

Report of the Board of Directors

(Issued as of 21 February 2017)

1.	GENERAL OVERVIEW	1
2.	SUMMARY 2016	2
3.	SHARE CAPITAL AND STOCK PRICE EVOLUTION	4
	3.1 Shareholding and voting rights	4
	3.2 Relationship with Principal Shareholders	9
	3.3 Share price performance 2016	14
	3.4 Dividend policy	15
4.	CORPORATE GOVERNANCE	16
	4.1 Management and Control	16
	4.2 Conflict of interest	23
	4.3 Dutch Corporate Governance Code	23
	4.4 Remuneration Report	25
	4.5 Ethics and Compliance Organisation	41
	4.6 Enterprise Risk Management System	42
	4.7 Risk Factors	46
5.	FINANCIAL PERFORMANCES AND OTHER CORPORATE ACTIVITIES	61
	5.1 Consolidated Financial Statements (“IFRS”)	61
	5.2 Information on Airbus Group SE auditors	68
	5.3 Human Resources	68
	5.4 Environmental matters	70
	5.5 Research and Technology, Quality and Systems Engineering	72
6.	FINANCIAL TARGETS FOR 2017	75
7.	AIRBUS STRATEGY	76
	7.1 Commercial leadership, defence and space optimisation and value creation	76
	7.2 Key divisional priorities 2017	78

Dear Shareholders,

This is the Report of the Board of Directors (the “**Board Report**”) on the activities of Airbus Group SE (the “**Company**”) and together with its subsidiaries “**Airbus**”) during the 2016 financial year, prepared in accordance with Dutch law.

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

1. General Overview

With consolidated revenues of € 66,581 million in 2016, Airbus is a global leader in aeronautics, space and related services. Airbus offers the most comprehensive range of passenger airliners from 100 to more than 600 seats. Airbus is also a European leader providing tanker, combat, transport and mission aircraft, as well as Europe’s number one space enterprise and the world’s second largest space business. In helicopters, Airbus provides the most efficient civil and military rotorcraft solutions worldwide. In 2016, it generated approximately 83% of its total revenues in the civil sector and 17% in the defence sector. As of 31 December 2016, Airbus’ active headcount was 133,782 employees.

Currently, the Company organises its businesses into the following three operating Divisions: (i) Commercial Aircraft, (ii) Defence and Space and (iii) Helicopters. However, as a continuation of a number of integration and normalisation steps that took place in 2012, 2013 and 2015, the Company is now merging its Group structure with its largest division Airbus Commercial Aircraft. The merger will take place mid-2017 and provides the opportunity to introduce a single Airbus brand for the Company and all its entities, effective since January 2017.

2. Summary 2016

At the start of the year the Company set itself the following 'Group Priorities' for 2016, which were shared with all employees:

Deliver Must Achieve-Programmes:

- ▶ A320neo and prepare SA rate 50
- ▶ Ramp up A350-900 to rate 10 at Major Component Assembly (MCA)-level
- ▶ Achieve 20+ deliveries for A400M with the required capabilities, improve operational reliability, customer satisfaction and cash inflow
- ▶ Meet milestones of key development programmes: A350-1000, A330neo, Ariane 6, H160, X6, OneWeb satellites

Secure Finance Objectives

- ▶ Secure achievement of 2016 financial objectives, focus on cash
- ▶ Strengthen anticipation, robust risk mitigation and capture of opportunities
- ▶ Design and manage proper capital allocation (organic vs. external investments, divestments, capital returns)

Continue Digital Transformation and Innovation

- ▶ Design and implement digital roadmap 2016-19: methodologies, tools, infrastructure, partnerships, budgets
- ▶ Digital Transformation Officer at Group level
- ▶ Introduce common intranet and collaborative platform ('Airbus Hub'), smartphones, 'Bring Your Own Device'
- ▶ Reform Research and Innovation, CTO function: focus on radically new products, services, business models, tools and processes

Engage and Develop People

- ▶ Explore new, evolutionary, trust-based organisational models
- ▶ Implement HR transformation programme PULSE: leaner processes, flatter organisation, Group-wide collaboration, better individual development and value-adding
- ▶ Improve gender and international diversity, reinforce targets and actions
- ▶ Design and lead engagement initiatives

Strengthen Ethics, Compliance and CSR

- ▶ Harmonise and further reinforce Ethics & Compliance rules and processes
- ▶ Complete anti-corruption training, ensure management buy-in and leadership
- ▶ Establish a network internally and assess and streamline Corporate Social Responsibility activities across the Group

Implement Reorganisation, Integration and Improvement Plans

- ▶ Complete Airbus Defence and Space portfolio optimization (divestments, Airbus Safran Launchers JV)
- ▶ Define growth path for defence, new products, processes and business models

- ▶ Continue Airbus Helicopters Transformation, review level of ambition
- ▶ Further streamline corporate and divisional overhead functions

2016 was a year of progress for Airbus. It achieved a series of key milestones in major programmes, renewed and upgraded its product portfolio, and took important decisions to adapt and streamline its business portfolio:

- ▶ Airbus deliveries in 2016 were up for the 14th year in a row, reaching a new company record of 688 aircraft to 82 customers. Deliveries were more than eight percent higher than the previous record of 635 set in 2015.
- ▶ Airbus delivered its 10,000th aircraft in October 2016 - an A350-900 for Singapore Airlines.
- ▶ The world's best-selling single-aisle aircraft, the A320neo Family, received type certification from the European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA) on schedule for the second engine option – CFM International's LEAP-1A.
- ▶ The first A350-1000, Airbus' largest and most powerful twin-engine airliner ever and the world's most fuel efficient large wide-body, completed its maiden flight.
- ▶ The first aircraft – an A321 – was delivered from the Airbus U.S. Manufacturing Facility in Mobile (Alabama).
- ▶ The light-twin helicopter H135 received type certification from the European Aviation Safety Agency for its new Helionix cockpit. The avionics system designed by Airbus Helicopters offers operators increased mission flexibility and safety.
- ▶ The flight-testing activities of the next-generation H160 continued at a steady pace throughout the year.
- ▶ Airbus Helicopters delivered the first H175 to be operated in the Americas.
- ▶ The new AS565 MBe Panther naval helicopter has been delivered to Mexico and Indonesia, and the first flight of the NH90 Sea Lion for the German Navy took place.
- ▶ For its 7th and last launch of the year, Ariane 5 successfully completed its mission from the European space port of Kourou (French Guiana), its 76th consecutive success, placing two telecommunications satellites in geostationary transfer orbit (GTO).
- ▶ Airbus Defence and Space and OneWeb, which is building a new global satellite communications system, formed OneWeb Satellites
- ▶ Airbus Group SE and Safran completed the second phase of their 50:50 joint venture, Airbus Safran Launchers, with both companies contributing assets dealing with civil space launchers and military launchers.
- ▶ Divestment of last tranche of Dassault Aviation shares and substantial progress in Defence electronics divestment.
- ▶ The Silicon Valley-based venture fund and A³ ("A-Cubed") innovation centre became fully operational. The fund's mission is to identify and invest in the most visionary entrepreneurs in the global aerospace ecosystem.
- ▶ Airbus and Siemens signed a collaboration agreement in the field of hybrid electric propulsion with the goal of demonstrating the technical feasibility of various hybrid/electric propulsion systems.
- ▶ In 2016, Airbus Foundation supported the humanitarian community with the Company's products and services in Fiji, Ecuador, Canada and Haiti, and also reached 1,000 students around the world through its employee volunteering programs involving 400 Airbus employees contributing over 9,000 hours.

3. Share Capital and Stock Price Evolution

3.1 Shareholding and voting rights

Issued share capital

As of 31 December 2016, the Company's issued share capital amounted to €772,912,869 divided into 772,912,869 shares of a nominal value of €1 each. The issued share capital of the Company as of such date represents 25.76 % of the authorised share capital of €3 billion comprising 3 billion shares. The holder of one issued share has one vote and is entitled to profit in proportion to his participation in the issued share capital¹.

Modification of share capital or rights attached to shares

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

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

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

However, the Articles of Association provide that a 75% voting majority is required for any shareholders' resolution to issue shares or to grant rights to subscribe for shares if the aggregate issue price is in excess of €500 million, per share issuance, and no preferential subscription rights exist in respect thereof. The same voting majority requirement applies if the shareholders' meeting wishes to designate the Board of Directors to have the authority to resolve on such share issuance or granting of rights.

Pursuant to the shareholders' resolutions adopted at the Annual General Meeting (“**AGM**”) held on 28 April 2016, the powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors for the purpose of:

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

Such powers have been granted for a period expiring at the AGM to be held in 2017, and shall not extend to issuing shares or granting rights to subscribe for shares (i) if there is no preferential subscription right (by virtue of Dutch law, or because it has been excluded by means of a resolution of the competent corporate body) and (ii) for an aggregate issue price in excess of €500 million per share issuance.

¹ Except for the shares held by the Company itself.

At the AGM held on 28 April 2016, the Board of Directors was authorised for a period of 18 months from the date of such AGM to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company would not hold more than 10% of the Company's issued share capital and at a price per share not less than the nominal value and not more than the higher of the price of the independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out.

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

At the AGM held on 28 April 2016, the Board of Directors and the Chief Executive Officer were authorised, with powers of substitution, to implement a cancellation of shares held or repurchased by the Company, including the authorisation to establish the exact number of the relevant shares thus repurchased to be cancelled.

The Company launched on 30 October 2015 a €1 billion share buyback for completion by 30 June 2016. All shares repurchased under the buyback programme have been cancelled (see "Notes to the IFRS Consolidated Financial Statements - Note 32: Total Equity" for further information).

Securities granting access to the Company's capital

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

The table below shows the total potential dilution that would occur if all the convertible bonds issued as at 31 December 2016 were exercised:

	Number of shares	Percentage of diluted capital	Number of voting rights	Percentage of diluted voting rights*
Total number of the Company's shares issued as of 31 December 2016	772,912,869	99.354%	772,728,699	99.354%
Total number of the Company's shares which may be issued following exercise of the convertible bonds	5,022,990	0.646%	5,022,990	0.646%
Total potential share capital of the Company	777,935,859	100%	777,751,689	100%

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

Changes in the issued share capital in 2016

In 2016, Airbus' employees exercised 224,500 stock options granted to them through the stock option plans launched by the Company and 1,474,716 new shares were issued in the framework of the Employee Share Ownership Plan ("ESOP") 2016. As a result, a total number of 1,699,216 new shares were issued in the course of 2016.

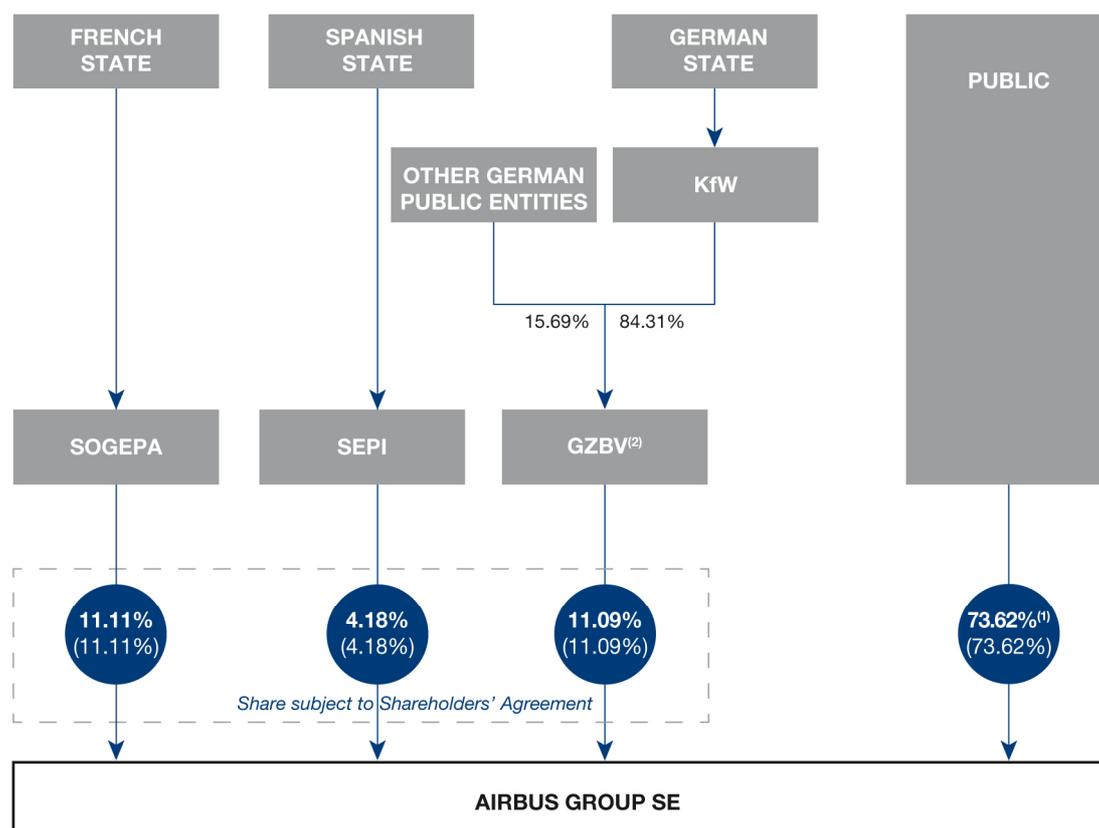
Repurchases and cancellations of shares in 2016

During 2016 (i) the Company repurchased in aggregate 12,938,028 shares and (ii) 14,131,131 treasury shares were cancelled. As a result, as at 31 December 2016, the Company held 184,170 treasury shares.

