Airbus Operations Limited

Annual report and financial statements

Registered number 3468788

31 December 2020

Contents

Strategic Report

In accordance with applicable law and regulations, the directors of Airbus Operations Limited ("the Company") present the results of the financial year ended 31 December 2020.

Business Model

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

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

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

Section 172 Statement

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

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

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

Strategic report *(continued)*

Corporate Governance

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

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

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

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

Programme overview

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

Deliveries

In 2020, Airbus delivered 566 commercial aircraft compared to 863 deliveries in 2019, of which:

- 487 aircraft delivered by Airbus SAS (compared to 758 in 2019);
- 41 Single Aisle aircraft delivered by Airbus Americas (compared to 57 in 2019);
- 38 A220 delivered by Airbus Canada Limited Partnership ("ACLP") (compared to 48 in 2019).

Backlog

Airbus' backlog decreased by € 99.4 billion to € 324.7 billion as at 31 December 2020. The book to bill ratio in units was below 1 (calculated using units of new net orders, i.e. new net orders in units divided by deliveries in units). Total order backlog at Airbus amounted 7,184 aircraft at the end of 2020 (as compared 7,482 aircraft at the end of 2019). Airbus's backlog includes the A220 programme. Order intake consisted of 268 net orders in 2020 (as compared to 768 in 2019), including 263 net firm orders of the A320 Family and 30 A220s produced by ACLP.

Strategic report *(continued)*

***Programme overview** (continued)*

Production

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

Following production by the respective plants, the various aircraft sections are transferred between the network of sites and the final assembly lines using dedicated transport means, such as the "Beluga" Super Transporters. To support the A350 XWB ramp-up and other production increases planned at end 2020, a new super transporter is under development, with the first of six Beluga XL aircraft entering into service in January 2020.

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

As a result of the COVID-19 crisis impacting airline operations, Airbus reduced its production rates for commercial aircraft by around 40% compared to pre-COVID planning for 2020, while retaining its ability to adapt as the situation evolves. The process to adapt its industrial set-up to the new rates addresses resource adaptation, fixed cost reduction and lead time protection. It encompasses the full industrial process from supply chain (raw material, subcontracted work packages, equipment, etc.) to aircraft delivery. This was performed with greatest attention to safety and quality considerations and led to a successful stabilisation of the whole ecosystem from suppliers to own plants and assembly lines at lower rates.

2020 delivery performance and rate evolution:

- A220 family: production rate of four per month at the end of 2020. The rate increased to five from the end of Q1 2021.
- A320 family: rate adaptation to 40 per month announced in April 2020. The average production rate plan to gradually increase to 43 in Q3 2021 and 45 in Q4 2021.
- A330: rate adaptation to 2 per month announced in April 2020.
- A350: rate adaptation to around 5 per month announced in July 2020.
- A380: programme ramping-down as planned.

A220 Family

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

A220 is produced by ACLP but Airbus SAS supports commercial and marketing development of the programme. Primary competitors to the A220 Family are the Embraer EMB190-E2 and EMB195-E2 and the Boeing 737 Max 7. During 2020, Airbus received 64 gross orders for the A220 Family of aircraft and 30 net orders.

A320 Family

With more than 15,000 aircraft sold, and nearly 9,700 delivered, the Airbus family of single-aisle aircraft, based on the A320, includes the A319 and A321 derivatives, as well as the corporate jet family (including new members ACJ319neo and ACJ320neo). Each aircraft in the A320 Family shares the same systems, cockpit, operating procedures and cross-section.

Strategic report *(continued)*

***Programme overview** (continued)*

A320 Family (continued)

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

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

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

All orders for the A318ceo have been met and a full transition to the Neo variants of the other models is nearing completion. Continuing support for the large in-service A320ceo fleet is undiminished as new opportunities arise, including those in developing passenger-to-freighter conversion market, with the first A321P2F aircraft entering service with Qantas in 2020.

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

Since its launch in December 2010, the A320neo Family has received 7,451 firm orders from more than 100 customers, with a total of 1,617 aircraft delivered to the end of 2020. A320neo deliveries commenced in February 2016 followed by the first A321neo in April 2017 and in August 2019 the first A319neo. Overall, the A320 family retains a 59% share of the backlog against the Boeing 737 Family.

During 2020, Airbus received 296 gross orders for the A320 Family of aircraft and 263 net orders, with 446 aircraft having been delivered.

On 8 April 2020, Airbus announced its decision to adapt commercial aircraft production rates to 40 per month for the A320 Family in response to the new COVID-19 market environment. In 2020, Airbus delivered 431 A320neo Family aircraft. On A320, production rates are foreseen to gradually increase from 40 aircraft per month currently to 43 in the third quarter 2021 and 45 in the fourth quarter 2021.

A330 Family

With 1,809 aircraft sold (of which 331 A330neo) and 1,511 delivered, the A330 Family covers all market segments with one twin-engine aircraft type and is designed to typically carry between 250 and 300 passengers in 3-class configurations or over 400 passengers in high-density. The A330 Family offers high levels of passenger comfort as well as large under-floor cargo areas. The A330-200 version is also offered as a military platform and as a cargo variant. A passenger-to-freighter conversion is offered for both the A330-200 & A330-300, meeting the logistical needs of the rapidly growing e-commerce market. The competitors of the A330 Family are the Boeing 767, 777 and 787 aircraft series.

Strategic report *(continued)*

***Programme overview** (continued)*

A330 Family (continued)

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

Airbus is continuously developing the A330 Family to keep the aircraft at the leading edge of innovation. From 2021, versions of the A330neo will permit increased take-off weight of up to 251 tonnes, offering a 15,000 km range for the A330-800.

On 8 April 2020, the Company announced its decision to reduce commercial aircraft production rates to around 2 per month for A330 in response to the new COVID-19 market environment. In 2020, 19 A330 were delivered.

A350XWB Family

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

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

Partnering the A350-900 is the 7 metre longer A350-1000, which was delivered to its first customer, also Qatar Airways, in February 2018. Offering additional capacity for both passengers and cargo without compromising on range, the A350-1000 is the ideal replacement for previous generation aircraft in the 350-400 seat capacity market.

At the end of 2020, the order book for the A350XWB family stood at 915 aircraft. With 406 aircraft having been delivered, including 59 during 2020, the backlog stood at 509.

Given overall customer demand for widebody aircraft, Airbus expected A350 deliveries to stay between a monthly rate of 9 and 10 aircraft. On 8 April 2020, the Company announced its decision to adapt commercial aircraft production rates to 6 per month for A350 in response to the new COVID-19 market environment. Subsequently, the rate for A350 was further reduced to around 5 per month. In 2020, Airbus delivered 59 A350 XWB aircraft. In 2020, given the significant production rate reduction, the A350 programme did not reach breakeven, with 59 A350 XWB deliveries.

A380 Family

The double-deck A380 is the world's largest commercial aircraft flying today. Its cross-section provides flexible and innovative cabin space, allowing passengers to benefit from wider seats, wider aisles and more floor space, tailored to the needs of each airline. The aircraft is capable of carrying 575 passengers in a comfortable four-class configuration over a range of 8,000 nm / 14,800 km. In 2020, Airbus Commercial Aircraft delivered 4 aircraft.

In February 2019, following a review of its operations, Emirates announced the intention to reduce its A380 order book from 162 to 123 aircraft. As a consequence and given the lack of order backlog with other airlines, Airbus will cease deliveries of the A380 in 2022, with 5 aircraft remaining to be delivered from the total order book of 251.

Strategic report *(continued)*

***Programme overview** (continued)*

A400M (military aircraft)

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

A total of 174 aircraft have been ordered so far by the seven launch customer nations Belgium, France, Germany, Luxembourg, Spain, Turkey, the UK and one export customer, Malaysia. Type Certificate and Initial Operating Clearance were achieved in 2013. Since then, 97 units have been delivered to eight nations as of 31 December 2020. The A400M is already deployed in operations since 2014.

On 13 June 2019, the Company concluded together with OCCAR and the Launch Nations (the customers) the negotiations on a global re-baselining of the programme. A contract amendment was signed by all parties, providing a revised aircraft delivery schedule, an updated technical capability roadmap and a revised retrofit schedule. Important certification milestones were achieved in 2019, in particular on critical Paratrooper Simultaneous Dispatch and Helicopter Air to Air refuelling capabilities. Technical modifications corresponding to the New Standard Operating Clearance (NSOC2) contractual standard were certified and qualified. NSOC 2.0 Type Acceptance by customers was achieved in mid-2020 and the programme is now delivering in line with the revised schedule.

In the fourth quarter 2019, an update of the contract estimate at completion was performed. This reflected mainly the updated estimates on the export scenario during the launch contract phase based on a revision of the market perspectives taking into account the current environment, including the suspension of the export licenses by the German Government and its consequences on potential prospects. It reflected as well some cost increases in particular for retrofit and an updated view on applicable escalation.

