

# **Report of the Board of Directors**

**(Issued as of 13 February 2019)**

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Dear Shareholders,

This is the Report of the Board of Directors (the “**Board Report**”) on the activities of Airbus SE (the “**Company**”) and together with its subsidiaries “**Airbus**”) during the 2018 financial year, prepared in accordance with Dutch law.

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

## 1. General Overview

With consolidated revenues of €63.7 billion in 2018, Airbus is a global leader in aeronautics, space and related services. Airbus offers the most comprehensive range of passenger airliners. Airbus is also a European leader providing tanker, combat, transport and mission aircraft, as well as one of the world’s leading space companies. In helicopters, Airbus provides the most efficient civil and military rotorcraft solutions worldwide. In 2018, it generated approximately 85% of its total revenues in the civil sector and 15% in the defence sector. As of 31 December 2018, Airbus’ active headcount was 133,671 employees.

## 2. Summary 2018

At the start of the year the Company set itself the following 'Priorities' for 2018, which were shared with all employees:

**Deliver critical programmes** while streamlining the industrial system for greater efficiency and customer care;

**Secure EBIT and Free Cash Flow targets** that underpin market trust and allow us to invest in the future and **deliver on performance / competitiveness improvement programmes across the business**

**Harmonise business management system and embed common quality standards** (eg Advanced Product Quality Planning) company-wide and throughout the supply chain to enhance customer satisfaction;

**Rapidly deploy through Chief Technology Officer (CTO) / Digital Transformation Officer (DTO) / Quantum best-of-breed proven digital solutions** – in particular 'Digital Design to Manufacturing', 'Factory of the Future', 'Connected Services & Reliable Fleet' and 'Efficient Design'; and drive technology development to improve safety and eco-efficiency of our industry;

**Support people worldwide** to engage in digital transformation, developing the associated skills, collaborative methods and ways of working that favour empowerment, accountability, trust and speed;

**Behave with integrity, customer focus, reliability, respect**, creativity and teamwork to build an **inclusive, responsible and ethical corporate culture** supported by a world-class compliance system.

2018 was another year of progress despite some significant operational challenges. Additionally, the Company it passed a series of key milestones in major programmes and took important decisions to further enhance its business portfolio:

- ▶ Commercial aircraft deliveries in 2018 were up for the 16<sup>th</sup> year in a row, reaching a new Company record of 800 aircraft to 93 customers. Deliveries were more than 11% higher than the previous record of 718 set in 2017.
- ▶ The closing of the C Series transaction between Airbus, Bombardier and Investissement Québec, came into effect on July 1, adding the A220 aircraft to the Airbus family. The A220 aircraft are fully optimised for the 100 to 150 seat market and perfectly complement Airbus' existing best-selling A320neo family.
- ▶ Deliveries of the most capable and flexible A321neo version to date – the A321LR or "Long Range" – started in 2018 after receiving joint EASA and FAA certification to operate the aircraft with up to three underfloor Additional Centre Tanks (ACTs), including for ETOPS operation.
- ▶ The A330neo new-generation family – comprising the A330-900 and A330-800 – reached two significant milestones as the A330-800 made its first flight and deliveries of the larger A330-900 commenced.
- ▶ Based on an A330-200 Freighter, the first of five BelugaXL transport aircraft took to the skies with some 600 hours of flight testing over ten months schedule to achieve Type Certification and entry-into-service later in 2019.
- ▶ Airbus delivered the first A350-1000 widebody airliner to launch customer Qatar Airways. The aircraft is Airbus' latest widebody in the twin-aisle category. As with the A350-900, the A350-1000 brings together the very latest in aerodynamics, design and advanced technologies for a 25% step change in operating cost compared to previous generation competitor aircraft.
- ▶ The light-twin helicopter H135 has received the type certificate by the Federal Aviation Administration (FAA) for its new Helionix cockpit. The avionics system offers operators increased mission flexibility and safety. Helionix is a family concept with standardised features and is available on the H175, H145 and soon on the H160.
- ▶ Airbus Helicopters secured the initial orders for the next-generation H160. The first serial helicopter of this series rolled off the brand new assembly line in Marignane to perform its first flight. The first serial aircraft, which will be delivered to launch customer Babcock in 2020, will join the three prototypes, which have already accumulated over a 1000 flight hours, in the final steps of the flight test campaign.