Shareholding structure at the end of 2016

As of 31 December 2016, the French State held 11.11% of the outstanding Company shares through Société de Gestion de Participations Aéronautiques (“**Sogepa**”), the German State held 11.09% through Gesellschaft zur Beteiligungsverwaltung GZBV mbH & Co. KG (“**GZBV**”), and the Spanish State held 4.18% through Sociedad Estatal de Participaciones Industriales (“**SEPI**”). The public (including Airbus’ employees) and the Company held, respectively, 73.60% and 0.02% of the Company’s share capital.

The diagram below shows the ownership structure of the Company as of 31 December 2016 (% of capital and of voting rights (in parentheses) before exercise of the convertible bonds).



(1) Including shares held by the Company itself (0.02%).

(2) KfW & other German public entities.

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

In 2016, the below listed entities have notified the AFM of their substantial interest in the Company. For further details, please refer to the website of the AFM at: www.afm.nl

- Capital Group International Inc. owns 5.04% of the voting rights via Capital Research and Management Company and EuroPacific Growth Fund.

Right to attend shareholders’ meetings

Each holder of one or more shares may attend shareholders’ meetings, either in person or by written proxy, speak and vote according to the Articles of Association. However, under (and subject to the terms of) the Articles of Association these rights may be suspended under certain circumstances.

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

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

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

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

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

Mandatory Disposal Threshold Restricting Ownership to 15%

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

The Dutch law foundation would issue depositary receipts to the relevant shareholder in return for the Excess Shares transferred to the foundation, which would entitle the relevant shareholder to the economic rights, but not the voting rights, attached to such Company shares. The foundation's articles of association and the terms of administration governing the relationship between the foundation and the depositary receipt holders provide, *inter alia*, that:

- ▶ The Board Members of the foundation must be independent from the Company, any grandfathered persons and their affiliates (see "— 3.1 Exemptions from Mandatory Disposal Threshold") and any holder of depositary receipts and their affiliates (there is an agreement under which the Company will, *inter alia*, cover the foundation's expenses and indemnify the Board Members against liability);
- ▶ The Board Members are appointed (except for the initial Board Members who were appointed at incorporation) and dismissed by the Management Board of the foundation (the Company may however appoint one Board Member in a situation where there are no foundation Board Members);
- ▶ The foundation has no discretion as to the exercise of voting rights attached to any of the Company shares held by it and will in a mechanical manner vote to reflect the outcome of the votes cast (or not cast) by the other

shareholders, and the foundation will distribute any dividends or other distributions it receives from the Company to the holders of depositary receipts; and

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

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

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

Exemptions from Mandatory Disposal Threshold

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

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

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

Mandatory public offer under Dutch law

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

Amendments to the Articles of Association

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

3.2 Relationship with Principal Shareholders

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

3.2.1 CORPORATE GOVERNANCE ARRANGEMENTS

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

3.2.2 SHAREHOLDER ARRANGEMENTS

Grandfathering Agreement

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

Individual Grandfathering Rights

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

Loss of Individual Grandfathering Rights

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

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

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

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

Notification to the Company

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

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

Various provisions

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

Governing law. Laws of the Netherlands.

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

Governance of the Company

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

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

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

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

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

Balance of interests

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

- ▶ To hold as closely as reasonably possible to 12% of the voting rights for Sogepa, together with any voting rights attributable to Sogepa and/or to the French State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other Parties;
- ▶ To hold as closely as reasonably possible to 12% of the voting rights for GZBV, together with any voting rights attributable to GZBV and/or to the German State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other Parties; and
- ▶ To hold as closely as reasonably possible to 4% of the voting rights for SEPI, together with any voting rights attributable to SEPI and/or to the Spanish State, pursuant to Dutch takeover rules except for voting rights attributable due to acting in concert with the other Parties.

Mandatory Takeover Threshold

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

Transfer of Securities

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

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

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

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

Various provisions

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

Governing law. Laws of the Netherlands.

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

3.2.3 UNDERTAKINGS WITH RESPECT TO CERTAIN INTERESTS OF CERTAIN STAKEHOLDERS

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

State Security Agreements and Related Undertakings

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

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

Dassault Aviation

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

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

As disclosed in a press release dated 28 November 2014 the Company in an off-market block trade sold to Dassault Aviation approximately 8% of Dassault Aviation's share capital.

As disclosed in a press release dated 25 March 2015, the Company sold 1.61 million shares in Dassault Aviation through a book-built offering to institutional investors. Following the exercise of the over-allotment option, the total number of Dassault Aviation shares sold by the Company in the placement reached nearly 1.73 million shares, representing 18.75% of the share capital of Dassault Aviation.

As disclosed in a press release dated 10 June 2016, the Company sold approximately 0.83 million shares in Dassault Aviation, representing around 9.05% of the company's share capital (the "**Equity Placement**"). As part of its share buyback program, Dassault Aviation purchased 502,282 shares concurrently with the Equity Placement (representing around 5.5% of Dassault Aviation's share capital) (the "**Buyback**"). In addition to the Equity Placement and the Buyback, the Company has also issued bonds due 2021 and exchangeable into Dassault Aviation shares. Following the Equity Placement and the Buyback, the Company holds approximately 10% of Dassault Aviation's share capital and 6.2% of its voting rights. In case of exchange in full of the bonds, the Company will no longer hold any of Dassault Aviation shares and voting rights.

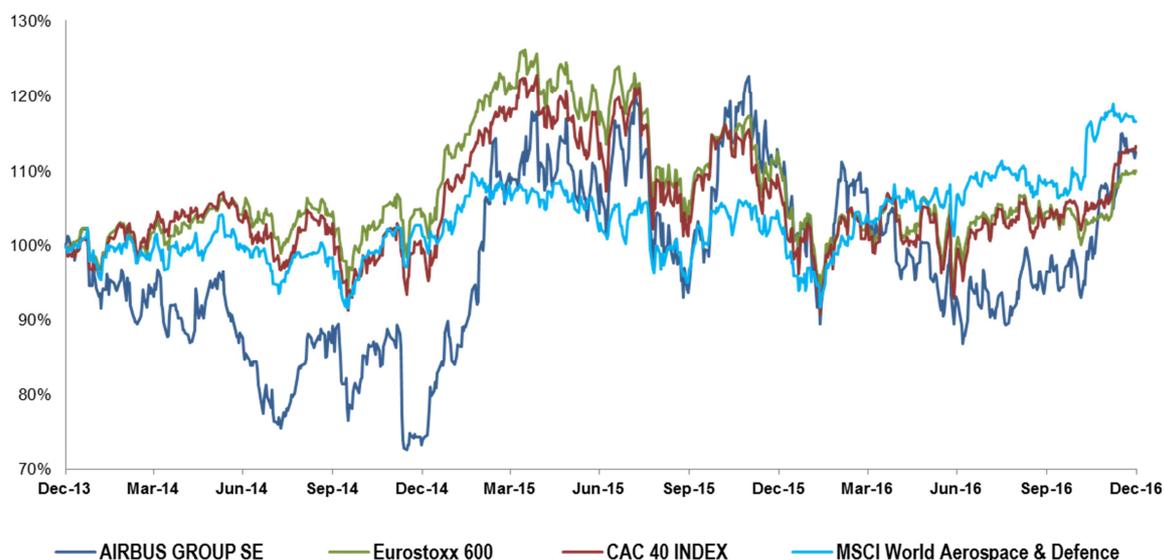
Stock Exchange Listings

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

Specific Rights of the French State

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

3.3 Share price performance 2016



In 2016, Airbus' share price closed at €62.84, slightly above the prior year closing share price, despite a high level of intra year volatility and operational challenges.

After opening at €61.15 on 1 January, the share price fell below €50 within the first two months of the year, in line with wider markets. This was driven by lower oil prices, strengthening of the EUR versus the USD and fears around economic growth in China as well as contagion into global markets. After February's FY2015 disclosure, where Airbus met its guidance, the shares moved higher again supported by reassuring messages on the Company's confidence in the aero cycle, its capacity to manage macroeconomic developments, to execute ramp-up plans and to deliver significant earnings and Free Cash Flow ("FCF") before the end of the decade.

Following the Q1 results, shares were pulled down by increasing risks on operational execution and supply chain performance. A more favourable USD/EUR rate as well as rebounding oil prices lifted shares in May before they declined again driven by negative news flow on A320neo engine supply issues.

Pre-Brexit volatility in June moved the shares higher. However, the Brexit vote result led to a sharp decline in line with global markets. Despite aero cycle fears, airline overcapacity concerns and execution issues, the shares rebounded on solid Farnborough Airshow orders. Better than expected Q2 results and confirmed guidance further helped the shares.

After a stable period in September, the shares performed positively after the 9M release mainly due to the maintained 2016 guidance and sizing of the customer financing risk. The outcome of the US presidential election, which led to more positive sentiment for defence spending, a further strengthening of the USD versus EUR, a higher oil price and positive expectations of strong Q4 aircraft deliveries lifted the shares back to €62.84 by year-end.

With an annual increase of 1.4%, Airbus' shares outperformed the EuroStoxx 600 (-1.2%), despite programme execution risks and ramp-up challenges in addition to global macro-economic and political instability. In the same period, the CAC40 rose 4.9%, MDAX rose 9.5% and DAX was up 11.7%.

3.4 Dividend policy

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

Based on earnings per share (EPS) of € 1.29 and a net income of €995 million, the Board of Directors will propose to the Annual General Meeting the payment to shareholders on 20 April 2017 of a dividend of € 1.35 per share (FY 2015: €1.30). This value exceeds the range of the dividend policy on an exceptional basis, reflecting the positive evolution of the 2016 underlying performance and our 2016 cash generation. It demonstrates our confidence in our future operational cash generation and our on-going commitment to increasing shareholder returns.

The record date should be 19 April 2017. This proposed dividend represents year-on-year dividend per share increase of 3.8%.