As of 31 December 2020, the Company has delivered a total of 97 A400M aircraft including 9 aircraft in 2020. The COVID-19 pandemic is weighing on the performance of development, production, flight testing, aircraft delivery and retrofit activities. The Company continued with development activities towards achieving the revised capability roadmap. Retrofit activities are progressing in close alignment with the customer. In 2020, an update of the contract estimate at completion confirmed the 2019 position. Risks remain on the development of technical capabilities and associated costs, on aircraft operational reliability in particular with regard to power plant, on cost reductions and on securing export orders in time as per the revised baseline.

Significant events in 2020

Impact of the COVID-19 pandemic

The COVID-19 pandemic, the resulting health and economic crisis and actions taken in response to the spread of the pandemic, including government measures and travel limitations and restrictions, have resulted in significant disruption to the Company's business operations and supply chain. A number of measures have been taken by the Company to implement stringent health and safety procedures while taking account of stock levels and production lead-times.

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

Strategic report *(continued)*

***Significant events in 2020** (continued)*

Impact of the COVID-19 pandemic (continued)

On 8 April 2020, Airbus announced its decision to adapt commercial aircraft production rates to 40 per month for the A320 Family, 2 per month for A330 and 6 per month for A350 in response to the new COVID-19 market environment. Subsequently, the rate for A350 was further reduced to 5 per month. This represented a reduction of the March 2020 pre-COVID-19 average rates of roughly one third. With these new rates, the group intends to preserve its ability to meet customer demand while protecting its ability to further adapt as the global market evolves.

Airbus is monitoring the evolution of the COVID-19 pandemic and will continue to assess further impacts going forward. The Company's business, results of operations and financial condition have been and will continue to be materially affected by the COVID-19 pandemic, and the Company continues to face significant risks and uncertainties related to the COVID-19 pandemic and its resulting health and economic crisis.

Workforce adaptation

In June 2020, Airbus announced plans to adapt its global workforce, principally in France, Germany, Spain and the UK, and resize its commercial aircraft activity in response to the COVID-19 crisis. This adaptation was expected to result in a reduction of around 15,000 positions no later than summer 2021.

Working time adaptation and mitigation measures, such as partial unemployment schemes, supported by the governments have reduced the number of positions subject to the restructuring plan. Taking into consideration the actual departures since the initial announcement, the remaining number of positions subject to the restructuring plan amounts to approximately 6,100 as of 31 December 2020, including pre-retirement headcount under German Altersteilzeit ("ATZ").

As of 31 December 2020, a restructuring charge has been accounted for an amount of £93m (at Company level) including mainly the cost of voluntary measures taking into account management's best estimate of the impact of the working time adaptation and government support measures.

Compliance investigation

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

Under the terms of the agreements, the group (Airbus SE) agreed to pay penalties of € 3,597,766,766 plus interest and costs to the French, UK and US authorities. The settlements with each authority were as follows: PNF € 2,083,137,455, the SFO € 983,974,311, the DoJ € 526,150,496 and the DoS € 9,009,008 of which € 4,504,504 may be used for approved remedial compliance measures. All penalties have been paid, except for $1 million that remains to be paid to the DoS by 28 January 2022.

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

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

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

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

Strategic report *(continued)*

***Significant events in 2020** (continued)*

Compliance investigation (continued)

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

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

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

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

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

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

World Trade Organisation panel decisions

Although Airbus is not a party, the group is supporting the European Commission in litigation before the World Trade Organisation ("WTO"). Following its unilateral withdrawal from the 1992 EU-US Agreement on Trade in Large Civil Aircraft, the US lodged a request on 6 October 2004 to initiate proceedings before the WTO. On the same day, the EU launched a parallel WTO case against the US in relation to its subsidies to Boeing.

Following a series of interim WTO panel decisions, in May 2018 the WTO held that the EU achieved compliance in respect of the majority of the subsidies at issue but considered that some remaining obligations required adjustments. The group and the EU took corrective actions that were reviewed by a WTO panel. The decision of that panel is currently being appealed. In the meantime, the WTO authorised the US to impose US$ 7.5 billion in annual countermeasures. The United States Trade Representative ("USTR") imposed tariffs on a range of imports to the US from the EU including 10% on the importation of large civil aircraft from the EU. Those tariffs went into effect on 18 October 2019. On 18 March 2020, the US increased the additional duty rate imposed on aircraft imported from the EU to 15%.

The tariffs could have a material impact on the financial statements, business and operations of the group in the future. Duties on the importation of Airbus products into the US could result in (i) increased costs for the aerospace and airline industries as well as other industries that rely on air transport, (ii) weakening demand for new aircraft and negatively affecting the financial condition of air carriers and lessors, (iii) decisions to defer, reject or reschedule the delivery of new aircraft or limit the routes upon which new aircraft will be used, (iv) increased costs to consumers, and/or (v) damage to the group's business or reputation via negative publicity adversely affecting the group's prospects in the commercial market place.

Strategic report *(continued)*

Significant events in 2020 *(continued)*

World Trade Organisation panel decisions (continued)

Several years of proceedings also identified significant unlawful support to Boeing. In March 2019, the WTO found that the steps by the US to address US subsidies to Boeing were inadequate. In October 2020, the WTO announced its decision to authorise the EU to impose US$ 4 billion in annual countermeasures. In November 2020, the EU imposed tariffs on a range of imports to the EU from the US including 15% on the importation of large civil aircraft from the US.

The respective WTO authorisations to impose tariffs will remain valid until the EU or the US prove to the WTO that they are in full compliance, or until both parties agree to settle the dispute.

Brexit

On 29 March 2017, the UK triggered Article 50 of the Lisbon Treaty, the mechanism to leave the European Union ("Brexit"). In June 2018, Airbus published its Brexit Risk Assessment outlining its expectations regarding the material consequences and risks for the group arising from the UK leaving the European Union without a deal. In September 2018, the group launched a project to mitigate the risks and anticipate possible consequences associated with Brexit and its impact on the Company's business and production activities. Significant progress was made in mitigating the identified risks through, for example, the modification of the group's customs and IT systems, and the stockpiling of parts associated with transportation and logistics.

The UK left the European Union in an orderly manner on 31 January 2020 under the terms of the Withdrawal Agreement, opening a transition period until 31 December 2020. On 30 December 2020, the UK Parliament ratified the EU-UK Trade and Cooperation Agreement ("TCA") but it still awaits ratification by the European Parliament and the Council of the European Union before final conclusion and entry into force. The TCA is expected to prevent the disruption a no-deal scenario would have created. Preliminary analysis confirms that although Brexit will result in a requirement for increased areas of vigilance, additional administrative work and reduced industrial flexibility, the continuity of the group's business operations and supply chain in particular are not materially threatened.

Financial performance

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

	2020 (£m)	2019 (£m)
Turnover	2,925	5,525
Research and development costs	260	311
(Loss)/profit for the financial year	(616)	444
Net assets	138	1,052

As a consequence of the revenue recognition mechanism (refer to note 1.14), the performance of the Company should be taken in context with the performance of the Airbus division as a whole. There is a negative earnings allocation for the Common Business (activity relating to Airbus). Allocation based on the Industrial Key (mechanism by which costs are collated, analysed and results are shared) resulted in the Company having a proportionate loss of £232m (2019: proportionate profit of £561m) of the allocable total results of the Airbus Common Business, which is reported in turnover and reflected in an increase in intercompany debtors.

The significant decrease of the Common Business earnings allocation between 2019 and 2020 is driven by the lower volume of aircraft deliveries due to the COVID-19 crisis and the restructuring plan. Further information is provided on these matters in the 'Significant events in 2020' section above.

Strategic report *(continued)*

***Financial performance** (continued)*

The proportionate result of the UTE (being the allocations of the results of the A400M programme) established for the A400M series business for the Company (refer to note 1.14), which is similarly reported in turnover, has improved compared to the prior year and amounts to £-91m (2019: £-159m). The decrease in the UTE loss share is mainly driven by the liquidated damages in 2019 due to the Global re-baselining signature, together with a decrease in the number of aircrafts delivered (9 in 2020 vs. 14 in 2019).

Included within operating loss is £495m relating to compliance fines. Further detail is provided in the 'Compliance Investigation' section in 'Significant Events in 2020' above. Depreciation has decreased from £246m in 2019 to £114m in 2020, primarily due to accelerated depreciation on Jigs and Tools related to the A380 programme in 2019.

On the balance sheet, net current assets have reduced from £770m in 2019 to £119m in 2020. This is primarily because the 2019 debtor balance included £561m relating to the earnings allocation for the Common Business; the equivalent balance for 2020 is a £232m liability, shown in 'Creditors: amounts falling due after more than one year'.

The liability in relation to refundable Government advances related to the A380 has reduced from £424m at end 2019 to £nil at end 2020 due to the repayment in full of the outstanding balance during the year. The repayment has contributed to an increase in the intercompany loan from Airbus SE.

Other provisions have reduced from £190m in 2019 to £107m in 2020 principally because a specific provision was booked for £115m in 2019 relating to an agreement to early settlement of a supplier's development costs. The claim was settled in February 2020.

