French State a right of first offer in case of the sale of all or part of its shareholding in Dassault Aviation; and
- Commits to consult with the French State prior to making any decision at any shareholders’ meeting of Dassault Aviation.

Following on from the 2014 and 2015 share sales, the Company sold in 2016 approximately 0.83 million shares in Dassault Aviation, representing around 9.05% of the company’s share capital at the time. As a result of the implementation of 2016 and 2017 Dassault Aviation’s share buyback programs and of Dassault Aviation’s capital increase, which took place on 21 June 2017 and at the occasion of which 61,136 shares were issued to remunerate the shareholders who opted for a dividend payment through attribution of shares, the Company holds approximately 9.93% of Dassault Aviation’s share capital and 6.16% of its voting rights. In case of exchange in full of the bonds issued by the Company and which are due in 2021, the Company will no longer hold any of Dassault Aviation shares and voting rights.

**Stock Exchange Listings**

The Company has undertaken to the parties to the Shareholders’ Agreement that for the duration of the Shareholders’ Agreement the Company’s shares will remain listed exclusively in France, Germany and Spain.

**Specific Rights of the French State**

Pursuant to an agreement entered into between the Company and the French State (the "Ballistic Missiles Agreement"), the Company has granted to the French State (a) a veto right and subsequently a call option on the shares of the company performing the ballistic missiles activity exercisable under certain circumstances, including if (i) a third party acquires, directly or indirectly, either alone or in concert, more than 15% or any multiple thereof of the share capital or voting rights of the Company or (ii) the sale of the shares of such companies carrying out such activity is considered and (b) a right to oppose the transfer of any such shares. The Company, the French State and the company performing the ballistic missiles activity are parties to a similar convention regarding the assets comprising the French nuclear airborne systems under which the French State has similar rights.
3.3 Share price performance 2017

In 2017, Airbus’ share price has strongly increased throughout the year and closed at €83.00, up 32%. It outperformed wider markets and most European Aerospace & Defence peers, despite a more unfavourable FX environment.

After opening at €62.68 in January, Airbus’ shares climbed by 15% to €72.00 in the first half of the year. In early 2017, the share price increase was driven by the Company’s strong 2016 delivery performance together with solid FY 2016 results. Thereafter, overall confidence in the Company’s earnings and cash generation potential and A350 ramp-up plan further supported that positive trend, despite ongoing operational challenges. Airbus’ Q1 2017 earnings performance and guidance reiteration helped the share price climb further, supported by French election results in April and May. Commercial performance during the Le Bourget Airshow was perceived as a positive surprise by the market and led the shares up to €76.40 during June, before a strengthening EUR vs USD and weaker oil prices put pressure on the share price towards the end of June.

This negative trend initially continued in the second half of 2017 driven by lower than expected Q2 results and increased risk language regarding engine manufacturers. Airbus’ share price remained broadly stable throughout the summer, but in September reassuring messages from Airbus top management on 2017 delivery targets helped the shares strongly rebound. News flow on compliance topics and lower than expected Q3 deliveries temporarily weighed on the shares. Following the announcement of the Airbus and Bombardier C Series partnership in mid-October, better than expected Q3 results and confirmation of 2017 guidance, Airbus’ share price significantly increased again. Higher oil prices and better performing global markets, driven by the US tax reform, further drove Airbus shares up to their highest closing of the year at €88.86, in early December. Despite Airbus’ all-time record monthly order intake in December, shares fell lower towards the end of the year, driven by some profit-taking and a strong EUR vs USD at 1.20.

With an annual increase of 32%, Airbus shares strongly outperformed the Eurostoxx 600 (+8%) and the CAC40 (+9%), as well as most European aerospace peers.
3.4 Dividend policy

In December 2013, Airbus formalised a dividend policy demonstrating a strong commitment to shareholders returns. This policy targets sustainable growth in the dividend within a payout ratio of 30%-40%.

Based on earnings per share (EPS) of € 3.71 and a net income of € 2,873 million, the Board of Directors will propose to the Annual General Meeting the payment to shareholders on 18 April 2018 of a dividend of € 1.50 per share (FY 2016: € 1.35). This value is at the upper end of the dividend policy reflecting our strong 2017 achievements, including the positive evolution of the 2017 underlying performance and our 2017 cash generation. It highlights our confidence in our future financial performance as well as on-going commitment towards sustained dividend growth and increasing shareholder returns.

The record date should be 17 April 2018. This proposed dividend represents year-on-year dividend per share increase of 11.1 %.
4. Corporate Governance

4.1 Management and Control

4.1.1 COMPOSITION, POWERS AND RULES

Under the Articles of Association, the Board of Directors consists of at most 12 Directors, who each retire at the close of the AGM held three years following their appointment. Under the Board Rules, at least a majority of the Members of the Board of Directors (i.e., 7/12) must be European Union (“EU”) nationals (including the Chairman of the Board of Directors) and a majority of such majority (i.e., 4/7) must be both EU nationals and residents. No Director may be an active civil servant. The Board of Directors has one Executive Director and 11 non-Executive Directors. While the Board of Directors appoints the CEO, the CEO is required to be an Executive Director and must be an EU national and resident; therefore it is anticipated that the Board of Directors will appoint as CEO the person appointed by the shareholders as an Executive Director. At least 9 of the non-Executive Directors must be “Independent Directors” (including the Chairman of the Board of Directors).

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

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

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

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

- The preference for the best candidate for the position, and
- The preference for gender diversity between equal profiles, and
- The maintenance of appropriate skills mix and geographical experience, and
- The maintenance, in respect of the number of Members of the Board of Directors, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of the four Member States of the EU where these main industrial centres are located), and
- At least a majority of the members of the board (i.e., 7/12) shall be EU nationals (including the Chairman), and a majority of such majority (i.e., 4/7) shall be both EU nationals and residents.
In accordance with these principles the Board of Directors shall seek greater diversity with respect to gender, age, geography, education, profession and background.

In 2017, one new member joined the Board of Directors, Lord Drayson. He has the competencies and personal skills to fulfil this position in line with the Board’s expectations and the evolution of the business within the Company. As an engineer and entrepreneur, he brings amongst other qualities the right expertise for our innovation focus and digital journey. Following the replacement of Mr. Mittal by Lord Drayson, the Company will strive to find a new Board Member with an Asian profile.

At the end of 2017 half of the Members of the Board of Directors were under the age of 60. The proportion of female representation is today at 25% against 0% five years ago. The Board composition shows a balanced mix of experience with, for example, four Members having Defence industry skills, six having geopolitical or economics skills or four having information or data management skills. More details as to the diversity of the Board of Directors Members are available in the table shown below.

The Board of Directors is required to take into account, in the resolutions proposed in respect of the nomination of Directors presented to the shareholders’ meeting, the undertakings of the Company to the French State pursuant to the amendment to the French State Security Agreement and to the German State pursuant to the German State Security Agreement, in each case as described more fully above. In practice, this means that (i) 2 of the Directors submitted to the shareholders for appointment should also be French Defence Outside Directors (as defined above) of the French Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the French State and (ii) 2 of the Directors submitted to the shareholders for appointment should also be German Defence Outside Directors (as defined above) of the German Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the German State.

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

Voting and rules

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

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

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

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

The Board of Directors must have a certain number of Directors present or represented at a meeting to take action. This quorum requirement depends on the action to be taken. For the Board of Directors to make a decision on a Simple Majority matter, a majority of the Directors must be present or represented. For the Board of Directors to make a decision on a Qualified Majority matter, at least ten of the Directors must be present or represented. If the Board of Directors cannot act on a Qualified Majority Matter because this quorum is not satisfied, the quorum would decrease to eight of the Directors at a new duly called meeting,
In addition, the Board Rules detail the rights and duties of the Members of the Board of Directors and set out the core principles which each Member of the Board of Directors shall comply with and shall be bound by, such as acting in the best interest of the Company and its stakeholders, devoting necessary time and attention to the carrying out of their duties and avoiding any and all conflicts of interest.

More details regarding the curriculum vitae, nationality and other mandates of all Members of the Board of Directors can be found at the Company’s website www.airbus.com.
Within the Company, each Member of the Board of Directors must have the required mix of experience, qualifications, skills and industrial knowledge necessary to assist the Company in formulating and achieving its overall strategy, together with the specific expertise required to fulfil the duties assigned to him or her as Member of one of the Board of Directors’ committees. The Board of Directors also believes that a diverse composition among its Members with respect to gender, experience, national origin, etc. is valuable for the quality and efficiency of its work.

4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2017

Board of Directors meetings

The Board of Directors met nine times during 2017 and was regularly informed of developments through business reports from the CEO, including progress on the strategic and operational plans. The average attendance rate at these meetings was 91%.

Throughout 2017, the Board of Directors reviewed and discussed the technical and commercial progress of significant new and running programmes of the commercial aircraft business, Defence and Space as well as Helicopters. This comprised inter alia the remedy of the technical issues hampering the ramp-up of the A400M and the A320neo programmes as well as the efforts to restore the market of the Super Puma helicopter programme after the safety issues due to accidents. In addition, the development of the A330neo, the ramp-up and extension of the A350XWB and the future of the A380 programmes were closely monitored; in the Defence and Space area this comprised the development of unmanned aerial systems as well as the space business’ next generation launcher Ariane 6 and the OneWeb satellites constellation programme.

Last year’s off-site Board meeting in September in Hamburg was dedicated to the review of the division and product strategies and the related business developments as well as the overall strategy of Airbus. The Board of Directors seized the opportunity to visit the A320 final assembly and A350 subassembly facilities as well as the A350 Customer Definition Center and the Center of Applied Aeronautical Research.

In 2017, the Board of Directors continued to support the digitalisation initiative, which was started in 2015 to enhance Airbus ability to identify and capitalise on innovative and transformational technologies and business models. The reorganisation and refocusing of the CTO department on its fundamental tasks of guiding and coordinating overall activities, developing group-wide roadmaps / demonstrators as well as technical expertise and blue-sky research was successfully pursued and delivered already promising results.

The merger of Airbus Group and Airbus brought an overhaul of the corporate set-up, simplifying the company’s governance, eliminating redundancies and creating further efficiencies, while at the same time driving further integration of the entire group.

Moreover, the Board of Directors reviewed Airbus’ financial results and forecasts and put specific emphasis on Enterprise Risk Management supported by a strengthened internal audit organization. The corporate social responsibility initiatives were further focused and renamed “Responsibility and Sustainability” (R&S).

A substantial share of the Board activities was dedicated to compliance matters. Among other areas, emphasis was put on further strengthening the Airbus compliance programme, building on the ‘Business Development Support Initiative’ which was started in 2015. The comprehensive training programme set up last year continued to further raise awareness, to reduce risks and more generally to improve the culture of integrity of Airbus. As a consequence of the SFO/PNF investigations, Airbus has transformed the Ad-Hoc Committee that dealt initially with the investigations into a regular Ethics and Compliance Committee with a wider remit to oversee ethics and compliance. The Ethics and Compliance Committee will continue to closely monitor the investigations in view to showing the authorities the committee’s thorough and independent approach. In addition, the “Independent Compliance Review Panel”, composed of renowned international experts, was introduced to oversee and benchmark the respective activities.
The Board of Directors also decided to perform an external evaluation of the top two tiers of the Executive management in order to reinforce its appreciation of the Company's strength in succession planning and ensure that the right development plans are in place. In particular, the Board has launched an in-depth succession planning review for the top management of the company; following the first announcements made in December 2017, this process will continue in 2018 with the objective of being ready for the AGM to be held in 2019, given the CEO's announcement that he does not intend to seek extension of his mandate beyond this date.

Board evaluation 2017

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

The year 2017 marked the beginning of a new three-year cycle. In September 2017, the Board of Directors therefore carried out an external evaluation based on a questionnaire issued by a third-party expert and circulated to each Board Member.

The Board of Directors was satisfied overall with the continuous progress made during the first three years Board review cycle and has decided to start a new review cycle with the support of Heidrick & Struggles as the third-party expert.

Each one of the Board Members had an in-person discussion with the third-party expert to cover governance, effectiveness and composition of the Board of Directors and the committees, areas of expertise and working process of the Board of Directors, relationships between the members of the Board of Directors, the Chairman, the management, shareholders and stakeholders as well as scope and composition of topics and preparation for the future.

Following the last Board review, the Board of Directors spent additional time on risk management, strategy and other topics, such as benchmarking on competitors, products and digital transformation. Notable progress has also been made in discussions on strategy, risk management and digital transformation, with strong leadership coming from the CEO and the executive team.

In the 2017 evaluation, the Board Members confirmed the need to continue working hard to reinforce cohesiveness as well as team work within the Board and its Committees, in particular in challenging times and under significant pressure. Some areas of improvement require more attention from the Board such as: corporate and social responsibility, employee engagement, industrial strategy and operations efficiency and succession planning.

Board Members notably valued balance of powers, open debates within the Board of Directors, positive contribution of the Board Committees, creation and performance of the new Ethics and Compliance Committee and constructive and challenging interactions between the Board of Directors and the management, while highlighting that there remains room for further progress in this area. The Board of Directors has also identified ways to improve effectiveness in the preparation of Board meetings, as well as the quality and level of information provided to the Board Members prior to and between Board meetings. The induction programme for new Board Members and off-site Board meetings are also appreciated.

The Board will increase efforts to evaluate the performance and competitiveness of the Company, increase anticipation in a challenging environment and prepare for the future, notably from a leadership standpoint.
In addition, the Board Members highlighted the necessity to continue with the process of the staggering Board principle, decided at the 2016 Annual General Meeting. This is intended to further develop the diversity of expertise, gender and nationalities within the Board of Directors.

4.1.3 BOARD COMMITTEES

The Audit Committee

Pursuant to the Board Rules, the Audit Committee, which is required to meet at least four times a year, makes recommendations to the Board of Directors on the approval of the annual financial statements and the interim accounts (Q1, H1, Q3), as well as the appointment of external auditors and the determination of their remuneration. Moreover, the Audit Committee has responsibility for verifying and making recommendations to the effect that the internal and external audit activities are correctly directed, that internal controls are duly exercised and that these matters are given due importance at meetings of the Board of Directors. Thus, it discusses with the auditors their audit programme and the results of the audit of the accounts, and it monitors the adequacy of Airbus’ internal controls, accounting policies and financial reporting. It also oversees the operation of Airbus’ Enterprise Risk Management (“ERM”) system and the ethics and compliance organisation. For further details in this regard, see “ 4.5.: Enterprise Risk Management System”. Please refer to Annex E of the Board Rules for a complete list of responsibilities of the Audit Committee.

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

In 2017, it met six times with an average attendance rate of 83%, it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

The Ethics and Compliance Committee

To reinforce oversight of ethics and compliance matters at the Board of Directors level, a dedicated Ethics and Compliance Committee (“E&C Committee” or “ECC”) was established in 2017 and the Board Rules have been amended accordingly. The E&C Committee replaced a temporary Ad-Hoc Committee that was created in 2016 in respect of similar matters. Pursuant to the Board Rules the main mission of the E&C Committee is to assist the Board in monitoring Airbus’ culture and commitment to ethical business and integrity. This committee is empowered to oversee Airbus’ ethics and compliance programme, organisation and framework for an effective ethics and compliance governance (including all associated internal policies, procedures and controls), which includes the areas of money laundering and terrorist financing, fraud, bribery and corruption, trade sanctions and export control, data privacy, procurement and supply chain compliance and anti-competitive practices.

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

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

The E&C Committee is required to meet at least four times a year. In 2017, the E&C Committee and its predecessor, the Ad-Hoc Committee, met in total ten times with an average attendance rate of 85%. All of the above described
items were been discussed during the meetings. Both, the E&C Committee and the temporary Ad-Hoc Committee fully performed all the above described duties.

The Remuneration, Nomination and Governance Committee

Pursuant to the Board Rules, besides its role described in section 4.1.1 above, the RNGC consults with the CEO with respect to proposals for the appointment of the Members of the Executive Committee, and makes recommendations to the Board of Directors regarding the appointment of the Secretary to the Board of Directors. The RNGC also makes recommendations to the Board of Directors regarding succession planning (at Board, Executive Committee and Senior Management levels), remuneration strategies and long-term remuneration plans. Furthermore, the Committee decides on the service contracts and other contractual matters in relation to the Members of the Board of Directors and the Executive Committee. The rules and responsibilities of the RNGC have been set out in the Board Rules.

The Chairman of the Board of Directors and the CEO are invited to attend meetings of the RNGC. The Chief Human Resources Officer (“CHRO”) is requested to attend meetings to present management proposals and to answer questions.

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

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

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

The RNGC is required to meet at least four times a year. In 2017, it met nine times with an attendance rate of 92%; it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

4.1.4 EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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

- The preference for the best candidate for the position;
- The maintenance, in respect of the number of Members of the Executive Committee, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of the four Member States of the EU where these main industrial centres are located); and
- At least two-third of the Members of the Executive Committee, including the CEO and the CFO, being EU nationals and residents.

Role of CEO and Executive Committee

The CEO is responsible for executing the strategy, as approved by the Board of Directors, and for managing the day-to-day operations of Airbus’ business and he shall be accountable for its proper execution. For this purpose, the CEO seeks regularly advice from its core executive management team (EMT), which comprises some of the Executive
The Executive Committee further supports the CEO in performing these tasks, ensuring proper alignment of the Company's management beyond the EMT. The Executive Committee Members shall jointly contribute to the overall interests of the Company, in addition to each Member's individual operational or functional responsibility within Airbus. The CEO endeavours to reach consensus among the Members of the Executive Committee. In the event a consensus is not reached, the CEO is entitled to decide the matter.

The Executive Committee comprises the heads of the Divisions and key functions of the Company, and is dedicated to exchange and align on important matters such as:

- Appointment by the heads of the Airbus Divisions and functions of their management teams;
- Major investments/divestments;
- Settling up and control of the implementation of the strategy for Airbus’ businesses;
- Airbus policy matters and management and organisational structure of the business;
- Definition of the Company's financial performance and business performance strategy and targets;
- Business issues, including the operational plan of the Company and its Divisions.

It is also the forum where the information or requests for approval destined for the Board are discussed and approved. The CEO is the only Executive Director within the Board of Directors and represents the Company on the Board. But, depending on the respective topic, he usually asks the responsible Executive Committee Member to join him in the Board for presenting the financials (CFO), programme/product topics (Division head), HR matters (CHRO) or any other topic where a specialist is needed. This approach allows that the Board Members get to know the Executive Committee Members equips them to make judgements when it comes to decisions about key positions.

### 4.2 Conflict of Interest

Conflict of interest

The Company has a conflict of interest policy, which sets out that any potential or actual conflict of interest between the Company and any Member of the Board of Directors shall be disclosed and avoided (please refer to the "Board Rules (Annex D – Article 8: Conflicts of interest)"). This policy is available on the Company's website: [www.airbus.com](http://www.airbus.com) (Home / Company / Corporate Governance / Organisation), as is the related best practice provision 2.7 of the Dutch Code (as such term is defined in section 4.3 "Dutch Corporate Governance Code" below), which the Company complied with in the year 2017. Pursuant to the Articles of Association and the Board Rules, a conflicted Member of the Board of Directors should abstain from participating in the deliberation and decision-making process relating to the matters concerned. The Board of Directors must approve any decision to enter a transaction where a Director has conflicts of interest that are material to the Company or the individual Director.

In 2017, no transactions were reported. There were, however, related-party transactions: for an overview, please see “Notes to the IFRS Consolidated Financial Statements – Note 8: Related Party Transactions”.

### 4.3 Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code (the "Dutch Code"), which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While the Company, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the "comply or explain" principle, provide the explanations below.
On 8 December 2016, the Dutch Code was revised; its updated recommendations apply to financial years starting on or after 1 January 2017. Airbus welcomed the updates to the Dutch Code and supports the emphasis of the revised Dutch Code on topics such as long-term value creation and the importance of culture. Airbus already complies with a vast majority of the provisions of the revised Dutch Code.

For the full text of the Dutch Code, please refer to: www.commissiecorporategovernance.nl.

For the financial year 2017, and in respect of compliance with the Dutch Code, the Company states the following:

1. Vice-Chairmanship

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

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

2. Termination indemnity

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

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

3. Securities in the Company as long-term investment

Provision 3.3.3 of the Dutch Code recommends that non-Executive Directors who hold securities in the Company should keep them as a long-term investment. Furthermore, the Company does not encourage non-Executive Directors to own shares.

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

4. Dealings with analysts

Provision 4.2.3 of the Dutch Code recommends meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the Company’s website and by means of press releases. In addition, it recommends that provisions shall be made for all shareholders to follow these meetings and presentations in real time, and that after the meetings the presentations shall be posted on the Company’s website.

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

Provision 3.4.1 of the Dutch Code recommends that the remuneration report described in Section 4.4 below should include a description of the pay ratios within Airbus and, if applicable, any changes in these ratios in comparison with the previous financial year.

The Company wants to ensure a transparent and accurate disclosure of information in its remuneration report. At the date of this Board Report, the Company is not able to disclose the exact pay ratio between the CEO and a representative reference group determined by Airbus for the 2017 financial year or, to the extent relevant, any changes in these ratios in comparison with the 2016 financial year. However, the Company is committed to include this information in its board report for the 2018 financial year.

6. Gender diversity

The Company strives to comply with composition guidelines which mean the Board of Directors would be regarded as being composed in a balanced way if it contained at least 30% women and 30% men. These percentages are based on those included in a Dutch bill that came into force in 2017, in continuation of previous legislation stipulating the same percentages. With the election of Amparo Moraleda in 2015 and the election of Catherine Guillouard and Claudia Nemati in 2016, the proportion of the female representation on the Board of Directors is at 25% (against 0% five years ago). The Company will continue to promote gender diversity within its Board of Directors in accordance with the principles mentioned in section 4.1.1 above.