- ▶ Nearly 550 helicopters representing 146 customers are sharing data with Airbus Helicopters with the goal of gaining actionable intelligence that improves operational performance and business results. The connected helicopters include almost every helicopter type in Airbus' range performing a wide variety of missions including emergency medical services (EMS), public services, tourism, training, private and business aviation, oil & gas and search and rescue.
- ▶ The European-Japanese BepiColombo mission to Mercury was successfully launched from the spaceport in Kourou (French Guiana) on an Ariane 5 launcher. The satellite built by Airbus for the European Space Agency (ESA) and Japanese Space Agency (JAXA) is now embarking on its long journey of some 8.5 billion kilometres through the inner solar system, reaching our solar system's innermost planet in seven years.
- ▶ Airbus and Dassault Aviation decided to join forces for the development and production of Europe's Future Combat Air System (FCAS), which is slated to complement and eventually replace current generation of Eurofighter and Rafale fighter aircraft between 2035 and 2040. The partnership represents a landmark industrial agreement to secure European sovereignty and technological leadership in the military aviation sector for the coming decades.
- ▶ The European Space Agency (ESA) has commissioned Airbus for two studies for possible European involvement in the future human base in lunar orbit. Airbus has delivered the first European Service Module (ESM), which is a key element of Orion, NASA's next-generation spacecraft that will transport astronauts beyond low Earth orbit for the first time since the end of the Apollo programme in the 1970s.
- ▶ Lockheed Martin and Airbus signed an agreement to jointly explore opportunities to meet the growing demand for aerial refuelling for US defence customers. The companies will seek to provide aerial-refuelling services to address any identified capacity shortfall and to meet requirements for the next generation of tankers capable of operating in the challenging environments of the future battlespace.
- ▶ Airbus continued with development activities toward achieving the revised capability roadmap of the A400M. Retrofit activities are progressing in line with the customer agreed plan. The customer Nations are now set to endorse the agreement which will allow them to pursue their domestic approval processes.
- ▶ The youth development programme of the Airbus Foundation "Flying Challenge & Little Engineer" reached more than 7,080 young people. The Airbus Foundation Discovery Space digital platform achieved over 50,000 content views and received 900 entries to its first design competition. The Foundation undertook its first A400M mission with the French Centre de Crise to Lombok, where it aided thousands of people who were displaced by multiple earthquakes in the area. The Foundation also carried out its largest ever helicopter mission for the India Red Cross to support its logistics activities in response to the Kerala floods. Additionally the helicopter missions carried out aerial assessments in Guatemala and Indonesia following the respective volcanic eruption and earthquakes.

## 3. Share Capital and Stock Price Evolution

### 3.1 Shareholding and voting rights

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#### Issued share capital

As of 31 December 2018, the Company's issued share capital amounted to € 776,367,881 divided into 776,367,881 shares of a nominal value of €1 each. The issued share capital of the Company as of such date represents 25.88% of the authorised share capital of €3 billion comprising three billion shares. The holder of one issued share has one vote and is entitled to profit in proportion to his/her participation in the issued share capital<sup>1</sup>.

#### 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: (i) shares issued for consideration other than cash, (ii) shares issued to employees of Airbus and (iii) shares issued pursuant to a previously granted right to subscribe for those shares. 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 of the Company ("**Articles of Association**") provide that the shareholders' meeting is not authorised to pass 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 (by virtue of Dutch law, or because they have been excluded by the competent corporate body). The same limitation 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. These limitations in the Articles of Association can only be changed by the shareholders' meeting with a 75% voting majority.

Pursuant to the shareholders' resolutions adopted at the Annual General Meeting ("**AGM**") held on 11 April 2018, the powers to issue shares and to grant rights to subscribe for shares and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors for the purpose of:

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

Such powers have been granted for a period expiring at the AGM to be held in 2019, and shall not extend to issuing shares or granting rights to subscribe for shares if: (i) there is no preferential subscription right (by virtue of Dutch law,

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<sup>1</sup> Except for the shares held by the Company itself and subject to certain other exceptions under Dutch law.

or because it has been excluded by means of a resolution of the competent corporate body) and (ii) it concerns an aggregate issue price in excess of € 500 million per share issuance.

At the AGM held on 11 April 2018, 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 11 April 2018, the Board of Directors and the Chief Executive Officer ("CEO") were authorised, with powers of substitution, to implement a cancellation of shares held or repurchased by the Company, including the authorisation to establish the exact number of the relevant shares thus repurchased to be cancelled.

## Securities granting access to the Company's capital

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

The table below shows the total potential dilution that would occur if all the convertible bonds issued as of 31 December 2018 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 2018	776,367,881	99.357%	775,730,957	99.357%
Total number of the Company's shares which may be issued following exercise of the convertible bonds	5,022,990	0.643%	5,022,990	0.643%
Total potential share capital of the Company	781,390,871	100%	780,753,947	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 2018

In the course of 2018, a total number of 1,811,819 new shares were issued, all in the framework of the 2018 Employee Share Ownership Plan ("ESOP").