4. Corporate Governance

4.1 Management and Control

4.1.1 COMPOSITION, POWERS AND RULES

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

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

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

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

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

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

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

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

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

Voting and rules

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

Powers of the Members of the Board of Directors

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

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

- ▶ Approving any change in the nature and scope of the business of the Company and Airbus;
- ▶ Debating and approving the overall strategy and the strategic plan of Airbus;
- ▶ Approving the operational business plan of Airbus (the "**Business Plan**") and the yearly budget of Airbus (the "**Yearly Budget**"), including the plans for Investment, Research and Development ("**R&D**"), Employment, Finance and, as far as applicable, major programmes;
- ▶ Nominating, suspending or revoking the Chairman of the Board of Directors and the CEO (Qualified Majority);

- ▶ Approving of all of the Members of the Group Executive Committee as proposed by the CEO and their service contracts and other contractual matters in relation to the Group Executive Committee and deciding upon the appointment and removal of the Secretary to the Board on the basis of the recommendation of the Remuneration, Nomination and Governance Committee;
- ▶ Approving the relocation of the headquarters of the principal companies of Airbus and of the operational headquarters of the Company (Qualified Majority);
- ▶ Approving decisions in connection with the location of new industrial sites material to Airbus as a whole or the change of the location of existing activities that are material to Airbus;
- ▶ Approving decisions to invest and initiate programmes financed by Airbus, acquisition, divestment or sale decisions, in each case for an amount in excess of €300 million;
- ▶ Approving decisions to invest and initiate programmes financed by Airbus, acquisition, divestment or sale decisions, in each case for an amount in excess of €800 million (Qualified Majority);
- ▶ Approving decisions to enter into and terminate strategic alliances at the level of the Company or at the level of one of its principal subsidiaries (Qualified Majority);
- ▶ Approving matters of shareholder policy, major actions or major announcements to the capital markets; and
- ▶ Approving decisions in respect of other measures and business of fundamental significance for Airbus or which involves an abnormal level of risk.

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

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

 AIRBUS BOARD OF DIRECTORS FOR YEAR 2016

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

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

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

 Chairman  Member

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

More details regarding the curriculum vitae and other mandates of all Members of the Board of Directors can be found at the Company's website www.airbusgroup.com.

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

4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2016

Board of Directors meetings

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

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

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

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

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

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

Board evaluation 2016

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

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

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

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

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

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

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

4.1.3 BOARD COMMITTEES

The Audit Committee

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

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

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

The Remuneration, Nomination and Governance Committee

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

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

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

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

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

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

4.1.4 GROUP EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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

- ▶ The preference for the best candidate for the position;
- ▶ The maintenance, in respect of the number of Members of the Group Executive Committee, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of the four Member States of the EU where these main industrial centres are located); and
- ▶ At least 2/3 of the Members of the Group Executive Committee, including the CEO and the Chief Financial Officer (“**CFO**”), being EU nationals and residents.

Role of CEO and Group Executive Committee

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

4.2 Conflict of interest

Conflict of interest

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

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

4.3 Dutch Corporate Governance Code

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

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

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

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

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

1. Vice-Chairmanship

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

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

2. Termination indemnity

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

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

3. Securities in the Company as long-term investment

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

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

4. Dealings with analysts

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

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

5. Gender diversity

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

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

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

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

4.4 Remuneration Report

4.4.1 INTRODUCTION

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

The Report comprises the following sections:

- ▶ 4.4.2 presents the Company's Remuneration Policy;
- ▶ 4.4.3 illustrates how the Remuneration Policy was applied in 2016 in respect of the CEO, the only Executive Member of the Board of Directors (the cumulated remuneration of all Group Executive Committee Members is presented in the "Notes to the IFRS Consolidated Financial Statements – Note 31: Remuneration");
- ▶ 4.4.4 illustrates how the Remuneration Policy was applied in 2016 in respect of the Non-Executive Members of the Board of Directors;
- ▶ 4.4.5 miscellaneous.

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

4.4.2 REMUNERATION POLICY

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

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

A — Executive Remuneration – Applicable to the CEO

a) Remuneration Philosophy

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

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

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

b) Total Direct Compensation and Peer Group

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

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

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

The elements of the Total Direct Compensation are described below:

Remuneration Element	Main Drivers	Performance Measures	Target and Maximum
Base Salary	Reflects market value of position.	Not applicable	1/3 of Total Direct Compensation (when performance achievement is 100% of target).
VR	Rewards annual performance based on achievement of company performance measures and individual objectives.	<p>Collective (50% of VR): divided between EBIT³ (45%); Free Cash Flow⁴ (45%) and RoCE (10%).</p> <p>Individual (50% of VR): Achievement of annual individual objectives, divided between Outcomes and Behaviour.</p>	<p>The VR is targeted at 100% of Base Salary for the CEO and, depending on the performance assessment, ranges from 0% to 200% of target.</p> <p>The VR is capped at 200% of Base Salary.</p>
LTIP	Rewards long-term commitment and company performance, and engagement on financial targets subject to cumulative performance over a 3-year period.	Vesting ranges from 0% to 150% of initial grant, subject to performance over a three-year period. In principle, no vesting if cumulative negative EBIT. If cumulative EBIT is positive, vesting from 50% to 150% of grant based on EPS (75%) and Free Cash Flow (25%).	<p>The original allocation to the CEO is capped at 100% of Base Salary at the time of grant.</p> <p>Since 2012, the following caps apply to Performance Units only: overall pay-out is capped at a maximum of 250% of the original value at the date of grant.</p> <p>The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.</p>

Policy from 2016 (approved by 2016 AGM)

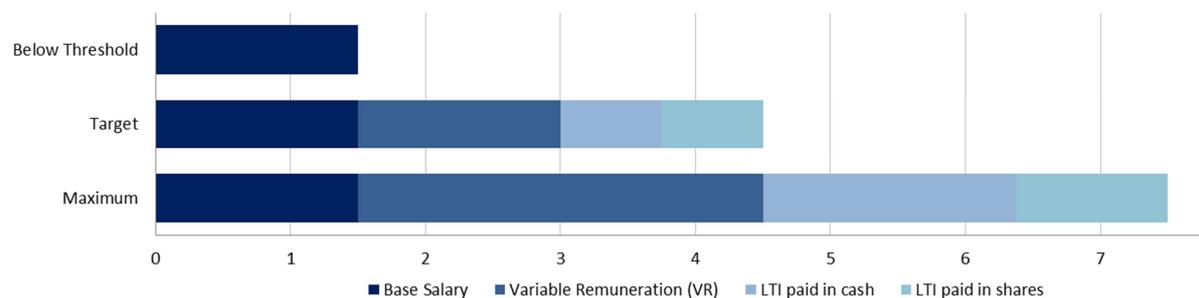
The RNGC regularly benchmarks the CEO's Total Direct Compensation (Base Salary, Annual Variable Remuneration and LTIP) against an extensive peer group. The relevant peer group was composed with the assistance of an independent consultant, Willis Towers Watson, and comprised 31 companies having comparable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

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

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

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

SCENARIOS CEO TOTAL DIRECT COMPENSATION



Indications are in million euros.

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

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

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

c) Base Salary

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

d) Annual Variable Remuneration

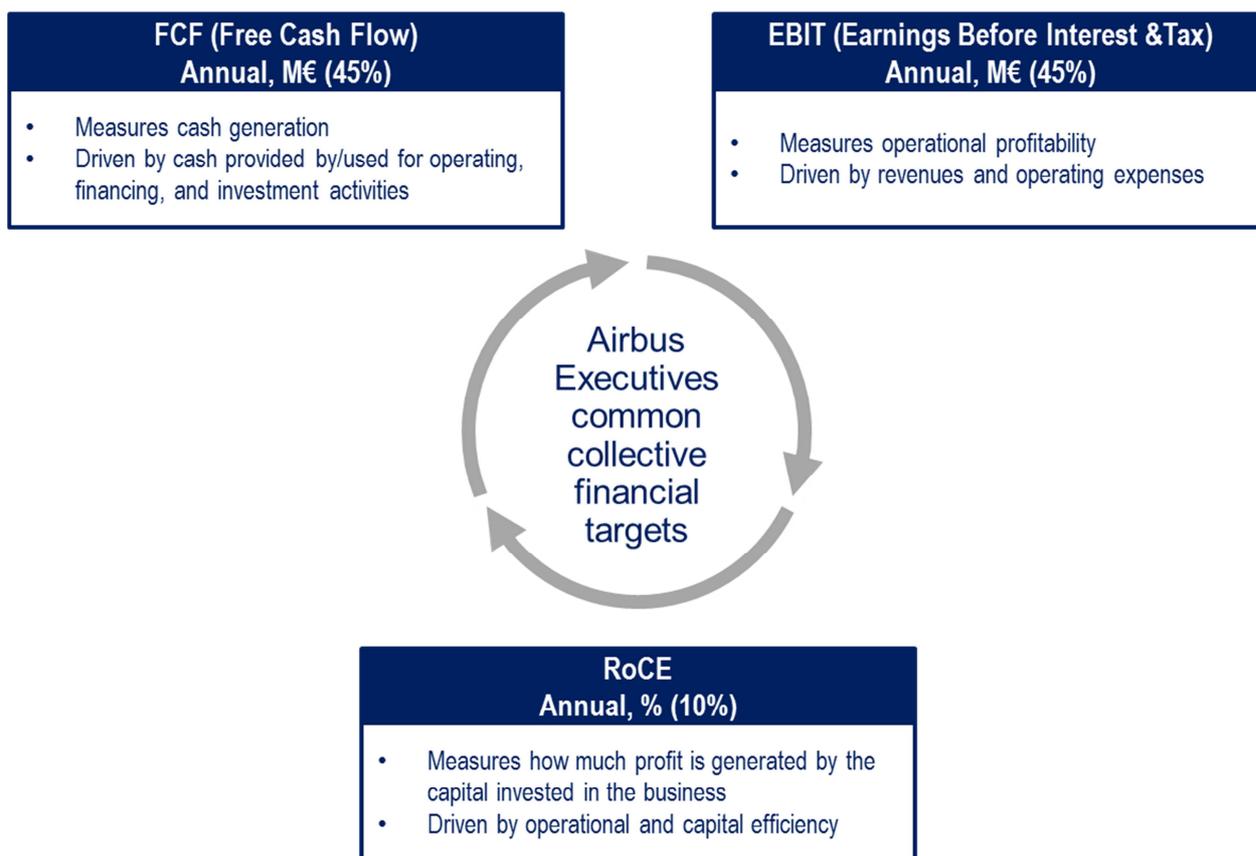
The variable remuneration is a cash payment that is paid each year, depending on the achievement of specific and challenging performance targets. The level of the variable remuneration for the CEO is targeted at 100% of Base Salary; it is capped at a maximum level of 200% of Base Salary. The entire variable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

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

Common Collective Component

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

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



Individual

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

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

e) Long-Term Incentive Plan

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

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

The performance conditions are assessed over a 3-year period based on relevant financial criteria with stringent targets set, as demonstrated by past Company practices.

Both Performance Units and Performance Shares that vest can vary between 0% and 150% of the Units and Shares granted, subject to cumulative performance over a 3-year period. The level of vesting is subject to the following performance measures:

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

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

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

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

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

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

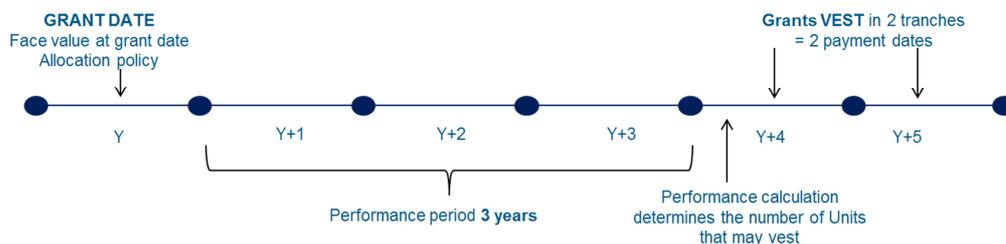
- the value that could result from share price increases is capped at 200% of the reference share price at the date of grant;
- the overall pay-out is capped at 250% of the value at the date of grant.

Performance Units plan characteristics (until and including 2015 plan)

Performance Units are the long-term equity-related incentive awards that are currently granted to the CEO. LTIP awards are granted each year. Each grant is subject to a 3-year cumulative performance objective. At the end of the 3-year period, the grant is subjected to a performance calculation to determine whether and to what extent it should vest. Depending on continued employment, grants attributed until 2013 will vest in four tranches, the payment of which takes place approximately 6, 12, 18 and 24 months following the end of the performance period. Depending on continuous employment, grants attributed from 2014 would vest in two tranches, the payment of which would take place approximately 6 and 18 months following the end of the performance period.