For information on the operation of the Shareholders’ Meeting, its key powers, the shareholders’ rights and how such powers and rights can be exercised, please refer to section 3.1 “Shareholding and voting rights – right to attend Shareholders’ Meetings”.

For information on the composition and operation of the Board of Directors and its respective committees, please refer to section 4.1.1 “Composition, power and rules”, section 4.1.2 “Operation of the Board of Directors in 2017”, and section 4.1.3 “Board Committees”.

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to section 3.1 “Shareholding and voting rights – Shareholding structure at the end of 2017”, section 3.2 “Relationships with Principal Shareholders”, section 4.1.1 “Composition, powers and rules”, section 3.1 “Shareholding and voting rights – Amendments to the Articles of Association” and section 3.1 “Shareholding and voting rights – Modifications of share capital or rights attached to shares”.

4.4 Remuneration Report

4.4.1 INTRODUCTION

The RNCG is pleased to present the 2017 Remuneration Report.

The Report comprises the following sections:

- 4.4.2 presents the Company’s Remuneration Policy;
- 4.4.3 illustrates how the Remuneration Policy was applied in 2017 in respect of the CEO, the only Executive Member of the Board of Directors (the cumulated remuneration of all Executive Committee Members is presented in the “Notes to the IFRS Consolidated Financial Statements – Note 31: Remuneration”);
- 4.4.4 illustrates how the Remuneration Policy was applied in 2017 in respect of the Non-Executive Members of the Board of Directors;
4.4.5 miscellaneous.

No amendment to the Remuneration Policy (as adopted at the AGM held on 28 April 2016) will be proposed for adoption by the shareholders at the AGM to be held in 2018. The application of the Remuneration Policy in 2017 (see section 4.4.3: “Implementation of the Remuneration Policy in 2017: CEO” and section 4.4.4: “Implementation of the Remuneration Policy in 2017: Non-Executives”) will be included as a separate agenda item for discussion at the AGM to be held in 2018.

4.4.2 REMUNERATION POLICY

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

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

A — Executive Remuneration – Applicable to the CEO

a) Remuneration Philosophy

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

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

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

b) Total Direct Compensation and Peer group

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

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

- Global companies in Airbus’ main markets (France, Germany, UK and US); and
- Companies operating in the same industries as Airbus worldwide.
The elements of the Total Direct Compensation are described below:

<table>
<thead>
<tr>
<th>Remuneration Element</th>
<th>Main Drivers</th>
<th>Performance Measures</th>
<th>Target and Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Salary</strong></td>
<td>Reflects market value of position.</td>
<td>Not applicable</td>
<td>1/3 of Total Direct Compensation (when performance achievement is 100% of target).</td>
</tr>
<tr>
<td><strong>VR</strong></td>
<td>Rewards annual performance based on achievement of Company performance measures and individual objectives.</td>
<td>Collective (50% of VR): divided between EBIT(^2) (45%); Free Cash Flow(^2) (45%) and RoCE (10%).</td>
<td>The VR is targeted at 100% of Base Salary for the CEO and, depending on the performance assessment, ranges from 0% to 200% of target. The VR is capped at 200% of Base Salary.</td>
</tr>
<tr>
<td><strong>LTIP</strong></td>
<td>Rewards long-term commitment and Company performance, and engagement on financial targets subject to cumulative performance over a 3-year period.</td>
<td>Vesting ranges from 0% to 150% of initial grant, subject to performance over a three-year period. In principle, no vesting if cumulative negative EBIT. If cumulative EBIT is positive, vesting from 50% to 150% of grant based on EPS (75%) and Free Cash Flow (25%).</td>
<td>The original allocation to the CEO is capped at 100% of Base Salary at the time of grant. Since 2012, the following caps apply to Performance Units only: - overall pay-out is capped at a maximum of 250% of the original value at the date of grant. - The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.</td>
</tr>
</tbody>
</table>

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

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

Following the change approved at the AGM in 2016, and as illustrated in the table below, the structure of the CEO’s Total Direct Compensation will remain unchanged in 2018. Indeed, the on-target levels of VR and LTIP will each amount to 100% of the CEO’s base salary.

**SCENARIOS CEO TOTAL DIRECT COMPENSATION**

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\(^2\) Airbus continues to use the term EBIT (Earnings before interest and taxes). It is identical to Profit before finance cost and income taxes as defined by IFRS Rules.

\(^3\) Airbus defines the alternative performance measure Free Cash Flow as the sum of (i) cash provided by operating activities and (ii) cash used for investing activities, less (iii) change of securities, (iv) contribution to plan assets for pension schemes, (v) realised treasury swaps and (vi) bank activities. It is a key indicator which allows the Company to measure the amount of cash flow generated from operations after cash used in investing activities.
c) Base Salary

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

d) Annual Variable Remuneration

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

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

Common Collective Component

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

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

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

- **Outcomes** encompass various aspects of what the CEO can do to contribute to the success of the business: specific business results he helps achieve, projects he drives and processes he helps improve. The individual targets of the CEO are comprehensive and shared with all employees via the Company Top Priorities;

- **Behaviour** refers to the way results have been achieved, which is also critical for long-term success: how the CEO and the Board of Directors work as a team, how the CEO leads the Executive Committee, quality of communication, encouragement of innovation, etc. A specific part of the behaviour assessment relates to ethics, compliance and quality issues.

e) Long-Term Incentive Plan

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

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

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

Both Performance Units and Performance Shares that vest can vary between 0% and 150% of the Units and Shares granted, subject to cumulative performance over a three-year period. The level of vesting is subject to the following performance measures:
• 0-50% of the allocation: In principle, this element of the Performance Unit/Share award will not vest if the Company reports negative cumulated EBIT results. Nonetheless, in case the Company's EBIT results are impacted by exceptional and unpredictable circumstances, the Board of Directors, upon recommendation of the RNGC, may decide that a maximum portion of 50% of the allocation will vest;

• 50-150% of the allocation: This element of the Performance Unit/Shares vests based on the two following performance criteria: average Earnings Per Share (75%) and cumulative Free Cash Flow (25%). Before the 2013 plan, it used to vest according to one performance criteria only: average Earnings Per Share.

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

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

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

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

• the value that could result from share price increases is capped at 200% of the reference share price at the date of grant;

• the overall pay-out is capped at 250% of the value at the date of grant.

Performance Units plan characteristics (until and including 2015 plan)

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

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

For each payment in cash, one Unit is equal to the value of one Airbus share at the time of vesting. The Airbus share value is the average of the opening share price, on the Paris Stock Exchange, during the 20 trading days preceding and including the respective vesting dates.
LTIP-SCHEME FROM 2014 TO 2015

Performance Units & Performance Shares characteristics (since 2016)

Since the 2016 plan, the CEO’s LTIP is comprised of a mix of Performance Units and Performance Shares in order to increase the alignment with shareholders’ interests.

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

For the CEO, the value of the Performance Unit and Share allocation is capped, at the time of grant, at 100% of the Base Salary.

At the end of the three-year period, the grant is subject to a performance calculation to determine whether and to what extent it should vest.

Depending on continued employment, Performance Units attributed since 2016 will vest in two tranches, the payment of which takes place approximately six and 18 months following the end of the performance period. Performance Shares would vest in one tranche, approximately six months following the end of the performance period.

LTIP-SCHEME SINCE 2016

f) Share Ownership Guideline

The Board of Directors has established a share ownership guideline pursuant to which the CEO is expected to acquire Airbus shares with a value equal to 200% of the Base Salary and to hold them throughout his tenure.
g) Benefits
The benefits offered to the CEO comprise a company car and accident insurance. Travel cost reimbursements are based on the Company travel policy, as applicable to all employees.

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

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

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

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

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

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

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

B — Non-Executive Remuneration – Applicable to non-Executive Members of the Board
The Company’s Remuneration Policy with regard to non-Executive Members of the Board of Directors is aimed at ensuring fair compensation and protecting the independence of the Board’s Members.

Fees and Entitlements
Non-Executive Members of the Board are currently entitled to the following:
- a base fee for membership or chair of the Board;
- a Committee fee for membership or chair on each of the Board’s Committees;
- an attendance fee for the attendance to Board meetings.
Each of these fees is a fixed amount. Non-Executive Members of the Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company in the frame of their mandate, except what they would receive in the frame of a current or past executive mandate. These measures are designed to ensure the independence of Board Members and strengthen the overall effectiveness of the Company’s corporate governance.

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

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

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

Chairman of the Board: 210,000

Member of the Board: 80,000

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

Chairman of a Committee: 30,000

Member of a Committee: 20,000

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

Chairman: 15,000

Member: 10,000

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

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

**C – Employee Share Ownership Plan (ESOP)**

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

According to shareholders’ resolutions adopted at the AGM, the powers to issue shares and to set aside preferential subscription rights of existing shareholders have been granted to the Board of Directors at the 2017 AGM. Such powers include the approval of the ESOP.

The Company intends to implement an ESOP in 2019, subject to approval by the Board of Directors, open to all qualifying employees (including the CEO). With future ESOP, the Company aims to offer shares to eligible employees through the issuance of shares or free distribution of shares or other existing or new securities giving access to the capital as a matching contribution. This plan aims to promote the development of employee shareholding.
a) Benchmarking

Based on a review the RNGC performed in 2014 with the assistance of an independent consultant, Willis Towers Watson, it was concluded that the CEO’s Total Direct Compensation was slightly below the median level of the peer group. In 2017, there was no increase of CEO remuneration.

b) Base Salary

For 2017, the Base Salary remains at €1,500,000. The CEO’s Base Salary level was reviewed in 2015 and approved by shareholders at 2016 AGM. Any future review of the CEO’s Base Salary will also take into consideration salary increases of employees across the group.

c) Annual Variable Remuneration

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

For 2017, the VR amounted to an aggregate €2,167,500 composed of €1,192,500 for the Common Collective Component (159%), and €975,000 for the Individual part (130%).

The Common Collective Component results from a composite 159% achievement of EBIT, Free Cash Flow and RoCE objectives.

This achievement mainly reflects a solid EBIT and Free Cash Flow generation against the budgeted targets. The main drivers of that success were the strong underlying business performance, healthy pre-delivery payments inflows, on-going efforts to control working capital including payment terms to suppliers and lower R&D spending.

Finally, RoCE was slightly below the target.

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

The Individual part results from a good achievement level of 130% out of 200%, assessed by the RNGC and approved by the Board on the basis of the CEO’s performance and behaviour, mostly with respect to the four Airbus priorities agreed at the start of the year (see: Chapter 2 – Summary 2017). For each of these outcomes, leadership, personal performance and contributions were examined.

The factors determining the good assessment were among other achievements:

- Solid financial figures achieving the envisaged targets to a large extent despite set-backs on the A400M programme.
- Very good operational performance with a new record number of aircraft deliveries mastering a solid ramp-up of the A350 programme and the transition from the ceo to the new neo version of the A320 programme despite technical issues with both new engine types.
- Excellent strategic move in acquiring the Bombardier C Series programme to complement the Airbus product portfolio and to set the pace for the competition.
- Confirmed lead on the civil and parapublic helicopter market against a challenging market backdrop while slightly improving the position on the military market.
- Good progress in key development programmes Airbus A350-1000, Airbus Helicopters H160 and Ariane 6.
Rapid implementation of the digital roadmap including digitalization of the development and production processes.

“Go live” for the Company’s further integration through the “Gemini” project by merging Airbus and Airbus Group for a leaner and more efficient management.

Strong focus on Company-wide benchmark Compliance standards and processes as well as coordinated Corporate Social Responsibility activities.

Reinforced efforts on gender and international diversity as well as implementation of new HR transformation and management development programmes.

**Performance against Target**

![Performance Chart](image)

**d) Long-Term Incentive Plan**

**Granting 2017**

As stipulated in the Company’s Remuneration Policy, the CEO is eligible for a Performance Units and Performance Shares award under the Company’s LTIP 2017. The value of the Performance Unit and Share award is capped at 100% of the Base Salary at the date of grant. During 2017, the CEO was granted 20,324 in total of both Performance Units and Performance Shares.

The table below gives an overview of the Performance Units and Performance Shares granted to the CEO in 2017 pursuant to the LTIP:

<table>
<thead>
<tr>
<th>Unit plan: number of Performance Units</th>
<th>Vesting dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Granted in 2017</td>
<td></td>
</tr>
<tr>
<td>Thomas Enders</td>
<td>10,162</td>
</tr>
<tr>
<td>Vesting schedule is made up of 2 tranches over 2 years:</td>
<td></td>
</tr>
<tr>
<td>(i) 50% expected in May 2021;</td>
<td></td>
</tr>
<tr>
<td>(ii) 50% expected in May 2022.</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Share plan: number of Performance Shares</th>
<th>Vesting dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Granted in 2017</td>
<td></td>
</tr>
<tr>
<td>Thomas Enders</td>
<td>10,162</td>
</tr>
<tr>
<td>Vesting schedule is made up of 1 tranche:</td>
<td></td>
</tr>
<tr>
<td>(i) 100% expected in May 2021</td>
<td></td>
</tr>
</tbody>
</table>
Vestig values in 2017

In 2017, the CEO received both cash payments and vested shares in connection with the vesting of 2012 and 2013 LTIP awards:

- **Cash:** the total cash payment to the CEO amounted to €1,372,048 in 2017 vs. €2,279,709 in 2016.

- **Shares:**
  - In connection with the 2012 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the CEO received 11,192 vested shares (16,448 vested shares in 2016) on the fourth vesting date for the 2012 LTIP (31 November 2017).
  - In connection with the 2013 LTIP award, the CEO had elected that 50% of his grant should be deferred into shares. Therefore, the vesting of 5,680 Performance Units for the LTIP 2013 will be released in the form of shares on the fourth vesting date for the 2013 LTIP (which will take place in 2018).

LTIP overview: granting and vesting

<table>
<thead>
<tr>
<th>Date of grants</th>
<th>Grant Type</th>
<th>Number</th>
<th>Share price at grant date</th>
<th>Value at grant date</th>
<th>Performance</th>
<th>Units with performance achievement</th>
<th>Dates of vesting</th>
<th>Share value at vesting dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Units</td>
<td>50,300</td>
<td>€27.83</td>
<td>€1,399,849</td>
<td>Conditional</td>
<td>89%</td>
<td>44,768</td>
<td>4 vestings in 2016 - 2017</td>
<td>1st vesting – 3 May 2016: €55.66*</td>
</tr>
<tr>
<td>2014 Units</td>
<td>29,500</td>
<td>€47.45</td>
<td>€1,399,775</td>
<td>Conditional</td>
<td>80%</td>
<td>23,600</td>
<td>2 vestings in 2018 - 2019</td>
<td>Not yet known</td>
</tr>
<tr>
<td>2015 Units</td>
<td>24,862</td>
<td>€56.31</td>
<td>€1,399,979</td>
<td>Conditional</td>
<td>Not yet known</td>
<td>Not yet known</td>
<td>2 vestings in 2019 - 2020</td>
<td>Not yet known</td>
</tr>
<tr>
<td>2016 Units</td>
<td>14,240</td>
<td>€52.67</td>
<td>€750,021</td>
<td>Conditional</td>
<td>Not yet known</td>
<td>Not yet known</td>
<td>2 vestings in 2020 - 2021</td>
<td>Not yet known</td>
</tr>
<tr>
<td>2016 Shares</td>
<td>14,240</td>
<td>€52.67</td>
<td>€750,021</td>
<td>Conditional</td>
<td>Not yet known</td>
<td>Not yet known</td>
<td>1 vesting in 2020</td>
<td>Not yet known</td>
</tr>
<tr>
<td>2017 Units</td>
<td>10,162</td>
<td>€73.81</td>
<td>€750,057</td>
<td>Conditional</td>
<td>Not yet known</td>
<td>Not yet known</td>
<td>2 vestings in 2021 - 2022</td>
<td>Not yet known</td>
</tr>
<tr>
<td>2017 Shares</td>
<td>10,162</td>
<td>€73.81</td>
<td>€750,057</td>
<td>Conditional</td>
<td>Not yet known</td>
<td>Not yet known</td>
<td>1 vesting in 2021</td>
<td>Not yet known</td>
</tr>
</tbody>
</table>

Calculations may involve rounding to the nearest unit.

* LTIP 2012 cap applicable to the share price was applied
Performance Conditions of LTIP 2013 and LTIP 2014:

- The performance conditions for LTIP 2013 were determined as follows: if Airbus reports negative cumulated EBIT results, the Board of Directors can decide in its sole discretion to review the vesting of the Performance Units, including the 50% portion which is not subject to performance conditions.

- 50% to 150% of the allocation would be granted depending on the compounded achievement of the two following performance criteria:
  - 75% of average Earnings Per Share (“Ave EPS”): determined on a linear basis depending on three-year Ave EPS for the 2014, 2015 and 2016 fiscal years, with the three-year Ave EPS target for an allocation of 100% equal to €3.64,
  - and 25% of cumulative Free Cash Flow (“Cum FCF”): determined on a linear basis depending on three-year Cum FCF for the 2014, 2015 and 2016 fiscal years, with the three-year Cum FCF target for an allocation of 100% equal to €2,650m.

- The performance conditions for LTIP 2014 were determined as follows: if Airbus reports negative cumulated EBIT results, the Board of Directors can decide at its sole discretion to review the vesting of the Performance Units, including the 50% portion which is not subject to performance conditions.

- 50% to 150% of the allocation would be granted depending on the compounded achievement of the two following performance criteria:
  - 75% of Ave EPS: determined on a linear basis depending on three-year Ave EPS for the 2015, 2016 and 2017 fiscal years, with the three-year Ave EPS target for an allocation of 100% equal to €3.31,
  - and 25% of Cum FCF: determined on a linear basis depending on three-year Cum FCF for the 2015, 2016 and 2017 fiscal years, with the three-year Cum FCF target for an allocation of 100% equal to €4,298m.

Review of Achievement of Performance Conditions:

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

Furthermore, the Board of Directors on 14 February 2018 noted the achievement of the performance conditions of the 2014 plan, i.e. for the 2015, 2016 and 2017 fiscal years. The three-year Ave EPS was €2.81. The three-year Cum FCF was €9,741m.

<table>
<thead>
<tr>
<th>Date of grants</th>
<th>KPI</th>
<th>Number of units</th>
<th>Target for a 100% allocation</th>
<th>Achieved</th>
<th>Performance achievement in percentage</th>
<th>Compounded performance achievement in percentage</th>
<th>Resulting vesting in number</th>
<th>For comparison, average EPS for the last 3 reported years at the date of grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Ave EPS</td>
<td>€2.75</td>
<td>50,300</td>
<td>€2.63</td>
<td>89%</td>
<td>N/A</td>
<td>44,768</td>
<td>€0.34*</td>
<td></td>
</tr>
<tr>
<td>2013 Ave EPS</td>
<td>€3.64</td>
<td>30,300</td>
<td>€2.28</td>
<td>50%</td>
<td>75%</td>
<td>22,724</td>
<td>€1.15**</td>
<td></td>
</tr>
<tr>
<td>Cum FCF before M&amp;A</td>
<td>€2,650m</td>
<td></td>
<td>€3,440m</td>
<td>150%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Ave EPS</td>
<td>€3.31</td>
<td>29,500</td>
<td>€2.81</td>
<td>56%</td>
<td>80%</td>
<td>23,600</td>
<td>€1.51***</td>
<td></td>
</tr>
<tr>
<td>Cum FCF</td>
<td>€4,298m</td>
<td></td>
<td>€9,741m</td>
<td>150%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Average EPS of 2011, 2010 and 2009
** Average EPS of 2012, 2011 and 2010
*** Average EPS of 2013, 2012 and 2011
e) Share Ownership

The CEO owned 92,161 Company shares on 31 December 2017, which represents more than 200% of the Base Salary. He herewith respects Airbus’ share ownership policy.

f) Employee Share Ownership Plan (ESOP)

In March 2017, the Company offered all eligible employees the opportunity to subscribe to a share matching plan, through which the Company matches a certain number of directly acquired shares with a grant of matching shares. This ratio varies depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 44%. The total offering was up to 2.2 million shares of the Company, open to all qualifying employees. Information about the plan can be found on the Company’s website.

Under the umbrella of the ESOP 2017, a dedicated UK tax advantageous Share Incentive Plan (“SIP”) was also deployed in March 2017.

Although the CEO was eligible for the plan, he did not participate to the ESOP 2017 plan favouring the development of a shareholding among other employees of the Company.

g) Benefits

As stipulated in the Company’s Remuneration Policy, the CEO’s benefits comprise a company car and accident insurance. The monetary value of these benefits for 2017 amounted to €63,250.

h) Retirement

As of 31 December 2017, the present value of the CEO’s pension defined benefit obligation, including deferred compensation, amounted to €21,176,042 vs. €21,251,788 a year ago. While the plan benefits remain identical, the present value of the pension obligation was calculated applying a 1.5% discount rate in 2017 compared to a 1.7% discount rate in 2016, which mainly explains the change in value. For the fiscal year 2017, the current service and interest costs related to the CEO’s pension promise represented an expense of €1,175,057. This obligation has been accrued in the Consolidated Financial Statements.

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

i) Clawback

The Board has not applied any clawback in 2017.

4.4.4 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2017: NON-EXECUTIVE DIRECTORS

The last review of the Board remuneration was undertaken in 2015 and is in line with market practice, incentivise attendance and recognise the strategic role played by the Board of Directors in Airbus’ developments. The CEO is the only Member of the Board of Directors who is not entitled to any Board membership fee.