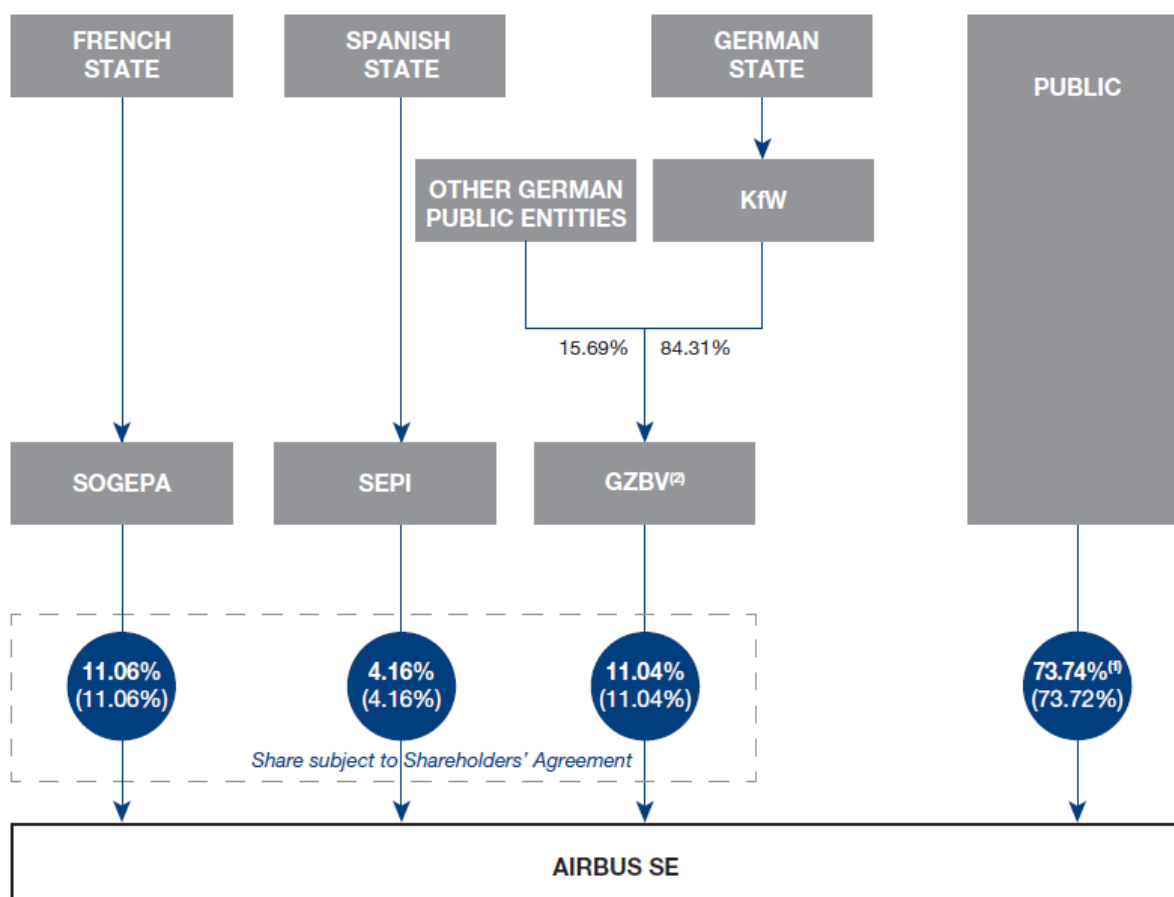
## Repurchases and cancellations of shares in 2018

During 2018 (i) the Company repurchased 507,399 shares and (ii) none of the treasury shares were cancelled. As of 31 December 2018, the Company held 636,924 treasury shares.

## Shareholding structure at the end of 2018

As of 31 December 2018, the French State held 11.06% of the outstanding Company shares through Société de Gestion de Participations Aéronautiques (“**Sogepa**”), the German State held 11.04% through Gesellschaft zur Beteiligungsverwaltung GZBV mbH & Co. KG (“**GZBV**”), and the Spanish State held 4.16% through Sociedad Estatal de Participaciones Industriales (“**SEPI**”). The public (including Airbus’ employees) and the Company held, respectively, 73.66% and 0.08% of the Company’s share capital.

The diagram below shows the ownership structure of the Company as of 31 December 2018 (% of capital and of voting rights (in parentheses) before exercise of the convertible bonds).



(1) Including shares held by the Company itself (0.08%).