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

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



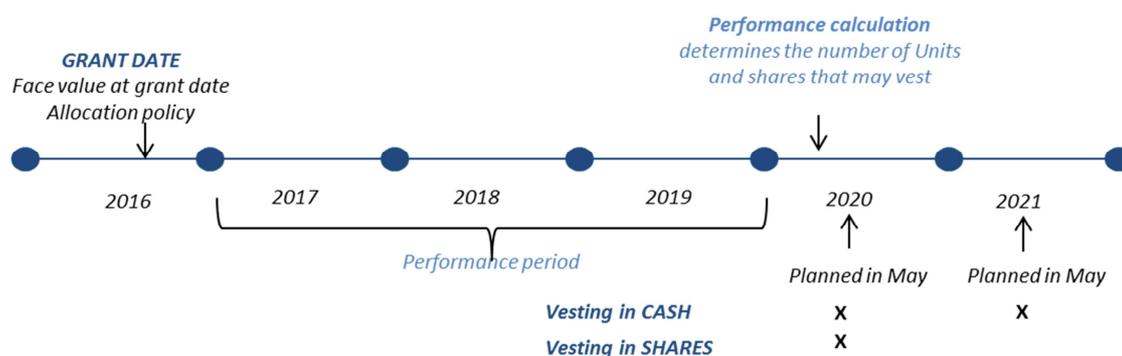
Performance Units & Performance Shares characteristics (since 2016)

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

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

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

For the CEO, the value of the Performance Unit and Share allocation is capped, at the time of grant, at 100% of Base Salary. At the end of the 3-year period, the grant is subject to a performance calculation to determine whether and to what extent it should vest. Depending on continued employment, Performance Units attributed in 2016 will vest in two tranches, the payment of which takes place approximately 6 and 18 months following the end of the performance period. Performance Shares would vest in one tranche, approximately six months following the end of the performance period.



f) Share Ownership Guideline

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

g) Benefits

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

h) Retirement

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

i) Contracts and Severance

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

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

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

j) Clawback

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

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

k) Loans

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

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

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

Fees and Entitlements

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

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

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

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

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

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

Chairman of the Board: 210,000

Member of the Board: 80,000

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

Chairman of a Committee: 30,000

Member of a Committee: 20,000

Attendance fees (EUR / Board meeting):

Chairman: 15,000

Member: 10,000

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

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

For personal reasons, Denis Ranque decided in 2016 and onwards, to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds €240,000 (his total target remuneration for 2015) until further notice. The Board recommended that the remuneration exceeding €240,000 would be converted into an annual

contribution to the Airbus Foundation as long as Denis Ranque waives this part of his remuneration; which would correspond to €60,000 based on six meetings per year.

C – Employee Share ownership plan (ESOP)

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

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

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

4.4.3 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016: CEO

a) Benchmarking

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

b) Base Salary

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

c) Annual Variable Remuneration

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

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

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

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

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

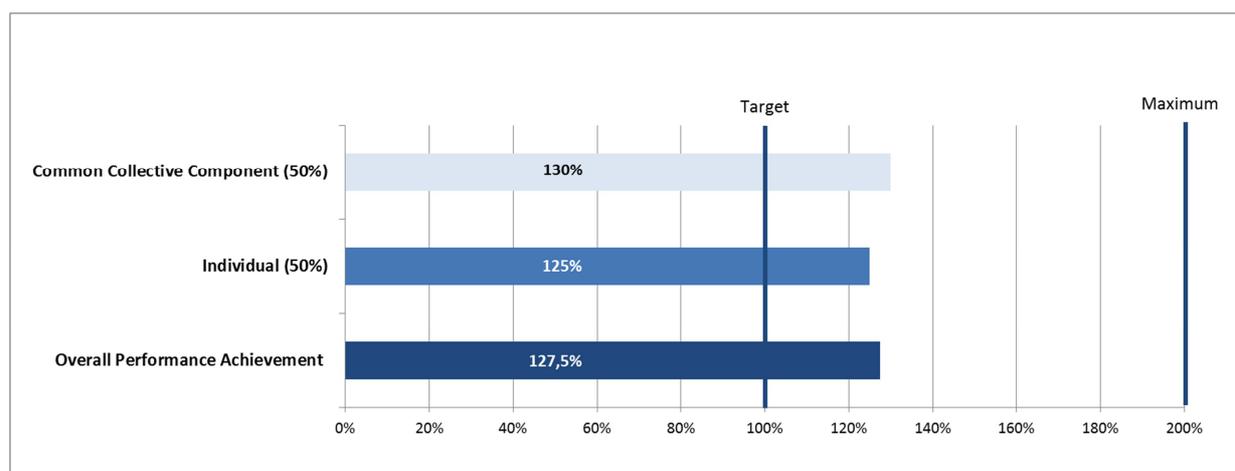
Normalisation adjustments of EBIT and RoCE were made to exclude currency exchange differences or those arising from phasing mismatches.

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

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

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

Performance against Target



d) Long-Term Incentive Plan

Granting 2016

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

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

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

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

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

Vesting values in 2016

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

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

LTIP overview: granting and vesting

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

Calculations may involve rounding to the nearest unit.

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

Performance Conditions of 2012 LTIP:

The performance conditions were determined as follows:

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

Review of Achievement of Performance Conditions:

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

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

Date of grants	KPI	Number of units	Target for a 100% allocation	Achieved	Performance achievement in percentage	Compounded performance achievement in percentage	Resulting vesting in number	For comparison, average EPS for the last 3 reported years at the date of grant
2011	Ave EPS	51,400	€ 1.55	€ 2.10	128%	N/A	65,792	€ 0.56*
2012	Ave EPS	50,300	€ 2.75	€ 2.63	89%	N/A	44,768	€0.34**
2013	Ave EPS	30,300	€ 3.64	€ 2.28	50%	75%	22,725	€ 1.15***
	Cum FCF before M&A		€ 2,650m	€ 3,440m	150%			

* Average EPS of 2010, 2009 and 2008

** Average EPS of 2011, 2010 and 2009

*** Average EPS of 2012, 2011 and 2010

e) Share Ownership

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

f) Employee Share Ownership Plan (ESOP)

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

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

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

g) Benefits

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

h) Retirement

As of 31 December 2016, the present value of the CEO's pension defined benefit obligation, including deferred compensation, amounted to € 21,251,788 vs. €17,118,048 a year ago. While the plan benefits remain identical, the present value of the pension obligation was calculated applying a 1.7% discount rate in 2016 compared to a 2.3% discount rate in 2015, which mainly explains the change in value. For the fiscal year 2016, the current service and interest costs related to the CEO's pension promise represented an expense of € 1,075,888. This obligation has been accrued in the Consolidated Financial Statements.

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

i) Clawback

The Board has not applied any clawback in 2016.

4.4.4 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016: NON-EXECUTIVE DIRECTORS

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

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

Non-Executive Directors' remuneration FY2016

	Directors' remuneration related to 2016			Directors' remuneration related to 2015		
	Fixum* (in €)	Attendance Fees** (in €)	Total (in €)	Fixum (in €)	Attendance Fees (in €)	Total (in €)
Non Executive Board Members						
Denis Ranque	180,000	60,000	240,000	180,000	70,000	250,000
Manfred Bischoff	26,154	20,000	46,154	80,000	25,000	105,000
Ralph D. Crosby Jr.	80,000	50,000	130,000	80,000	35,000	115,000
Catherine Guillaud***	67,582	40,000	107,582	N/A	N/A	N/A
Hans-Peter Keitel	100,000	60,000	160,000	100,000	35,000	135,000
Hermann-Josef Lamberti	110,000	55,000	165,000	110,000	30,000	140,000
Anne Lauvergeon	32,692	10,000	42,692	100,000	30,000	130,000
Lakshmi N. Mittal	100,000	50,000	150,000	100,000	35,000	135,000
María Amparo Moraleda Martínez	100,000	55,000	155,000	50,000	20,000	70,000
Claudia Nemat***	67,582	30,000	97,582	N/A	N/A	N/A
Sir John Parker	110,000	60,000	170,000	110,000	30,000	140,000
Michel Pébereau	32,692	20,000	52,692	100,000	25,000	125,000
Carlos Tavares****	54,066	20,000	74,066	N/A	N/A	N/A
Jean-Claude Trichet	100,000	60,000	160,000	100,000	35,000	135,000
Former Non Executive Board Members						
Josep Piqué i Camps	N/A	N/A	N/A	41,668	0	41,668
TOTAL	1,160,768	590,000	1,750,768	1,151,668	370,000	1,521,668

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

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

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

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

4.4.5 MISCELLANEOUS

Policy for Loans and Guarantees Granted

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

4.5 Ethics and Compliance Organisation

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

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

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

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

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

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

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

The E&C organisation is made of four pillars:

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

- ▶ The Data Protection Compliance Officer is in charge of data privacy risk.

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

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

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

Employees, customers, suppliers, and third-party intermediaries are encouraged to freely share their E&C concerns with the management or with E&C resources. While we have a non-retaliation principle, we recognise that a confidential channel for reporting may be useful and we have an alert system called OpenLine. Subject to local legal restrictions, OpenLine is available to employees of controlled entities in France, Germany, Spain, the UK, Australia, Brazil, Canada, China, India, Mexico and Saudi Arabia. A separate system is also available for the US. The OpenLine can be used by employees to raise concerns in relation with Corruption and Bribery, Accounting, Finance, Anti-Competitive practices, Harassment, Conflicts of Interest, Quality or Product Safety.

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

4.6 Enterprise Risk Management System

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

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

Required key activities in Risk and Opportunity Management are:

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

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

The aim of the ERM process is to:

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

Through ERM, Airbus Management enables the:

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

The Company's Board of Directors supervises the:

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

ERM Process

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

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

The ERM process consists of four elements:

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

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

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

ERM Governance and Responsibility

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

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

ERM Effectiveness

The ERM effectiveness is analysed by:

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

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

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

Board Declaration

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

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

4.7 Risk Factors

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

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

4.7.1 FINANCIAL MARKET RISKS

Global Economic Concerns

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

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

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

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

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

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

- requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decision by customers to review their order intake strategy due to, among other things, lack of adequate credit supply from the

market to finance aircraft purchases or change in operating costs or weak levels of passenger demand for air travel and cargo activity more generally;

- an increase in the amount of sales financing that the Company must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interests the Company might have in the underlying aircraft;
- further reductions in public spending for defence, homeland security and space activities, which go beyond those budget consolidation measures already proposed by governments around the world;
- financial instability, inability to obtain credit or insolvency of key suppliers and subcontractors, thereby impacting the Company's ability to meet its customer obligations in a satisfactory and timely manner;
- continued de-leveraging as well as mergers, rating downgrades and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by the Company for its businesses or restrict its ability to implement desired foreign currency hedges;
- default of investment or derivative counterparties and other financial institutions, which could negatively impact the Company's treasury operations including the cash assets of the Company; and
- decreased performance of Airbus' cash investments due to low and partly negative interest rates.

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

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

Foreign Currency Exposure

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

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

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

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

Sales Financing Arrangements

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

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

Due to the suspension of Export Credit Agency financing, there is a risk that additional customer financing will need to be provided, which could increase the customer financing exposure. See "Legal Risks" below and please refer to "Notes to the IFRS Consolidated Financial Statements — Note 36: Litigation and Claims".

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

Counterparty Credit

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

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

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

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

Equity Investment Portfolio

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

As of 31 December 2016, the Company's remaining investment in Dassault Aviation's share capital is classified as other investments and measured at fair value, amounting to €0.9 billion at year-end 2016. For equity investments which make up only a fraction of the Company's total assets, the Company regards the risk of negative changes in fair value or impairments on these investments as non-significant.