There has been a significant increase in the pension deficit from £552m to £947m. This is mainly attributable to a reduction in the discount rate applied against scheme liabilities together with a fall in asset values, in particular equities, associated with the global pandemic.

Key Performance Indicators

Key performance indicators against which Airbus Operations Limited measures the success of its strategy are turnover per full time equivalent employee £357,186 *(2019: £652,314)*, research and development expenditure (net of research and development expenditure tax credit) per full time equivalent employee £29,918 *(2019: £34,833)* and capital expenditure per full time equivalent employee £4,396 *(2019: £11,836)*.

Research and development (R&D)

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

Total R&D costs incurred amounted to £260m, compared to £311m in 2019. Cost reduction measures in response to the impact of the global pandemic were the key factors behind the overall decrease in R&D expenditure year-on-year. Costs incurred by programme in 2020 are as follows:

	2020 (£m)	2019 (£m)
A380 Family	12	21
A350XWB Family	64	62
A330 Family (including Beluga)	28	45
A320 Family	88	69
A400M	11	22
R&T / other (non-programme specific)	57	92
Total	**260**	**311**

Strategic report *(continued)*

Risks and uncertainties

Enterprise Risk Management

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

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

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

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

The Airbus ERM system is augmented by:

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

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

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

Foreign currency exposure

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

The major part of its hedging activities is devoted to foreign exchange risks, as a significant portion of Airbus's revenues is denominated in US dollars, while a major portion of its costs is incurred in Euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that Airbus does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies. Airbus has therefore implemented a long-term hedging portfolio to help secure the rates at which a portion of its future US dollar-denominated revenues (arising primarily at Airbus) are converted into Euro or pound sterling. The Company does not engage in any hedging activity and is not therefore exposed to hedging risk other than through the future share of Common Business earnings.

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

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

Strategic report *(continued)*

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

Dependence on key suppliers and subcontractors

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

The Company relies upon the good performance and financial health of its suppliers and subcontractors to meet the obligations defined under their contracts.

A Supplier's performance and financial health may be negatively impacted by a variety of topics including a concentrated customer base and the COVID-19 pandemic and the resulting health and economic crisis. The Company cannot fully protect itself from non-performance of a supplier which could disrupt production and in turn may have a negative effect on its financial condition and results of operations.

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

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

The COVID-19 pandemic and the resulting health and economic crisis has increased the Company's exposure to supply chain disruption risk. A reinforced governance has been implemented to manage the potential impacts.

Brexit

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

On 24 December 2020, the EU and UK agreed a deal on their new long-term relationship - the EU–UK Trade and Cooperation Agreement ("TCA") - which has been applied provisionally since 1 January 2021. The UK Parliament ratified the TCA on 30 December 2020 but it still awaits ratification by the European Parliament and the Council of the European Union before final conclusion and entry into force.

On 1 January 2021, the UK left the European Single Market and Customs Union. The TCA provides for free trade in goods and limited mutual market access in services, as well as for cooperation mechanisms in a range of policy areas and UK participation in some EU programmes, supported by a common governance and level playing field guarantees. Areas with the most operational relevance for the Company and which were concerned by Brexit were: movement of people, goods, airworthiness, transportation and logistics (air and road transport), environment, export control and data flows and security.

In order to mitigate the risks and anticipate possible consequences associated with Brexit, the Company launched a major Brexit planning project in September 2018 involving the following work streams: People, Certifications, Customs, Procurement & Supply Chain, Transport & Logistics, Export Control, Environment, Security, Capital & Financial Services and Legal.

In 2020, the Company continued to work with suppliers and partners to stockpile parts, prepare its customs and regulatory systems and mitigate potential impacts where possible. The Company has been working with suppliers and partners to assess and improve their readiness levels, and encouraging them to mitigate the potential risks with their own supply chains. In addition, the Company established a cross-divisional and multi-functional quick reaction crisis management organisation to address any unknown events and/or risks which may occur, including during the months after 1 January 2021.

Strategic report *(continued)*

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

Brexit (continued)

The TCA is expected to prevent the disruption a no-deal scenario would have created. Preliminary analysis confirms that although Brexit will result in a requirement for increased areas of vigilance, additional administrative work and reduced industrial flexibility, the continuity of the Company's business operations and supply chain in particular are not materially threatened.

The cooperation mechanisms agreed upon enable air connectivity between the UK and the EU although airlines will have to adapt to the loss of their existing traffic rights in the other party's territory. With regard to airworthiness specifically, the Company welcomes the provisions of the TCA, including the creation of joint technical coordination bodies for the effective implementation of the various annexes of the agreement and awaits the finalisation and ratification of a Bilateral Aviation Safety Agreement ("BASA") between the EU/EASA and the UK/CAA. The Company's Beluga operations were unaffected by the end of the transition period and the first post-transition period set of wings were delivered from Broughton in the UK to Hamburg in Germany on 4 January 2021, as scheduled.

The Company's industrial footprint makes it operationally dependent on surface transport for the movement of supplies. In that respect, the TCA provisions allowing for the continuity of road transport are welcome, but the combined effect of COVID-19 and new customs administrative processes for exporters and importers are resulting in additional burdens.

Customs formalities have necessitated changes to the Company's IT systems with effect from 1 January 2021. The increased administrative burden will be mitigated partially through planned improvements in the Company's digital infrastructure, which will enter into service throughout 2021. The implementation of the new customs systems will limit the Company's flexibility to implement short-notice changes to wing sets before shipping to Final Assembly Lines. A 48-hour freeze period has been implemented as a preliminary, temporary measure.

The Company welcomes that the TCA includes provisions for temporary entry for work purposes with visa-free, short term business trips and the coordination between the two parties on social security, which will support our business operations. While the fact that a temporary arrangement has been agreed to allow personal data to be transferred from 1 January 2021, it will be important that a satisfactory permanent solution is reached as quickly as possible as these transfers are indispensable to the continuity of our operations.

Although the Company notes the absence of defence and security provisions in the TCA, it does not anticipate significant detrimental consequences from their absence given that most of the major defence and security programmes are organised between nations on a multilateral basis. The provisions in the TCA relating to cooperation on cybersecurity are also welcome.

Airbus has four major engineering and manufacturing facilities and continues to employ a substantial number of highly skilled employees in the UK. Given its shared industrial footprint, the Company must remain vigilant in the medium and long term on the evolution of applicable laws and regulations in the EU and in the UK and the complexities arising thereof in order to avoid disruptions and greater costs to the Company's operations. At this stage the Company expects the agreed level playing field in that respect to limit the most material adverse effects.

COVID-19

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

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

Strategic report *(continued)*

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

COVID-19 (continued)

In 2020, a number of measures have been taken by Airbus to implement stringent health and safety procedures while taking account of stock levels and production lead-times. In February 2020, Airbus suspended operations of the Tianjin Final Assembly Line for approximately one week but was later authorised by the Chinese authorities to restart operations and gradually increase production. In March and April 2020, Airbus temporarily suspended certain operations including production and assembly activities at facilities in France, Spain, Germany, UK, US and Canada. The COVID-19 crisis may lead to further disruptions to the Company's internal operations and to its ability to deliver products and services.

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

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

On 23 March 2020, Airbus secured the New Credit Facility in addition to the existing € 3 billion revolving credit facility and withdrew its 2020 guidance due to the volatility of the situation. Given the continued impact of COVID-19 on the business and the associated risks, no new guidance was issued by the Group in 2020 on commercial aircraft deliveries or EBIT.

On 8 April 2020, Airbus announced its decision to adapt commercial aircraft production rates to 40 per month for the A320 Family, 2 per month for A330 and 6 per month for A350 in response to the new COVID-19 market environment. This represented a reduction of the March 2020 pre-COVID-19 average rates of roughly one third. Subsequently the current market situation led to a slight adjustment in the A350 rate from 6 to 5 aircraft a month for now. With these new rates, the Group intended to preserve its ability to meet customer demand while protecting its ability to further adapt as the global market evolves.

On 30 June 2020, Airbus announced plans to adapt its global workforce, principally in France, Germany, Spain and the UK, and resize its commercial aircraft activity in response to the COVID-19 crisis. This adaptation was expected to result in a reduction of around 15,000 positions no later than summer 2021. Working time adaptation and mitigation measures supported by the governments have reduced the number of positions subject to the restructuring plan. Taking into consideration the actual departures since the initial announcement, the remaining number of positions subject to the restructuring plan amounts to approximately 6,100 as of 31 December 2020, including pre-retirement headcount under German Altersteilzeit ("ATZ").

In 2020, Airbus delivered 528 commercial aircraft (excluding A220), 35% fewer than in 2019, in line with the Group's adaptation plan. This reflects customer requests to defer deliveries as well as other factors related to the ongoing COVID-19 crisis. In 2020, Airbus recorded 115 cancellations.