For personal reasons, and with regards to the implementation of remuneration policy approved at AGM 2016, Denis Ranque decided in 2016 and onwards to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds €240,000 (his total target remuneration for 2015, based on 6 meetings per year and including chairmanship Board fixum and attendance fees) until further notice.
Taking into account D. Ranque’s wishes to waive the supplement linked to this remuneration policy, but also to the increase of number of Board meetings in 2017, the remuneration of D. Ranque related to 2017 as Chairman of the Board of Director (chairmanship Board Fixum and Attendance fees) is € 260,000.

Therefore, the Board recommended that the remuneration exceeding €260,000 would be converted into an annual contribution to the Airbus Foundation as long as D. Ranque waived this part of his remuneration which corresponds to €70,000 based on the number of Board meetings in 2017.

Summary table of the 2017 and 2016 fees of all Non-Executive Members of the Board (current and former):

<table>
<thead>
<tr>
<th>Non-Executive Board Members</th>
<th>2017 Fixum*</th>
<th>Attendance fees**</th>
<th>Total</th>
<th>2016 Fixum*</th>
<th>Attendance fees**</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denis Ranque***</td>
<td>204,293</td>
<td>80,000</td>
<td>284,293</td>
<td>180,000</td>
<td>60,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Ralph D. Crosby Jr.</td>
<td>94,420</td>
<td>80,000</td>
<td>174,420</td>
<td>80,000</td>
<td>50,000</td>
<td>130,000</td>
</tr>
<tr>
<td>Lord Drayson****</td>
<td>72,100</td>
<td>60,000</td>
<td>132,100</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Catherine Guillouard***</td>
<td>120,000</td>
<td>70,000</td>
<td>190,000</td>
<td>67,582</td>
<td>40,000</td>
<td>107,582</td>
</tr>
<tr>
<td>Hans-Peter Keitel</td>
<td>100,000</td>
<td>60,000</td>
<td>160,000</td>
<td>100,000</td>
<td>60,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Hermann-Josef Lambert***</td>
<td>135,707</td>
<td>70,000</td>
<td>205,707</td>
<td>110,000</td>
<td>55,000</td>
<td>165,000</td>
</tr>
<tr>
<td>Lakshmi N. Mittal^</td>
<td>28,176</td>
<td>10,000</td>
<td>38,176</td>
<td>100,000</td>
<td>50,000</td>
<td>150,000</td>
</tr>
<tr>
<td>María Amparo Motalea Martínez***</td>
<td>120,000</td>
<td>80,000</td>
<td>200,000</td>
<td>100,000</td>
<td>55,000</td>
<td>155,000</td>
</tr>
<tr>
<td>Claudia Nemat</td>
<td>100,000</td>
<td>70,000</td>
<td>170,000</td>
<td>67,582</td>
<td>30,000</td>
<td>97,582</td>
</tr>
<tr>
<td>Sir John Parker***</td>
<td>135,707</td>
<td>65,000</td>
<td>200,707</td>
<td>110,000</td>
<td>60,000</td>
<td>170,000</td>
</tr>
<tr>
<td>Carlos Tavares</td>
<td>80,000</td>
<td>65,000</td>
<td>145,000</td>
<td>54,066</td>
<td>20,000</td>
<td>74,066</td>
</tr>
<tr>
<td>Jean-Claude Trichet</td>
<td>100,000</td>
<td>80,000</td>
<td>180,000</td>
<td>100,000</td>
<td>60,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Former Executive Board Members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manfred Bischoff</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>26,154</td>
<td>20,000</td>
<td>46,154</td>
</tr>
<tr>
<td>Anne Lauvergeon</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>32,692</td>
<td>10,000</td>
<td>42,692</td>
</tr>
<tr>
<td>Michel Pébereau</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>32,692</td>
<td>20,000</td>
<td>52,692</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,290,403</td>
<td>790,000</td>
<td>2,080,403</td>
<td>1,160,768</td>
<td>590,000</td>
<td>1,750,768</td>
</tr>
</tbody>
</table>

* The fixum includes a base fee for a Board membership and a Committee fee membership within the Audit Committee, the RNGC and/or the E&C Committee. The fixum for the year 2017 was paid 50% in January 2017 and 50% in July 2017. The fixum for the year 2016 was paid 50% in December 2015 and 50% in July 2016.

** The attendance fees related to the first semester 2017 were paid in July 2017, those related to the second semester 2017 are paid in January 2018. The attendance fees related to the first semester 2016 were paid in July 2016; those related to the second semester 2016 were paid in January 2017.

*** Member of the E&C Committee and its predecessor, the temporary Ad-Hoc Committee.

****Member of the Company Board of Directors and the RNGC as of 12 April 2017.

^No Member of the Company Board of Directors as of 12 April 2017.

As explained in Chapter 4.1.3, a dedicated Ethics and Compliance Committee (“E&C Committee”) was established in 2017 and its related remuneration paid in 2017.
4.4.5 MISCELLANEOUS

Policy for Loans and Guarantees Granted

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

4.5 Enterprise Risk Management System

Airbus’ long-term development and production lifecycle make Enterprise Risk Management (“ERM”) a crucial mechanism for both mitigating the risks faced by the Company and identifying future opportunities.

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

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

The ERM system is articulated along four axes:

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

ERM Process

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

The ERM process consists of four elements:

- a strong operational process - derived from ISO 31000 - to enhance operational risk and opportunity management;
- a reporting process, which contains procedures for the status reporting of the ERM system and the risk/opportunity situation;
- an ERM compliance process, which comprises procedures to assess the effectiveness of the ERM system;
- a support process, which includes procedures to maintain and increase the quality of the ERM system.
The ERM process applies to all relevant sources of risks and opportunities that potentially affect the Company’s activities, its businesses and its organisation in the short-, mid- and long-term. The ERM process is part of the management process and inter-related with the other processes.

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

For the main risks to which Airbus is exposed, see “— Chapter 4.6 (Risk Factors)” of this document.

ERM Governance and Responsibility

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

- The Board of Directors with support of the Audit Committee supervises the strategy and business risk and opportunities, as well as design and effectiveness, of the ERM system;

- The CEO, with the top management, is responsible for an effective ERM system. He is supported by the CFO, who supervises the Head of ERM, and the ERM system design and process implementation;

- The Head of ERM has primary responsibility for the ERM strategy, priorities, system design, culture development and reporting tool. He supervises the operation of the ERM system and is backed by a dedicated risk management organisation in the Company focusing on the operational dimension, early warning and anticipation culture development while actively seeking to reduce overall risk criticality. The risk management organisation is structured as a cross-divisional Centre of Competence (“CoC”) and pushes for a proactive risk management;

- The management at executive levels has responsibility for the operation and monitoring of the ERM system in its respective areas of responsibility and for the implementation of appropriate response activities to reduce risks and seize opportunities, considering the recommendations of the internal and external auditors.
ERM Effectiveness

The ERM effectiveness is analysed by:

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

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

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

Board Declaration

Based on the reports made directly available to the Board of Directors, coming from different processes, audits and controls and the information it received from management, the Board of Directors believes to the best of its knowledge that the internal risk management and control system provides reasonable assurance that the financial reporting does not contain any material inaccuracies. This report provides sufficient insight into any material failings in the effectiveness of the internal risk management and control systems. No matter how well designed, the internal risk management and control system has inherent limitations, such as vulnerability to circumvention or overrides of the controls in place. Consequently, no assurance can be given that the Company’s internal risk management and system and procedures are or will be, despite all care and effort, entirely effective.

Based on the Company’s current state of affairs, it is justified that the financial statements have been prepared on a going concern basis. The Board of Directors confirms that to the best of its knowledge this report states the material risks and uncertainties that are relevant to the expectation of the Company’s continuity for the period of 12 months after the preparation of the report.
4.6 Risk Factors

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

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

4.6.1 FINANCIAL MARKET RISKS

Global Economic Concerns

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

On 29 March 2017, the UK triggered article 50 of the Lisbon Treaty, the mechanism to leave the European Union (“Brexit”), before having achieved a roadmap for the complex negotiations. Although the terms of the UK’s post-Brexit relationship with the EU are still unknown, the Company may be affected by potentially divergent national laws and regulations between the EU and the UK. This may include greater restrictions on the importing and exporting of goods and services between the UK and EU countries in which the Company operates along with costly new tariffs and increased regulatory and legal complexities. The free movement of people and skilled labour may also be limited by new border controls.

The administration of US President Donald Trump has introduced greater uncertainty with respect to US tax and trade policies, tariffs and government regulations affecting trade between the US and other countries.

Although the impact of these geopolitical events cannot reasonably be assessed, the consequences could have a negative effect on the Company’s financial condition and results of operations.

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

- requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decisions by customers to review their order intake strategy due to, among other things, lack of adequate credit supply from the
market to finance aircraft purchases or change in operating costs or weak levels of passenger demand for air travel and cargo activity more generally;

• an increase in the amount of sales financing that the Company must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interests the Company might have in the underlying aircraft;

• variations in public spending for defence, homeland security and space activities;

• financial instability, inability to obtain credit or insolvency on the part of key suppliers and sub-contractors, thereby impacting the Company’s ability to meet its customer obligations in a satisfactory and timely manner;

• continued de-leveraging as well as mergers, rating downgrades and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by the Company for its businesses or restrict its ability to implement desired foreign currency hedges;

• default of investment or derivative counterparties and other financial institutions, which could negatively impact the Company’s treasury operations including the cash assets of the Company; and

• decreased performance of Airbus’ cash investments due to low and partly negative interest rates.

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

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

Foreign Currency Exposure

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

There are complexities inherent in determining whether and when foreign currency exposure of the Company will materialise, in particular given the possibility of unpredictable revenue variations arising from order cancellations, postponements or delivery delays. The Company may also have difficulty in fully implementing its hedging strategy if its hedging counterparties are unwilling to increase derivatives risk limits with the Company, and is exposed to the risk of non-performance or default by these hedging counterparties. The exchange rates at which the Company is able to hedge its foreign currency exposure may also deteriorate, as the euro could appreciate against the US dollar for some time as has been the case in the past and as higher capital requirements for banks result in higher credit charges for uncollateralised derivatives. Accordingly, the Company’s foreign currency hedging strategy may not
protect it from significant changes in the exchange rate of the US dollar to the euro and the pound sterling, in particular over the long term, which could have a negative effect on its financial condition and results of operations. In addition, the portion of the Company’s US dollar-denominated revenues that is not hedged in accordance with the Company’s hedging strategy will be exposed to fluctuations in exchange rates, which may be significant.

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

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

**Sales Financing Arrangements**

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

The Company’s sales financing arrangements expose it to aircraft value risk, because it generally retains security interests in aircraft for the purpose of securing customers’ performance of their financial obligations to the Company, and/or because it may guarantee a portion of the value of certain aircraft at certain anniversaries from the date of their delivery to customers. Under adverse market conditions, the market for used aircraft could become illiquid and the market value of used aircraft could significantly decrease below projected amounts. In the event of a financing customer default at a time when the market value for a used aircraft has unexpectedly decreased, the Company would be exposed to the difference between the outstanding loan amount and the market value of the aircraft, net of ancillary costs (such as maintenance and remarketing costs, etc.). Similarly, if an unexpected decrease in the market value of a given aircraft coincided with the exercise window date of an asset value guarantee with respect to that aircraft, the Company would be exposed to the difference between the outstanding loan amount and the market value of the aircraft, net of ancillary costs (such as maintenance and remarketing costs, etc.).

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

* Unless otherwise indicated, EBIT figures presented in this report are Earning Before Interest and Taxes. It is identical to Profit before finance cost and income taxes as defined by IFRS Rules.
In addition, the Company has outstanding backstop commitments to provide financing related to orders on Airbus’ and ATR’s backlog. While past experience suggests it is unlikely that all such proposed financing actually will be implemented, the Company’s sales financing exposure could rise in line with future sales growth depending on the agreement reached with customers. Despite the measures taken by the Company to mitigate the risks arising from sales financing activities as discussed above, the Company remains exposed to the risk of defaults by its customers or significant decreases in the value of the financed aircraft in the resale market, which may have a negative effect on its future financial condition and results of operations.

**Counterparty Credit**

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

Counterparties for transactions in cash, cash equivalents and securities as well as for derivative transactions are limited to highly rated financial institutions, corporates or sovereigns. The Company’s credit limit system assigns maximum exposure lines to such counterparties, based on a minimum credit rating threshold as published by Standard & Poor’s and Moody’s. If neither is present, Fitch ratings are used. Besides the credit rating, the limit system also takes into account fundamental counterparty data, as well as sector and maturity allocations and further qualitative and quantitative criteria such as credit risk indicators. The credit exposure of the Company is reviewed on a regular basis and the respective limits are regularly monitored and updated. The Company also seeks to maintain a certain level of diversification in its portfolio between individual counterparties as well as between financial institutions, corporates and sovereigns in order to avoid an increased concentration of credit risk on only a few counterparties.

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

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

**Pension Commitments**

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

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

**Tax Exposure**

As a multinational group with operations and sales in various jurisdictions, Airbus is subject to a number of different tax laws. It is the Company’s objective to adhere to the relevant tax regulations and to ensure tax compliance in each country.

Airbus’ policy is to have its economic results taxed in a compliant manner in all countries where it creates value.

The Company’s decisions on its structure and on the transactions it enters into are based on its own fair interpretations of applicable tax laws and regulations. The Company aims for certainty on the tax positions it adopts, though in a complex environment with increasing uncertainty, there can be no assurance that the tax authorities will not seek to challenge such interpretations, consequently the Company or its affiliates could become subject to tax claims.

The Company will always act to minimise the risk associated with a tax position, while aiming for tax efficiency as described below. Where tax law is unclear or subject to interpretation, the Company may decide to take a written opinion from an independent third-party tax advisor, detailing the facts, risks and conclusions, so as to support the decision-making process, or to engage with tax authorities to secure alignment on interpretation of tax rules. The level of risk will be deemed to be acceptable where strong technical arguments exist to support the position and where stakeholders have been consulted appropriately according to the value at stake.

In case weaknesses may be identified in tax processes, the Company will act to remediate the issues in a timely manner to ensure continued compliance.

### 4.6.2 BUSINESS-RELATED RISKS

**Commercial Aircraft Market Factors**

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

The commercial helicopter market could also be influenced by a number of factors listed above. The civil & parapublic and oil & gas market softness has led to a postponement of investments in the acquisition of new platforms by offshore helicopter players and a reduction of flight hours. Structural changes of the oil & gas segment are not anticipated at current oil price levels. The uncertainty on the lead time of the market recovery may have an impact on Airbus Helicopters financial results and could lead to cancellations or loss of bookings and services.
Physical Security, Terrorism, Pandemics and Other Catastrophic Events

Past terrorist attacks and the spread of disease (such as the H1N1 flu pandemic or the Ebola epidemic in 2013-2016) have demonstrated that such events may negatively affect public perception of air travel safety, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest or uncertainties may also affect the willingness of the public to travel by air. Furthermore, major aircraft accidents may have a negative effect on the public’s or regulators’ perception of the safety of a given class of aircraft, a given airline, form of design or air traffic management. As a result of such factors, the aeronautic industry may be confronted with sudden reduced demand for air transportation and be compelled to take costly security and safety measures. The Company may therefore suffer from a decline in demand for all or certain types of its aircraft or other products, and the Company’s customers may postpone delivery or cancel orders.

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

Cyber Security Risks

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

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

All of the above mentioned risks are heightened in the context of greater use of cloud services, integration with the extended enterprise, the relatively insecure “internet of things” and the growing use in the Company’s IT systems of sophisticated mobile devices. Social engineering is a growing threat, exacerbated by advances in machine learning.

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

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

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

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 of its suppliers and subcontractors to meet the obligations defined under their contracts. Supplier performance is continually monitored and assessed so that supplier development programmes can be launched if performance standards fall below expectations.
In case of supplier non-performance a systematic review and application of contractual liabilities linked to contract execution allows the Company to mitigate its financial exposure due to the supplier non-performance. The Company also implements performance improvement agreements with suppliers to incentivise suppliers to sustainably restore contractual performance levels.

In addition, the Company benefits from its inherent flexibility in production lead times to compensate for a limited non-performance of suppliers, protecting the Company’s commitments towards its customers. In certain cases, dual sourcing is utilised to mitigate the risk. However, no absolute assurance can be given that these measures will fully protect the Company from non-performance of a supplier which could disrupt production and in turn may have a negative effect on its financial condition and results of operations.

Changes to the Company’s production or development schedules may impact suppliers so that they initiate claims under their respective contracts for financial compensation. However the robust, long-term nature of the contracts and a structured process to manage such claims, limits the Company’s exposure. Despite these mitigation measures, there could still result in a negative impact on the financial condition and results of operations of the Company.

As the Company’s global sourcing footprint extends, some suppliers (or their sub-tier suppliers) may have production facilities located in countries that are exposed to socio-political unrest or natural disasters which could interrupt deliveries. Country-based risk assessment is applied by the Company to monitor such exposures and to ensure that appropriate mitigation plans or fall-back solutions are available for deliveries from zones considered to be at risk. Despite these measures, the Company remains exposed to interrupted deliveries from suppliers impacted by such events, which could have a negative effect on the financial condition and results of operations of the Company.

Suppliers (or their sub-tier suppliers) may also experience financial difficulties requiring them to file for bankruptcy protection, which could disrupt the supply of materials and parts to the Company. However, financial health of suppliers is analysed prior to selection to minimise such exposure and then monitored during the contract period to enable the Company to take action to avoid such situations. In exceptional circumstances, the Company may be required to provide financial support to a supplier and therefore face limited credit risk exposure. If insolvency of a supplier does occur, the Company works closely with the appointed administrators to safeguard contractual deliveries from the supplier. Despite these mitigation measures, the bankruptcy of a key supplier could still have a negative effect on the financial condition and results of operations of the Company.

**Industrial Ramp-Up**

As a result of the large number of new orders for aircraft recorded in recent years, the Company is in the process of accelerating its production in order to meet the agreed upon delivery schedules for such new aircraft. The Company’s ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given the high demand by the Company and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of engines and buyer-furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, across Airbus and the two Divisions, which carry their own resource demands. Therefore, failures relating to any or all of these factors could lead to missed or delayed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers’ rescheduling or terminating their orders. The associated risks may increase as the Company and its competitors announce further production rate increase. Significant efforts have been made to improve supply chain stability and performance. Specific areas of risk with suppliers of engines and of cabin equipment continue to be carefully managed.
Technologically Advanced Products and Services

The Company offers its customers products and services that are technologically advanced, the design, manufacturing, components and materials utilised can be complex and require substantial integration and coordination along the supply chain. In addition, most of the Company’s products must function under demanding operating conditions. Throughout the lifecycle of our products, Airbus performs checks and inspections, which may result in modifications, retrofits or other corrective actions each of which may have an adverse effect on production, operations, in-service performance or financial condition. Even though the Company believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that the Company’s products or services will be successfully developed, manufactured or operated or that they will perform as intended.

Certain of Airbus’ contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, to provide cancellation rights, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should the Company fail to meet delivery schedules or other measures of contract performance — in particular with respect to new development programmes such as the A350-900 and -1000 XWB, A400M, H175 or H160 and to modernisation programmes such as the A320neo and the A330neo. See “— Programme-Specific Risks” below.

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

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

Dependence on Public Spending and on Certain Markets

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

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

Availability of Government and Other Sources of Financing

Since 1992, the EU and the US have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US sought to unilaterally withdraw from this agreement, which eventually led to the US and the EU making formal claims against each other before the World Trade Organization (“WTO”). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues. The terms and conditions of any new agreement, or the final outcome of the formal WTO proceedings, may limit access by the Company to risk-sharing-funds for large projects, may establish an unfavourable balance of access to government funds by the Company as compared to its US competitors or may in an extreme scenario cause the European Commission and the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the Company.
In prior years, the Company and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future, in part as a result of the proceedings mentioned above. Moreover, the availability of other outside sources of financing will depend on a variety of factors such as market conditions, the general availability of credit, the Company’s credit ratings, as well as the possibility that lenders or investors could develop a negative perception of the Company’s long- or short-term financial prospects if it incurred large losses or if the level of its business activity decreased due to an economic downturn. The Company may therefore not be able to successfully obtain additional outside financing on appropriate terms, or at all, which may limit the Company’s future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

**Competition and Market Access**

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

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

**Major Research and Development Programmes**

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

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

No assurance can be given that the Company will achieve the anticipated level of returns from these programmes and other development projects, which may negatively affect the Company’s financial condition and results of operations and competitiveness.
Digital Transformation, Continuous Improvement and Competitiveness Programmes

In order to improve current operational performance while preparing for the future, in 2017 the Company launched the integration of its headquarters and corporate functions with the largest Division, Airbus Commercial Aircraft, and has initiated a wide-reaching digital transformation programme, Quantum. In parallel, continuous improvement and competitiveness programmes running in all businesses are pursued.

Digital transformation

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

Traditional cost-saving and competitiveness programmes

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

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

Acquisitions, Divestments, Joint Ventures and Strategic Alliances

As part of its business strategy, the Company may acquire or divest businesses and/or form joint ventures or strategic alliances. Executing acquisitions and divestments can be difficult and costly due to the complexities inherent in integrating or carving out people, operations, technologies and products. There can be no assurance that any of the businesses that the Company intends to acquire or divest can be integrated or carved out successfully, as timely as originally planned or that they will perform well and deliver the expected synergies or cost savings once integrated or separated. In addition, despite the efforts and expenditures of the parties, regulatory, administrative or other contractual conditions can prevent transactions from being finalised. While the Company believes that it has committed sufficient resources and established appropriate and adequate procedures and processes necessary to mitigate these risks, there is no assurance that these transactions will be successfully completed or produce the expected benefits.