Pension Commitments

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

Necessary adjustments of such provisions include but are not limited to (i) the discount factor (dependent in part on interest rates) and the inflation rate applied to calculate the net present value of the pension liabilities, (ii) the performance of the asset classes which are represented in the pension assets, and (iii) additional cash injections

contributed by the Company from time to time to the pension assets. The Company has taken measures to reduce potential losses on the pension assets and to better match the characteristics of the pension liabilities with those of the pension assets as a long-term objective. Nevertheless, any required additional provisions would have a negative effect on the Company's total equity (net of deferred taxes), which could in turn have a negative effect on its future financial condition

Tax Exposure

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

4.7.2 BUSINESS-RELATED RISKS

Commercial Aircraft Market Factors

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

The commercial helicopter market could also be influenced by a number of factors listed above and in particular with the significant drop of the price of oil since 2015, the Company is impacted by a postponement of investments in the acquisition of new platforms by offshore helicopter players and a reduction of flight hours. The uncertainty on the lead time of the market recovery and the low oil price may have an impact on Airbus Helicopters financial results and could lead to cancellations or loss of bookings.

Physical Security, Terrorism, Pandemics and Other Catastrophic Events

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

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

Cyber Security Risks

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

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

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

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

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

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

Dependence on Key Suppliers and Subcontractors

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

The Company relies upon the good performance of its suppliers and subcontractors to meet the obligations defined under their contracts. Supplier performance is continually monitored and assessed so that supplier development programmes can be launched if performance standards fall below expectations. In addition, the Company benefits from its inherent flexibility in production lead times to compensate for a limited non-performance of suppliers, protecting the Company's commitments towards its customers. In certain cases, dual sourcing is utilised to mitigate the risk. However, no absolute assurance can be given that these measures will fully protect the Company from non-performance of a supplier which could disrupt production and in turn may have a negative effect on its future results of operation and financial condition.

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

As the Company's global sourcing footprint extends, some suppliers (or their sub-tier suppliers) may have production facilities located in countries that are exposed to socio-political unrest or natural catastrophes which could interrupt deliveries. Country-based risk assessment is applied by the Company to monitor such exposures and to ensure that

appropriate mitigation plans or fall-back solutions are available for deliveries from zones considered at risk. Despite these measures, the Company remains exposed to interrupted deliveries from suppliers impacted by such events, which could have a negative effect on the future results of operation and financial condition of the Company.

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

Industrial Ramp-Up

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

Technologically Advanced Products and Services

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

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

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

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

Dependence on Public Spending and on Certain Markets

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

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

Availability of Government and Other Sources of Financing

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

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

Competition and Market Access

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

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

Major Research and Development Programmes

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

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

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

Digital Transformation, Integration, Continuous Improvement and Competitiveness Programmes

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

Integration

The merger of the Group structure with its largest division, Airbus Commercial Aircraft, to form one single entity to be called, simply, Airbus, is contemplated to be completed in mid-2017. This next level of integration aims to improve performance and efficiency across the group, ensuring clear focus on operational business imperatives. The new organisation with leaner functions should ease collaboration, reduce bureaucracy and allow for faster decision making at all levels and across divisions thus laying solid foundations for digital transformation and catalysing all group transformation initiatives already underway in support functions. The streamlined set-up also brings consolidation and

cost reduction opportunities at the top of the organization, which should benefit Helicopters and Defence & Space. Some 1,100 positions will be reduced in the functions concerned, while around 230 new positions are to be created mainly in the DTO and new CTO organisations. The net impact would lead to an overall headcount reduction of around 9%.

Digital transformation

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

Traditional cost-saving and competitiveness programmes in each division

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

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

Acquisitions, Divestments, Joint Ventures and Strategic Alliances

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

Public-Private Partnerships and Private Finance Initiatives

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

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

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

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

Programme-Specific Risks

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

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

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

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

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

A400M programme. Progress has been made in 2016 in implementing industrial recovery measures and management is focused on delivery, but the Company continues to face the following significant challenges: meeting contractual technical and military capabilities; commercial exposure; the revised engine programme and its associated recovery plan, including the Propeller Gear Box quality issues; technical issues related to the aluminium alloy used for some parts within the aircraft; recurring cost convergence issues; some delays, escalation and cost overruns in the development programme; and securing sufficient export orders in time.

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

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

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

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

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

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

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

4.7.3 LEGAL RISKS

Dependence on Joint Ventures and Minority Holdings

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

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

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

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

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

Product Liability and Warranty Claims

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

Intellectual Property

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

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

Export Controls Laws and Regulations

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

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

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

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

Anti-Corruption Laws and Regulations

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

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

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

Legal and Regulatory Proceedings

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

In addition, the Company is sometimes subject to government inquiries and investigations of its business and competitive environment due, among other things, to the heavily regulated nature of its industry. In addition to the risk of an unfavourable ruling against the Company, any such inquiry or investigation could negatively affect the Company's reputation and its ability to attract and retain customers and investors, which could have a negative effect on its business, results of operation and financial condition. See "— Corporate Governance — 4.5 Ethics and Compliance Organisation".

4.7.4 INDUSTRIAL AND ENVIRONMENTAL RISKS

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

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

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

5. Financial Performances and other Corporate Activities

Airbus' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

5.1 Consolidated Financial Statements ("IFRS")

5.1.1 CONSOLIDATED INCOME STATEMENT ("IFRS")

(Please refer to the "Airbus Group SE – IFRS Consolidated Income Statements for the years ended 31 December 2016 and 2015").

5.1.2 REVENUES

Airbus revenues increased three percent to € 67 billion (2014: € 64 billion). Revenues in Commercial Aircraft rose seven percent, reflecting the record deliveries of 688 aircraft (2015: 635 aircraft) and a favourable foreign exchange impact. Despite increased deliveries of 418 units (2015: 395 units), Helicopters' revenues were weighed down by an unfavourable mix and lower commercial flight hours in services. Defence and Space's revenues decreased nine percent, reflecting a negative impact from portfolio reshaping of about € 1 billion but were broadly stable on a comparable basis.

5.1.3 EBIT AND FINANCIAL RESULT

(For its Full-Year 2016 financial reporting, Airbus has implemented the European Securities and Markets Authority's guidelines on Alternative Performance Measures. As a result, certain items will no longer be labelled as "one-offs". From now on such items will be labelled as "Adjustments". Airbus will no longer measure and communicate its performance on the basis of "EBIT*" but on the basis of "EBIT" (reported) as the difference between the two KPIs, the so called "pre-goodwill and exceptionals", has become less relevant. Terminology will change such that "EBIT* before one-offs" will be replaced by "EBIT Adjusted" and "EPS* before one-offs" will be replaced by "EPS Adjusted".)

EBIT Adjusted – an alternative performance measure and key indicator capturing the underlying business margin by excluding material charges or profits caused by movements in provisions related to programmes, restructuring or foreign exchange impacts as well as capital gains/losses from the disposal and acquisition of businesses – totalled € 3,955 million (2015: € 4,108 million).

Commercial Aircraft's EBIT Adjusted increased to €2,811 million (2015: € 2,766 million), reflecting higher A320 volumes and a 21% decline in research and development (R&D) expenses due mainly to the planned R&D ramp-down on the A350 XWB. EBIT Adjusted was negatively impacted by the lower A330 production rate, higher A350 XWB dilution, transition pricing and ramp-up costs.

On the A320neo programme, 68 aircraft were delivered to 17 customers. Both engine suppliers are committed to deliver in line with customer expectations. Challenges remain with the A320neo ramp-up and delivery profile, which is expected to be back-loaded in 2017.

The ambitious ramp-up target was met for the A350 XWB, with 49 aircraft delivered during 2016. Good progress was made during the year in terms of risk management and reduction of the outstanding work in the A350 Final Assembly Line. The focus remains on recurring cost convergence as the ramp-up progresses and the situation remains challenging. The supply chain has improved, although some bottlenecks remain, but the Company is on track to

manage the 2017 ramp-up on the way towards the production target of 10 aircraft a month by the end of 2018. Flight testing of the A350-1000 is underway.

In Helicopters, EBIT Adjusted totalled € 350 million (2015: € 427 million), reflecting the unfavourable mix and lower commercial flight hours in services as well as the H225 accident in Norway and some campaign costs. However, the underlying performance continues to be supported by ongoing transformation measures and strong efforts to adapt to market challenges.

Defence and Space's EBIT Adjusted was € 1,002 million (2015: € 1,051 million). The good underlying performance partially mitigated the perimeter change effect from portfolio reshaping. It was supported by a strong contract mix and risk reduction as well as benefits materialised from restructuring efforts.

On the A400M programme, deliveries increased to 17 aircraft in 2016 (2015: 11 deliveries) with two delivered year-to-date in 2017. The propeller gearbox (PGB) crisis was addressed in the second half of the year with the interim fix to increase the time between inspection intervals. Capability was stepped up with the aircraft now being delivered including some tactical capability. During the second half of 2016, further challenges were encountered to meet military capability enhancements and management reassessed the industrial cost of the programme, now including an estimation of the commercial exposure. As a result of these reviews a total charge of € 2.2 billion was recorded in 2016 (including € 1.2 billion in the fourth quarter). Cash retentions by customers will continue to weigh significantly in 2017 and 2018 in particular. Challenges remain on meeting contractual capabilities, securing sufficient export orders in time, cost reduction and commercial exposure, which could be significant. Given the size of the cumulative A400M programme loss, the Board of Directors has mandated management to re-engage with customers to cap the remaining exposure.

EBIT (reported) of € 2,258 million (2015: € 4,062 million) included Adjustments totalling a net € -1,697 million. These Adjustments in 2016 comprised:

- ▶ A total net charge of € 2,210 million related to the A400M programme, including the incremental charge in the fourth quarter;
- ▶ A negative impact of € 930 million related to the dollar pre-delivery payment mismatch and balance sheet revaluation;
- ▶ A provision of € 182 million related to restructuring and transformation programmes;
- ▶ A net charge of € 33 million related to portfolio adjustments at Commercial Aircraft and Defence and Space;
- ▶ A net capital gain of € 1,175 million linked to the creation of Phase 2 of the Airbus Safran Launchers Joint Venture;
- ▶ A € 385 million charge on the A350 programme booked in the first half of 2016;
- ▶ A net capital gain of € 868 million booked in the first half of 2016 related to the disposal of shares in Dassault Aviation and a mark-to-market of the remaining shares.

Net income totalled € 995 million (2015: € 2,696 million) after the EBIT Adjustments. It was also significantly impacted by negative foreign exchange effects. Earnings Per Share were € 1.29 (2015: € 3.43). The finance result amounted to € -967 million (2015: € -687 million).

Table 1 – EBIT and Revenues by Division

by Division	EBIT (reported)			Revenues		
	(Amounts in millions of Euro)	FY 2016	FY 2015	Change	FY 2016	FY 2015
Commercial Aircraft	1,543	2,287	-33%	49,237	45,854	+7%
Helicopters	308	427	-28%	6,652	6,786	-2%
Defence and Space	-93	736	-	11,854	13,080	-9%
Headquarters/ Eliminations	500	612	-	-1,162	-1,270	-
Total	2,258	4,062	-44%	66,581	64,450	+3%

5.1.4 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (“IFRS”)

(Please refer to the “Airbus Group SE – IFRS Consolidated Statements of Financial Position at 31 December 2016 and 2015”).

Non-current assets

Intangible assets decreased by € -487 million to €12,068 million (prior year-end: € 12,555 million) mainly due to the reclassification of defence electronics entities to disposal groups classified as held for sale and the creation of ASL, partially compensated by the acquisition of Navtech. Intangible assets mainly relate to goodwill of €9,425 million (prior year-end: € 9,907 million).

The annual impairment tests were performed in the fourth quarter 2016 and led to no impairment charge.

Property, plant and equipment decreased by € -214 million to € 16,913 million (prior year-end: € 17,127 million) mainly at Airbus Defence and Space (€ -611 million), primarily driven by the entities both disposed of and reclassified to disposal groups classified as held for sale, partly compensated by an increase at Airbus Commercial Aircraft (€ +350 million). Property, plant and equipment also includes leased assets of € 116 million (prior year-end: € 118 million).

Investments accounted for under the equity method increased by € +282 million to € 1,608 million (prior year-end: € 1,326 million) mainly due to the increase of Airbus participation in ASL following finalisation of the joint venture creation, partly compensated by the reclassification of the share in Atlas Group to disposal groups classified as held for sale.