On 21 January 2021, Airbus announced it is updating its production rate planning for its A320 Family aircraft in response to the market environment. The new average production rates for the A320 Family will now lead to a gradual increase in production from the current rate of 40 per month to 43 in Q3 2021 and 45 in Q4 2021. This latest production plan represents a slower ramp up than the previously anticipated 47 aircraft per month from July 2021. Widebody production is expected to remain stable at current levels, with monthly production rates of around five and two for the A350 and A330, respectively. This decision postponed a potential rate increase for the A350 to a later stage.

Strategic report *(continued)*

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

COVID-19 (continued)

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

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

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

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

Availability of Government and other sources of financing (WTO litigation)

From 1992 to 2004, the European Union and the US operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US unilaterally withdrew from this agreement, which eventually led to the US and the European Union making formal claims against each other before the World Trade Organization ("WTO"). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues.

On 18 October 2019, the US imposed, among other targeted goods, a tariff of 10% on new aircraft exported from the European Union to the US. On 14 February 2020, the USTR announced the US is increasing the additional duty rate imposed on aircraft imported from the EU to 15%, effective 18 March 2020. On 30 December 2020, US Trade Representative announced the US would impose a tariff of 15% on imports of aircraft manufacturing parts from France and Germany delivered to the final assembly line in Mobile, Alabama. The tariffs could have a material impact on the Financial Statements, business and operations of the Group. Duties on the importation of Airbus's products into the US could result in (i) increased costs for the aerospace and airline industries as well as other industries that rely on air transport, (ii) weakening demand for new aircraft and negatively affecting the financial condition of air carriers and lessors, (iii) decisions to defer, reject or reschedule the delivery of new aircraft or limit the routes upon which new aircraft will be used, (iv) increased costs to consumers, and/or (v) damage to the Company's business or reputation via negative publicity adversely affecting the group's prospects in the commercial market place.

In March 2019, the WTO found that the steps by the US to address US subsidies to Boeing were inadequate. In October 2020, the WTO announced its decision to authorise the EU to impose US$ 4 billion in annual countermeasures. In November 2020, the EU imposed tariffs on a range of imports to the EU from the US including 15% on the importation of large civil aircraft from the US.

On 5 March 2021, the EU and US announced they would suspend all tariffs related to the WTO aircraft disputes for a four-month period.

In prior years, Airbus and its principal competitors have each received different types of government financing for 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.

Strategic report *(continued)*

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

COVID-19 (continued)

The terms and conditions of any new agreement, or the final outcome of the formal WTO or other trade law proceedings, may limit access by the group to risk-sharing funds for large projects, may establish an unfavourable balance of access to government funds by the group as compared to its US competitors or may in an extreme scenario cause the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the group. 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 group's credit ratings, as well as the possibility that lenders or investors could develop a negative perception of the group'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. Airbus may therefore not be able to successfully obtain additional outside financing on appropriate terms, or at all, which may limit the group's future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

Compliance investigation

For the investigation by the UK Serious Fraud Office ("SFO"), France's Parquet National Financier ("PNF"), and the US Departments of State ("DoS") and Justice ("DoJ"), which is described in the 'Significant events in 2020' section above, Airbus expects to continue to spend time and incur expenses associated with its defence of legal and regulatory proceedings, regardless of the outcome, and this may divert the efforts and attention of management from normal business operations. Although the group 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 group's business, results of operations and financial condition. An unfavourable ruling could also negatively impact the Airbus's stock price and reputation. Airbus Operations Limited is not a party to any of these proceedings.

Forecast information

Airbus faces the following main challenges on its commercial programmes:

- adapt to rate and stabilise operational performance post-COVID-19 while maintaining high safety and quality standards;
- monitor and support the supply chain;
- accompany customers and facilitate deliveries to customers including by remote delivery process;
- ensure a strong customer focus to support return to operations; and
- protect priority projects and deliver developments as per revised plan including A321XLR, A350 Step7 (Standard 2022), Airspace, A330-800, A330-900 251t MTOW (Maximum Take Off Weight), and Digital (DDMS and Skywise).

A320

In response to the new COVID-19 market environment, the commercial aircraft production rate for the A320 Family was adapted to 40 per month in June 2020. In January 2021, Airbus announced demand for the A320 Family is expected to lead to a gradual increase in production from the current rate of 40 per month to 43 in Q3 2021 and 45 in Q4 2021. The group monitors proactively and constantly the backlog, the internal and external supply chain, including engines, so as to ensure readiness for further rate adaptations in accordance with traffic evolution, to minimise inventory levels, and secure aircraft storage capacity.

A350XWB

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

Strategic report *(continued)*

***Forecast information** (continued)*

A380

In connection with the A380 programme, Airbus faces the following main challenges: programme wind-down, delivery of remaining A380s and secure in service support for next decades.

A330

In response to the new COVID-19 market environment, the commercial aircraft production rate for the A330 programme was adapted to 2 per month in June 2020. In connection with the A330 programme, the main challenges Airbus faces are to secure revised delivery targets post-COVID-19, monitor and support the supply chain. Decisions on further rate adaptation will depend on traffic evolution. The developments were on track in 2020: A330-800 was certified in February 2020, A330-900 251t MTOW (Maximum Take Off Weight) was certified early October 2020 with a first delivery in November 2020 to Kuwait Airlines.

A400M

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

Research & Technology

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

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

Airbus is a key partner in the Aerospace Growth Partnership (AGP) which brings government and industry together to secure the long-term future of the UK aerospace sector. The AGP has contributed to a 35 per cent growth in the UK aerospace sector in the last five years. We are a major partner in the £3.9 billion Aerospace Technology Institute (ATI), which is positively promoting research and development into new technology for the aircraft of the future.

Responsibility and Sustainability

Airbus is conscious of the value it brings to society, and it wants to bring this value in a sustainable way, ensuring it can continue to unite and safeguard while minimising its social and environmental impact. In 2020, to increase its focus on sustainability efforts, Airbus revamped its sustainability strategic framework around the following four priority commitments:

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

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

Strategic report *(continued)*

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

The objective is to set clear ambitions across each commitment with agreed key performance indicators and targets enabling the group to monitor progress towards these ambitions. This process has begun in 2020 and will continue to mature over 2021.

The COVID-19 crisis has however put the important economic contribution of aviation in the spotlight, as travel restrictions and health preoccupations slowed global traffic dramatically. According to the September 2019 Air Transport Action Group (ATAG) COVID-19 Analysis Fact Sheet, 46 million jobs and US$ 1.8 trillion worth of economic activity, normally supported by aviation, were at risk.

For more information see: Airbus's 2020 registration document:
https://www.airbus.com/company/sustainability/reporting-and-performance-data/document-centre.html

A brief review of our actions follow.

Since 2003, Airbus has been a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative and upholds the ten core principles including human rights, labour, environment and anti-corruption. These values and practices are in line with internationally recognised standards as laid out in charters, declarations and guidelines, including the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises.

Support during COVID-19

Airbus has acted decisively and responsibly to harness its products, services and employees' unique skills and capabilities to support efforts in the fight against COVID-19, working in close partnership with Governments and health care providers around the world. This included being a key partner in the 'Ventilator Challenge UK' consortium to provide in excess of 10,000 medical ventilators for the UK. Airbus's UK operations also supported the procurement of more than 300 ventilators, donated more than two-million masks to support front-line NHS staff and supported the donation of food to vulnerable and isolated people.

Respect for human rights

During 2020 the group formalised its governance arrangements for human rights including top level oversight at Board and Executive Committee level and the introduction of a roadmap and multifunctional team to drive actions to achieve Airbus's human rights ambition 'to embed and advance human rights throughout our business, organisation and supply chain'. Other activities focused on human rights follow. For further information, see Airbus' 2020 registration document: https://www.airbus.com/company/sustainability/reporting-and-performance-data/document-centre.html:

- Prioritised 'respect human rights' as one of the four sustainability commitments.
- Internal and external validation of its identified salient human rights issues.
- Expansion of its supply chain due-diligence to include social assessments on Airbus sites, including its subsidiaries and affiliates.
- Revision of its supplier code of conduct to include strengthened human rights expectations.
- Continuation of awareness raising and e-learning modules.
- Development of targets and KPIs.

UK Modern Slavery Act

As part of its obligations under the UK Modern Slavery Act, and in recognition of the global aim of this topic, Airbus published its latest Modern Slavery Statement in 2020 covering the year ended 31 December 2019. Modern slavery, including forced, child, bonded and indentured labour, is a topic progressed through the human rights roadmap.

Strategic report *(continued)*

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

Gender Pay Gap report

In 2020, in accordance with the Gender Pay Gap Reporting regulations under the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, Airbus published its latest Gender Pay Gap report. Airbus takes gender equality seriously. In 2020, Airbus's current proportion of female employees globally was 18.7%; we are committed to advancing women in the workplace and have set an annual target of 30% of all annual recruitment to be women (26% in 2020). In addition to specific internal programmes aimed at promoting gender equality, we are actively involved in a number of activities to attract more women into our business, including leading the development of the 'Women in Aviation and Aerospace Charter'.

Duty to report Payment Practices and Performance

In 2020, in accordance with new regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015, Airbus published its twice-yearly payment practices and performance report, details of which can be found on the specific Government website. Our results reflect the unique nature of the aerospace industry and the long lead times taken to produce, deliver and receive payments for our products.