(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 (actual or deemed) voting rights, capital interest or gross short position 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. Additional disclosure and/or publication obligations apply under European regulations for net short positions in respect of the Company.

In 2018, no entities have notified the AFM of a substantial interest in the Company. For further details, please refer to the website of the AFM at: [www.afm.nl](http://www.afm.nl)



## Right to attend shareholders' meetings

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

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

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

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

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

Pursuant to its Articles of Association, the Company may provide for electronic means of attendance, speaking and voting at the shareholders' meetings in such circumstances and subject to such conditions as determined by the Board of Directors.

## Notification Requirements and Mandatory Disposal Threshold Restricting Ownership to 15%

Under the Articles of Association, each shareholder must notify the Company when it (or another party in respect of its interest in the Company) must make a notification to the AFM of a substantial interest or short position with respect to the Company, when its interest (alone or with concert parties) reaches or crosses the Mandatory Disposal Threshold (as defined below) or, subject to certain conditions and exemptions, when changes occur in the composition, nature and/or size of any interest held it or its concert parties in excess of the Mandatory Disposal Threshold (as defined below). Failure to comply with these obligations may, subject to a prior notification by the Company, result in the suspension of voting and attendance rights until the shareholder has complied with its obligations.

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 after such notification by the Company. Upon receipt of such notification, the voting, attendance and dividend rights attached to the Excess Shares shall be suspended. 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, the voting, attendance and dividend rights attached to all shares held by such shareholder or concert shall be suspended, and their Excess Shares would be transferred to a Dutch law foundation (“*Stichting*”), which can, and eventually must, dispose of them. The suspension of shareholder rights described above shall be lifted once a shareholder or concert complies with its obligations under the Articles of Association.

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

- ▶ The Board Members of the foundation must be independent from the Company, any grandfathered persons and their affiliates (see “- 3.1: Exemptions from Mandatory Disposal Threshold”) and any holder of depositary receipts and their affiliates (there is an agreement under which the Company will, *inter alia*, cover the foundation’s expenses and indemnify the Board Members against liability);
- ▶ The Board Members are appointed (except for the initial Board Members who were appointed at incorporation) and dismissed by the Management Board of the foundation (the Company may however appoint one Board Member in a situation where there are no foundation Board Members);
- ▶ The foundation has no discretion as to the exercise of voting rights attached to any of the Company’s shares held by it and will in a mechanical manner vote to reflect the outcome of the votes cast (or not cast) by the other shareholders, and the foundation will distribute any dividends or other distributions it receives from the Company to the holders of depositary receipts; and
- ▶ No transfer of a depositary receipt can be made without the prior written approval of the foundation’s Board.

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

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

## Exemptions from Mandatory Disposal Threshold

The restrictions pursuant to the Mandatory Disposal Threshold under the Articles of Association do not apply to a person who has made a public offer with at least an 80% acceptance (including any Company shares already held by such person). These restrictions also have certain grandfathering exemptions for the benefit of shareholders and concerts holding interests exceeding the Mandatory Disposal Threshold on 2 April 2013 (the “**Exemption Date**”), which is the date of first implementation of the Mandatory Disposal Threshold.

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 summarised 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

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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

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Corporate governance arrangements of the Company were substantially changed in 2013, resulting in changes in the composition of the Board of Directors and its internal rules, as well as amendments to the Articles of Association of the Company. These changes were intended to further normalise and simplify the Company's corporate governance, reflecting an emphasis on best corporate governance practices and the absence of a controlling shareholder group. Changes to the Company's corporate governance arrangements in the Articles of Association, included: (i) disclosure obligations for shareholders that apply when their interests in the Company reach or cross certain thresholds and (ii) ownership restrictions prohibiting any shareholder from holding an interest of more than 15% of the share capital or voting rights of the Company, acting alone or in concert with others (see “- 3.1: Exemptions from Mandatory Disposal Threshold”).

### 3.2.2 SHAREHOLDER ARRANGEMENTS

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## 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 ongoing violations of the Concert arrangements, including, without limitation, of the Shareholders’ Agreement, by the other principal Member of the Concert.

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

## Notification to the Company

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

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

## Various provisions

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

**Governing law.** Laws of the Netherlands.

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

courts is permitted to resolve any such dispute controversy or claim.