Other investments and other long-term financial assets increased by € +1,163 million to € 3,655 million (prior year-end: € 2,492 million) mainly due to the reclassification of the remaining investment in Dassault Aviation to other investments. Other long-term financial assets mainly comprise the aircraft financing activities.

Non-current other financial assets decreased by € -120 million to € 976 million (prior year-end: € 1,096 million) and mainly comprise the positive fair values of non-current derivative financial instruments.

Non-current other assets mainly include non-current prepaid expenses. The increase by +192 M € to 2,358 M € (prior year-end adjusted: 2,166 M €) resulted from higher prepaid expenses (+214 M €).

The fair values of derivative financial instruments are included in non-current other financial assets (€ 893 million, prior year-end: € 931 million), in current other financial assets (€ 258 million, prior year-end: € 349 million), in non-

current other financial liabilities (€ -6,544 million, prior year-end: € -6,703 million) and in current other financial liabilities (€ -4,476 million, prior year-end: € -3,884 million), which corresponds to a total net fair value of € -9,869 million (prior year-end: € -9,307 million). The volume of hedged US dollar-contracts is stable at US dollar 102 billion as at 31 December 2016 and at 31 December 2015, respectively. The US dollar spot rate is USD/€ 1.05 and USD/€ 1.09 at 31 December 2016 and at 31 December 2015, respectively. The average US dollar hedge rate for the hedge portfolio of Airbus improves from USD/€ 1.28 as at 31 December 2015 to USD/€ 1.25 as at 31 December 2016. The 2016 figures exclude USD 1.5 billion of new hedges entered into to address intra-year shifts in Net Exposure linked to delivery phasing.

Non-current securities with a remaining maturity of more than one year increased by € +46 million to €9,897 million (prior year-end: € 9,851 million). The movement is related to the cash management policy of Airbus.

Current assets

Inventories of €29,688 million (prior year-end: €29,051 million) increased by €+637 million. This is driven by Airbus Commercial Aircraft (€+2,221 million), and mainly reflects an increase in work in progress associated with A350 XWB ramp-up. This increase was partly compensated by a decrease in Airbus Defence and Space (€-1,295 million), mainly related to the reclassification of defence electronics entities to disposal groups classified as held for sale and the creation of ASL. It is also related to a decrease in work in progress for the A400M reflecting the netting inventories with the respective portion of the loss making contracts provision.

The trade receivables of € 8,101 million (prior year-end: € 7,877 million) increased by €+224 million, mainly in Airbus Commercial Aircraft.

Current other financial assets mainly comprise receivables from related companies and positive fair values of current derivative financial instruments. The decrease of € -145 million to € 1,257 million (prior year-end: €1,402 million) arises from lower receivables from related companies (€ -99 million) and from the negative variation of the current portion of fair values of derivative financial instruments (€ -91 million).

Current other assets mainly comprise VAT receivables and prepaid expenses. The decrease of € -243 million to € 2,576 million (prior year-end: € 2,819 million) resulted from lower miscellaneous current other assets (€ -271 million).

Current securities with a remaining maturity of one year or less decreased by € -237 million to € 1,551 million (prior year-end: €1,788 million).

Cash and cash equivalents increased from € 6,590 million to € 10,143 million. Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by € -899 million.

The assets and disposal group of assets classified as held for sale of € 1,148 million (prior year-end: € 1,779 million) are related to the defence electronics companies and Atlas Elektronik GmbH.

Total equity

Equity attributable to equity owners of the parent (including purchased treasury shares) amounts to €3,657 million (prior year-end: € 5,966 million) representing a decrease of € -2,309 million. This is due to a dividend payment of € -1,008 million (€1.30 per share), the 2016 portion of share buyback programme of € -513 million, which was completed during the second quarter 2016 for a total of € 1 billion, and a reduction in other comprehensive income of € -1,912 million principally related to revaluation of the defined benefit plans. This decrease was partly offset by a net income for the period of € +995 million.

Non-controlling interests decreased to €-5 million (prior year-end: €7 million). This decrease results mainly from the change in consolidation method of EFW.

Non-current liabilities

Non-current provisions of € 10,826 million (prior year-end: € 9,871 million) include the non-current portion of pension provisions, which increased by € +1,170 million to € 8,342 million (prior year-end: € 7,172 million), mainly due to a decrease of the discount rates for the various pension schemes of Airbus (France: from 2.5% to 1.9%, Germany: from 2.4% to 1.7% and UK from 3.9% to 2.6%).

Other provisions are also included in non-current provisions and decreased by € -215 million to € 2,484 million (prior year-end: € 2,699 million). The agreement on insurance reimbursement that was under negotiation at year-end 2015 was settled during the first half-year 2016. An additional provision of € 160 million (thereof non-current: € +102 million) related to restructuring measures has been recorded at year-end 2016 following the announcement in September 2016 of the merger of the Group structure with its largest division Airbus Commercial Aircraft to increase future competitiveness. Accordingly, a plan including temporary contract termination, non-replacement of attrition, redeployment, partial and early retirement as well as voluntary leaves in Germany, France, the UK and Spain has been communicated to the employees and the European Works Council in November 2016. In Airbus Helicopters, the business has been reassessed in 2016 leading to a restructuring provision of €42 million.

Long-term financing liabilities, mainly comprising bonds and liabilities to financial institutions increased by € +2,456 million to € 8,791 million (prior year-end: € 6,335 million). The increase in long-term financing liabilities is mainly related to the issuance of bonds (€ +2.6 billion). The increase in bonds corresponds to a bond issued on 13 May 2016, for a total of € 1.5 billion, with a 10 year-maturity tranche of € 600 million at a 0.875% coupon, and a 15 year-maturity tranche of € 900 million at a 1.375% coupon. Additionally, exchangeable bonds to be convertible into Dassault Aviation shares were issued for € 1,078 million on 14 June 2016, with a 5 year-maturity. These bonds bear a coupon of 0% and were issued at 103.75% of par. Their effective interest rate, after separation of the equity conversion option, is 0.6415%.

Non-current other financial liabilities mainly comprise the non-current portion of liabilities for derivative financial instruments and European Governments refundable advances. The decrease by € -725 million to € 13,313 million (prior year-end: € 14,038 million) resulted from the decrease of European governments refundable advances (€ -376 million) and of the non-current portion of liabilities for derivative financial instruments (€ -159 million).

Non-current other liabilities increased by € +1,286 million to € 16,279 million (prior year-end: € 14,993 million). Advance payments received increased by € +1,242 million.

Current liabilities

Current provisions increased by € +934 million to € 6,143 million (prior year-end: € 5,209 million) and comprise the current portion of pension provisions (€ 314 million) and other provisions (€ 5,829 million). The increase is mainly due to the A400M net charge recorded in 2016.

Short-term financing liabilities decreased by € -1,103 million to € 1,687 million (prior year-end: € 2,790 million). The decrease in short-term financing liabilities is mainly related to the maturing of a bond and lower commercial paper programmes (€ -1.5 billion).

Trade liabilities increased by € +1,668 million to € 12,532 million (prior year-end: € 10,864 million). Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by € -899 million.

Current other financial liabilities mainly comprise current liabilities for derivative financial instruments. The increase by € +740 million to € 5,761 million (prior year-end: € 5,021 million) resulted from the increase of the current portion of liabilities for derivative financial instruments (€ +592 million).

Current other liabilities increased by € +498 million to € 27,535 million (prior year-end: € 27,037 million). Advance payments received increased by € +503 million.

The disposal group of liabilities classified as held for sale totals € 991 million (prior year-end: € 231 million).

5.1.5 NET CASH

The net cash position on 31 December 2016 was € 11.1 billion (year-end 2015: € 10.0 billion) with a gross cash position of € 21.6 billion (year-end 2015: € 19.1 billion) (please refer to the “Notes to the IFRS Consolidated Financial Statements - Note 34: Net Cash”). The reclassification of certain securities in previous year figures is excluded.

Free cash flow before M&A and customer financing amounted to € 1,408 million (2015: € 1,325 million), reflecting the strong delivery performance and cash generation potential.

Free cash flow of € 3,181 million (2015: € 2,825 million) included around € 250 million in aircraft financing. The aircraft financing environment remains healthy with a high level of liquidity available in the market at good rates for Airbus’ product portfolio. Support did not materialise in the fourth quarter from European Export Credit Agencies (ECAs) but Airbus continues to work with them to resume ECA-backed financing. Also included in the free cash flow is € 1.2 billion in proceeds from the sale of Dassault Aviation shares and around € 750 million from the implementation of Phase 2 of the Airbus Safran Launchers JV. In addition, around € 1.7 billion were spent on shareholder returns through the Dividend payment and the final tranche of the Share Buyback.

5.1.6 ORDER INTAKE AND ORDER BOOK

Order intake in 2016 totalled € 134 billion (2015: € 159 billion), with the order book valued at € 1,060 billion as of 31 December 2016 (year-end 2015: € 1,006 billion). Net commercial aircraft orders amounted to 731 aircraft (2015: 1,080 aircraft), including 41 A350 XWBs and 83 A330s. The net book-to-bill ratio was above 1 while the order backlog reached a record 6,874 commercial aircraft at the end of the year. Net helicopter orders totalled 353 (2015: 333 net orders), including the H225M for Singapore and the UK Military Flying Training System contract. Defence and Space achieved a book-to-bill above 1 with strong order momentum in military aircraft and in satellites. Key orders included 16 C295W search and rescue planes for Canada and the Eurofighter sustainment and support contracts.

Table 2 – Order Intake and Order Book by Division

by Division (Amounts in millions of Euro)	Order Intake ⁽¹⁾			Order Book ⁽¹⁾		
	FY 2016	FY 2015	Change	31st Dec 2016	31st Dec 2015	Change
Commercial Aircraft	114,938	139,062	-17%	1,010,200	952,450	+6%
Helicopters	6,057	6,168	-2%	11,269	11,769	-4%
Defence and Space	15,393	14,440	+7%	41,499	42,861	-3%
Headquarters / Eliminations	-1,908	-703	-	-2,521	-1,216	-
Total	134,480	158,967	-15%	1,060,447	1,005,864	+5%

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

5.2 Information on Airbus Group SE auditors

	Date of First Appointment	Expiration of Current Term of Office*
Ernst & Young Accountants LLP Boompjes 258 3011 XZ Rotterdam Postbus 488 3000 AL Rotterdam The Netherlands Represented by A.A.Van Eimeren	28 April 2016	12 April 2017

* A resolution will be submitted to the Annual General Meeting of Shareholders in 2017, in order to appoint Ernst & Young Accountants LLP as the Company's auditors for the 2017 financial year.

Ernst & Young Accountants LLP and its representative is registered with the NBA (Nederlandse Beroepsorganisatie van Accountants).

5.3 Human Resources

5.3.1 WORKFORCE INFORMATION

In 2016, 7,532 employees worldwide (thereof 3,689 in the core-division perimeter of Commercial Aircraft, Defence and Space and Helicopters) were welcomed into the Company (5,266 in 2015), while 4,698 employees left the Company including partial retirements. With additional perimeter changes and the effect of long-term absence, Airbus had a 2016 year-end workforce of 133,782 (136,574 in 2015). In terms of nationalities, 34.9% of the company's employees are from France, 32.0% from Germany, 8.9% from the UK and 8.8% are from Spain. US nationals account for 1.7% of employees. The remaining 13.6% are employees from a total of 130 other countries.

5.3.2 ORGANISATION OF HUMAN RESOURCES MANAGEMENT

The overall mission of the Airbus' HR function is to ensure that the Company can attract, develop, and retain a world-class competent, motivated and flexible workforce which fits current and future business requirements. HR facilitates diversity, continuous integration and internationalisation of Airbus and contributes to a common culture based on strong company values. The HR strategy aims to make the Company a global employer of choice and an innovative, inclusive and engaging place to work for all employees. HR places people at the heart of Airbus' future success. As a people innovator, HR disrupts leadership practices, anticipates and influences new ways of working and behaving.