Public-Private Partnerships and Private Finance Initiatives

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

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

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

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

**Programme-Specific Risks**

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

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: the transition from A320ceo (current engine option) to A320neo that began in 2016 continued with 181 deliveries in 2017; management of the internal and external supply chain pressure as a result of the industrial ramp-up; ensuring maturity and high quality service support for a growing number of operators of A320neo (new engine option). The main focus will be with the further ramp-up for Airbus and both engine suppliers. For both engine suppliers, challenges are to (i) meet the delivery commitments in line with agreed schedule and ensure sufficient engine availability; (ii) fix in-service maturity issues in line with Airbus and customer expectations and mitigate the associated consequences.

**A400M programme.** In 2017, Airbus continued with development activities toward achieving the technical capabilities. In addition, Airbus entered into discussions with OCCAR and the customer Nations that resulted in the signature of a Declaration of Intent (“DOI”) on 5 February 2018 agreeing on a global re-baselining of the contract, including a revised aircraft delivery schedule, an updated technical capability roadmap and a revised retrofit schedule. The DOI represents an important step towards reaching a contractually binding agreement also mitigating the commercial exposure while satisfying customer needs with regard to capabilities and availability of the aircraft.

Challenges remain on development of contractual technical capabilities and the associated costs, on securing sufficient export orders in time, and on cost reductions. The key capabilities to be achieved remain cargo management and aerial delivery, self-defence and protection, and air to air refuelling. In addition, the A400M programme continues to face challenges in the management of the retrofit campaign as well as providing support to enable high levels of in-service availability.

For further information, please refer to the “— Notes to the IFRS Consolidated Financial Statements — Note 10: Revenues and Gross Margin”.

**A350 XWB programme.** In connection with the A350 XWB programme, the Company faces the following main challenges: ensuring satisfaction of operators and high quality support to their operations; maintaining supply chain performance and production ramp-up; controlling and reducing the level of outstanding work in final assembly line; managing recurring costs during the ongoing ramp-up; maintaining customisation and ramp-up of Heads of Version; maintaining the development schedule in line with learning curve assumptions beyond the initial ramp up phase of
A350-1000 XWB to ensure entry in service; maintaining attention on engine development; and customer support for
new type in service.

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges:
secure future order flow; ramp down the yearly production rate towards deliveries in 2019 and further reduce fixed
costs to the new delivery level; make continued improvements to lower the resources and costs associated with
designing each customised Head of Version aircraft for customers; and manage maturity in service.

**A330 programme.** In connection with the A330 programme, the main challenge the Company faces is to manage the
transition to A330neo. The A330neo development progresses after first flight took place in 2017 with attention on the
equipment development.

**H225 programme and AS332 L2 fleet.** In connection with the H225 programme and the AS332 L2 fleet, the
Company faces the following main challenges: since the crash in April 2016 of a H225 in Norway, the Company is dealing with protective measures validated by EASA who lifted the flight suspension on 7 October 2016 and by UK
and Norwegian aviation authorities on 7 July 2017 to put the fleet back into flight operations; providing assistance to
the investigation team and the authorities ahead of the publication of the final accident report; working with the
relevant stakeholders to allow the return to service of aircraft, following-up with retrofits and dealing with customer
claims.

**H175 programme.** In connection with the H175 programme produced in cooperation with Avic, the Company faces
the following main challenges: after the delivery of the first H175 in VIP configuration in 2016, the Company is working
on the certification of the Public Services variant and the delivery of the 3 first H175 in Public Services configuration
planned for 2018, as well as on the maturity plan of the aircraft and with the associated industrial ramp-up.

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

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

4.6.3 LEGAL RISKS

**Dependence on Joint Ventures and Minority Holdings**

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

- the Eurofighter and AirTanker consortia; and
- three principal joint ventures: MBDA, ATR and ArianeGroup.

The formation of partnerships and alliances with other market players is an integral strategy of the Company, and the
proportion of sales generated from consortia, joint ventures and equity holdings may rise in future years. This strategy
may from time to time lead to changes in the organisational structure, or realignment in the control, of the Company’s
existing joint ventures.

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

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The other parties in these entities may also be competitors of the Company, and thus may have interests that differ from those of the Company.

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

**Product Liability and Warranty Claims**

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

**Intellectual Property**

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

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

**Export Controls Laws and Regulations**

The export market is a significant market for the Company. In addition, many of the products the Company designs and manufactures for military use are considered to be of national strategic interest. Consequently, the export of such products outside of the jurisdictions in which they are produced may be restricted or subject to licensing and export control requirements, notably by the UK, France, Germany and Spain, where the Company carries out its principal activities relating to military products and services as well as by other countries where suppliers are based, notably, the US. There can be no assurance (i) that the export controls to which the Company is subject will not become more restrictive, (ii) that new generations of the Company’s products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors or changing international circumstances will not make it impossible to obtain export licenses for one or more clients or constrain the Company’s ability to perform under previously signed contracts. Reduced access to military export markets may have a significant adverse effect on the Company’s business financial condition and results of operations.

Operating worldwide, the Company must comply with several, sometimes inconsistent, sets of sanctions laws and regulations implemented by national / regional authorities. Depending on geopolitical considerations including national security interests and foreign policy, new sanctions regimes may be set up or the scope of existing ones may be widened, at any time, immediately impacting the Company’s activities.
Although the Company seeks to comply with all such laws and regulations, even unintentional violations or a failure to comply could result in suspension of the Company’s export privileges, or preclude the Company from bidding on certain government contracts (even in the absence of a formal suspension or debarment).

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

**Anti-Corruption Laws and Regulations**

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

In 2016, for example, the Company announced that it had discovered misstatements and omissions in certain applications for export credit financing for Airbus customers, and had engaged legal, investigative and forensic accounting experts to conduct a review. Separately, the UK Serious Fraud Office announced that it had opened a criminal investigation into allegations of fraud, bribery and corruption in the civil aviation business of Airbus, relating to irregularities concerning third party consultants. Airbus was subsequently informed that the French authorities, the Parquet National Financier (“PNF”), had also opened a preliminary investigation into the same subject and that the two authorities will act in coordination going forward. Please refer to “Notes to the IFRS Consolidated Statements – Note 36: Litigation and Claims”.

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

**Legal and Regulatory Proceedings**

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

In addition, the Company is from time to time subject to government inquiries and investigations of its business and competitive environment due, among other things, to the heavily regulated nature of its industry. In addition to the risk of an unfavourable ruling against the Company, any such inquiry or investigation could negatively affect the Company’s reputation and its ability to attract and retain customers and investors, which could have a negative effect on its business, financial condition and results of operations. See “— Non-Financial Information — 6.1.4 Responsible Business — Ethical Business Practices”.

**4.6.4 INDUSTRIAL AND ENVIRONMENTAL RISKS**

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

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

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

Despite compliance with all applicable laws and regulations, the Company’s reputation may also be affected by the public perception of the contributions of its operations and activities on society.
5. Financial Performance

Airbus’ Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

5.1 Consolidated Financial Statements (“IFRS”)

(Please refer to the “Airbus SE – IFRS Consolidated Financial Statements for the years ended 31 December 2017 and 2016” and “Notes to the IFRS Consolidated Financial Statements”).

5.1.1 CONSOLIDATED INCOME STATEMENT (“IFRS”)

5.1.2 REVENUES

Revenues were stable at € 66.8 billion (2016: € 66.6 billion) with higher aircraft deliveries offset by a reduction in revenues of around € 2 billion from the perimeter changes. Commercial Aircraft revenues rose by 3.5 percent with record deliveries of 718 aircraft (2016: 688 aircraft) comprising 558 A320 Family, 78 A350 XWBs, 67 A330s and 15 A380s. Helicopters’ revenues were slightly lower with deliveries of 409 units (2016: 418 units). Revenues at Defence and Space reflected the Division’s perimeter changes of around € 1.7 billion but were seven percent higher on a comparable basis driven mainly by military aircraft.

5.1.3 EBIT AND FINANCIAL RESULT

(At the end of the 2016 financial year, Airbus implemented the European Securities and Markets Authority’s guidelines on Alternative Performance Measures. As a result, certain items are no longer labelled as “one-offs”. Such items are now labelled as “Adjustments”. Airbus no longer measures and communicates its performance on the basis of “EBIT*” but on the basis of “EBIT” (reported) as the difference between the two KPIs, the so-called “pre-goodwill and exceptionals”, has become less relevant. There is no change to the substance of the guidance. Terminology has changed such that “EBIT* before one-offs” has been replaced by “EBIT Adjusted” and “EPS* before one-offs” replaced by “EPS Adjusted”.)

EBIT Adjusted – an alternative performance measure and key indicator capturing the underlying business margin by excluding material charges or profits caused by movements in provisions related to programmes, restructuring or foreign exchange impacts as well as capital gains/losses from the disposal and acquisition of businesses – increased to € 4,253 million (2016: € 3,955 million).

Commercial Aircraft’s EBIT Adjusted of € 3,554 million (2016: € 2,811 million) reflected the strong delivery performance supported by improved foreign exchange rates. A total of 181 A320neo Family aircraft were delivered, up from 68 during 2016. Supplier Pratt & Whitney introduced new engine fixes in the fourth quarter which have been certified. Unfortunately, a new issue has arisen likely unrelated to the prior fixes, the impact of which is under assessment with respect to 2018 deliveries. CFM International meanwhile experienced some maturity issues in 2017 on some batches of the LEAP 1A engine. The A320neo ramp-up remains challenging and requires that the engine suppliers deliver in line with commitments. On the A350, good progress was made with the industrial ramp-up, recurring cost convergence and the reduction of outstanding work in the Final Assembly Line, which has been significantly reduced. The A350 programme is preparing to reach the targeted monthly production rate of 10 by the
end of 2018. Meanwhile, Emirates Airline’s latest order provides increased visibility on the A380 programme for the years to come.

Helicopters’ EBIT Adjusted declined to € 337 million (2016: € 350 million) but was broadly stable on a comparable basis. Lower deliveries, an unfavourable mix and lower commercial flight hours in services were compensated by transformation efforts which have globally supported the Division’s competitiveness in a challenging market. The sale of the maintenance, repair and overhaul business Vector Aerospace was closed in November.

Defence and Space’s EBIT Adjusted amounted to € 872 million (2016: € 1,002 million), reflecting the perimeter changes, but was broadly stable on a comparable basis.

On the A400M programme, good progress was made on the industrial side with 19 aircraft delivered compared to 17 in 2016. The production rate was adjusted to recalibrate inventory levels while the military capability roadmap was re-baselined. In 2017, Airbus entered into discussions with OCCAR and the customer Nations that resulted in the signature of a Declaration of Intent (DoI) in February agreeing on a global re-baselining of the contract, including a revised aircraft delivery schedule, an updated technical capability roadmap and a revised retrofit schedule. The DoI represents an important step towards reaching a contractually binding agreement also mitigating the commercial exposure while satisfying customer needs with regard to capabilities and availability of the aircraft. With a clear roadmap in place, Airbus’ remaining exposure going forward is expected to be more limited. A detailed review of the programme concluded in the fourth quarter of 2017 including an estimate of the financial impact of the adaptations on schedule, capabilities and retrofit resulted in an update of the Loss Making Contract provision of € 1,299 million for the year.

EBIT (reported) increased to € 3,421 million (2016: € 2,258 million) including Adjustments totalling a net € -832 million compared to net Adjustments of € -1,697 million in 2016. The 2017 Adjustments mainly comprised:

- The total charge of € 1,299 million related to the A400M programme, including € 1,149 million in the fourth quarter;
- A negative impact of € 117 million from compliance, comprising an administrative penalty notice connected to the termination of the Eurofighter Austria investigation by the Munich Public Prosecutor and some legal costs incurred in the fourth quarter related to ongoing investigations;
- A net loss of € 20 million related to other M&A activities;
- A net capital gain of € 604 million from the divestment of the Defence Electronics business, which is unchanged from the Nine-Month 2017 disclosure.

Net income increased to € 2,873 million (2016: € 995 million) after the EBIT Adjustments with earnings per share of € 3.71 (2016: € 1.29). EPS also included a strong positive impact mainly from the revaluation of financial instruments and balance sheet items, reflecting the euro/dollar rate evolution as well as an adjustment on the A380 Refundable Launch Investment following a review of the commercial assumptions. The finance result was € 1,149 million (2016: € -967 million).

Table 1 – EBIT and Revenues by Division

<table>
<thead>
<tr>
<th>by Division</th>
<th>EBIT (reported)</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2017</td>
<td>FY 2016</td>
</tr>
<tr>
<td>Commercial Aircraft</td>
<td>3,428</td>
<td>1,543</td>
</tr>
<tr>
<td>Helicopters</td>
<td>337</td>
<td>308</td>
</tr>
<tr>
<td>Defence and Space</td>
<td>212</td>
<td>-93</td>
</tr>
</tbody>
</table>
5.1.4 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (“IFRS”)

The annual impairment tests performed in 2017 led to no impairment charge.

The revised commercial outlook for the A380 program has not triggered any impairment losses capitalised development costs or jigs and tools for assets dedicated to the programme.

**Intangible assets and property, plant and equipment**

**Intangible assets** decreased by € -439 million to € 11,629 million (2016: € 12,068 million) mainly due to the disposal of Vector. Intangible assets mainly relate to goodwill of € 9,141 million (2016: € 9,425 million).

**Property, plant and equipment** decreased by € -303 million to € 16,610 million (2016: € 16,913 million) mainly at Airbus Helicopters (€ -210 million), primarily driven by the disposal of Vector.

**Investment accounted for under the equity method**

**Investments accounted for under the equity method** increased by € +70 million to € 1,678 million (2016: € 1,608 million) and mainly include the equity investments in ArianeGroup, MBDA and ATR.

**Other investments and other long-term financial assets**

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Other investments</td>
<td>2,441</td>
</tr>
<tr>
<td>Other long-term financial assets</td>
<td>1,763</td>
</tr>
<tr>
<td><strong>Total non-current other investments and other long-term financial assets</strong></td>
<td><strong>4,204</strong></td>
</tr>
<tr>
<td>Current portion of other long-term financial assets</td>
<td>529</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,733</strong></td>
</tr>
</tbody>
</table>

**Other investments** mainly comprise Airbus’ participations. The significant participations at 31 December 2017 include the remaining investment in Dassault Aviation (Airbus share: 9.93%, 2016: 10.0%) amounting to € 1,071 million (2016: € 876 million).

**Other long-term financial assets and the current portion of other long-term financial assets** encompass other loans in the amount of € 1,521 million and € 1,147 million as of 31 December 2017 and 2016, and the sales finance activities in the form of finance lease receivables and loans from aircraft financing.

**Inventories**

**Inventories** of € 31,464 million (2016: € 29,688 million) increased by € +1,776 million. This is driven by Airbus Commercial Aircraft (€ +2,354 million), and mainly reflects an increase in work in progress associated with A350 XWB ramp-up. This increase was partly compensated by a decrease at Airbus Helicopters (€ -455 million), mainly related to the disposal of Vector.

**Trade Receivables and Trade Liabilities**

The **trade receivables** of € 8,358 million (2016: € 8,101 million) increased by € +257 million, mainly in Airbus Commercial Aircraft.

The **trade liabilities** of € 13,444 million (2016: € 12,532 million) increased by € +912 million, mainly in Airbus Commercial Aircraft.
Provisions

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Provision for pensions</td>
<td>8,361</td>
</tr>
<tr>
<td>Other provisions</td>
<td>8,367</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,728</strong></td>
</tr>
<tr>
<td>thereof non-current portion</td>
<td>10,153</td>
</tr>
<tr>
<td>thereof current portion</td>
<td>6,575</td>
</tr>
</tbody>
</table>

**Provisions for pensions** decreased mainly due to contributions made into the various pension vehicles and the strong performance of plan assets.

**Other provisions** are presented net of programme losses against inventories.

A restructuring provision associated with the re-organisation of Airbus of €160 million was recorded at year-end 2016, following the communication of the plan to the employees and the European Works Council in November 2016. The French social plan was agreed between Airbus and the works council in June 2017. The German social plan was agreed between Airbus and the works councils in September 2017, however the reconciliation of interest is still under discussion.

In Airbus Helicopters, the restructuring plan launched in 2016 was signed by the three representative trade unions and validated by the Work Administration Agency (DIRECCTE) in March 2017.

An H225 Super Puma helicopter was involved in an accident on 29 April 2016. Management is cooperating fully with the authorities to determine the precise cause of the accident. An estimate of the related net future costs has been prepared and is included in other provisions.

Other financial assets and other financial liabilities

**Other Financial Assets**

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Positive fair values of derivative financial instruments</td>
<td>2,901</td>
</tr>
<tr>
<td>Others</td>
<td>79</td>
</tr>
<tr>
<td><strong>Total non-current other financial assets</strong></td>
<td><strong>2,980</strong></td>
</tr>
<tr>
<td>Receivables from related companies</td>
<td>992</td>
</tr>
<tr>
<td>Positive fair values of derivative financial instruments</td>
<td>663</td>
</tr>
<tr>
<td>Others</td>
<td>324</td>
</tr>
<tr>
<td><strong>Total current other financial assets</strong></td>
<td><strong>1,979</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,959</strong></td>
</tr>
</tbody>
</table>

**Other Financial Liabilities**

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Liabilities for derivative financial instruments</td>
<td>1,127</td>
</tr>
<tr>
<td>European Governments refundable advances</td>
<td>5,537</td>
</tr>
<tr>
<td>Others</td>
<td>283</td>
</tr>
<tr>
<td><strong>Total non-current other financial liabilities</strong></td>
<td><strong>6,948</strong></td>
</tr>
<tr>
<td>Liabilities for derivative financial instruments</td>
<td>1,144</td>
</tr>
<tr>
<td>European Governments refundable advances</td>
<td>364</td>
</tr>
<tr>
<td>Liabilities to related companies</td>
<td>334</td>
</tr>
<tr>
<td>Others</td>
<td>343</td>
</tr>
<tr>
<td><strong>Total current other financial liabilities</strong></td>
<td><strong>2,185</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,133</strong></td>
</tr>
</tbody>
</table>
The total net fair value of derivative financial instruments improved by € +11,162 million to € +1,293 million (2016: €-9,869 million), as a result of the devaluation of the US dollar versus the euro associated with the mark to market valuation of the hedge portfolio.

As of 31 December 2017, the total hedge portfolio with maturities up to 2023 amounts to US$ 88.7 billion (2016: US$ 102.4 billion), and covers a major portion of the foreign exchange exposure expected over the period of the operative planning. The average US$/€ hedge rate of the US$/€ hedge portfolio until 2023 amounts to US$/€ 1.23 (2016: US$/€ 1.25) and for the US$/£ hedge portfolio until 2023 amounts to US$/£ 1.43 (2016: US$/£ 1.49).

The European Government refundable advances decreased by € -1,169 million to € 5,901 million (2016: € 7,070 million) primarily related to the update of the valuation of refundable advances from European Governments on A380 programme to reflect the revised commercial outlook of the programme and current status of discussions with Nations on RLI agreements restructuring. The corresponding impact is recorded in the financial result.

**Other assets and other liabilities**

**Other Assets**

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In € million)</td>
<td>2017</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,210</td>
</tr>
<tr>
<td>Others</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total non-current other assets</strong></td>
<td><strong>2,295</strong></td>
</tr>
<tr>
<td>Value added tax claims</td>
<td>1,892</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>639</td>
</tr>
<tr>
<td>Others</td>
<td>376</td>
</tr>
<tr>
<td><strong>Total current other assets</strong></td>
<td><strong>2,907</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,202</strong></td>
</tr>
</tbody>
</table>

**Other Liabilities**

<table>
<thead>
<tr>
<th></th>
<th>31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In € million)</td>
<td>2017</td>
</tr>
<tr>
<td>Customer advance payments</td>
<td>16,659</td>
</tr>
<tr>
<td>Others</td>
<td>531</td>
</tr>
<tr>
<td><strong>Total non-current other liabilities</strong></td>
<td><strong>17,190</strong></td>
</tr>
<tr>
<td>Customer advance payments</td>
<td>25,284</td>
</tr>
<tr>
<td>Tax liabilities (excluding income tax)</td>
<td>1,397</td>
</tr>
<tr>
<td>Others</td>
<td>2,512</td>
</tr>
<tr>
<td><strong>Total current other liabilities</strong></td>
<td><strong>29,193</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46,383</strong></td>
</tr>
</tbody>
</table>

**Total equity**

**Equity attributable to equity owners of the parent** (including purchased treasury shares) amounts to € 13,348 million (2016: € 3,657 million) representing an increase of € +9,691 million. This is due to an increase in other comprehensive income of € +7,738 million, principally related to the mark to market revaluation of the hedge portfolio of € 7,757 million, and a net income for the period of € 2,873 million, partly offset by a dividend payment of € -1,043 million (€ 1.35 per share).

The **non-controlling interests** (“NCI”) from non-wholly owned subsidiaries increased to € 3 million as of 31 December 2017 (2016: € -5 million). These NCI do not have a material interest in Airbus’ activities and cash flows. This increase is mainly related to the mark to market revaluation of the hedge portfolio.
Assets and disposal groups classified as held for sales

As of 31 December 2017, Airbus accounted for assets and disposal groups of assets classified as held for sale in the amount of €202 million (2016: €1,148 million). Disposal group of liabilities classified as held for sale as of 31 December 2017 amount to €106 million (2016: €991 million). The assets and disposal groups classified as held for sale are mainly related to assets and liabilities from non-core businesses planned to be sold under the strategic portfolio review within Airbus Defence and Space.