## Governance of the Company

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

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

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

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

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

## Balance of interests

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

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

## Mandatory Takeover Threshold

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

## Transfer of Securities

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

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

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

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

## Various provisions

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

**Governing law.** Laws of the Netherlands.

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

### 3.2.3 UNDERTAKINGS WITH RESPECT TO CERTAIN INTERESTS OF CERTAIN STAKEHOLDERS

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

## State Security Agreements and Related Undertakings

The Company and the French State have entered into an amendment to the existing convention between the French State and the Company relating to the ballistic missiles business of the Company (as so amended, the “**French State Security Agreement**”). Under the French State Security Agreement, certain sensitive French military assets will be held by a Company subsidiary (the “**French Defence Holding Company**”). At the Consummation, the Company contributed certain sensitive French military assets to the French Defence Holding Company. The French State has the right to approve or disapprove of – but not to propose or appoint – three outside Directors to the Board of Directors of the French Defence Holding Company (the “**French Defence Outside Directors**”), at least two of whom must qualify as Independent Directors under the Board Rules if they were Members of the Board. Two of the French Defence Outside Directors are required to also be Members of the Board. French Defence Outside Directors may neither (i) be employees, managers or corporate officers of a company belonging to the Company (although they may be Members of the Board) nor (ii) have material ongoing 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 are 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 a result of the implementation of Dassault Aviation's capital increase, which took place on 27 June 2018, at the occasion of which 36.782 shares were issued to remunerate the shareholders who opted for a dividend payment through attribution of shares, the Company holds approximately 9.89% of Dassault Aviation's share capital and 6.15% of its voting rights. In case of exchange in full of the bonds issued by the Company which are due in 2021, the Company will no longer hold any Dassault Aviation shares or voting rights."

## Stock Exchange Listings

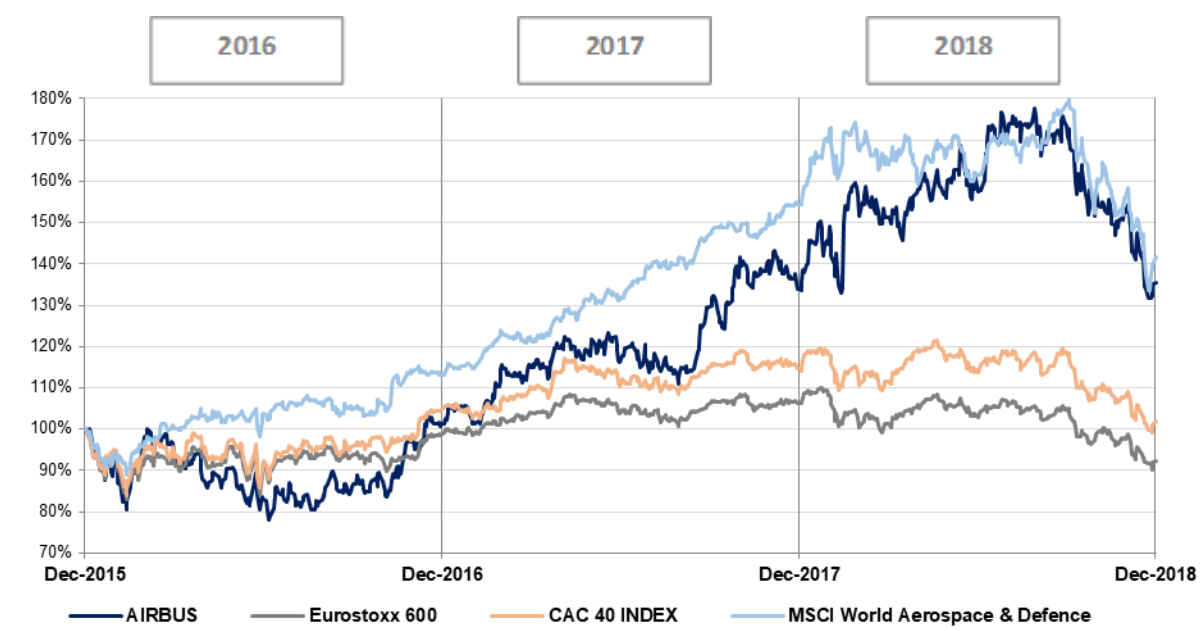
The Company has undertaken to the parties to the Shareholders' Agreement that for the duration of the Shareholders' Agreement the Company's shares will remain listed exclusively in France, Germany and Spain.

## Specific Rights of the French State

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

### 3.3 Share price performance 2018

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In 2018, Airbus' share price closed up 1% at € 83.96. Airbus outperformed wider markets and most Defence peers, which declined 13% and 7%, respectively, in the same period.

After opening at €82.75 in January, Airbus' shares climbed by 26% to €104.56 during the first half of the year. In early 2018, the share price increase was mainly driven by the Company's strong 2017 delivery performance and solid FY 2017 results. Shares went lower thereafter following engine delivery delays. Shares then rebounded following Q1 2018 results, mainly driven by FY 2018 guidance confirmation despite GTF engine delivery delays. Commercial performance during the Farnborough International Airshow came in ahead of expectations and helped push shares up to €105.98 in July.