Since June 2012, the Company's Human Resources have been integrated under the same leadership role: Chief Human Resources Officer Airbus. Since mid-2014, the HR Centre of Competences have been integrated group wide within a collaborative platform model to support Airbus evolution towards more harmonisation and efficiencies, while maintaining a high quality of delivery.

As of July 2017, HR will take the next step by transforming its collaborative platform into an end-to-end driven organisation model. The Airbus Group Corporate HR governing team is composed of Heads of Centres of Excellence, Head of International HR, together with the divisional HR Directors. The divisional HR Directors have a double operational reporting line from the Divisions to the Group Chief Human Resources Officer and to the Head of the Division.

The main principles of this set up are:

- ▶ End-to-end process ownership with clearer roles, responsibility and accountability;
- ▶ Working with more agility thanks to HR Multi-Functional teams (“MFT”s) being composed and operated flexibly; governed and managed like projects/missions with the collective objective to deliver to the end customer;
- ▶ Improving performance and efficiency across the group, ensuring continuous adaptation;
- ▶ Enhancing employee proximity by creating the proper employee-centric approach and more agility in answering to our customers Human Resources Business Partners (“HRBPs” - supported by Key Account Managers from Centres of Excellence driving operations).

HR Business Partners remain primary focal points for their respective businesses and play an active role in the on-going transformation of the Company. This clear differentiation of roles and responsibilities enables HR to operate as a service- and performance-oriented business player.

The entire HR function is committed to support Airbus’ restructuring and to play its role as a change facilitator.

5.3.3 2016 KEY ACHIEVEMENTS IN HUMAN RESOURCES

Mobility of employees within or across Divisions is one of the main priorities for the overall benefit of the Company. In 2016, 11,761 employees changed jobs and the company has kept the challenging 12% target for 2017.

The Company perceives the development of new competences, the creation of new ideas and the further intensification of professional networks as crucial for any successful advancement. Consequently, it is deploying significant efforts towards the analysis and development of all competences across the Company, in diversifying skills, gap-bridging development actions, and in a robust and customised training plan.

In 2016, Airbus has signed partnership agreements with leading aeronautics and engineering universities to ensure students graduate with the skills required by industry to face future challenges. It has put in place innovative initiatives such as summer camps to enhance innovations bridging academic and enterprise worlds.

In 2016, Airbus provided more than 2.2 million training hours to more than 200,000 participants. In addition, more than 32,000 employees benefitted from the development, evaluation and transformation solutions proposed by the Leadership University which was launched in 2015. The flagship campus in Toulouse alone welcomed almost 7,000 employees from its inauguration in September 2016 to the year end. This initiative aims to strengthen the Company’s approach to leadership and harmonise the activities across its divisions and subsidiaries, offering equivalent opportunities for all leaders to drive their development anywhere in the Company.

In 2016, we further pursued the digitally-enabled, people-driven Business Transformation named PULSE, initiated in 2015. The PULSE programme aims at reinventing the way we work by improving collaboration, empowerment and accountability across all divisions. It consists of reloading HR policies and processes, accompanied by the launch of a new Company-wide, people-centric employee portal – MyPULSE, successfully rolled out at the beginning of

November 2016. This transformation also encompasses the emergence of new ways of working, aiming at flattening the organisation, and exploring new, evolutionary, trust-based organisational models.

In 2016, 1,200 projects were submitted for the Awards for Excellence - a recognition scheme which was rolled out at Company-level in 2015. The aim is to reward employees and teams for exceptional achievements and to improve business performance.

5.4 Environmental matters

The Company is evolving in a world which is increasingly populated, more urban, has scarcer resources, with overall greater pressure on ecosystems, and a changing climate. Environmental topics are fast-changing, and Airbus is preparing itself for both long-term and rapid changes.

The environmental policy, updated in 2015 provides clear and common guidance to all employees about the Company's vision related to environmental topics. These include: eco-efficiency and innovation as drivers to improve our environmental footprint, continuous progress and anticipation to meet current and future environmental challenges, and stakeholder engagement towards a more sustainable business.

5.4.1 SHAPING OUR FUTURE THROUGH ECO-EFFICIENCY

In line with this commitment, Airbus maintains and expands the ISO 14001 certified Environmental Management Systems, deploys eco-design principles, improves the management of business risks and opportunities, as well as enhancing long-term environmental sustainability. The environmental policy provides strategic directions and common guidance on commitments Airbus has taken for the environment. Environmental reporting is embedded across Airbus, measuring progress and complying with reporting obligations

5.4.2 MAKING A DIFFERENCE IN OUR INDUSTRIAL FACILITIES

The Company's Environmental Policy directs the way to improve environmental performance in the areas of energy efficiency, GHG emissions, air pollutant emissions, waste generation, water consumption, noise, substances of concern and local eco-systems. Our environmental footprint is reduced year after year through continuous efforts and progress. Airbus manufacturing locations around the world employ a mixture of construction and appropriate solutions for saving both emissions and costs. For example, the Nantes Water Recycling plant directly treats and purifies 100% of surface treatment water to render it reusable. This closed-loop system will enable a reduction of 20,000 m³ in surface treatment water consumption each year. In Illescas, Spain, the installation of an osmosis plant for cooling towers improves the quality of the water and allows it to be reused in the refrigeration system. Thanks to this project, 12 000 m³ of industrial water discharges will be saved every year with a regular equivalent €44,000 cost saving. The new A350 XWB paint booths in St-Nazaire have been designed and built to reduce environmental impacts and give a 67% saving in energy use and 86% reduction in CO₂ emissions. The optimisation of the A380 paint shop filtering in Hamburg allows VOCs to be captured through four wet washers, leading to maintenance cost savings, reduced energy and chemicals consumption and decreased waste water.

5.4.3 DEVELOPING PRODUCTS, SERVICES AND PARTNERSHIPS THAT CONSIDER CURRENT AND FUTURE ENVIRONMENTAL CHALLENGES

Airbus is playing a leading role in developing and integrating new technologies to enable the industry to grow sustainably. We are making our aircraft more fuel efficient, resulting in lower CO₂ emissions, as well as significantly reducing noise and NO_x emissions. In space, our satellites use solar arrays and electric propulsion and collect data for climate research.

Airbus Commercial Aircraft: The A350-1000, a major Airbus & A350 XWB Programme milestone, recently celebrated its first flight. The A350-1000 is powered by the Trent XWB-97, the most efficient large aircraft engine flying today. The Airbus A350 XWB is designed to be eco-efficient: -25% fuel consumption than the current generation of aircraft, satisfying regulatory noise best standards, and comfortable margins in hydrocarbon emissions (99% below limit), carbon monoxide emissions (86% below limit), smoke emission (60% below limit) and nitrogen oxides emission (35% below limit).

Airbus Helicopters: The H160 brings significantly improved performance, less fuel consumption and less CO₂ emissions, and the new canted Fenestron and Blue Edge blades result in lower sound levels. With the Bluecopter demonstrator, eco-efficiency objectives are met: decreasing of fuel consumption by as much as 40%, significantly reducing CO₂ emissions, and lowering noise to approximately ten decibel effective perceived noise below ICAO noise certification limits.

Airbus Defence and Space: Running exclusively on solar power, Zephyr, High Altitude Pseudo-Satellite (HAPS) provides continuous surveillance, communications and monitoring services across areas of several tens of thousands of square kilometres, being the only vehicle to have demonstrated sustainable, unmanned and solar powered flights.

R&T: Airbus is investing in hybrid and electric propulsion research as a means of developing quieter and more sustainable aircraft. The E-Aircraft System programme combines the efforts and know-how across all of Airbus to work towards a more sustainable industry.

Monitoring the Earth's atmosphere: Space satellites have become an undisputed diagnostic tool for detecting climatic and environmental changes on a planetary scale. More than half of the essential climate variables are measured from space. Airbus Defence and Space creates the technology that makes it possible, with 27 Airbus-built satellites already launched which have direct or indirect applications for climate change monitoring, and a further 18 satellites in development, including recent contracts for MERLIN (methane detection) and Sentinel-6/Jason-CS (global sea-surface height measurement).

Partnering for zero deforestation: Airbus is one of the world's leading providers of satellite imagery to help fighting deforestation and forest degradation. Airbus Defence and Space, The Forest Trust ("TFT") and SarVision have jointly developed a revolutionary service called STARLING enabling companies to provide evidence of how they are implementing their No Deforestation commitments. This technology will help companies to make the right decisions and meet the promises set out in their forest conservation policies.

Participation in leading international environmental working groups: Airbus contributes technical expertise as an observer to the UN: International Civil Aviation Organization ("ICAO"), Committee on Aviation Environmental Protection (CAEP), as well as participating in industry associations such as the Air Transport Action Group ("ATAG") and Aerospace Defence Security ("ADS") on environmental matters. It supported the creation of the International Aerospace Environmental Group ("IAEG"), which aims to harmonise the response of the industry to existing and emerging environmental regulations, as well as to align aerospace environmental standards.

Sustainable fuels for aviation: Airbus is playing a key role in the development of sustainable aviation fuels through three main axes: supporting the qualification and certification of new fuel pathways, acting as a catalyst to perform regular customer flights and promoting smart policies for commercialisation. A recent development is the sustainable fuels platform installed in our Toulouse facility which enables delivery of customer aircraft using a blend of sustainable fuels. Airbus is also heavily involved in the Initiative Towards Sustainable Kerosene for Aviation (“ITAKA”) European initiative, which aims to speed up the commercialisation of aviation biofuels in Europe.

5.4.4 2016 HIGHLIGHTS

Developments at the International Civil Aviation Organization (ICAO): Airbus has fully supported and welcomes two historic agreements made in International Civil Aviation Organization (“ICAO”) during 2016. The first is an Aircraft CO₂ emissions certification standard which encourages the integration of fuel efficient technologies into aircraft design and development. The second is a global offsetting scheme for aviation, CORSIA (“**Carbon Offsetting and Reduction Scheme for International Aviation**”). This is an important pillar for the aviation industry in achieving its goal of Carbon Neutral Growth (“CNG”) from 2020 and is the world’s first carbon offsetting scheme for any global sector. Airbus also remains fully committed to supporting all pillars of the industry’s climate action plan, through delivering the world’s most fuel-efficient aircraft thanks to technology improvements, supporting improved air traffic management and enhanced aircraft operations around the world, and facilitating the wider adoption of sustainable alternative fuels.

Management of hazardous substances: Airbus has achieved the development of a suitable chromate-free replacement to aluminium pickling, successfully mitigating any risk of business disruption in the supply chain. More than 100 suppliers are qualified so far to use chromate-free pickling before anodisation. All our current T1 suppliers have been informed of the availability of the chromate-free solutions.

ISO 14001 version 2015: by September 2018, Airbus divisions plan to transition to the latest version of the standard for Environmental Management Systems with its new challenging requirements: greater top management involvement; a broader strategic consideration of the environmental context, including the interests of stakeholders; a top-level understanding of environmental aspects and their impacts throughout the life-cycle; a better understanding and management of risks and opportunities; a greater emphasis on evaluating environmental performance.

5.5 Research and Technology, Quality and Systems Engineering

Research and Technology

Significant restructuring of Airbus’ Corporate Technology Office (“CTO”) was undertaken in 2016 and will continue into 2017. The CTO is undergoing a transformation programme to become more agile, innovative and aligned with the needs of Airbus. The new CTO organisation is responsible for guiding all R&T of the Company and ensures Airbus-wide integration of technology. The CTO is also in charge of developing the Airbus-wide R&T Roadmaps and executing Demonstrator projects together with the divisions. This organisation applies a lean, project-based approach, will encourage collaboration with external research communities and develop partnerships, especially through open innovation with technical and scientific experts. Airbus Demonstrators are a means to develop new products, services and design and manufacturing methods that encompass and represent radical technological breakthroughs, rather than incremental development. Airbus Demonstrators also provide a maturation mechanism and maturity gates for the group R&T portfolio. The Demonstrators will employ a CTO-established development

methodology, including phasing and key gates, lightweight project management and earned-value management processes, and budgeting, HR and contracting mechanisms tailored for speed of execution. Airbus Group Innovations (“AGI”) will become a Central R&T organisation to provide expertise in breakthrough technologies in support of the group demonstrators. The CTO nursery and Airbus BizLab will be merged into a single entity responsible for incubation and acceleration of internal and start-up ideas that can be turned into viable business ventures. The CTO organisation will serve as a pilot for the construct of an Exponential Organisation (“ExO”) and if successful, a proof point for the ability to create such an organisation internally, close to the core of the business.