5.1.5 NET CASH

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>12,016</td>
<td>10,143</td>
</tr>
<tr>
<td>Current securities</td>
<td>1,627</td>
<td>1,551</td>
</tr>
<tr>
<td>Non-current securities</td>
<td>10,944</td>
<td>9,897</td>
</tr>
<tr>
<td><strong>Gross cash position</strong></td>
<td>24,587</td>
<td>21,591</td>
</tr>
<tr>
<td>Short-term financing liabilities</td>
<td>(2,212)</td>
<td>(1,687)</td>
</tr>
<tr>
<td>Long-term financing liabilities</td>
<td>(8,984)</td>
<td>(8,791)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13,391</td>
<td>11,113</td>
</tr>
</tbody>
</table>

The net cash position on 31 December 2017 was €13,391 million (2016: €11,113 million) with a gross cash position of €24,587 million (2016: €21,591 million).

Cash and cash equivalents

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account and petty cash</td>
<td>3,672</td>
<td>3,100</td>
</tr>
<tr>
<td>Short-term securities (at fair value through profit and loss)</td>
<td>6,256</td>
<td>5,513</td>
</tr>
<tr>
<td>Short-term securities (available-for-sale)</td>
<td>2,085</td>
<td>1,535</td>
</tr>
<tr>
<td>Others</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td>12,021</td>
<td>10,160</td>
</tr>
<tr>
<td>Recognised in disposal groups classified as held for sale</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Recognised in cash and cash equivalents</td>
<td>12,016</td>
<td>10,143</td>
</tr>
</tbody>
</table>
Securities

Airbus’ security portfolio amounts to €12,571 million and €11,448 million as of 31 December 2017 and 2016, respectively. The security portfolio contains a non-current portion of available-for-sale-securities of €10,944 million (in 2016: €9,897 million) and a current portion of available-for-sale-securities of €1,627 million (in 2016: €1,551 million).

Financing liabilities

<table>
<thead>
<tr>
<th>(In € million)</th>
<th>Not exceeding 1 year</th>
<th>Over 1 year up to 5 years</th>
<th>More than 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>512</td>
<td>1,524</td>
<td>5,027</td>
<td>7,063</td>
</tr>
<tr>
<td>Liabilities to financial</td>
<td>290</td>
<td>1,397</td>
<td>325</td>
<td>2,012</td>
</tr>
<tr>
<td>Loans</td>
<td>144</td>
<td>200</td>
<td>185</td>
<td>529</td>
</tr>
<tr>
<td>Liabilities from finance leases</td>
<td>17</td>
<td>139</td>
<td>186</td>
<td>342</td>
</tr>
<tr>
<td>Others (1)</td>
<td>1,249</td>
<td>1</td>
<td>0</td>
<td>1,250</td>
</tr>
<tr>
<td><strong>31 December 2017</strong></td>
<td><strong>2,212</strong></td>
<td><strong>3,261</strong></td>
<td><strong>5,723</strong></td>
<td><strong>11,196</strong></td>
</tr>
<tr>
<td>Bonds</td>
<td>0</td>
<td>1,581</td>
<td>4,432</td>
<td>6,013</td>
</tr>
<tr>
<td>Liabilities to financial</td>
<td>351</td>
<td>1,573</td>
<td>499</td>
<td>2,423</td>
</tr>
<tr>
<td>Loans</td>
<td>332</td>
<td>213</td>
<td>118</td>
<td>663</td>
</tr>
<tr>
<td>Liabilities from finance leases</td>
<td>15</td>
<td>154</td>
<td>220</td>
<td>389</td>
</tr>
<tr>
<td>Others (1)</td>
<td>989</td>
<td>0</td>
<td>990</td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2016</strong></td>
<td><strong>1,687</strong></td>
<td><strong>3,522</strong></td>
<td><strong>5,269</strong></td>
<td><strong>10,478</strong></td>
</tr>
</tbody>
</table>

(1) Included in “others” are financing liabilities to joint ventures.

Long-term financing liabilities, mainly comprising bonds and liabilities to financial institutions, increased by €193 million to €8,984 million (2016: €8,791 million). The increase in long-term financing liabilities is mainly related to the issuance of bonds. The increase in bonds corresponds principally to bonds issued on 10 April 2017, for a total of US$1.5 billion, with a 10 year-maturity tranche of US$750 million at fixed coupon of 3.150%, and a 30 year-maturity tranche of US$750 million at a fixed coupon of 3.950%.

Short-term financing liabilities increased by €525 million to €2,212 million (2016: €1,687 million). The increase in short-term financing liabilities is mainly related to the reclassification of an EMTN bond from long-term to short term due to maturity in September 2018.

Free cash flow

Free cash flow before M&A and customer financing improved significantly to €2,949 million (2016: €1,408 million), supported by the earnings performance and record aircraft deliveries although the A400M continued to weigh significantly. Free cash flow of €3,735 million (2016: €3,181 million) included net proceeds of around €600 million from the Defence Electronics disposal and around €400 million from the Vector Aerospace sale.

The aircraft financing environment remains healthy with a high level of liquidity available in the market at good rates for Airbus aircraft. In 2017, Export Credit Agency (“ECA”) financing had not been made available to Airbus but Airbus and the ECAs have now reached agreement on a process under which Airbus is able to resume making applications for ECA-backed financing for its customers across the group on a case-by-case basis. Airbus anticipates a return to ECA cover in 2018 for a limited number of transactions while the level of appetite for commercial financing remains high.
5.1.6 ORDER INTAKE AND ORDER BOOK

Order intake increased to € 158 billion (2016: € 134 billion) with the order book valued at € 997 billion as of 31 December 2017 (2016: € 1,060 billion). A total of 1,109 net commercial aircraft orders were received (2016: 731 aircraft), with a book-to-bill ratio of 1.5. The backlog by units reached a record year-end level of 7,265 commercial aircraft. Net helicopter orders totalled 335 units (2016: 353 units), including 48 Super Puma Family rotorcraft and 17 H175s. By value in euros, the book-to-bill ratio in Helicopters was around 1. At Defence and Space, good momentum was seen in military aircraft with the order intake including 22 light and medium transport aircraft, five A330 MRTT tankers and the Eurofighter contract with Kuwait. Two all-electric telecommunication satellites were booked in the fourth quarter despite a soft market environment. Defence and Space’s perimeter changes had a negative impact of € 1.9 billion on the order book and € 1.5 billion on order intake.

Table 2 – Order Intake and Order Book by Division

<table>
<thead>
<tr>
<th>by Division</th>
<th>Order Intake (1)</th>
<th>Order Book (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2017</td>
<td>FY 2016</td>
</tr>
<tr>
<td>Commercial Aircraft</td>
<td>143,361</td>
<td>114,938</td>
</tr>
<tr>
<td>Helicopters</td>
<td>6,544</td>
<td>6,057</td>
</tr>
<tr>
<td>Defence and Space</td>
<td>8,893</td>
<td>15,393</td>
</tr>
<tr>
<td>Headquarters / Eliminations</td>
<td>-1,108</td>
<td>-1,908</td>
</tr>
<tr>
<td>Total</td>
<td>157,690</td>
<td>134,480</td>
</tr>
</tbody>
</table>

(1) Contributions from commercial aircraft activities to the Airbus’ Order Intake and Order Book are based on list prices.

5.2 Information on Airbus SE auditors

<table>
<thead>
<tr>
<th>Ernst &amp; Young Accountants LLP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of First Appointment</td>
</tr>
<tr>
<td>Boompjes 258 3011 XZ Rotterdam Postbus 488 3000 AL Rotterdam The Netherlands Represented by A.A.Van Eimeren</td>
</tr>
</tbody>
</table>

* A resolution will be submitted to the Annual General Meeting of Shareholders in 2018, in order to appoint Ernst & Young Accountants LLP as the Company’s auditors for the 2018 financial year.

Ernst & Young Accountants LLP’s representative is registered with the NBA (Nederlandse Beroepsorganisatie van Accountants).
6. Non-Financial Information and other Corporate Activities

6.1 Non-Financial Information

6.1.1 AIRBUS APPROACH

Airbus and its main stakeholders

Airbus is an industrial company operating in businesses with long product life cycles and corresponding returns on investment. There are significant costs and risks in programme development and cyclical civilian markets. These features define the Company and shape its relationships with all stakeholders. For a description of Airbus’ business model, please see section 1, General Overview.

The Company’s main purpose, its missions and the objectives resulting from them, are defined in relation to these stakeholders. The Company has defined the following objectives:

• Generate long-term value by developing a sustainably profitable portfolio of aeronautics, helicopter, defence and space businesses. For its shareholders, lenders and other financial counterparts, the Company must meet its obligations and foster its standing of creditworthiness and profitability.

• Be a provider of choice, offering superior value-for-money products and services to customers.

• Engage employees to share its goals and rise to its challenges. Within the confines of applicable laws and regulations, Airbus must respond to their expectations about development, people management and values.

• Build sustainable relationships with its suppliers based on mutual interest to satisfy its customers to encourage responsible practices. The Company promotes the Supplier Code of Conduct as standards consistent with its own code of conduct, and also develops and implements adequate mechanisms to monitor supplier performance.

• Play a key role in society and towards local communities. The Company is committed to responsible business practices in terms of respect for human rights, labour, the environment and anti-corruption. In addition, the Company encourages initiatives that contribute to tackling societal challenges whether through its products and services, skills and resources or via key partnerships.

Materiality Assessment

In order to prioritise its responsible and sustainable efforts, Airbus has performed a materiality assessment in 2017. With the support of consultants, Airbus approached a set of stakeholders representing customers, works councils, local community partners, NGOs, technological partners, investors, airworthiness authorities, MROs, government bodies, suppliers and industry associations. Airbus chose a qualitative approach rather than a quantitative approach. In-depth interviews were conducted with external stakeholders. A list of top issues for the Company was developed, consolidated and ranked by the Company’s Responsibility & Sustainability Network. The network gathers a group of experts advising on Airbus’ Responsibility & Sustainability (“R&S”) strategy, monitoring progress in their respective areas of responsibility, sharing knowledge and best practices throughout the entire Company. It is trans-functional, trans-national and trans-divisional and meets on a regular basis. The outcome of this assessment was shared with top management.
With regard to risk management, Airbus performed an in-depth review of its ERM system in order to identify potential missing risks related to human rights and fundamental freedoms, health and safety and the environment. The ERM system was updated to take into account the most significant potential risks related to these areas that Airbus may generate as part of its operations. The ERM team also adjusted its procedures so that these potential new risks and their likely adverse impacts can be duly assessed throughout the Company. For each risk, a dedicated action plan is being defined by the responsible team who will monitor its deployment throughout the Company. The potential new risks and related action plans will be consolidated and reported to the top management of the Company. For a complete description of Airbus’ ERM system, see Chapter 4.5.

**UN Sustainable Development Goals**

Today Airbus is still committed to the UN Global Compact principles and has reached the “Advanced Level”.

Airbus adopted the UN Sustainable Development Goals (SDGs) in December 2015 as a framework to align its responsible and sustainable contributions. Over 2016, Airbus performed a mapping of its contributions based on the Company’s publicly available information (including the Company’s web site, annual report and press releases). It demonstrated that at least eight of the 17 SDG goals are directly relevant to Airbus’ businesses and stakeholders’ feedback confirmed that Airbus is actively contributing to:

- SDG 4: Quality education
- SDG 5: Gender equality
- SDG 8: Decent work and economic growth
- SDG 9: Industry, innovation and infrastructure
- SDG 12: Responsible consumption and production
- SDG 13: Climate action
- SDG 16: Peace, justice and strong institutions
- SDG 17: Partnerships for the goals

Throughout 2017, Airbus continued the mapping internally and identified KPIs to assess its overall contributions to the above SDGs. Measurement will start in 2018.
R&S Charter

In 2017, Airbus has outlined its commitments in a new Responsibility & Sustainability Charter. The aim of the Charter is to demonstrate how Airbus intends to contribute to the requirements and needs of society and how employees will live Airbus’ six values in their daily work with all stakeholders whether customers, suppliers, partners, shareholders. The Charter is available at www.airbus.com.

6.1.2 RESPONSIBLE MANUFACTURER

a. Product Safety

Airbus recognises and values the trust the flying public puts in its aircraft, and this is the reason the Company constantly strives to improve safety any way it can. Its investment in successive generations of aircraft which embody new and safer technologies have been very successful in achieving an ever-decreasing number of accidents despite an ever-increasing number of flights.

Today, with the rate of accidents at an all-time low, Airbus is working even harder to ensure that accidents remain rare events.

This is why it is Airbus’ top priority to continually improve safety. Its commitment to safety starts at the top, is reflected in the structure of its organisation, and is most deeply embodied in the mind-set employees bring to work.

At every point in design, manufacturing and assembly, Airbus makes sure that its aircraft not only comply with but exceed the safety requirements laid down by the European Aviation Safety Authority (EASA) and the US Federal Aviation Authority (FAA). The development of the Fly-By-Wire and flight envelope protection technologies more than 25 years ago, or more recently the Runway Overrun Prevention System, are examples of significant contributions to safety introduced by Airbus and now becoming industry standards.

Whenever safety topics must be discussed, it is done at the appropriate level, including by Airbus’ senior executives. By acting together, the Company ensures that the full power of coordinated cross-company action can be brought to bear on any issue where it is believed that safety can be further enhanced.

b. Research & Technology

In 2017, CTO underwent a transformation programme to become more agile, innovative and aligned with the needs of Airbus. The new organisation applies a lean, project-based approach, will encourage collaboration with external research communities and develop partnerships, especially through open innovation with technical and scientific experts.

The CTO organisation is responsible for: guiding all R&T activities of the Company and ensuring Airbus-wide integration of technology through Technology Planning and Roadmapping, accelerating the development of selected technologies through Flight Demonstrators together with the Divisions, providing expertise in breakthrough technologies in support of the group wide projects in Central R&T and developing technologies for the next generation aircraft in Airbus R&T.

Technology Planning and Roadmapping developed a set of technology roadmaps spanning the R&T portfolio, which are used to analyse technology progression using key figures of merit and is starting to provide a valuation methodology for the R&T activities.

Flight Demonstrators provide a maturation mechanism and maturity gates for the group R&T portfolio. The Demonstrators employ a CTO-established development methodology, including phasing and key gates, lightweight project management and earned-value management processes, including budgeting, HR and contracting mechanisms tailored for speed of execution.
Central R&T is organised in five boost areas - Data Science, Materials, Communication Technologies, Electrics Expertise and Virtual Product Engineering. A research vision and new ways of working were implemented with a short cycle for testing new ideas and decision gates for the creation of larger projects. The transitioning from the former Airbus Group Innovations is ongoing through 2018.

Airbus R&T portfolio will be organised in three areas starting in 2018 to better adapt to Airbus product policy and business needs - Enhancing our Aircraft Programmes, Next New Aircraft, and Digital Design & Manufacturing. The organisation started a transformation program aiming for speed, agility and high performance with a flatter hierarchy and empowered teams.

In addition to the domains described above, five technology thrusts were established to ensure coherency in the portfolio of activities and to rapidly advance strategic priorities. These thrusts are:

- Electrification;
- Digital Design and Manufacturing;
- Connectivity;
- Autonomy;
- Materials.

Key progress in 2017

Flight Demonstrators

- E-Fan X Programme:

The E-Fan family of technology demonstrators was a bold step towards all-electric and hybrid-electric flight aimed at establishing requirements for future certification of electrically powered airplanes and at training a new generation of designers and engineers for the challenges of electric flying. In March 2017, the Airbus Executive Technical Council decided to refocus Airbus' efforts on electric flight towards a more ambitious project, which aims to develop a hybrid-electric demonstrator baptised the "E-Fan X", a stepping stone towards a hybrid electric single aisle aircraft. In November 2017, E-Fan X was launched in conjunction with Siemens and Rolls-Royce. E-Fan X will be powered by a 2 MW motor, which is one order of magnitude greater than E-Fan 2.0's motor.

- E-Aircraft Systems House (EAS):

The EAS aims to verify hybrid- and electric propulsion systems functionality and performance for low, medium, and high-power systems by ground testing, accelerating technology readiness in collaboration with Siemens and developing and supplying hybrid-electric propulsion systems and hardware for Flight Demonstrators.

In 2017, it continues to support electrification projects, including providing the test bench for CityAirbus.
A³

A³ (pronounced “A-cubed”), is the advanced projects and partnerships outpost of Airbus in Silicon Valley with the mission to disrupt the aerospace industry.

- **Altiscope** launched in 2017 to help integrate unmanned aircraft systems (UAS) into the airspace. Using a simulator to evaluate policy options and operational models for air traffic management systems, it aims to service all forms of airborne traffic.
- **Vahana** is an electric urban air mobility vehicle designed to carry a single passenger or cargo. A³ is aiming to make it the first certified passenger aircraft without a pilot. The first Vahana full-size prototype is scheduled to fly in early 2018.
- **Transpose**, launched in December 2016, rethinks the aircraft cabin architecture and passenger experience possibilities. The project demonstrated user tests in a modular cabin in its alpha phase.
- **Voom** delivers an on-demand urban air mobility service using helicopters. It successfully completed its beta phase pilot in Sao Paulo, Brazil, and will continue as a business in 2018 within Airbus Helicopters.

**Airbus China Innovation Centre (ACIC):** This year, a second innovation centre was opened in Shenzhen, China. Like A³, it is focused on technologies and business models that could be disruptive to the core business. However, it will leverage the hardware ecosystem in Shenzhen, and talent pool in China to develop projects. The first ACIC project will be launched in 2018.

**BizLab**

Airbus BizLab is the aerospace accelerator where startups and Airbus entrepreneurs speed up the transformation of innovative ideas into valuable businesses. BizLab offers early-stage selected projects wide-ranging support in the form of a program with a six-month acceleration phase. Startups and internal projects benefit from free hosting in BizLab facilities, have access to a large number of Airbus coaches and experts in various domains, and participate in events such as a Demo Day with Airbus decision makers, Airbus customers and partners. The BizLab expanded its network by opening a fourth campus, in Madrid, in January 2018.

**Airbus Helicopters**

CityAirbus is a three-to-four passenger optionally piloted electric vehicle for unmanned air mobility. It has transitioned into Airbus Helicopters from the ExO and expects an unmanned flight test in 2018. The urban last mile delivery solution, Skyways, plans a demonstration in February 2018, after which it will be transitioned into Airbus Defence and Space.

**Airbus Defence and Space**

Airbus Aerial is an image and data analytics services company that was launched in 2017. It integrates data from a broad array of aerospace assets including satellites and unmanned aerial vehicles. At the end of 2017, it employed 22 people.

**c. Environmental Matters**

1. **Environmental Management at Airbus**

   “Shaping our future” means that Airbus develops products and services taking into consideration current and foreseeable future environmental challenges for future generations and with long-term value creation in mind. Incorporating environmental values into its core policy not only improves the management of operational business risks and opportunities but also enhances the long-term sustainability of its business.

   As aviation represents around 2% of global man-made CO₂ emissions, Airbus recognises its role in reducing the global environmental footprint of the sector and the importance of staying in line with the global 2°C trajectory. This is
done through continually seeking to reduce the carbon intensity of Airbus’ industrial operations and working together with Airbus’ suppliers, industry and government stakeholders in its aim to find sustainable solutions to reduce the environmental impact of our products, deliver our ambitious sectorial emission reduction goals, as well as preparing adaptation to the effects of climate change on its operations.

The industry faces a variety of environmental challenges and Airbus invests and cooperates with stakeholders across the value-chain in researching and implementing innovative ways to meet them.

Alongside the Company’s environmental policy in pursuit of eco-efficiency, Airbus has developed an aspirational long-term ambition for 2050 setting the direction for the Company regarding environmental matters, providing a framework to set up concrete environmental objectives for the short- and mid-term.

The Company’s **2050 Ambition** covers the three following complementary directions:

- operating Airbus sites without impact on climate change by eliminating greenhouse gas emissions, with zero air and water emissions, zero waste to landfill and minimal natural resources consumption;
- delivering products which provide maximised value to customers whilst meeting expectations of society through minimised impact on climate, air emissions and noise, management of substances of concern aiming at their elimination and maximised reliability, throughout the product life cycle;
- engaging the supply chain in the Company’s ambitious objectives.

Airbus has put in place a robust **Environmental Management System** (EMS) centrally and within its Divisions. One of the functions of the Airbus EMS is to track the enhancement of its environmental performance as it includes identifying, managing, monitoring and controlling an organisation’s environmental issues. Airbus’ EMS is guided by the latest version of the international environmental standard, ISO 14001: 2015 version. The 2015 version has a broader scope than previous standards, and Airbus was among the first aerospace companies to adopt it.

On an annual basis, Airbus undertakes an extensive exercise to collect, consolidate and report the Company’s environmental performance data. Quantitative data is gathered - energy and water consumption, CO2 and VOC emissions and waste generation - as well as qualitative data - certification, incidents, activities on site. This enables Airbus to measure its environmental impact, follow its performance and communicate information on environmental matters to internal and external stakeholders. The Company’s commitment to eco-efficiency is demonstrated through its transparent reporting.

In the future, the reporting of environmental indicators will include relevant categories of Scope 3 emissions for Airbus’ operations. This will provide greater understanding of the impact on the environment of activities under Airbus’ control.

### 2. Environmental concerns

**Regulated substances across its products’ life cycles**

Aerospace manufacturing, operations and maintenance rely on certain regulated substances to achieve a high level of quality, safety and reliability accounting for lengthy product life-cycles. Some of these substances are or may in the future be classified as substances that may pose a risk to human health or the environment.

If a substance not yet identified is classified in the future as one that may pose a risk to human health or the environment, this may give rise to substantial costs for Airbus to manage it, including, for example, research and development (whether alone or in cooperation with other stakeholders) of suitable alternatives, testing, qualification and certification costs. Any reputational risk and potential claim against Airbus that may result will also need to be managed.