Airbus' shares reached an all-time high of €111.16 in late July after H1 results confirmed guidance and beat expectations. Airbus' share price remained broadly stable throughout the summer. In September, shares began to decline in line with wider markets as investor sentiment was impacted by global macroeconomic events.

Macroeconomic uncertainty and concerns about shrinking global growth continued to weigh on shares throughout November and December. Airbus' shares were additionally impacted in December by news flow around ongoing compliance investigations.

With an annual increase of 1%, Airbus shares outperformed the Eurostoxx 600 (-13%) and the CAC40 (-11%).



## 3.4 Dividend policy

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

Based on earnings per share (EPS) of €3.94 and a net income of €3,054 million, the Board of Directors will propose to the Annual General Meeting the payment to shareholders on 17 April 2019 of a dividend of € 1.65 per share (FY 2017: €1.50). This value is at the upper end of the dividend policy reflecting our strong 2018 achievements, including the positive evolution of the 2018 underlying performance and our 2018 cash generation. It highlights our confidence in our future financial performance as well as ongoing commitment towards sustained dividend growth and increasing shareholder returns.

The record date should be 16 April 2019. This proposed dividend represents year-on-year dividend per share increase of 10%.

## 4. Corporate Governance

### 4.1 Management and Control

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#### 4.1.1 COMPOSITION, POWERS AND RULES

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

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

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

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

In addition to the membership and composition rules described above, the RNGC, in recommending candidates for the Board of Directors, and the Board of Directors in its resolutions proposed to the shareholders’ meeting regarding the renewal or appointment of Directors, are both required to apply the following principles:

- ▶ The preference for the best candidate for the position, and
- ▶ The preference for gender diversity between equal profiles, and
- ▶ The maintenance of appropriate skills mix and geographical experience, and
- ▶ The maintenance, in respect of the number of Members of the Board of Directors, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of France, Germany, Spain and the United Kingdom, where these main industrial centres are located), and

- ▶ At least a majority of the Members of the Board of Directors (i.e., 7/12) shall be EU nationals (including the Chairman), and a majority of such majority (i.e., 4/7) shall be both EU nationals and residents.

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

In 2018, three new Members joined the Board of Directors, Mr. Clamadieu, Mr. Chu and Mr. Obermann. Respectively, with an industrial background, expertise in the Asian market and information technology and entrepreneurial background, they have the competencies and personal skills to fulfil these positions in line with the Board's expectations and the evolution of the Company's business.

At the end of 2018 more than half of the Members of the Board of Directors were aged 60 or under. The proportion of female representatives is today at 25% against 0% six years ago. The Board composition shows a balanced mix of experience with, for example, five Members having aerospace industry skills, eight having geopolitical or economics skills, five having information or data management skills and five having manufacturing and production skills. More details about the diversity of the Members of the Board of Directors are available in the table shown on page 20 (*Airbus SE Board of Directors until AGM 2019*).