Four technology thrusts ensure that road mapping, group demonstrators and R&T projects form a coherent portfolio of activities to advance rapidly strategic priorities. These thrusts are:

- ▶ Electrification;
- ▶ Urban Air Mobility;
- ▶ Digital Product Development Process and Factory;
- ▶ Connected Fleet.

Key progress in 2016

A³

Vahana

Project Vahana started in early 2016 as one of the first projects at A³ (pronounced “A-cubed”), the advanced projects and partnerships outpost of Airbus in Silicon Valley. Designed to carry a single passenger or cargo, A³ are aiming to make it the first certified passenger aircraft without a pilot. The aim is to fly a full-size prototype before the end of 2017, and to have a product-ready demonstrator by 2020.

Transpose

Transpose, launched in December 2016, is a clean-sheet rethinking of aircraft cabin architecture and passenger experience possibilities. The focus of Transpose is threefold:

- ▶ Demonstrate the technical feasibility of building and operating a modular commercial aircraft cabin system.
- ▶ Validate passenger enthusiasm for the new in-flight experiences this makes possible.
- ▶ Close a business case that makes all of this not only desirable, but feasible—and soon.

Besides new revenue streams, Transpose enables significant savings for airlines. A modular cabin architecture eliminates aircraft downtime due to customisation operations, which can currently take up to a month to complete. Add to this the increased flexibility in cabin design options, and there is potential for vastly improved passenger experiences, offering a compelling way for airlines to differentiate and offer more choice to their customers.

BizLab

Airbus BizLab selected the start-ups that submitted their projects' proposals for the Airbus business accelerators in Hamburg, Germany and Bangalore, India, in their latest calls in 2016.

Airbus offers projects comprehensive support through a six-month acceleration programme. The selected start-ups will interact with a large number of Airbus experts from various domains (technology, legal, finance, marketing, etc.) and will benefit from a dedicated mentor. They will have office space and access to prototyping and test facilities. A dedicated demo day with Airbus decision makers, partners, subsidiaries, customers, and venture capital will be also offered.

The six start-ups selected in Hamburg from 100 applicants in 29 countries were:

- ▶ ZinkCloud from Spain - The project develops software to improve quality production by using machine learning and natural language processing.
- ▶ Jetlite from Germany - "jetlite – light to lighten your jetlag". The proposal is about increasing passenger comfort and decreasing jetlag by an innovative use of the existing cabin lighting LED- system.
- ▶ Synergeticon from Germany - Offers a digital platform with connected smart tools to provide optimal support for manual work processes in production and maintenance
- ▶ Velmenni from Estonia/India: The idea is about creating a new wireless technology for high-speed data transmission using visible light.
- ▶ Teraki from Germany: The project consists of making Big Data Small. Software solutions are provided to reduce data from any Internet of Things sensors in a significant and smart way
- ▶ Nebaqua from Spain: The proposal is about a water separation system based on ultrasonic nebulisation that helps reduce weight and the related management costs

The four start-ups selected in Bangalore from 80 applicants in seven countries were:

- ▶ Blue Morfo from India – This start-up is developing a mobile application to detect and prevent specific corporate health related issues, like exposure of airline crew to jetlag, cabin pressurisation, etc.
- ▶ Shoonya Games from India – It is proposing interactive gaming solutions for training and marketing purposes through the use of Virtual Reality and 3D technologies embedded in a mobile device.
- ▶ Open Turf from India – The project is about providing wireless in-flight entertainment using passenger personal devices.
- ▶ Qualitas from USA - Offers automated quality inspection systems for manufacturing, specialising in 2D and 3D machine vision.

Airbus Helicopters

The CityAirbus concept, developed by Airbus Helicopters, has completed a feasibility study with a favourable conclusion and the project will be moving into CTO demonstrators from early 2017. The multi-passenger vertical-takeoff-and-landing (VTOL) vehicle will use electric propulsion and multiple ducted propellers. CityAirbus would be piloted initially, switching to fully autonomous operations once regulations are in place.

Airbus Defence and Space and Airbus Helicopters

The Skyways project, involving Airbus Helicopters and the Civil Aviation Authority of Singapore aims to demonstrate an autonomous drone delivery service on the campus of the National University of Singapore. Planned for mid-2017, the demo will help shape the regulatory framework for unmanned aircraft operations in Singapore.

Quality

Following its kick-off in 2014, the Quality initiative Quest has made significant progress. More than 500m€ of Cost of non-Quality could be saved since the beginning of the project by focusing on the right tools and methodologies and supporting people in the evolution of the Mindset and Behaviours, especially when it comes to making Quality a priority.

With the decision to implement APQP (Advanced Product Quality Planning), a methodology to become industry standard very soon, the end-to-end focus of Quality has been and will continue to be significantly increased. A dedicated learning path has been established and the first 50 APQP-Masters were trained in 2016. Overall, people were in the focus of 2016 efforts, with for example:

- ▶ reaching a total of more than 15.000 employees with a dedicated “Quality experience world” that travelled across 31 sites (production included);
- ▶ training more than 5000 people in dedicated train-the-trainer and team sessions on Mindset & Behaviour;
- ▶ creation of dedicated communities on the HUB with several of thousands of people connected and sharing their expertise and best practice.

Furthermore, a harmonised and simple set of five KPIs has been established, covering the Quality from engineering, supply chain, production and customer satisfaction at handover to the resulting measure of Cost of non-Quality.

In the frame of the Gemini project the closer integration of the quality functions has been decided, leading to a further increase in focus on Quality first.

6. Financial Targets for 2017

As the basis for its 2017 guidance, Airbus expects the world economy and air traffic to grow in line with prevailing independent forecasts, which assume no major disruptions.

Airbus' 2017 earnings and free cash flow guidance is based on a constant perimeter:

- ▶ Airbus expects to deliver more than 700 commercial aircraft.
- ▶ Before M&A, Airbus expects mid-single-digit percentage growth in EBIT Adjusted and EPS Adjusted compared to 2016.
- ▶ Free cash flow is expected to be similar to 2016 before M&A and customer financing.

7. Airbus Strategy

7.1 Commercial leadership, defence and space optimisation and value creation

In 2016, the Company has further pushed forward its restructuring, in accordance with the strategy introduced in 2013 and summed up in the statement “we make it fly”.

Airbus Defence and Space continued to revisit its portfolio and refocus on military aircraft, missiles, launchers and satellites. The Company pursued the divestment process of the businesses that do not fit with the new strategic goals and have better futures in more tailored ownership structures. The Company completed the Airbus Safran Launchers joint venture, sold its business communications entities and entered into agreements to sell its defence electronics business and Atlas Elektronik.

The Company also announced that it will further integrate by merging its Group structure with its largest division Airbus Commercial Aircraft. The merger of Airbus Group and Airbus paves the way for an overhaul of our corporate set-up, simplifies our company's governance, eliminates redundancies and supports further efficiencies, while at the same time driving further integration of the entire group. The other two divisions, "Defence and Space" and "Helicopters" remain integral parts of the group and will derive considerable benefit from the merger through more focused business support and reduced costs.

The eight strategic paths of the Company's strategy are as follows:

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

The commercial aircraft business aims to be largely self-sufficient going forward, rather than attempting to rely on a balanced group portfolio. Focus upon on-time, on-cost and on-quality deliveries is paramount given the huge backlog execution challenge. Therefore, the proven management of cycles and shocks needs to be continued and the efforts to soften adverse impacts from cycles and shocks has to be even further strengthened through focusing on innovation, services and a more global approach.

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

Defence can no longer be a tool to manage and hedge against commercial cycles, but the Company seeks to remain strong and actively shape its defence, space and governmental business. The focus will involve (i) developing high-performing businesses such as missiles, launchers, combat and transport aircraft, entering into new growth areas when they are backed by government funding, and (ii) focusing on productivity improvements both through internal means and in the context of European optimisation to enable efficiencies and improve Airbus' positioning on export markets. In Space, Airbus has strengthened its position increasing its stake in Arianespace and reached further key milestones relating to Ariane 6 development, and was able to conclude the creation of Airbus Safran Launchers in its full scope.

3. Pursue incremental innovation potential within product programmes while pioneering and fostering disruptions in our industry, and developing necessary skills and competencies required to compete in the future

Airbus innovates every day to increase its value propositions by enhancing product performance, creating new customer benefits, and reducing costs. Our cutting-edge technologies and scientific excellence contribute to global progress, and to delivering solutions for society's challenges, such as environmental protection, mobility and safety.

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

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

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

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

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

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

6. Focus services on and around the Company's platforms

The strategy going forward is to focus on services where the Company can differentiate and add value for its customers according to the motto "no one knows our products better than we", aiming at developing long-term customer intimacy and bringing competitive advantage to its customers. As services are executed locally, the portfolio will be adapted to the increasingly global customer base. Cooperation with military customers is set to increase substantially through maintenance and support services thanks to the new platforms to be delivered in the coming years, including over 250 Eurofighters, over 150 A400M aircraft, around 250 NH90s and 50 Tiger helicopters. In Commercial, the installed base is expanding rapidly, and new innovative services (power by the hour, maintenance, training) are being offered successfully.

7. Strengthen the value chain position

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

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

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

7.2 Key divisional priorities 2017

Airbus Commercial Aircraft

- ▶ Deliver on operational commitments, including delivery targets and achieve industrial ramp-up of A320 family and A350XWB family.
- ▶ Deliver improvement on financial key performance indicators (KPIs).
- ▶ Deliver key development milestones on A350-1000, A330neo, A319/A321neo and Beluga XL.
- ▶ Deliver customer value through improved operational performance and efficiency.
- ▶ Boost competitiveness, including delivering recurring cost convergence plans with focus on A350XWB and improved productivity and quality in plants and final assembly lines.
- ▶ Prepare the future and accelerate digital transformation and innovations.
- ▶ Engage and develop people worldwide.

Airbus Helicopters

Airbus Helicopters will pursue the execution of its strategy in 2016 by:

- ▶ Executing and delivering on safety commitments;
- ▶ Focusing on increasing quality and customer satisfaction;
- ▶ Delivering on operational commitments and development programmes milestones;
- ▶ Enhancing operational and cost competitiveness, implementing the ADAPT restructuring programme and delivering improvements in financial KPI's.

Airbus Defence and Space

For 2017, Airbus Defence and Space key priorities are:

- ▶ Enhance product and service offerings based on current platforms and develop new ones based on data-driven services;
- ▶ Adapt organisation towards growth and improved efficiency;
- ▶ Deliver, as committed, on all programmes with a focus on A400M;
- ▶ Improve financial KPIs, including cash generation and conversion;
- ▶ Promote value based leadership to drive cultural change.

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

For further information and detail regarding the Company's activities, finances, corporate governance and in particular risk factors, the reader should refer to the Company's website www.airbusgroup.com.

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

- ▶ The financial statements for the year ended 31 December 2016 give a true and fair view of the assets, liabilities, financial position and profits or losses of the Company and undertakings included in the consolidation taken as a whole; and
- ▶ This Board Report gives a true and fair view of the position as per the balance sheet date, and of the development and performance during the 2016 financial year of the Company and undertakings included in the consolidation taken as a whole, and the principal risks facing the Company have been described herein.

The Board of Directors

Denis Ranque, Chairman

Tom Enders, Chief Executive Officer

Ralph Dozier Crosby, Jr., Director

Catherine Guillouard, Director

Hans-Peter Keitel, Director

Hermann-Josef Lamberti, Director

Lakshmi N. Mittal, Director

María Amparo Moraleda Martínez, Director

Claudia Nemat, Director

Sir John Parker, Director

Carlos Tavares, Director

Jean-Claude Trichet, Director

Leiden, 21 February 2017