Responsible Supply Chains

Airbus strives to make Responsibility & 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, and contract management to supplier management. Environmental activities in Procurement have paved the way to integration of wider corporate social activities within the supply chain.

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

Responsibility to the Environment

As aviation represents around 2-3% 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 Paris agreement of less than global 2°C trajectory. In the last 50 years, the aviation industry has cut fuel consumption and CO2 emissions per seat / kilometre by more than 80%, NOx emissions by 90% and noise by 75% per aircraft operation. Whilst this performance is impressive, Airbus and the aviation industry recognise the importance to continue improving the sector's environmental performance in all areas – from noise to air quality and GHG emissions, notably CO2.

Due to the industry's short to medium-term reliance on fossil-based fuels as well as potential additional impacts from non-CO2 factors, the reduction of aviation's impact on climate change remains an environmental challenge. Airbus is fully committed to supporting and promoting the decarbonisation of the aviation industry as we 'pioneer sustainable aerospace for a safe and united world.'

Decarbonisation requires a basket of measures such as new technologies, Sustainable Aviation Fuels (SAF's), new operating procedures and market based measures. Airbus intends to bring to market Zero Emissions 'Zeroe' aircraft powered by hydrogen and with an entry into service date by 2035. The three concept aircrafts are being evaluated with decisions to be made in the mid to late 2020s. However, this does not exclude SAFs which are available now, reduce emissions by over 70% on a life cycle basis, are drop in fuels, and can be made from a variety of raw materials but especially waste, which have no impact on land use.

The impacts of aviation's non-CO2 emissions are of growing understanding and importance. The science however is still less well understood compared to carbon but Airbus is continuing to both support the academics in developing their understanding and investigating mitigation actions. Further positive impacts from the use of both SAFs and Hydrogen will reduce these non-CO2 impacts.

Strategic report *(continued)*

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

Responsibility to the Environment (continued)

Airbus is a full members of the Jet Zero Council, a government and industry partnership created to accelerate the decarbonisation of the UK aviation industry and is focused on technology development and accelerating the up scaling for the production of SAFs
New technologies are constantly in development at Airbus with investment in R&D projects and collaborations increasing, including working closely with the ATi (Aerospace Technology institute) on the Fly zero program, to which a number of Airbus employees have been seconded, and this will develop technology building blocks for future aircraft designs.

Ethics and Compliance

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

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

Airbus Foundation

The Airbus Foundation is placed at the heart of Airbus and focuses its activities in two distinct areas: using Airbus products and services to support the global humanitarian community and helping prepare young people for the future.

Since its inception in 2008, the Airbus Foundation has become an established, respected and recognised partner for the key emergency responders and disaster relief operators by providing product and service support including: air transport missions; transporting aid; donating helicopter flight hours; training of emergency responders and the provision of satellite imagery for major natural disasters and crises worldwide.

In addition, its youth programmes have reached thousands of young people globally supported by our passionate employees. Unfortunately, in 2020, due to COVID-19, Airbus had to put on hold its youth engagement programmes including its Airbus Little Engineer and Flying Challenge programmes run at its sites in Filton, Bristol, in Broughton, North Wales and Stevenage, all focused on inspiring young people and building confidence and self-esteem. Airbus did however focus its activities on digital STEM engagement through its digital platform 'the Airbus Discovery Space' which included the introduction of a 'Discover at Home' series, designed to assist in home schooling efforts, providing free and unlimited access to parents, educators and kids, along with useful toolkits and online design activities

Impact on the UK economy

Aviation continues to play a vital role in the UK economy. The UK aerospace sector is the third largest in the world. It is estimated that in the UK, Airbus supports around 110,000 jobs including an extended supply chain of more than 2,000 UK companies including around 1,200 SMEs.

Airbus also recognises the importance of its local communities to its business. Every year Airbus supports many community activities focused on youth, education and the environment. During 2020, the impact of COVID-19 meant that we were not able to be as active in our community as previous years. Airbus did however succeed in supporting over 80 local community projects and its employees continued to fundraise for the five local partner charities selected by employees at both Airbus's Filton and Broughton sites.

Strategic report *(continued)*

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

Attracting Talent to our Business

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

Airbus also attends and runs events to inspire young people in STEM subjects and in particular, in aviation. In addition, to encourage more girls into engineering, through the Engineering Development Trust's Industrial Cadets initiative, Airbus has mentored over 1,500 girls (age 11 to 14) in the Go4Set environment programme since 2013. We have also trained 350 Airbus employee volunteer mentors to support our school activities. Schools engagement activity was put on pause for much of 2020 due to the COVID-19 pandemic. However, we have continued to work on our virtual offering, including a fully virtual Work Experience in 2020 that attracted 2,500 participants.

Employee Engagement

Organisations across industries are increasingly realising how essential their employees are as stakeholders in the conversations driving their business. At Airbus, this is no exception. Airbus is engaged in stakeholder dialogue at various levels and thanks to a recent update of its materiality assessment, it had a privileged opportunity to capture the voice of 12 key stakeholders, including employees, as to which Environmental, Social and Governance topics were of most importance for them.

Airbus also engages its employees through regular internal communication on specific corporate and local topics of interest. In 2020, COVID-19 was understandably a significant topic for communication and Airbus enhanced the reach of its communication to all employees by launching regular communication direct to employees' personal email addresses. This ensured employees who chose to provide their personal contact details could receive important messaging at any time. This was particularly important as large groups of employees were furloughed and/or do not have easy and regular access to an Airbus email address (e.g. production workers). A new support network called The Change League was also launched in response to COVID-19 and since early 2020 has been dedicated to providing resources and tools to help managers and employees manage issues such as mental wellbeing and coping with change. The network has dedicated online resources and face-to-face support for those who cannot access digital tools easily.

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

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

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

Strategic report *(continued)*

Environment Health and Safety

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

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

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

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

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

Post Balance Sheet Events – Adaptation of production rate

On January 21, 2021, Airbus announced the adaptation of its production rate planning in response to the market environment. For its A320 Family aircraft, the new average production rates will now lead to a gradual increase in production from the current rate of 40 per month to 43 and 45, respectively in the third and fourth quarter of 2021. The A220 monthly production rate will increase from four to five aircraft per month from the end of the first quarter of 2021. Widebody production is expected to remain stable at current levels.

Post Balance Sheet Events – World Trade Organisation

On 12 January 2021, the US imposed an additional tariff of 15% on imports of aircraft manufacturing parts from certain Member States of the EU delivered to the US. On 5 March 2021, the EU and US announced they would suspend all tariffs related to the WTO aircraft disputes for a four-month period.

Strategic report *(continued)*

Post Balance Sheet Events – Airbus UK Limited capital injection

On 30 March 2021, the Company acquired an additional ordinary share in its 100% owned subsidiary, Airbus UK Limited, for a consideration of £264m. Airbus UK Limited subsequently purchased the land at the main Company sites in Filton and Broughton and, from 1 April 2021, will be the new landlord for the Company for these two sites.

By order of the board

T Higgs
Director

Pegasus House
Aerospace Avenue
Filton
Bristol
BS34 7PA

10 June 2021

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2020.

Principal activities

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

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

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

Proposed dividend

The directors do not recommend the payment of a dividend *(2019: £Nil).*

Directors and directors' interests

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

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

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

Employees

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

Streamlined Energy and Carbon Reporting

Airbus Operations Limited is committed to improving its environmental footprint and is undertaking activities framed within the UN Sustainable Development Goals. The Science Based Target method has been used to set improvement goals for energy, CO_2 emissions, and water use. In addition to clear annual targets for each site, local sustainability teams have been set up at all large sites to develop initiatives and maintain progress. In the UK all sites are certified to ISO 14001:2015. Airbus in the UK has continued to meet the reducing milestone targets set out in Climate Change Agreements sites.

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

Directors' report *(continued)*

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

Methodology and findings

The following methodologies have been used to calculate the below CO2e emissions:

- The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition); and
- The Department of Environment, Food and Rural Affairs (DEFRA) Environmental Reporting Guidelines (2020).

Emissions Source	**Energy Consumption (kWh)**	**CO_2e (tonnes)**
Scope 1 – Natural Gas and Company Vehicle Fuel	165,651,298	33,856.5
Scope 2 – Electricity	34,703,196	8,571.7
Scope 3 – Personal Cars used for Business Purposes	91,615	21.5
Total (Scope 1 + 2 + 3)	**200,446,109**	**42,449.7**
Floor Area (m^2)	716,674	
Intensity Ratio: tCO_2e/floor area m^2	0.059	
Intensity Ratio: kgCO2e/floor area m2	59.23	

Energy Efficiency

The Covid-19 pandemic has allowed the use of buildings to be reviewed in line with furlough, increased home working, and revised working patterns. This has created an additional energy saving. Although hopefully a temporary situation, measures have been taken to empower energy users to make savings.