Airbus continues in its activity (also in cooperation with industry stakeholders) to identify new technologies and solutions that avoid use of substances classified as posing a risk to human health or the environment, whilst satisfying airworthiness, certification and performance requirements. Airbus also engages with suppliers to promote the adoption of a similar approach through regular communication and, more widely, by working together with the
aerospace industry to promote worldwide harmonisation of regulations and ways of working, taking into account the sector’s safety and lifecycle specificities.

Airbus identifies, tracks and declares regulated substances. The Company has already substituted certain substances of concern or developed replacement technology where suitable alternatives have been found, such as some ozone-depleting substances (ODS), fluorinated gases, or substances of very high concern (SVHCs) under the European regulation REACH. On top of all applicable regulatory requirements, more than 100 substances have been targeted by Airbus for substitution and the Company is always looking for new solutions. For example, Airbus Commercial Aircraft launched the Airbus chromate free project in 2006. The project has so far delivered substitution solutions for a considerable number of usages and continues efforts to substitute the remaining ones. One of the first steps was to deploy chromate-free surface protection systems, with among others, operational changes and replacement within Airbus’ production lines. Over 100 suppliers are now ‘qualified’ to use chromate-free pickling before anodisation.

Within IAEG, Airbus contributed to the creation of the IAEG ‘Aerospace and Defence Declarable Substances List’ (AD-DSL) and the associated declaration standard (IPC-1754). The AD-DSL provides an initial common list of chemicals/substances identified and reviewed by IAEG as used within the aerospace and defence supply chain and thus will make it easier to work with regulatory agencies to appropriately manage regulated substances and chemicals used in manufacturing.

Surface modification by laser is a new technology developed by Defence and Space to replace the use of substances for some processes, notably for pre-treatment before bonding. This technology is now available for some Space Systems applications and is planned to be implemented into the serial production of flight hardware for New Generation Synthetic Aperture Radar satellites (NGSAR).

Environmental impact of Airbus operations

Airbus is engaged in an industrial transformation to anticipate and prepare itself for mid-term evolutions of its industrial systems as well as the longer-term solutions to build its “factories of the future”. This Company-wide initiative will support the reduction of Airbus’ environmental footprint on air, soil and water quality, climate change, biodiversity and resource availability. An evaluation of hotspots is on-going to help focus on appropriate topics.

Analysis of the current trends shows that the regulatory pressure on the international scene to reduce the environmental footprint of the aerospace industry is steadily growing (circular economy and resources efficiency, energy transition and climate change engagement, air and water quality improvement). In addition, the expectations of stakeholders (including citizens, investors) are also elements that increase pressure towards low carbon and sustainable production patterns. Since 2015, Airbus has been developing its plan for the next decade to prepare for upcoming regulatory developments, maintaining employee engagement and proposing solutions to stakeholders’ expectations.

Airbus has also set an extended 2030 Vision, with operational objectives on Airbus manufacturing activities but also encompassing suppliers. Airbus wants to engage in ambitious environmental objectives in its aim to:

- Enhance the use of environmental risk evaluation for consideration as a quantitative input during supplier selection, contracting and auditing phases.
- Divert waste from landfilling and incineration.
- Comply with air emissions regulations and absorb ramp up production impacts.
- Comply with GHG emissions regulations (and compatible with the global 2°C trajectory) and absorb ramp up production energy impacts.
- Develop strong maintenance and rehabilitation programs to improve reliability and lower water costs.

To highlight the importance of CO₂ impact in design and operation of plants, an initiative is being developed to set an internal “Carbon Price” to be used in the trade-off between different solutions. This may be used for industrial projects
and 2030 Vision would integrate a progressive increase in the Carbon Price as a further carbon-reduction incentive and to bring greater appreciation of the CO₂ impact in the near future.

Airbus monitors and makes available data verified by external auditors and publishes transparently its industrial performance. The performance linked to 2020 Vision results shows good progress (by reference to a baseline of 2006 at constant revenue and production) in different areas: energy consumption (stationary sources) has decreased by 37%, CO₂ emissions by 42% (scope 1 stationary sources + scope 2 total), while water consumption has been cut by 48% and waste by 41%.
Environmental data has been externally audited since 2010. Below is a selection (2) of externally reviewed environmental indicators. The current reporting covers Scope 1 and Scope 2 emissions.

<table>
<thead>
<tr>
<th>GRI</th>
<th>KPI</th>
<th>Description</th>
<th>Unit</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>EN3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>ENERGY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total energy consumption (excluded electricity generated by CHP on site for own use)</td>
<td>MWh</td>
<td>3 893 111</td>
<td>4 098 475</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Energy consumption from stationary sources</td>
<td>MWh</td>
<td>1 395 192</td>
<td>1 357 724</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of which, natural gas consumption</td>
<td>MWh</td>
<td>1 335 263</td>
<td>1 298 639</td>
</tr>
<tr>
<td></td>
<td></td>
<td>distillate fuel oil consumption (Gas oil, Diesel, FOD)</td>
<td>MWh</td>
<td>12 170</td>
<td>13 782</td>
</tr>
<tr>
<td></td>
<td></td>
<td>liquefied petroleum gas consumption</td>
<td>MWh</td>
<td>360</td>
<td>357</td>
</tr>
<tr>
<td></td>
<td></td>
<td>propane consumption</td>
<td>MWh</td>
<td>3 883</td>
<td>1 356</td>
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<tr>
<td></td>
<td></td>
<td>biomass consumption</td>
<td>MWh</td>
<td>43 517</td>
<td>43 117</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total electricity consumption</td>
<td>MWh</td>
<td>1 452 760</td>
<td>1 534 062</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of which, purchased electricity consumption</td>
<td>MWh</td>
<td>1 371 842</td>
<td>1 405 920</td>
</tr>
<tr>
<td></td>
<td></td>
<td>purchased heat/steam</td>
<td>MWh</td>
<td>80 671</td>
<td>127 899</td>
</tr>
<tr>
<td></td>
<td></td>
<td>generated electricity from photovoltaic on-site for own use</td>
<td>MWh</td>
<td>247</td>
<td>242</td>
</tr>
<tr>
<td></td>
<td></td>
<td>generated electricity from other renewable source on-site for own use</td>
<td>MWh</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Generated electricity from CHP on-site for own use</td>
<td>MWh</td>
<td>188 144</td>
<td>190 127</td>
</tr>
</tbody>
</table>
### AIR EMISSIONS

<table>
<thead>
<tr>
<th>EN16</th>
<th>Total CO₂ emissions</th>
<th>tonnes CO₂</th>
<th>935 402</th>
<th>1 013 101</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total direct CO₂ emissions (Scope 1)</td>
<td>tonnes CO₂</td>
<td>557 447</td>
<td>591 002</td>
</tr>
<tr>
<td></td>
<td>of which, CO₂ emissions from stationary sources</td>
<td>tonnes CO₂</td>
<td>272 679</td>
<td>265 350</td>
</tr>
<tr>
<td></td>
<td>CO₂ emissions from mobile sources</td>
<td>tonnes CO₂</td>
<td>269 493</td>
<td>311 036</td>
</tr>
<tr>
<td></td>
<td>CO₂ emissions from fugitive sources</td>
<td>tonnes CO₂</td>
<td>15 203</td>
<td>14 579</td>
</tr>
<tr>
<td></td>
<td>CO₂ emissions from processes on site</td>
<td>tonnes CO₂</td>
<td>72</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Total indirect CO₂ emissions (Scope 2)</td>
<td>tonnes CO₂</td>
<td>377 955</td>
<td>422 099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EN20</th>
<th>Total VOC emissions*</th>
<th>tonnes</th>
<th>1 539</th>
<th>1 565</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total SO₂ emissions</td>
<td>tonnes</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Total NOₓ emissions</td>
<td>tonnes</td>
<td>241</td>
<td>314</td>
</tr>
</tbody>
</table>

### WATER

<table>
<thead>
<tr>
<th>EN8</th>
<th>Total water consumption</th>
<th>m³</th>
<th>3 834 265</th>
<th>4 011 897</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of which, purchased water</td>
<td>%</td>
<td>76.4%</td>
<td>76.5%</td>
</tr>
<tr>
<td></td>
<td>abstracted ground water</td>
<td>%</td>
<td>20.0%</td>
<td>19.3%</td>
</tr>
<tr>
<td></td>
<td>withdrawn surface water</td>
<td>%</td>
<td>3.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td></td>
<td>rainwater collected used</td>
<td>%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>EN21</td>
<td>Total water discharge</td>
<td>m³</td>
<td>3 464 179</td>
<td>3 416 506</td>
</tr>
<tr>
<td></td>
<td>of which, water discharged via an internal pre-treatment plant</td>
<td>m³</td>
<td>228 428</td>
<td>214 200</td>
</tr>
</tbody>
</table>

### WASTE

<table>
<thead>
<tr>
<th>EN22</th>
<th>Total waste production, excluding exceptional waste</th>
<th>tonnes</th>
<th>104 505</th>
<th>105 839</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of which, non-hazardous waste</td>
<td>tonnes</td>
<td>77 835</td>
<td>77 073</td>
</tr>
<tr>
<td>EN24</td>
<td>hazardous waste</td>
<td>tonnes</td>
<td>26 670</td>
<td>28 766</td>
</tr>
<tr>
<td></td>
<td>waste going to material recovery</td>
<td>tonnes</td>
<td>62 344</td>
<td>61 933</td>
</tr>
<tr>
<td></td>
<td>waste going to energy recovery</td>
<td>tonnes</td>
<td>21 954</td>
<td>21 844</td>
</tr>
<tr>
<td></td>
<td>Material recovery rate</td>
<td>%</td>
<td>59.7%</td>
<td>58.5%</td>
</tr>
<tr>
<td></td>
<td>Energy recovery rate</td>
<td>%</td>
<td>21.0%</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

### EMS certification

<table>
<thead>
<tr>
<th>Number of sites with ISO 14 001 /EMAS certification**</th>
<th>unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of workforce covered by ISO 14001 &amp; environmental reporting</td>
<td>%</td>
</tr>
</tbody>
</table>

2017 data covers 89% of total group employees.

2016 data correspond to the data validated by the external third party in 2016, without any recalculation to take into account perimeters movements, which can explain some of the observed variances.

* 2017 VOC emissions data is estimated. The accurate 2017 data will be consolidated and available during March 2018

** Number of sites covered by the environmental reporting which are certified ISO 14001.

Only 100% consolidated entities are taken into account.
Environmental impact of its products in operations

In the last 50 years, the aviation industry has cut fuel burn and CO\textsubscript{2} emissions per seat / kilometre by more than 80%, NO\textsubscript{x} emissions by 90% and noise by 75%. Whilst this performance is impressive, high predicted traffic growth (5% per annum), aviation's short to medium-term reliance on fossil-based fuels and the potential impacts of non-CO\textsubscript{2} factors, the aviation industry faces a significant challenge in reducing its impact on climate change.

To address the CO\textsubscript{2} challenge, Airbus, along with airlines, airports, air traffic management and other manufacturers, committed in 2008 to the ATAG CO\textsubscript{2} emission goals:

- Improve fleet fuel efficiency of 1.5% per year by 2020;
- Stabilise from 2020, net carbon emissions from aviation will be capped through carbon neutral growth (CNG);
- By 2050, net aviation carbon emissions will be half of what they were in 2005.

Meeting these goals will require a truly collaborative approach across the industry, focused on a combination of improvement measures including technology (including sustainable fuels), operational improvements, infrastructure (including air traffic management) and global market based measures (MBMs).

Progress has been made on the first two of ATAG emission targets:

- By delivering aircraft such as the A350 XWB, 25% more efficient than the previous generation aircraft and the A320neo with -15 to -20% fuel burn compared to A320ceo, the average increase in global fleet fuel efficiency has been over 2% per annum over the last five years;
- Alongside reducing CO\textsubscript{2} emissions, Airbus aircraft also offer significant improvements in both noise and NO\textsubscript{x} emissions reduction: A350 XWB with up to 21dB lower noise and 27% lower NO\textsubscript{x} emission compared to current industry standards, A320neo with up to 20dB lower noise and 50% lower NO\textsubscript{x} emission compared to current industry standards. The new H160 helicopter brings noise levels down by 50% compared to previous generation helicopters;
- The recently agreed ICAO CORSIA will also play an important role in achieving CNG from 2020.

For the ambitious long-term 2050 target, clearly Airbus and the wider industry do not have all the answers today. Such significant reductions will require disruptive approaches in technology (i.e. hybrid electric), significant quantities of low carbon fuels, innovative ways of operating the aircraft (eTaxi, formation flight) and sustainable ways to offset emissions.

In reaching this ambition, Airbus is working on a wide range of innovative technologies that have the potential for significant environmental benefits.

- Propulsion Integration: from advanced turbofans to hybrid distributed propulsion (i.e. Electrification);
- Aerodynamics: from advanced wingtip devices to natural and hybrid laminar flow;
- Structures: from innovative materials to bionic structures;
- Systems & cabin: from paperless/wireless to more electrical systems;
- Operations: from noise to climate-optimised trajectories;
- Manufacturing: from direct printing to 3-D printing;
- Aircraft configuration: from integrated airplanes to disruptive configurations.

Airbus’ engagement also extends to promoting the commercialisation of sustainable aviation fuels. For example, in order to make a step towards regular distribution of BioJet, Airbus and Total are working in cooperation to use sustainable fuels on ferry flights from Toulouse to Hong Kong. A biofuel delivery platform has been set-up and is in service in Toulouse.
Recyclability and waste management are important topics that Airbus is tackling in cooperation with other entities. With TARMAC Aerosave, a joint venture between Airbus, SNECMA and Suez, more than 90% of an aircraft weight is today recycled or re-used through a selective dismantling (reverse manufacturing) process. As airplanes manufactured with large volumes of composites start retiring in the next few decades, Airbus is working in cooperation with several specialist companies involved in carbon fibre recycling, as part of an industry goal to determine the best processes and uses for recycled and reused carbon fibre materials. Airbus is also investigating with certain operators innovative solutions to improve the in-flight cabin waste management.

d. Responsible defence and space products

Airbus works together with states, international organisations and customers to create better defence solutions for a safer and more prosperous world. Its military aircraft, Earth observation satellites and security technologies help protect freedom and democratic values by enabling governments to guarantee their sovereignty and combat changing terrorism threats and cybercrime.

It is one of Airbus’ aims to support the EU/NATO governments in their efforts to make the world a safer place. To fulfil their mission to guarantee sovereignty, security and human rights, these nations require equipment and defence systems that they themselves define. Airbus supports the EU/NATO governments – which constitute the majority of Airbus’ customer base -- in this task by supplying the necessary equipment.

Airbus defence technologies can also be used to solve societal challenges. More ways are being explored for observation or communication satellites to contribute to solving some global challenges such as climate change, fast and reliable internet connection or security. Recent projects include:

- **Sentinel-5 Precursor**, which is part of the joint European Commission–European Space Agency global monitoring programme Copernicus, aims to acquire continuous and accurate Earth observation data and provide services to improve the management of the environment, understand and mitigate the effects of climate change, and ensure civil security.

- **Spationav** is the coastal protection project of Signalis France, ensuring maritime security in France. It is protecting human life, the coastal environment and French national interests while covering 6,000 kilometres of coastline with 5,000 ships tracked each minute. Spationav is counteracting illegal activities such as smuggling and terrorism.

- The Global Earth Observation Challenge organised by Defence and Space rewarded in October 2017, six start-ups that innovate and develop new applications primarily based on Airbus’ satellite data. Among them, two projects were linked to monitor environmental impacts: Ozius (Australia) creates new landscape intelligence by fusing a variety of remote sensing data to identify where the environmental risks and opportunities occurred in the past, where they are today, and project where they will occur in the future; Kermap (France) uses satellite imagery to support the ecological transition of cities.

- **TeSeR** is the next EU project to clean up space, which is led by Airbus. Technology for Self-Removal of Spacecraft (TeSeR) aims to reduce the risk of spacecraft colliding with debris in space and provide a sustainable space environment for future generations.

- The **OneWeb Satellites JV** is building a communications network with a constellation of low Earth orbit (LEO) satellites, with a goal of enabling access to billions of people around the world. With more than 7 terabits per second of new capacity, it aims to transparently extend the networks of mobile operators and ISP’s to serve new coverage areas, bringing voice and data access to consumers, businesses, schools, healthcare institutions and other end users.

Finally, the Airbus Foundation is multiplying partnerships in order to leverage Airbus’ know-how and technologies to be applied to the humanitarian sector, with UAVs, satellite imagery and decontamination projects in particular.
6.1.3 RESPONSIBLE EMPLOYER

a. Airbus Workforce

As of 31 December 2017, Airbus’ workforce amounted to 129,442 employees (compared to 133,782 employees in 2016), 95.8% of which consisted of full-time employees. These statistics take into account consolidation effects and perimeter changes throughout 2017. Depending on country and hierarchy level, the average working time is between 35 and 40 hours per week.

In 2017, 7,318 employees worldwide were welcomed into Airbus (compared to 7,532 in 2016 and 5,266 in 2015). At the same time, 5,151 employees left Airbus including partial retirements (compared to 4,698 in 2016 and 4,870 in 2015).

In terms of nationalities, 37.3% of Airbus’ employees are from France, 32.1% from Germany, 9.4% from the UK and 9.8% are from Spain. US nationals account for 1.9% of employees. The remaining 9.6% are employees coming from a total of 127 other countries. In total, 92.1% of Airbus’ active workforce is located in Europe on more than 100 sites.

Workforce by Division and Geographic Area

The tables below provide a breakdown of Airbus’ employees by Division and geographic area, as well as by age, including the percentage of part-time employees.

<table>
<thead>
<tr>
<th>Employees by Division</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airbus Commercial Aircraft</td>
<td>74,542</td>
<td>73,852</td>
<td>72,816</td>
</tr>
<tr>
<td>Airbus Helicopters</td>
<td>20,161</td>
<td>22,507</td>
<td>22,520</td>
</tr>
<tr>
<td>Airbus Defence and Space</td>
<td>32,171</td>
<td>34,397</td>
<td>38,206</td>
</tr>
<tr>
<td>Airbus former HQ(1)</td>
<td>2,568</td>
<td>3,026</td>
<td>3,032</td>
</tr>
<tr>
<td><strong>Group Total</strong></td>
<td><strong>129,442</strong></td>
<td><strong>133,782</strong></td>
<td><strong>136,574</strong></td>
</tr>
</tbody>
</table>

(1) “Airbus former HQ” includes Headquarters, Shared Services and Innovation Works.

<table>
<thead>
<tr>
<th>Employees by geographic area</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>47,865</td>
<td>47,963</td>
<td>50,810</td>
</tr>
<tr>
<td>Germany</td>
<td>44,214</td>
<td>46,713</td>
<td>47,796</td>
</tr>
<tr>
<td>Spain</td>
<td>13,177</td>
<td>12,682</td>
<td>12,521</td>
</tr>
<tr>
<td>UK</td>
<td>11,304</td>
<td>12,020</td>
<td>12,157</td>
</tr>
<tr>
<td>US</td>
<td>2,707</td>
<td>2,829</td>
<td>2,821</td>
</tr>
<tr>
<td>Other Countries</td>
<td>10,175</td>
<td>11,575</td>
<td>10,469</td>
</tr>
<tr>
<td><strong>Group Total</strong></td>
<td><strong>129,442</strong></td>
<td><strong>133,782</strong></td>
<td><strong>136,574</strong></td>
</tr>
<tr>
<td>% Part time employees</td>
<td>31 December 2017</td>
<td>31 December 2016</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------</td>
<td>------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Group Total</td>
<td>4.2%</td>
<td>4.1%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Active Workforce by contract type</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited contract</td>
<td>126,534</td>
<td>131,153</td>
<td>133,650</td>
</tr>
<tr>
<td>Limited contract &gt; 3 months</td>
<td>2,908</td>
<td>2,629</td>
<td>2,924</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% Active Workforce by Age</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>20-29</td>
<td>10.1%</td>
<td>10.4%</td>
<td>10.6%</td>
</tr>
<tr>
<td>30-39</td>
<td>29.4%</td>
<td>29.5%</td>
<td>29.7%</td>
</tr>
<tr>
<td>40-49</td>
<td>28.4%</td>
<td>27.9%</td>
<td>27.9%</td>
</tr>
<tr>
<td>50-59</td>
<td>26.8%</td>
<td>27.1%</td>
<td>27.1%</td>
</tr>
<tr>
<td>60+</td>
<td>5.1%</td>
<td>4.9%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Turnover Rate*</th>
<th>31 December 2017</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.0%</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

*The turnover rate does not include departures of the non-active workers.

Airbus’ headcount reporting includes all consolidated companies worldwide. The internationally comparative figures are based on the active workforce, i.e. the number of permanent and short-term employees, irrespective of their individual working times. The headcount is calculated according to the consolidation quota of the respective companies.

The scope for Human Resource (HR) structure reporting covers about 97% of Airbus’ consolidated companies, including all employees of these companies, irrespective of their individual consolidation quota. This includes employees working for the Company or its subsidiaries in France, Germany, Spain, Great Britain and internationally. In total, about 3% of the companies belonging to Airbus – usually recently acquired – are not included in the scope, as no detailed employee data is available at group level.

For more details on Scope and Methodology, please refer to the Airbus website at [www.airbus.com](http://www.airbus.com).
b. Human capital management, labour relations and human rights

Airbus’ workforce is managed by the HR function thanks to a set of HR policies and a strong labour structure. HR policies are discussed and agreed with social partners through continuous and regular meeting at global and local levels. The current priorities of the Airbus’ HR function are:

- To ensure that the Company can attract, develop and retain a world-class competent, motivated and flexible workforce, which fits current and future business requirements;
- To facilitate diversity, continuous integration and internationalisation of Airbus and contribute to a common culture based on strong company values;
- To be a global employer of choice and an innovative, inclusive and engaging place to work for all employees.