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

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

## Voting and rules

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

## Powers of the Members of the Board of Directors

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

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

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

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

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

## Airbus SE Board of Directors until AGM 2019

Board member Age*, Gender, Nationality	Status	Since	Term expires	Primary occupation & Other mandates	Director expertise	Board attendance	Committee attendance		
							Audit	RNGC	ECC
 <b>Denis RANQUE</b> 67, M, French	Independent	2013, last re-election in 2017	2020	Chairman of the Board of Directors of Airbus SE		 10/10			 11/11
 <b>Thomas ENDERS</b> 60, M, German	Executive	2012, last re-election in 2016	2019	Chief Executive Officer of Airbus SE		9/10			
 <b>Victor CHU</b> 61, M, Chinese / British	Independent	2018	2021	Chairman and CEO of First Eastern Investment Group		6/9 (from AGM 2018)	2/3 (from AGM 2018)		
 <b>Jean-Pierre CLAMADIEU</b> 60, M, French	Independent	2018	2021	CEO and member of the Board of Solvay SA (until 1 March 2019) and Chairman of the Board of Engie and member of the Board of AXA SA		8/9 (from AGM 2018)		6/7 (from AGM 2018)	
 <b>Ralph D. CROSBY, Jr.</b> 71, M, American	Independent	2013, last re-election in 2017	2020	Member of the Board of Directors of American Electric Power Corp.		9/10	4/5		
 <b>Lord DRAYSON Paul</b> 59, M, British	Independent	2017	2020	Co-Founder and Chairman of Drayson Technologies Ltd and Co-Founder and CEO of Sensyne Health PLC		8/10		8/9	7/8 (from AGM 2018)
 <b>Catherine GUILLOUARD**</b> 54, F, French	Independent	2016, re-election in 2019	2022	Chairwoman and Chief Executive Officer of RATP and member of the Board of Engie		10/10	5/5		11/11
 <b>Hermann-Josef LAMBERTI</b> 63, M, German	Independent	2007, last re-election in 2017	2020	Member of the Supervisory Board of ING Group N.V.		8/10	 4/5		10/11
 <b>Amparo MORALEDA</b> 54, F, Spanish	Independent	2015, last re-election in 2018	2021	Member of the Board of Directors of Solvay SA, CaixaBank SA and Vodafone PLC		9/10		 9/9	10/11
 <b>Claudia NEMAT**</b> 50, F, German	Independent	2016, re-election in 2019	2022	Member of the Board of Management of Deutsche Telekom AG		10/10	2/2 (until AGM 2018)	5/7 (from AGM 2016)	
 <b>René OBERMANN</b> 56, M, German	Independent	2018	2021	Managing Director of Warburg Pincus Deutschland GmbH and member of the Board of Telenor ASA and Allianz Deutschland AG		8/9 (from AGM 2018)	3/3 (from AGM 2018)		
 <b>Carlos TAVARES**</b> 60, M, Portuguese	Independent	2016, re-election in 2019	2022	Chairman of the Managing Board of Peugeot SA and member of the Board of Directors of Total SA		6/10			
Board and committee meetings in 2018						10	5	9	11
Average attendance rate in 2018						87%	88%	89%	93%

\* As per AGM 2019 Data.  Independent  Executive  Chair

\*\* To be re-elected in 2019.

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



 Global Business	 Engineering & Technology	 Manufacturing & Production	 Aerospace Industry	 Finance & Audit	 Geopolitical Economics	 Defence Industry	 Information & Data Management	 Asia
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## Replacements of Board Members in the course of 2018

Until AGM 2018			From AGM 2018*		
Name	Age	Status	Name	Age	Status
<b>Mr. Hans-Peter KEITEL</b>	70	Independent	<b>Mr. René OBERMANN</b>	55	Independent
<b>Sir John PARKER</b>	75	Independent	<b>Mr. Victor CHU</b>	60	Independent
<b>Mr. Jean-Claude TRICHET</b>	75	Independent	<b>Mr. Jean-Pierre CLAMADIEU</b>	59	Independent

\* Further information on the Board members can be found in the above table "Airbus SE Board of Directors until AGM 2019".

## Changes in the composition of the Board Committees in the course of 2018

Committee	Until AGM 2018*		From AGM 2018	
	Name	Status	Name	Status
Audit	<b>Ms. Claudia NEMAT**</b>	Member	<b>Mr. Victor CHU</b>	Member
			<b>Mr. René OBERMANN</b>	Member
ECC	<b>Sir John PARKER</b>	Member	<b>Lord Paul DRAYSON</b>	Member
	<b>Sir John PARKER</b>		<b>Ms. Amparo MORALEDA</b>	
RNGC	<b>Mr. Hans-Peter KEITEL</b>	Member	<b>Mr. Jean-Pierre CLAMADIEU</b>	Member
	<b>Mr. Jean-Claude TRICHET</b>	Member	<b>Ms. Claudia NEMAT</b>	Member

\* Further information on the Committee members can be found in the above tables "Airbus SE Board of Directors until AGM 2019" and "Replacements of Board Members in the course of 2018"

\*\* Ms. Nemat resigned from the Audit Committee in 2018 and was replaced by Mr. Victor Chu and Mr. René Obermann. The Audit Committee currently consists of 5 members instead of 4.

  Chair

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

## 4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2018

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### Board of Directors meetings

The Board of Directors met ten times during 2018 and was regularly informed of developments through business reports from the CEO, including progress on the strategic and operational activities. The average attendance rate at these meetings was 87%.

Throughout 2018, the Board of Directors reviewed and discussed the technical and commercial progress of significant new and running programmes. For Airbus Commercial this comprised inter alia the ramp-up of the A320neo programme and the respective measures taken to mitigate the engine issues hampering the production at Airbus and the operations with the customers, the development of the A330neo and the ramp-up of the A350. For Defence and Space it concerned for the A400M programme the progress on the military capabilities and the retrofit and delivery plan in line with the agreement reached with OCCAR and the states; on the space side the Ariane 6 programme was the subject of a thorough review with regards to progress and the competitive landscape. Turning to the Helicopter business, the review focused on the overall market situation and the preparation of the H160 programme for serial production. Regarding mergers and acquisitions, the most important topic was the closure of the acquisition of a majority stake in the Bombardier C-Series programme which represents an important addition to complement the Airbus product range at the smaller end of the aircraft market.