In line with the commitment to increase renewable energy use, all UK sites were supplied with an average 17% certified renewable electricity, which will be increased to 30% in 2021. The first large roof top photo-voltaic system came on stream and generated 671,940 kWh in its first year of operation, exceeding forecasts.

As many Airbus in the UK sites include large buildings for manufacturing and testing activities, lighting is a significant electricity use. To reduce consumption intelligent LED lighting has been installed in buildings up to 18m high. LEDs, in addition to being efficient, allow light to be accurately directed to create a bright and safe workplace. The intelligence allows the controls to reduce lighting when spaces are unoccupied, and to dim when daylight contributes to light levels. The project will continue in 2021 with more than 600 fittings scheduled for replacement. Similar technology has also been utilised for some external and office lighting.

The highly controlled environments required for some aerospace activities can require air conditioning with significant energy use, and replacement chillers have been introduced to provide efficient cooling.

Airbus in the UK has implemented a policy of reviewing all investments for energy and emissions impacts and to ensure that green principles are applied. Construction during 2020 of replacement modern comfortable accommodation for an office block and a medical centre will allow closure of two inefficient buildings.

Disclosure of information to auditor

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

Directors' report *(continued)*

Other information

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

Auditor

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

By order of the board

T Higgs

Director

Pegasus House
Aerospace Avenue
Filton
Bristol
BS34 7PA

10 June 2021

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Airbus Operations Limited ("the company") for the year ended 31 December 2020 which comprise the Profit and Loss Account, Other Comprehensive Income, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

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

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

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

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

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

Going concern (*continued*)

Our procedures included:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of Company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and journals posted to unrelated accounts.

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

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
10 June 2021

Profit and Loss Account

for year ended 31 December 2020

	Note	**2020** £m	**£m**	2019 £m	£m
Turnover					
Continuing operations	*2*		**2,925**		5,525
Change in stocks of finished goods and work in progress		**(5)**		32	
Raw materials and consumables		**2,375**		3,763	
Other external expenses		**24**		46	
Staff costs	*4*	**491**		516	
Coronavirus Job Retention Scheme credit	*4*	**(31)**		-	
Exceptional cost - restructuring	*4*	**93**		-	
Depreciation and other amounts written off tangible and intangible fixed assets		**142**		313	
Exceptional cost – compliance fine	*3*	**495**		-	
Other operating expenses		**101**		338	
			(3,685)		(5,008)
Operating (loss)/profit	*3*		**(760)**		517
Other interest receivable and similar income	*6*		**40**		21
Interest payable and similar expenses	*7*		**(6)**		(20)
(Loss)/profit before taxation			**(726)**		518
Tax on (loss)/profit	*8*		**110**		(74)
(Loss)/profit for the financial year			**(616)**		444

The notes on pages 36 to 60 form an integral part of the financial statements.

Other Comprehensive Income

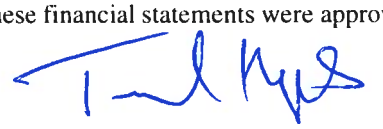
for year ended 31 December 2020

	Note	**2020**	2019
		£m	£m
(Loss)/profit for the year		**(616)**	444
Other comprehensive income			
Remeasurement of the net defined benefit liability	*20*	**(388)**	(129)
Income tax on other comprehensive income		**90**	22
Other comprehensive income for the year, net of income tax		**(298)**	(107)
Total comprehensive (loss)/income for the year		**(914)**	337

Balance Sheet
at 31 December 2020

	Note	**2020 £m**	**£m**	2019 £m	£m
Fixed assets					
Intangible assets	*9*		**129**		156
Tangible assets	*10*		**944**		1,029
Investments	*11*		**-**		-
			1,073		1,185
Current assets					
Stocks	*12*	**591**		602	
Debtors (including £573m *(2019: £350m)* due after more than one year)	*13*	**834**		1,729	
		1,425		2,331	
Creditors: amounts falling due within one year	*14*	**(1,306)**		(1,561)	
Net current assets/(liabilities)			**119**		770
Total assets less current liabilities			**1,192**		1,955
Creditors: amounts falling due after more than one year	*15*		**-**		(161)
Provisions for liabilities					
Other provisions	*19*	**(107)**		(190)	
Pensions and similar obligations	*20*	**(947)**		(552)	
			(1,054)		(742)
Net assets			**138**		1,052
Capital and reserves					
Called up share capital	*21*		**1,467**		1,467
Share premium account			**534**		534
Capital contribution reserve			**572**		572
Profit and loss account			**(2,435)**		(1,521)
Shareholders' funds			**138**		1,052

These financial statements were approved by the board of directors on 10 June 2021 and were signed on its behalf by:



T Higgs
Director

Company registered number: 3468788

The notes on pages 36 to 60 form an integral part of the financial statements.

Statement of Changes in Equity

	Called up Share capital £m	Share Premium account £m	Capital contribution reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2019	1,467	534	572	(1,858)	715
Total comprehensive income for the period					
Loss for the year	-	-	-	444	444
Other comprehensive income	-	-	-	(107)	(107)
Balance at 31 December 2019	**1,467**	**534**	**572**	**(1,521)**	**1,052**

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

Notes
(forming part of the financial statements)

1 Accounting policies

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

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

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

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

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

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

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

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

1.1 Measurement convention

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

1.2 Going concern

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

Further, the directors considered that the most recent economic outlook arising from the Coronavirus pandemic presents significant risks to the group's business including uncertainty of demand for new aircraft, disruption in deliveries and supply chains and delays in receiving cash from customers. The group continues to negotiate with customers and suppliers to reduce the impact and has instituted measures to reduce costs, preserve cash and secure additional finance. There is uncertainty in relation to the impact on the group's customers, which could impact on the timing of aircraft deliveries and associated cash payments and in extreme circumstances the loss of certain customers and their orders. Further information is provided in the 'COVID-19' part of the 'Risks and Uncertainties' section of the Strategic Report.

Airbus group has significant liquidity available to cope with additional cash requirements related to Coronavirus. As of 31 December 2020, the group had a net cash position of € 4.3 billion with a total liquidity of € 33.6 billion, before deducting short term financing liabilities.

The group has prepared forecasts considering a severe but plausible downside scenario for aircraft deliveries, which the Directors have reviewed, covering the period to December 2022 which indicate that the group will be able to continue to operate within the facilities in place.

The Company is dependent on Airbus SE not seeking repayment of the amounts currently due to the group, which at 31 December amounted to £792m, and providing additional financial support during that period. Airbus SE has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

1.3 Foreign currency

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

1.4 Non-derivative financial instruments

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

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

Trade and other receivables

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Non-derivative financial instruments (continued)

Trade and other payables

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

Investments in subsidiaries and associates

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Further details on refundable Government advances are provided at 1.9 below.

1.5 Derivative financial instruments and hedging

Derivative financial instruments

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

1.6 Tangible fixed assets

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

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

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

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Intangible assets

Research and development

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

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

Amortisation

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

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

A400M development costs are not capitalised.

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

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

1.8 Government grants and Coronavirus Job Retention Scheme

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

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

1.9 Refundable Government advances

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Stocks

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

1.11 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

Non-financial assets

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

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

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

1.12 Employee benefits

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

Defined contribution plans and other long term employee benefits

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

Defined benefit plans

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Employee benefits (continued)

Defined benefit plans (continued)

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

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

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

Group Plans

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

Termination benefits

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

1.13 Provisions

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

1.14 Turnover

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Turnover (continued)

A specific transfer pricing agreement has been signed in 2013 by the four tax administrations for the development, production and sale of the military aircraft A400M to the company Airbus Military SL. The entities concerned are the same as for the commercial APA, except Airbus Operations SL, plus Airbus Defense and Space SAU and Airbus Defense and Space GmbH. The result is consolidated and shared by a Spanish entity, UTE (Union Temporal de Empresas), with reference to the A400M Industrial Key. This APA does not cover support and services activities related to A400M, which are accounted for on an accruals basis.

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

1.15 Expenses

Operating lease

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

Finance lease

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

Interest receivable and Interest payable

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

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

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

1.16 Taxation

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

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

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

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

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

Notes *(continued)*

2 Turnover

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

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2020 £m	2019 £m
Exceptional cost – compliance fine	**495**	-
Government grants	**(16)**	(22)
Royalties payable to UK Government	**13**	19
Research and development expensed as incurred	**260**	311
Research and development expenditure tax credit	**(15)**	(16)

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

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

Auditor's remuneration:

	2020 £000s	2019 £000s
Audit of these financial statements	**293**	296
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit -related assurance services	**74**	53
	367	349

4 Staff numbers and costs

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

	Number of staff	
	2020	2019
Manufacturing	**4,470**	4,764
Engineering	**1,614**	1,664
Administration and support	**2,105**	2,041
	8,189	8,469

Notes *(continued)*

4 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£m	£m
Wages and salaries	**343**	378
Social security costs	**44**	46
Contributions to defined contribution plans	**25**	23
Expenses related to defined benefit plans (see note 20)	**79**	69
Total (excluding Coronavirus Job Retention Scheme credit and termination costs)	**491**	516

As a result of the impact of the global pandemic on the aviation industry and the consequent reduction in production rates, the Company had to use the Government's Job Retention Scheme. Although this allowed resource adaptation measures to be avoided in the short term, the depth of the crisis was such that a comprehensive restructuring plan was required. Further information on the restructuring plan is provided in the 'Workforce Adaptation' part of the 'Significant Events in 2020' section of the Strategic Report.