HR places people at the heart of Airbus’ future success.

Labour relations

Wherever it operates, Airbus wishes to grow its economic success in consideration of common principles and standards consistent with International Labour Organisation (ILO) conventions, the OECD Guidelines for Multinational Enterprises and the principles laid down by the UN Global Compact, which the Company has adopted. The principles are in compliance with the Airbus Standards of Business Conduct and with the International Framework Agreement signed in 2005.

In the International Framework Agreement, Airbus reaffirms its willingness to respect the regulation regarding fundamental human rights, equal opportunities, free choice of employment, as well as prohibition of child labour and respect and ensuring the conditions for industrial dialogue.

Airbus in particular intends, via its agreements, to respect the disposition of the following ILO conventions: numbers 111 (discrimination - employee and occupation), 100 (equal remuneration), 135 (workers’ representatives), 29 (forced labour), 105 (abolition of forced labour), 182 (child labour), 138 (minimum age), 87 (freedom of association and protection of the right to organise) and 98 (right to organise and collective bargaining).

The head of each business is responsible for ensuring compliance with these principles and will take appropriate measures to ensure their implementation.

The employees of Airbus will be informed, either orally or in writing, of all the provisions of this framework agreement, in accordance with the relevant legal form and/or local practice.

The provisions of this framework agreement define Airbus’ standards to be applied wherever Airbus operates, insofar as more favourable conditions do not exist already. Airbus central management shall take appropriate measures to eliminate any breach of the aforesaid principles.

Airbus is in continuous dialogue with social partners on its sites in Europe, principally through meetings with management at the European Committee level but also through meetings and negotiations at national or local level. Sites outside Europe are covered by Airbus’ ILA framing the social dialogue and social culture in line with local labour legislation, culture and practices of respective countries.

Regular social dialogue is ensured as per ILO requirements and local legislation thanks to Airbus’ Societa Europea Work Council (SEWC) agreement in 2015. In 2016, for example, Airbus organised 16 meetings with SEWC while the agreement stipulates three mandatory meetings per year.
Human Rights

Airbus has a zero tolerance approach to modern slavery within its business, its operations and within its supply chain.

Airbus is committed to promote awareness through internal communication initiatives and awareness sessions, and to train its employees worldwide on potential risks. Related risks will now be monitored via the Airbus ERM process throughout the entire Company. Finally, subject to regulatory approval, Airbus intends to extend its existing OpenLine to concerns related to human rights and fundamental freedom.

Airbus acknowledges its role in promoting responsible business practices worldwide. To that end, Airbus now seeks to identify risks related to human rights violations in its ERM system. Risk evaluation will start in 2018. KPIs as part of Airbus’ commitments related to the UK Modern Slavery Act will be identified in 2018. Human rights is also a topic addressed in the Airbus Supplier R&S Programme.

2017 Achievements

In 2017, Airbus provided more than 2 million training hours and more than 42,000 employees benefitted from the development, evaluation and transformation solutions proposed by the Airbus Leadership University. The purpose of the university is to strengthen the Company’s approach to leadership, offering equivalent opportunities for all leaders to drive their development one step ahead, while accelerating the culture evolution and human transformation in Airbus.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of Training Hours</td>
<td>**</td>
<td>2,320,508</td>
<td>2,264,145</td>
</tr>
<tr>
<td>Total number of Training Participants</td>
<td>**</td>
<td>214,819</td>
<td>226,692</td>
</tr>
<tr>
<td>Number of classroom training***</td>
<td>161,419</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of digital learning***</td>
<td>193,200</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Change of reporting in 2017, no numbers reported for 2017 anymore.
***New reporting scope since 2017. 51.2% digital learning in the 2017 learning plan.

Mobility of employees within or across Divisions is one of the main priorities for the overall benefit of the Company. In 2017, more than 11,000 employees changed jobs cross-divisionally and cross-country. For reference, Airbus has an attrition rate of 2.7% for its core entities and 4.0% when its subsidiaries are included.

In order to drive its digital transformation, Airbus aims to create a people-centric and trusting working environment. Launched at the end of 2015, a company transformation programme called PULSE has been designed to support the people aspects of the business transformation with the objective to increase empowerment, accountability and collaboration through digitally-powered capabilities, reworked HR policies and new ways of working. These HR solutions specifically support business agility and delivery, connect and increase collaboration between teams and create a working environment where employees can develop and give their best at work. A focus on a couple of these activities is proposed below.

In 2017, all Airbus employees were invited to select the Company’s values. This inclusive consultation exercise included employees from 17 countries. Around 55,000 employees took part in this campaign and defined the Company’s six core values: Integrity, ’We are One/Team work!’, Customer focus, Creativity, Respect and Reliability.

At Airbus, recognition of excellence is key. In 2017, over 1,000 projects were submitted Company-wide to participate in the Awards for Excellence scheme. The aim is to reward employees and teams for exceptional achievements, their ways of working and their contribution to improve business performance.

Airbus additionally launched its first Dream Big Challenge, inviting employees to propose new products, business, and services ideas. Over 700 ideas were submitted in 2017. Following a summit held in November, the three most
promising projects were selected to be developed further in incubators and during dedicated worldwide learning expeditions to Airbus’ BizLabs.

**c. Health & Safety**

To sustain its commercial success, attract the best talent and be known as a safe and healthy workplace, it is Airbus policy to continuously reinforce health and safety as part of the business culture, delivering responsible health and safety management that sustainably reduces risk to people, the environment and the business. The purpose of the Airbus health and safety policy is to:

- Demonstrate commitment to good management control of health and safety;
- Describe the guiding principles for health and safety management;
- Integrate health and safety into Company culture, strategy, processes, objectives, and decisions;
- Engender the harmonisation of health and safety philosophy and methodology, to gain risk control and efficiency benefits;
- Stimulate the sustained reduction of work related health and safety risks, in order to protect people and the Company.

To achieve its policy objective, Airbus is consolidating health and safety resources into a Company-wide organisation in order to drive effective, efficient risk control. This approach is designed to deliver Company-wide harmonisation of philosophy and method, with proactive risk assessment and control, role-appropriate competence and development, and active monitoring, analysis and oversight reporting.

Airbus consults employee representatives, for example in direct meetings and committees, and conducts a range of communication campaigns, thereby encouraging all employees to engage in health and safety risk management. Airbus’ industrial managers are closely involved in the performance-monitoring process, for example conducting formal ‘go-look-see’ safety tours. All reported incidents are appropriately investigated, using root cause methodology where necessary. Significant incidents and the results of monitoring are discussed by industrial management teams in the regular ‘Safety, Quality, Cost, Delivery, People’ management system or similar processes.

However, health and safety is not only a compliance matter; Airbus strives to improve even further, and so is introducing a formal corporate management framework based on the coming ISO45001 Standard, which is supported by a common Company-wide health, safety and environment software platform. This software toolkit, called FISH, will start to be deployed in 2018, and will enhance its Occupational Health, Risk Management and Incident Management capability.

Health and safety concerns caused by work activities include the possibility of injury, physical and mental ill-health, business interruption and regulatory action. Any reputational risk and claim against Airbus that may result will also need to be managed. Data indicates that main causes of injury are slip, trip and fall events and manual handling. Work at height and chemicals, present additional concerns. The Company manages risks by applying risk assessment and control processes, enabling continuous risk control improvement.

Airbus has health and safety processes for on-site subcontracting, and intends to further adapt and develop such processes. Airbus prepares prevention plans in order to identify potential risks and define prevention measures in cooperation with on-site sub-contractors, and monitors on-site sub-contracting activities.

The health and safety improvement plan includes initiatives to review Airbus’ Health and Safety Policy which applies companywide including to affiliates. The corporate health and safety management system is being developed in accordance with the principles of the new ISO45001 framework. This work will include defining maturity indices and performance indicators.

In order to continuously improve the management of risks, work includes project FISH (the configuration and implementation of a global software platform for health, safety and environmental topics). This will enable the aggregation and analysis of health and safety data to form a risk topography that focuses resources to best effect. It is expected that this project will be completed in 2019. Thus, Airbus intends to report on its health and safety KPI’s in the coming years’ management reports.
6.1.4 RESPONSIBLE BUSINESS

a. Ethical Business Practices

Leading by example

The Airbus Ethics & Compliance Programme seeks to ensure that the Company's business practices conform to applicable laws, regulations and ethical business principles, as well as developing a culture of integrity.

In 2017, Ethics and Compliance was a top priority for Airbus. In its list of priorities for the year, Airbus set the objective to:

“Engage and develop our people worldwide to excel today and tomorrow by adopting key digital skills and mind-set, reinforced ethics & compliance adherence and a strong focus on diversity”.

Airbus also announced the appointment of an Independent Compliance Review Panel (ICPR), composed of eminent external consultants, to help us further improve its processes. The ICPR members are Lord Gold from the UK, Noëlle Lenoir from France and Theo Waigel from Germany. All well-versed in compliance monitoring of large corporations, they will have access to all levels of the company and will report to the Airbus CEO and Board on how to further improve Airbus’ compliance processes, policies, organisation and culture.

Compliance is at the heart of everything Airbus does today – Airbus is putting significant resources and effort into supporting the coordinated criminal investigations by the UK Serious Fraud Office (SFO) and France’s Parquet National Financier (PNF).

Our Commitment

Over the years, Airbus has earned the trust of passengers, customers, operators and other stakeholders through the quality and safety of our products. To fully serve our communities and thrive in the future, our commitment to business integrity must be just as robust – this means conducting our business ethically and based on Airbus values, and in compliance with all laws and regulations.

As part of this commitment, Airbus supports the principles of the UN Global Compact and IFBEC’s Global Principles of Business Ethics which set a benchmark for high ethical standards globally.

Our Standards

The foundation for integrity at Airbus is the Standards of Business Conduct. These Standards are intended to guide daily behaviour and help employees resolve the most common ethical and compliance issues that they may encounter.

The Standards of Business Conduct apply to all employees, officers and directors of Airbus as well as entities that Airbus controls. Third-party stakeholders whom Airbus engages are also expected to adhere to these Standards of Business Conduct in the course of performing work on our behalf.

Our Programme

While the Standards of Business Conduct provide a useful starting point, they cannot answer all questions, nor are they sufficient to ensure that Airbus complies with the myriad legal requirements applicable to its business. Because of this, Airbus has worked over the past several years to develop an Ethics & Compliance programme that is structured around four key risk areas: Business Ethics/Anti-Corruption Compliance, Export Compliance, Data Protection Compliance and Procurement Compliance.

Each of these areas is, in turn, supported by dedicated compliance policies and a team responsible for their implementation, together with the identification and proposal of new measures to adapt to a constantly evolving regulatory landscape.
Improving the programme is a constant and ongoing process, not only in the area of Business Ethics/Anti-Corruption but also across the ethics and compliance spectrum more generally in order to capitalise on its values.

**Business Ethics/Anti-Corruption Compliance**

Airbus rejects corruption of any kind, whether public or private, active or passive. This means that neither Airbus, its employees or third parties acting on its behalf may offer, promise, give, solicit or receive – directly or indirectly – money or anything of value to or from a government official or someone in the private sector, in order to obtain or retain business or secure some other improper advantage.

The Anti-Corruption Policy (available at http://company.airbus.com/dam/assets/airbusgroup/int/en/group-vision/ethics-compliance/documents/Airbus-Group-Anti-Corruption-Policy.pdf) summarises its stance of zero tolerance. It also refers to some of the specific directives Airbus has adopted to address key anti-corruption risk areas, such as the engagement of third parties, gifts and hospitality exchange and the making of sponsorships and donations.

More broadly, Business Ethics at Airbus also covers other areas such as conflicts of interest, anti-competitive conduct, insider trading, fraud, etc., while also complementing the Airbus Corporate Social Responsibility programme which focuses on managing the social and environmental impacts of Airbus’s operations.

**Export Compliance**

Each of the countries in which Airbus does business has controls on the export and transfer of its goods and technologies that are considered to be important to national security and foreign policies. As a global enterprise, it is Airbus’ responsibility to respect and comply with each of these controls. The Export Compliance Directive defines its policies, processes and organisation to ensure compliance with all relevant export control laws and regulations.

**Data Protection Compliance**

Airbus is required to handle personal data in accordance with applicable data privacy laws at national, European and international level. In doing so, Airbus seeks to apply a consistent approach, by setting data security standards for personal data processing in line with global best practice. This is embodied in part by its Binding Corporate Rules,* which provide a consistent level of protection for various personal data throughout Airbus.


**Procurement Compliance**

Airbus suppliers must comply with all applicable laws and regulations of the countries in which operations are managed or services provided. In addition, wherever suppliers are located, all business should be conducted in a manner compatible with the Airbus Supplier Code of Conduct*. Suppliers are also expected to cascade these principles through their own supply chains. For further information please refer to “Responsible Suppliers” below.


**Our Ethics & Compliance Organisation**

The E&C organisation is part of the Legal Department under the ultimate responsibility of the Airbus General Counsel. The aim is to provide strong governance throughout the company with the global presence of qualified compliance officers, who ensure the compliance programme is implemented in the different functional and operational areas.

They do this in close cooperation with its employees and management, who are expected to lead with integrity by example and take responsibility for compliance within their scope of activity.
New and updated policies

In January 2017, Airbus published a directive defining the requirements for sponsorships, donations and memberships. The directive establishes a Company-wide framework and provides guiding principles and clear instructions on how to request, approve and record contributions.

In February 2017, Airbus published a directive defining the requirements for the prevention of corruption in the engagement of lobbyists and special advisors. The purpose of the directive is to ensure that Airbus’ political engagement through lobbyists or special advisors remains fully transparent and ethical, and facilitates Airbus’ compliance with all applicable laws.

In June 2017, an updated version of the Airbus Standards of Business Conduct was published, to comply with the requirements of France’s new Sapin II law. The updated version defines both bribery and influence peddling, and provides illustrations of each. Changes were also made to cross-refer to the Airbus Anti-Corruption Policy, and to include a new section on Anti-Money Laundering.

In June 2017, an updated version of the Airbus OpenLine Policy was also published, to enhance the provisions to protect the whistleblower from retaliation in line with Sapin II.


In October 2017, Airbus published a directive defining the requirements for identifying and mitigating corruption risks in connection with M&A, JV and similar transactions. This directive is intended to help ensure a consistent approach to these matters across Airbus.

Our Awareness and Training

Airbus aims to educate its people about the standards of conduct that apply to their jobs and the potential consequences of violations. Target populations are reviewed annually and required to undergo training and awareness eLearning or face-to-face sessions based on job function, role and responsibility.

In 2017, Airbus conducted 84,273 Ethics & Compliance digital training sessions.

Our Confidential Speak-Up Channel: OpenLine

Airbus recognises that the Standards of Business Conduct cannot address every challenging situation that may arise. Airbus, therefore, encourages its employees to speak up through various channels, including through OpenLine (https://www.airbusopenline.com/). The OpenLine enables employees to confidentially raise their concerns via the internet or by phone.

Subject to local legal restrictions, the OpenLine alert system has been available for several years to employees in France, Germany, Spain, UK, Canada, Brazil, Australia and the US. In 2014, it was made available to employees in Mexico, China and Saudi Arabia.

Airbus does not tolerate retaliation against employees making reports in good faith and/or assisting in investigations of suspected violations of the Standards of Business Conduct.

For further information on the OpenLine please refer to the Airbus Group OpenLine Policy (available at https://www.airbusopenline.com/PoliciesAndNotices).

Employees, customers, suppliers, and third-party intermediaries are encouraged to share their concerns with management or with Ethics & Compliance resources.
b. Responsible Suppliers

Airbus designs and integrates complex aerospace and defence products, leveraging an extensive supply chain. Cooperation with suppliers occurs in several fields of the business and is key to ensure quality standards which lead to shared success, growth through innovation and a commitment to sustainability. Airbus also engages its suppliers on its sustainability journey and shares a commitment to improve social and environmental performance, constantly driven by values of integrity and transparency.

1. Procurement at Airbus

More than 15,000 suppliers from more than 100 countries supply parts, components or sub-systems to Airbus. In 2016, Airbus spent around €49 billion with its suppliers. The Procurement function is improving its performance through creating a more integrated, effective and lean organisation. It aims at increasing harmonisation of internal and supplier-related processes, job profiles, training processes and tools.

While Airbus products and services are sold all over the world, the majority of its workforce and supply chain are based in Europe and the Organisation for Economic Cooperation and Development (OECD) countries. In the past few years, the supply chain has become concentrated and more international. Such rising concentration is the result of consolidation within the aerospace and defence sector, as well as larger work packages for the major new aircraft programmes being placed with a smaller number of lead suppliers. Airbus has identified global sourcing as one of its leading long-term objectives. To promote the globalisation of its sourcing footprint, an Airbus Global Sourcing Network (GSN) has been established including regional sourcing offices in USA, China and India.

2. Responsible Supplier Management

As a global leader in aeronautics and space, Airbus has taken a commitment to conduct its business responsibly and with integrity. Taking into consideration the level of outsourcing at Airbus, the supply chain is an integral part of Airbus’ ecosystem and the Company is therefore committed to ensure that, as far as possible within its own scope of responsibility and legal obligations, potential adverse impacts of Airbus activities are managed. The Procurement function is ISO 14001 certified as part of the global Airbus environmental certification.

The Airbus Supplier Code of Conduct is the document of reference for Airbus’ responsible supplier management. This Code represents the group-wide values and principles in line with internationally recognised standards and conventions (such as OECD and ILO). It has been developed with the International Forum on Business Ethical Conduct (IFBEC) in 2015 in the form of a Model Supplier Code of Conduct. Airbus is proud to be a co-founder of IFBEC, which supports the application of global standards for business ethics and compliance in the aerospace and defence industries. Airbus implemented the IFBEC Model Supplier Code of Conduct in its entirety as the Airbus Supplier Code of Conduct in 2016.

The Supplier Code of Conduct was sent to the 12,000 main suppliers across the world with a letter from the Airbus’ Chief Procurement Officer and the Airbus General Counsel requesting a commitment to the Code. Airbus expects its suppliers to comply with the key values set out in this Code and to conduct business in accordance with all applicable laws and regulations of their operating markets, the countries in which operations are managed, or services provided. Suppliers are also expected to cascade these principles throughout their own supply chains.

Supplier Quality Audits and Supplier Mapping

Supplier audits and assessments support the goal of ensuring that supplier deliveries meet Airbus’ specific requirements. Suppliers whose activities impact the airworthiness of Airbus products are assessed annually, with five areas of performance evaluated: quality, logistics, customer support, commercial performance and technical performance. Around 1,000 audits and assessments have been performed in 2016 for Airbus’ commercial aircraft business.
As part of supplier management activities in the field of quality, Airbus Commercial Aircraft has put in place the Supplier Mapping tool with multiple capabilities, notably to identify Airbus supply chain sub-tiers and support identification of risks of supplier non-performance. In 2016, a total of 6,904 suppliers from 58 countries were identified by the Supplier Mapping tool of which 1,007 were tier-one suppliers, 5,452 second tier suppliers, 445 other tier levels. A total of 97,537 activities were involved and 40 quality alerts resulted from 550 analyses and reports. The alerts were managed internally by the Procurement supply chain management department.

Ethics & Compliance Supplier Watchtower

The Ethics & Compliance Supplier Watchtower is managed by the Procurement Compliance department proactively checking specific suppliers for compliance aspects.

Suppliers are checked depending on the risks linked to their country of registration. The risk rating of countries is defined by the Procurement Compliance department and updated regularly. Criteria comprise export restrictions and responsibility and sustainability-related elements such as anti-corruption, human and labour rights.

Supplier Integrity Checks investigate compliance concerns which are triggered by certain business relationships. Such concerns are comprised of, for the company or its ownership, among others: legal investigations or judgments, negative press reports, incidents of corruption, listings on sanction lists/blacklists, proximity to governments or risky entities (shareholders, customers, beneficial owners and subsidiaries). In case a Supplier Integrity Check yields concerns, a Procurement management meeting is held to discuss potential additional due diligence measures and mitigation actions. About 700 Supplier Integrity Checks were conducted in 2017 (about 600 in 2016).

A Supplier Integrity Check can be performed on demand and is also embedded in the supplier registration process and eProc, an electronic platform where buyers and suppliers perform all aspects of calls for tender, from identification of potential suppliers, contract awarding, to supplier evaluation and spend analysis.

Environment, Health and Safety in the Supply Chain

Identification of potential risks related to legal and regulatory requirements that may be applicable to Airbus’ management of compliance of its activities and products and the communication of information on the composition of its products, depends on the level of information made available by the supply chain.

Airbus Procurement is continuously striving to improve the integration of environmental, health and safety elements into the purchasing process.

Current standard procurement contracts include requirements for suppliers to comply with all applicable laws and regulations regarding production, products and services and requirements for suppliers to provide information on substances used in manufacturing processes, contained in their products and on environmental, health and safety matters, including information to enable safe use, for management of the product across its lifecycle (including waste management). Suppliers are also requested to implement an Environmental Management System, which shall consider continuous improvement through the mitigation of significant environmental aspects and impacts, including air emissions (e.g., Greenhouse Gas, Volatile Organic Compounds); waste, water discharges, raw material consumption.

Regarding supplier environmental control and monitoring, Airbus performs the following activities: collecting data from suppliers is made through a Material Declaration Form to enable Airbus to identify which substances are used, tracking and declaring them in the frame of substances regulation such as REACH. Environmental requirements are included in supplier audits and the Industrial Process Control Assessment (IPCA). In addition, the Environmental Obsolescence Risk at Supplier (EORS) assesses the level of maturity of supplier processes for management of Airbus environmental requirements and regulated substances obsolescence management processes. EORS are applicable to all Airbus Commercial Aircraft suppliers – EORS campaigns have targeted the supplier of cabin, systems and equipment, engines and nacelles products.

The Procurement function is ISO14001 certified as part of the global Airbus environmental certification.
3. Moving forward: Airbus Supplier R&S Programme

To deliver parts, components, sub-systems or services, quality, reliability and economic efficiency is key to Airbus operations. However, Airbus believes that this should not be at any cost and, as such, is committed to engage in due diligence actions with its suppliers with regard to issues of Responsibility and Sustainability.

Airbus strives to make sustainability a core element of its procurement process. Airbus has a long-established and integrity-driven procurement process which manages relationships with suppliers from strategy, supplier selection, contract management to supplier management. Environmental activities in Procurement have paved the way to integration of wider corporate social responsibility activities within the supply chain.

Willing to encourage development of responsible suppliers and manage the potential adverse impacts of its activities as well as to create new opportunities, in 2017 Airbus launched a Supplier R&S Programme, following international guidance such as the OECD guidance on responsible business conduct. The programme has also been designed to increase supplier awareness in these areas to facilitate suppliers’ compliance with applicable regulations requiring risk identification and management related to corporate social responsibility (CSR), including environment, health and safety, human rights and anti-corruption matters.

The Supplier R&S Programme is based on four key elements:

A. **CSR-related risk identification and evaluation**

All Procurement related risks are embedded into the company’s ERM system. A specific risk category regarding CSR-related risks in the supply chain has been integrated into the ERM system.

The Procurement function supported by the Procurement risk department manage ERM in procurement fields, as well as duly report issues to top management. Along with identification and reporting of CSR risks, a proactive supplier risk mapping is being performed in line with international guidance. Such risk mapping results from both a country and a purchasing category approach. The CSR-related risks levels per category of purchase have been analysed and reviewed with the relevant Procurement commodities.

This supplier risk mapping aims to detect areas where procurement activities are exposed to significant potential risks. With those suppliers linked to higher risk activities, specific actions started in 2017 will continue to be implemented in 2018. Such mitigation actions currently include the performance of Supplier Integrity Checks (see previously mentioned part on Ethics & Compliance Supplier Watchtower). New mitigation actions such as supplier evaluation will be implemented following a period of trial phase.

B. **R&S in supplier selection and contracting**

For the last few years, Procurement standard contracts have evolved to include clauses requiring suppliers to comply with all applicable laws and regulations as well as clauses on specific topics such as environment. In 2018, a more detailed clause on anti-corruption will be incorporated into procurement contract templates to further specify Airbus’ requirements in this domain.

Furthermore, Airbus is currently evaluating how to reinforce CSR-related requirements such as those on Human Rights, along the selection and contracting phase with suppliers. During the call for tender phase, results of the CSR-related risk assessment will be used to require further supplier evaluation if deemed necessary.

To enable successful implementation, Airbus will perform training and awareness activities for its buyers in addition to the specific training that already exists in the areas of environment and ethics and compliance.

C. **Supplier evaluation and continuous improvement**

Supplier CSR-related evaluation assesses the compliance of suppliers with Airbus requirements in these fields and allows the identification and integration into Airbus requirements of potential supplier improvement actions. Airbus is currently defining the options for supplier CSR-related evaluation and audits and how to integrate these activities to existing supplier assessment activities, such as supplier self-evaluation, desktop review or onsite audits. Airbus is also exploring potential solutions for the wider aerospace and defence sector, via its participation to sector national associations. Once defined and approved, a trial phase will be performed with specific sample of suppliers. Clear guidance on how to manage audit results will be integrated into the relevant Procurement processes.
From 2018 onwards, Airbus will strive to implement the above four elements, deploying corresponding targets for each of them. The programme is integrated into Airbus’ Procurement strategy and is discussed and reviewed by a Steering Committee composed of the Executive Committee of Procurement.

**D. R&S in the Procurement process**

Airbus is currently assessing all Procurement processes and tools in order to integrate CSR-related requirements where relevant. This will lead in 2018 to the adaptation of Procurement process documentation managed by the Procurement strategy teams. Key documentation such as the Airbus Supplier Code of Conduct or Supplier Integrity Check application will be embedded into the Procurement tools, such as eProc.

### 6.2 Other Corporate Activities

**Digital Transformation Office**

The Digital transformation Office ("DTO") is responsible for managing Digital Transformation, Information Management and Security across Airbus. It leverages digital technologies in order to bring step changes in business value, market differentiation and employee engagement. DTO boosts and accelerates transformation, by focusing Company initiatives and maximising value capture. Finally, DTO also ensures security of the Company’s business in an ever-changing risk environment.

**Data Office**

The main mission of the Digital Office is to experiment how a smart combination of digital technologies can bring business value and alleviate pain points across all Airbus business functions.

For each major technology stream, the Digital Office is in charge of steering the portfolio of initiatives, capturing lessons learned from past implementations, assessing and confirming expected benefits thanks to proof of concepts and pilot projects, as well as defining the priority areas for deployment and identifying the necessary enablers (e.g. skills, partners, governance, and technical solutions). Once this level of maturity is reached, activities are handed over to the Quantum Programme which is in charge of accelerating value capture through rapid scaling up and industrialisation.

In 2017, the Digital Transformation Office’s main priority was to expand and mature our Advanced Analytics capabilities along the following pillars: platform, skills and governance.

- Skywise platform integrated 70% of data objects across Airbus Commercial Aircraft in a common data platform, on-boarded the first 10 airlines, and engaged five early-adopter suppliers;
- Advanced analytics skills expanded across the Divisions with the establishment of a central, 16-person Analytics Accelerator and an online training course with 400 people enrolled and over 70 graduates to date;
- Data Governance policy and practice was established at the Airbus level with the definition of key roles, the appointment of eight Data Officers covering key functions and lines of business, and the identification of high-risk data sources across processes based on common risk metrics.

Beyond data analytics, 2017 has seen a growing momentum and an increasing number of successful initiatives leveraging Internet of Things, Virtual & Augmented Reality, Artificial Intelligence or Blockchain technologies.

Finally, an on-line community gathering more than 10000 contributors and a network of digital ambassadors from all functions and Divisions is contributing to connect the dots, accelerate our learning curve and foster reuse or synergies across the Company.
Quantum Programme

The Quantum Transformation Programme was established group-wide to industrialise and implement new digital solutions in the main business. Its main objective is to accelerate the implementation of successfully tested initiatives across functions, programs and business boundaries.

In 2017, the Quantum Programme governance and ways of working were finalised and deployed, and most project leader roles have been staffed. The transformation has reached a first level of maturity and is gaining momentum with first projects implemented and deployed.

Out of a portfolio of 30+ initiatives, more than 10 projects were selected as top priorities to deliver solutions and business improvements in 2018.

Key progress in 2017

Connected services & new business models:
- Skywise Aircraft Services offers new digital services covering selected applications (such as predictive maintenance, health monitoring, and reliability) combined with aircraft connectivity solution (FOMAX).
- New Business Models projects launched, such as satellite imagery digital services (IDS) and Airbus Aerial drone-based services.

Digital continuity and E2E 3D:
- A350 digital continuity Engineering / Manufacturing has been launched.
- Single Aisle initiative to move from 2D to 3D is progressing with first priority on Systems installation & Cabin to support ramp-up and address customization challenges.

Industrial planning and, supply chain:
- Deployed new planning tool to better manage outstanding work on A350 demonstrating significant reduction in out-of-station work execution lead time & improved burn down performance. Deployment on Single Aisle has started.

Manufacturing, quality, programmes:
- Quality: Deployed new digital applications for non-conformities on A350 with significant benefits on non-conformities eradication (up to -20%), non-conformities processing lead time and cost (-30% to -60%). Achieved 2017 Cost of Non-Quality (CNQ) reduction target.

Information Management

Airbus Information Management (IM) started a Transformation Program in 2017 to become more innovative, agile and focused on business demands. Structured around 15 work streams, the Program will address holistically the different aspects of the digital revolution: industrialised digital; new financial management (shift from IT cost to business value); renew the core (strengthen current Information System landscape); performance management (strong measurement of value KPIs); strategic sourcing; accelerating innovation for IM and for business through self-service platforms.

This paradigm shift relies on two major assets: technology and people.

For technology, IM will simplify and modernise its legacy environment to strengthen the Information System. Renewing IM core systems requires new digital platforms, currently under construction by the Digital Accelerator. The Accelerator will speed the build-up of the industrialized digital capabilities needed to transform the company and deliver customer value faster. In 2018, the Digital Accelerator will provide the technology, platforms and services as re-usable assets (API, Cloud & DevOps, Big Data, IoT, ITSM, Monitoring), as well as will support the launch of new business models such as Skywise.
For people, a new way of working aligned with Airbus needs has been introduced that applies agile principles (short development cycles, clear customer feedback loops, fast failing). In 2018, IM will continue its efforts to attract external talent, up-skill the internal workforce and partner with external companies and start-ups. A new sourcing model will be put in place based on an end-to-end review of current sourcing strategies. The new model will address several key topics and objectives: evaluating investments planned in IT Asset management/service (new workflow management), de-fragmenting the current complex contract/vendor landscape; and moving towards model based on partnership rather than on commodity vendors.

Finally, IM will enable the future Airbus Digital Workplace to empower employees with universal mobility and information access and to foster collaboration across all Functions and Divisions. This will signify a disruptive change in company culture and Way of Working that will help bring Airbus into the digital revolution.

Security

The Airbus business environment is rapidly evolving, requiring mandatory security adaptations to better cope with the fast pace of change. Even though Airbus security can be considered as effective, the past organisations suffered from complexity, overlaps and gaps that could lead to unsatisfactory inconsistencies, and highly time-consuming efforts.

The primary objective in 2017 was to make security organisation leaner and better integrated, to break the silos, and to become agile and consistent enough to quickly react to the changing threats landscape and to actively support business and its needs in real time.

Key achievements in 2017:

Setting up Airbus security organisation following the merger of Airbus and Airbus Group according to the new security paradigm

▶ Business-centric security organisation;
▶ Modern and agile security organisation able to evolve with the threats, and to anticipate and react to cyberattacks;
▶ Single and simple governance model with one unique set of documentation for all matters (Cyber, Physical, Products, Industrial Control Systems, IM…) and one cybersecurity strategy.

Aligning security priorities with Business Strategies (incl. Digitalisation) in compliance with external rules

▶ Identify the critical assets together with the business owners and protect our crown jewels;
▶ Support business with an “intelligible” security approach, including Supply Chain and Extended Enterprise;
▶ Finalise and enforce Data Governance and build Security into the projects design.
7. Airbus Strategy

7.1 Commercial leadership, defence and space optimisation and value creation

In 2017, the Company has further pushed forward its restructuring, in accordance with the strategy introduced in 2013 and summed up in the statement “we make it fly”.

The Company has been further integrated by merging its Group structure with the commercial aircraft activities of Airbus. The merger of Airbus Group and Airbus paved the way for an overhaul of our corporate set-up, simplifies our company’s governance, eliminates redundancies and supports further efficiencies, while at the same time driving further integration of the entire group. The Company changed its name to Airbus SE. The other two Divisions, “Defence and Space” and “Helicopters” remain integral parts of the Company and will derive considerable benefit from the merger through more focused business support and reduced costs.

Airbus Defence and Space continued to reshape its portfolio and refocus on military aircraft, missiles, launchers and satellites. The Company pursued the divestment process of the businesses that do not fit with the new strategic goals and have better futures in more tailored ownership structures. The Company completed the divestment of its defence electronics business. The divestment is part of the strategic review of the Airbus Defence and Space business portfolio.

Airbus Helicopters also reshaped its portfolio and divested its Vector Aerospace business.

The eight strategic paths of the Company’s strategy remain as follows:

1. Remain a leader in commercial aerospace, strengthen market position and profitability

The commercial aircraft business aims to be largely self-sufficient going forward, rather than attempting to rely on a balanced group portfolio. Focus upon on-time, on-cost and on-quality deliveries is paramount given the huge backlog execution challenge. Airbus aims to further strengthen through focusing on digitalisation, innovation, services and a more global approach.

2. Preserve leading position in European defence, space and government markets by focusing on military aircraft, missiles, space and related services

Defence can no longer be a tool to manage and hedge against commercial cycles, but the Company seeks to remain strong and actively shape its defence, space and governmental business. The focus will involve: (i) developing high-performing businesses such as missiles, launchers, combat and transport aircraft, entering into new growth areas when they are backed by government funding, and (ii) focusing on productivity improvements both through internal means and in the context of European optimisation to enable efficiencies and improve Airbus’ positioning on export markets.

In 2017, Airbus Aerial, a new drone service business, was launched. The new company, based in the US, leverages some of Airbus Defence and Space key competencies (satellite imagery, data analytics, small & high-altitude UAV and cloud computing) to analyse and distribute powerful, actionable data to customers.

Airbus is working with its customers to define and address the future of European air combat, in addition to future air power more broadly.

3. Pursue incremental innovation potential within product programmes while pioneering and fostering disruptions in our industry, and developing necessary skills and competencies required to compete in the future
Airbus innovates every day to increase its value propositions by enhancing product performance, creating new customer benefits, and reducing costs. Our cutting-edge technologies and scientific excellence contribute to global progress, and to delivering solutions for society’s challenges, such as environmental protection, mobility and safety.

After many new product developments in recent years, the majority of the Company’s revenues are generated today in segments where we have competitive, mature products that are far from the end of their lifecycle. Innovation will therefore target maintaining, expanding and continually leveraging the competitiveness of these products.

In addition, Airbus raised its ambitions to pioneer and disrupt the aerospace industry in areas that will shape the market and our future and made a substantial effort in breakthrough innovation.

4. **Exploit digitalisation to enhance our current business as well as pursue disruptive business models**

Digitalisation will support Airbus’ transformation by focusing on five main axes: (i) enabling high employee engagement, (ii) digital operational excellence, (iii) mastering our product data value chain and turning product data into insight, (iv) capturing the end-user experience and (v) driving our business agility.

Airbus has initiated a wide-reaching digital transformation programme called Quantum. Quantum is the programme that drives Airbus’ digital transformation. Scaling up and accelerating proven digital initiatives, to deliver breakthroughs in end-to-end operational performance and customer satisfaction across our business; it is also about accelerating innovation and growth through both new services and business models. Quantum is fundamental to Airbus success, now and into the future.

A prime example of how Airbus leads disruption in the aerospace industry is Urban Air Mobility, “UAM”: We expect a large-scale market to emerge by adding the 3rd dimension to transport options in megacities. This will require new end-to-end solutions combining electrical Vertical Take Off and Landing “eVTOL” vehicles, self-piloting/automation, and a digital, services driven economy with new mobility-as-a-service business models and seamless integration into other transport systems. Starting around 2014, Airbus has made significant progress on technical solutions (e.g., eVTOL vehicle demonstrators) and business aspects (disruptive strategy, on-demand helicopter transport, policy making support) and has become a precursor in the field. But the race for entry into service of the first fully certified transport system has just begun.

5. **Adapt to a more global world as well as attract and retain global talents**

With over 75% of our backlog and 70% of our revenues coming from outside Europe, Airbus is, more than ever, a global company. The constant effort to globalise our businesses, especially in countries with substantial growth, has paid off. This global footprint is also reflected in the diversity of our staff and skills, with employees outside Europe almost doubled in the last five years. The workforce in Asia and Latin America experienced important growth. Locally, products may need to be adapted and will have to be serviced, but the main logic going forward is that the industry will retain its “global products for local markets” dynamic. Greenfield approaches have proven to give Airbus a controlled entry and real citizenship, while partnerships and acquisitions are complementary tools.

6. **Focus services on and around the Company’s platforms**

The strategy going forward is to focus on services where the Company can differentiate and add value for its customers according to the motto “no one knows our products better than we”, aiming at developing long-term customer intimacy and bringing competitive advantage to its customers. As services are executed locally, the portfolio will be adapted to the increasingly global customer base. Cooperation with military customers is set to increase substantially through maintenance and support services thanks to the new platforms still to grow fleet, including about 600 Eurofighters, over 150 A400M aircraft, around 500 NH90s and over 150 Tiger helicopters. In Commercial, the installed base is expanding rapidly, and new innovative services (power by the hour, maintenance, training) are being offered successfully.

Airbus has launched a new aviation data platform in collaboration with Palantir Technologies – pioneers in big-data integration and advanced analytics. Skywise aims to become the single platform of reference used by all major
aviation players to improve their operational performance and business results and to support their own digital transformation.

7. **Strengthen the value chain position**

Airbus’ core capability is to master programme management and architect / integrator capabilities in order to market, design, develop, manufacture and service large-scale aeronautics / space platforms and integrated systems. As Airbus is based on a strong platform prime role, managing the supplier base towards delivering to the final customer is key. We aim to strengthen and optimise selected strategic value chain areas to protect our intellectual property, manage risks, increase profit, access services and differentiate our offerings. Airbus’ suppliers provide a large proportion of the value in our products, necessitating a robust supply-chain governance framework. This is supported by processes and tools that foster partnership, risk mitigation and supplier performance development.

In order to secure our value chain position and maintain a competitive advantage, Airbus re-assesses its make or buy strategy and M&A strategy to better control its strategic know how and capture more of the value chain. Airbus launched Nacelle In-Sourcing for A320 UTAS nacelles in order to build competence in Ultra-high Bypass Ratio engine integration, where the integration itself will provide a significant part of future performance gain.

8. **Focus on profitability, value creation and market position; no need to chase growth at any cost; actively manage portfolio**

Thanks to strong organic growth potential, mainly in the commercial airplane business, Airbus is going through a series of production ramp-ups with associated financial needs. On top of that, targeted investments will help to position Airbus for the future. The financial strength of the Company is vital for mastering these challenges, and to ensure that we have enough room for manoeuvre for strategic moves. As a prerequisite, the Company must remain attractive for investors, notably compared to its peers.

### 7.2 Key divisional priorities 2018

**Airbus Commercial Aircraft**

- Achieve monthly delivery targets as committed to customers.
- Achieve single-aisle industrial ramp-up – deliver required capacity and productivity.
- Deliver key development milestones on A330neo, A321neo Airbus Cabin Flex, A350-900 Ultra Long Range and Beluga XL.
- Support strategic sales campaigns on all programmes and achieve services growth.
- Deliver improvement on financial key performance indicators (KPIs).
- Guarantee aircraft quality and eradicate outstanding work along the industrial chain.
- Enhance support and services solutions to improve customers’ operations and aircraft availability.
- Achieve competitiveness targets, deliver cost reduction on A350 XWB and single-aisle.
- Improve efficiency in operations and services, including leveraging deployment of Quantum short/medium term digital solutions.

**Airbus Helicopters**

- Deliver on safety commitments, ensure safety at work.
- Deliver improvement on financial key performance indicators (KPIs).
- Deliver on operational and development commitments.
- Increase customer satisfaction at delivery.
- Reduce cost of non-quality.
- Ensure first H175 in the new industrial set-up in Final Assembly Line.
- Achieve H160 major milestones.

**Airbus Defence and Space**

- Further stabilise the A400M programme, continue enhancing the aircraft’s capabilities as agreed with customers.
- Recover and assure critical programme delivery and win key sales campaigns.
- Deliver products and services On Quality, On Time, On Cost with zero compromise on safety.
- Achieve financial targets with focus on cash generation and conversion.
- Increase customer satisfaction by early and continuous involvement and track progress in all areas.
- Strengthen portfolio in key strategic areas and turn strategic business cases into profitable business.
- Secure key future European Defence initiatives including EURODRONE development contract as well as making new Franco-German initiatives a success and driving forward the New Fighter campaign.
- Accelerate digitalisation and continue to foster innovation, new technologies and new ways of doing business.

The information contained in this Board Report will enable you to form an opinion on the situation of the Company and the operations, which are submitted to you for approval.

For further information and detail regarding the Company’s activities, finances, corporate governance and in particular risk factors, the reader should refer to the Company’s website [www.airbus.com](http://www.airbus.com).

The Board of Directors hereby declares that, to the best of its knowledge:

- The financial statements for the year ended 31 December 2017 give a true and fair view of the assets, liabilities, financial position and profits or losses of the Company and undertakings included in the consolidation taken as a whole; and
- This Board Report gives a true and fair view of the position as at the balance sheet date, and of the development and performance during the 2017 financial year of the Company and undertakings included in the consolidation taken as a whole, and the principal risks facing the Company have been described herein.
8. Financial targets for 2018

As the basis for its 2018 guidance, Airbus expects the world economy and air traffic to grow in line with prevailing independent forecasts, which assume no major disruptions. Airbus 2018 earnings and FCF guidance is based on a constant perimeter, before M&A.

- Airbus expects to deliver around 800 commercial aircraft which depends on engine manufacturers meeting commitments.

Based on around 800 deliveries:

- Compared to 2017 EBIT Adjusted of € 4,253m, Airbus expects, before M&A:
  - An increase in EBIT Adjusted of approximately 20%
  - IFRS15 is expected to further increase EBIT Adjusted by an estimated € 0.1bn

- 2017 Free Cash Flow before M&A and Customer Financing was € 2,949m
  Free Cash Flow is expected to be at a similar level as 2017, before M&A and Customer Financing
The Board of Directors

Denis Ranque, Chairman
Tom Enders, Chief Executive Officer
Ralph Dozier Crosby, Jr., Director
Catherine Guillouard, Director
Hans-Peter Keitel, Director
Hermann-Josef Lamberti, Director
Lord Drayson (Paul), Director
Maria Amparo Moraleda Martinez, Director
Claudia Nemat, Director
Sir John Parker, Director
Carlos Tavares, Director
Jean-Claude Trichet, Director

Leiden, 14 February 2018