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

	2020	2019
	£m	£m
Coronavirus Job Retention Scheme credit	**(31)**	-

The costs recognised in relation to the restructuring plan were as follows:

	2020	2019
	£m	£m
Termination costs including social security and pensions	**93**	-

5 Directors' remuneration

	2020	2019
	£000	£000
Directors' remuneration	**329**	477
Amounts receivable under long term incentive schemes	**16**	112
Company contributions to pension plans	**35**	87
	380	676

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

The above disclosure represents the remuneration for one director (*2019: two directors*) in respect of their activities for the Company. The remuneration of the other directors in relation to their activities as board members is incidental compared to their other activities within the group and is not recharged to the Company.

One director is accruing benefits under a defined benefit scheme as part of remuneration for services provided to the Company.

Notes *(continued)*

6 Other interest receivable and similar income

	2020 £m	2019 £m
Net foreign exchange gain	**32**	15
Net gain on financial liabilities measured at fair value through profit or loss (excluding derivatives used in hedging relationships)	**8**	6
Total interest receivable and similar income	**40**	21

7 Interest payable and similar expenses

	2020 £m	2019 £m
On funding accounts with Airbus SE	**1**	6
Movement in refundable Government advances measured at amortised cost	**5**	14
Total other interest payable and similar expenses	**6**	20

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

8 Taxation

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

	2020 £m	**£m**	2019 £m	£m
Current tax				
Current tax on income for the period	**(10)**		26	
Adjustments in respect of prior periods	**(16)**		18	
Total current tax		**(26)**		44
Deferred tax (see note 18)				
Origination and reversal of timing differences	**(100)**		20	
Adjustments in respect of previous years	**(27)**		(9)	
Impact of change in tax rate	**(47)**		(3)	
Total deferred tax		**(174)**		8
Total tax expense/(credit)		**(200)**		52

Notes *(continued)*

8 Taxation *(continued)*

	2020			2019		
	£m	**£m**	**£m**	£m	£m	£m
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**(26)**	**(84)**	**(110)**	44	30	74
Recognised in other comprehensive income		**(90)**	**(90)**	-	(22)	(22)
Total tax	**(26)**	**(174)**	**(200)**	44	8	52

Reconciliation of effective tax rate

	2020	2019
	£m	£m
(Loss)/profit for the year	**(616)**	444
Total tax (credit)/expense	**(110)**	74
(Loss)/profit excluding taxation	**(726)**	518
Tax using the UK corporation tax rate of 19% (2019: 19%)	**(138)**	98
Impact of change in tax rate on deferred tax balances	**(31)**	(3)
Non-deductible expenses	**96**	3
Income taxed at lower rate of tax (Patent Box)	**6**	(33)
Adjustments in respect of previous years	**(43)**	9
Total tax expense/(credit) included in profit or loss	**(110)**	74

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

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £176m.

Notes *(continued)*

9 Intangible assets

	Development costs £m
Cost	
Balance at 1 January	898
Other acquisitions – internally developed	1
Balance at 31 December	899
Amortisation and impairment	
Balance at 1 January	742
Amortisation for the year	28
Balance at 31 December	770
Net book value	
At 1 January	156
At 31 December	**129**

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

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

Following the announcement made on 14 February 2020 to cease production of the A380, an impairment review was completed and an impairment of £258m was booked against A380 development costs in 2019. Amortisation of A380 development costs commenced in 2011 and, since 2019, it is straight line over the remaining aircraft which reach Station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2020, all A380 aircraft have reached Station 40 and therefore A380 development costs are fully amortised.

Amortisation of A350XWB research and development expenditure commenced in 2014 and it is straight line over 1,200 aircraft which reach Station 40 (the date when the forward, centre and aft fuselage sections are joined). As at the end of 2020, 459 A350XWB wing sets had reached Station 50.

Amortisation of SA Neo research and development expenditure commenced in 2015 and it is straight line over 2,400 aircraft which reach Station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2020, 1,775 SA Neo wing sets had reached Station 40.

Amortisation of A330 Neo research and development expenditure commenced in 2016 and it is straight line over 600 aircraft which reach Station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2020, 79 A330 Neo wing sets had reached Station 40.

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

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £m	Plant and Equipment £m	Jigs & tools £m	Under construction £m	Total £m
Cost					
Balance at 1 January	594	626	1,488	68	2,776
Additions	-	-	3	33	36
Transfers	-	13	-	(13)	-
Disposals	(13)	(17)	(1)	-	(31)
Balance at 31 December	581	622	1,490	88	2,781
Depreciation and impairment					
Balance at 1 January	300	540	907	-	1,747
Depreciation charge for the year	22	28	64	-	114
Disposals	(13)	(11)	-	-	(24)
Balance at 31 December	309	557	971	-	1,837
Net book value					
At 1 January	294	86	581	68	1,029
At 31 December	**272**	**65**	**519**	**88**	**944**

Leased plant and machinery

At year end the net carrying amount of plant and machinery leased under a finance lease was £nil *(2019: £1m)*. The leased equipment secures lease obligations (see note 17).

Tangible fixed assets under construction

The amount of borrowing costs capitalised during the period was £nil (2019: £nil).

Included in the cost of tangible fixed assets is £2m (2019: £2m) in respect of capitalised finance costs.

Land and Buildings

The net book value of land and buildings comprises:

	2020 £m	2019 £m
Freehold	**73**	82
Short leasehold	**199**	212
	272	294

Notes *(continued)*

11 Fixed asset investments

The Company has the following fixed asset investments, with a total carrying value of £8,120 (2019: £8,120).

	Aggregate of capital and reserves	Profit or loss for the year	Address of registered office	Class of shares held	Ownership 2020	Ownership 2019
	£m	£m			%	%
Subsidiary Undertakings						
Airbus Filton Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Rodney Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100

12 Stocks

	2020 £m	2019 £m
Raw materials and consumables	**309**	307
Work in progress	**64**	41
Finished goods	**102**	121
Payments on account	**116**	133
	591	602

Notes *(continued)*

13 Debtors

	2020 £m	2019 £m
Trade debtors	**25**	44
Amounts owed by group undertakings	**142**	1,168
Other debtors including taxation	**71**	115
Deferred tax assets (see note 18)	**557**	383
Prepayments and accrued income	**27**	15
Other financial assets (see note 17)	**12**	4
	834	1,729
Due within one year	**261**	1,379
Due after more than one year	**573**	350
	834	1,729

14 Creditors: amounts falling due within one year

	2020 £m	2019 £m
Obligations under finance leases - Airbus Financial Services (see note 16)	**-**	2
Trade creditors	**309**	801
Amounts owed to group undertakings	**826**	274
Other creditors including social security	**53**	28
Refundable Government advances (see note 17)	**-**	283
Accruals	**41**	76
Deferred income	**77**	87
Current tax creditor	**-**	10
	1,306	1,561

Included in amounts owed to group undertakings is £792m *(2019: £241m)* which relates to Airbus SE. The balance is repayable on demand and attracts interest at GBP LIBOR + 0.3%.

Airbus Financial Services is a wholly owned subsidiary of Airbus S.A.S.

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

15 Creditors: amounts falling after more than one year

	2020 £m	2019 £m
Obligations under finance leases - Airbus Financial Services (see note 16)	**-**	20
Refundable Government advances (see note 17)	**-**	141
	-	161

Notes *(continued)*

16 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2020 £m	2019 £m
Creditors falling due after more than one year		
Finance lease liabilities – Airbus Financial Services	-	20
Creditors falling due within less than one year		
Finance lease liabilities – Airbus Financial Services	-	2

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Repayment schedule**	**2020**	2019
					£m	£m
Finance lease liabilities - Airbus Financial Services	GBP	GBP LIBOR	2029	20 years	-	22

In 2020, the Company chose to settle the remaining outstanding balance in full.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2020 £m	Minimum lease payments 2019 £m
Less than one year	-	2
Between one and five years	-	8
More than five years	-	12
	-	22

Notes *(continued)*

17 Other financial assets and liabilities

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

	2020	2019
	£m	£m
Amounts falling due after more than one year		
Other financial liabilities measured at amortised cost – refundable Government advances	**-**	141
Amounts falling due within one year		
Financial (assets)/liabilities designated as fair value through profit or loss	**(12)**	(4)
Other financial liabilities measured at amortised cost – refundable Government advances	**-**	283
Total financial (assets)/liabilities	**(12)**	279

Financial liabilities designated as fair value through profit or loss

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

The basis for assessing fair value of the above derivatives is disclosed in note 22 (b).

Other financial liabilities measured at amortised cost – refundable Government advances

In 2020, the Company chose to settle the remaining outstanding balance in full.

Notes *(continued)*

18 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**(57)**	(3)	**-**	-	**(57)**	(3)
Employee benefits	**(188)**	(108)	**-**	-	**(188)**	(108)
Temporary differences on Airbus result	**(104)**	(77)	**-**	-	**(104)**	(77)
Unused tax losses	**(191)**	(179)	**-**	-	**(191)**	(179)
Other	**(17)**	(16)	**-**	-	**(17)**	(16)
Tax (assets) / liabilities	**(557)**	(383)	**-**	-	**(557)**	(383)

As at 31 December 2020, none of the net deferred tax asset was expected to be utilised within one year.

19 Provisions

	Supplier claims	Restructuring provision	Other provisions	Total
	£m	**£m**	**£m**	**£m**
Balance at 1 January 2020	158	-	32	190
Provisions made during the year	44	93	-	137
Provisions used during the year	(147)	(60)	-	(207)
Provisions released during the year	(2)	(10)	(1)	(13)
Balance at 31 December 2020	**53**	**23**	**31**	**107**

Supplier claims generally arise when there is a change in specification resulting in additional costs being incurred by the supplier. The provision is based on the Company's best estimate of the likely settlement value and is expected to be utilised within one year. During 2019, a specific provision was booked for £115m relating to an agreement to early settlement of a supplier's development costs. The claim was settled in February 2020.

As explained in note 3, a company restructuring plan was implemented in order to mitigate the financial consequences of the global pandemic. The provision is expected to be utilised within one year.

Other provisions include £30m in relation to asset retirement obligations. This provision is expected to be utilised in greater than five years.

Accounting estimates and judgements are discussed further in note 27.

Notes *(continued)*

20 Employee benefits

Group plans

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

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

Multi-employer plans (BAE Systems)

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

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

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

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

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

Notes *(continued)*

20 Employee benefits *(continued)*

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

Net pension liability

	2020 £m
Defined benefit obligation	(3,929)
Plan assets	2,982
Net pension liability	(947)

Movements in present value of defined benefit obligation

	2020 £m
At 1 January 2020	(3,396)
Current service cost	(68)
Past service credit – curtailment	43
Termination benefits	(43)
Interest expense	(67)
Remeasurement: actuarial gains/(losses)	(533)
Contributions by members	(1)
Benefits paid	136
At 31 December 2020	(3,929)

Movements in fair value of plan assets

	2020 £m
At 1 January 2020	2,844
Interest income	56
Remeasurement: return on plan assets less interest income	145
Contributions by employer	72
Contributions by members	1
Benefits paid	(136)
At 31 December 2020	2,982

Notes *(continued)*

20 Employee benefits *(continued)*

Expense recognised in the profit and loss account

	2020	2019
	£m	£m
Current service cost	**68**	55
Past service credit – curtailment	**43**	-
Termination benefits	**(43)**	-
Net interest on net defined benefit liability	**11**	14
Total expense recognised in profit or loss (see note 4)	**79**	69

The fair value of the plan assets was as follows:

	2020	2019
	Fair value	Fair value
	£m	£m
Equities	**886**	1,062
Government debt	**393**	304
Corporate bonds	**839**	473
Property	**260**	303
Other	**604**	702
	2,982	2,844

Risks

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

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

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

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

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

Notes *(continued)*

20 Employee benefits *(continued)*

Principal actuarial assumptions at the year end were as follows:

	2020	2019
	%	%
Discount rate	**1.4**	2.1
Future salary increases	**2.6**	2.6
Rate of pension payment increase	**2.7**	2.8
Inflation rate	**2.8**	2.9

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

In valuing the liabilities of the pension fund at 31 December 2020, mortality assumptions have been made for the Main Scheme based on various mortality tables with varying scalings.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The future improvements in longevity have been updated to reflect the most recent CMI model. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Member currently aged 65: 21.4 years (male), 23.6 years (female).
- Member currently aged 45: 22.7 years (male), 25.1 years (female).

The discount rate is determined with reference to the full yield curve of AA-rated sterling-denominated corporate bonds (excluding government backed bonds) of varying maturities. The number of long-dated (20+ years) AA-rated sterling corporate bonds has fallen over the past few years and the majority of the remaining bonds that do have longer durations are issued by universities or are effectively guaranteed by the UK Government. These bonds are not considered to meet the definition of "corporate" and the Directors therefore consider excluding these bonds for determining the discount rate to be an appropriate methodology.

Membership data is based on the 2020 triennial valuation, updated for mortality and salary increase assumptions, as set out above.

Defined contribution plans

The Company participates in a number of defined contribution pension plans. The total expense relating to these plans in the current year was £6m *(2019: £5m)*.

A further expense of £19m (*2019: £18m*) has been recognised in relation to group defined benefit plans, accounted for as defined contribution plans.

21 Capital and reserves

	2020	2019
	£m	£m
Allotted, called up and fully paid		
1,467,301,548 ordinary shares of £1 each	**1,467**	1,467

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

Notes *(continued)*

22 Financial instruments

22 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2020	2019
	£m	£m
Trade debtors	**25**	44
Amounts owed by group undertakings	**142**	1,168
Other debtors including taxation	**71**	115
Prepayments and accrued income	**27**	15
Assets measured at fair value through profit or loss	**12**	4
Trade creditors	**(309)**	(801)
Amounts owed to group undertakings	**(826)**	(274)
Other creditors including social security	**(53)**	(28)
Accruals and deferred income	**(118)**	(163)
Current tax creditor	**-**	(10)
Liabilities measured at amortised cost – refundable Government advances	**-**	(424)
Liabilities measured at amortised cost – finance lease liabilities	**-**	(22)

22 (b) Financial instruments measured at fair value

Derivative financial instruments

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

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020	2019
	£m	£m
Less than one year	**26**	23
Between one and five years	**83**	95
More than five years	**1**	1
	110	119

During the year £25m was recognised as an expense in the profit and loss account in respect of operating leases (*2020: £25m*).

Notes *(continued)*

24 Commitments

Capital commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £36m *(2019: £36m).*

25 Related parties

Transactions between related parties take place on an arm's length basis and relate to trading activities. As at 31 December 2020, there are no outstanding balances with non-wholly owned subsidiaries of Airbus SE or other related parties.

26 Ultimate parent Company and parent Company of larger group

The Company is a subsidiary undertaking of Airbus Operations SAS.

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

27 Accounting estimates and judgements

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

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

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

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

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

Employee benefits (Defined Benefit Obligation) — The Company accounts for certain pension and other post-retirement benefits in accordance with actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions including the discount rate, expected inflation and mortality rates. The actuarial assumptions, which are disclosed in Note 20 Employee Benefits, are based on management's best estimates of current and future conditions, incorporating advice from specialist advisors. The application of these assumptions results in a valuation of the Defined Benefit Obligation of £3,929m (*2019: £3,396m*) at 31 December 2020. The actuarial assumptions may differ materially from actual developments due to changing market and economic conditions and therefore result in a significant change in post-retirement employee benefit obligations and the related future expense. Further detail on the assumptions adopted at 31 December 2020 are provided in Note 20 Employee Benefits.

Notes *(continued)*

27 Accounting estimates and judgements *(continued)*

Employee benefits (Plan Assets) — Pension assets, totalling £2,982m at 31 December 2020, are held in a diversified range of assets. The breakdown of asset value by category of asset is provided in Note 20 Employee Benefits. Many of these assets have readily-available market values and are therefore able to be valued without significant estimate or judgement. However, there are assets where the year-end balance is subject to significant levels of estimation uncertainty. These assets include:

- Property assets of £260m (*2019: £303m*), the valuation of which involves the estimation of key assumptions including occupancy and rental yields. The valuations are made using third party experts in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards.
- Infrastructure and alternative investments of £604m (*2019: £702m*) which are categorised as Other assets and Private equity investments of £174m (*2019: £150m*) which are included in Equities. The fair value is based on valuations obtained from third parties which employ a variety of methods the most prevalent being net asset valuation which involves a higher degree of estimation and subjectivity than a market price.
- Debt instruments of £327m (*2019: £289m*) which are categorised in government debt (2020: £215m, 2019: £189m) and corporate bonds (2020: £112m, 2019: £100m). The fair value is based on valuations obtained from third parties which use market prices for comparable assets with adjustments made to reflect liquidity and other asset specific risks which involves a higher degree of estimation and subjectivity than a market price.

Deferred tax asset recoverability —At each year end, the Company assesses whether the realisation of future tax benefits is probable to recognise deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realised from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilise future tax benefits. The basis for the recoverability test of deferred tax assets is the same as the Company's latest 5 year operative planning, which incorporates the group projections of the 'Common activities' result (refer to note 1.14 for further explanation), also taking into account certain qualitative aspects regarding the nature of the temporary differences. Qualitative factors include but are not limited to an entity's history of planning accuracy, performance records, business model, backlog, existence of long-term contracts as well as the nature of temporary differences.

28 Post Balance Sheet Events

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

- Adaptation of production rate
- World Trade Organisation
- Airbus UK Limited capital injection.