Last year's off-site Board meeting in September in Beijing focused on the review of the Division and product strategies and the related business developments as well as the overall strategy of Airbus. The Board of Directors seized the opportunity to visit the A320 final assembly line and the A330 completion and delivery centre in Tianjin.

In 2018, the Board of Directors continued to support the Company's digital transformation and to enhance Airbus ability to identify and capitalise on innovative technologies and business models. After thorough preparation, 2018 saw the industrialisation and acceleration of the digital concepts. One of the most advanced is the Skywise project (for further details see "6.2: Other Corporate Activities"), a global data platform which can create significant value across the whole aerospace industry. Other projects transforming the engineering and manufacturing landscape are in progress.

Moreover the Board of Directors reviewed Airbus' financial results and forecasts and, in line with the recommendations of the Audit Committee (as defined in 4.1.3 Board Committees), emphasised the importance of both Enterprise Risk Management ("ERM") and a strengthened internal control system.

A substantial share of the Board activities was dedicated to compliance matters. Following a recommendation by the Ethics & Compliance Committee (as defined in 4.1.3 Board Committees), the Board strengthened the Ethics & Compliance organisation by allowing a reinforcement of its resources, so helping to improve Airbus' culture of integrity. The Board also continued to closely monitor the Serious Fraud Office / Parquet National Financier investigations. In addition, the Board received advice from the "Independent Compliance Review Panel", which is composed of renowned international experts, with respect to its compliance activities in order to build a state of the art Ethics & Compliance programme and organisation.

Following the departure of some members of the Executive Committee in early 2018 and the announcement that the current CEO and Chief Financial Officer ("CFO") would leave the Company at the next AGM, the Board dedicated a large part of its work in 2018 to the search and nomination of a new generation of leaders to prepare Airbus for the challenges of the next decade. The RNGC has run, for each of the positions to be filled, a thorough process in which internal and external candidates have been identified and assessed. The shortlisted candidates were then proposed to the Board and interviewed by Board Members. Already in the course of 2018, the vacancy for a Chief Technical Officer ("CTO") was filled by Grazia Vittadini, who became the first female member of the Executive Committee. By the end of



2018, successors for key positions had been selected and announced – in particular for the CEO, the CFO and the Chief Operating Officer (“COO”).

## Board evaluation 2018

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 2018 was the intervening second year of the abovementioned three-year cycle. In October 2018, the Board of Directors therefore performed a self-evaluation based on a questionnaire issued by the General Counsel and circulated to each Board Member.

The questionnaire primarily covered governance and Board agenda, Board and Board Committees functioning, interactions are dynamic amongst Board members and between Board and Management, Board composition and renewal process, Board and Board Committees fees, Board Committees contributions and involvement of Remuneration, Nomination and Governance Committee in succession planning. With respect to the Remuneration policy, the Board Members were provided the opportunity to express their views on their own remuneration.

In the 2018 self-evaluation, the Board Members confirmed overall satisfaction with the progress made in the implementation of the Board's “Improvement Action Plan” recommended by Heidrick & Struggles as its third-party expert, following the formal evaluation conducted in 2017.

The Board Members also confirmed overall satisfaction with the dynamics of the Company's governance and its performance. The outcome of the questionnaire notably highlighted the improved balance of powers and constructive interactions amongst Board Members and between the Board and Management, as well as open debates between the Board Members. The efficient decision-making process of the Board is supported by the adequate preparation of Board meetings, suitable time allocated to agenda items and valuable contributions of the Board Committees.

Following the last Board review, one-to-one sessions between Board Members took place to improve connections between them. Top Management team members have been regularly invited to participate to Board meetings to discuss specific topics; and Board Members expect the frequency of this participation to be improved in 2019.

In addition, the Board has dedicated more time to risk and performance management, succession planning and talent development, as well as to other important matters for which discussions need to be still further enhanced, such as strategy, digital transformation, Responsibility & Sustainability, employee engagement and anticipation of significant potential issues.

Finally, the Board Members expressed their overall satisfaction with regards to the Board composition and renewal process. They highlighted the necessity to continue with the principle of staggering Board appointments in order to further develop its diversity of expertise and gender.

### 4.1.3 BOARD COMMITTEES

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#### The Audit Committee

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

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

In 2018, this Committee met five times with an average attendance rate of 88%. It discussed all of the items described above during the meetings and it fully performed all of the duties described.

#### The Ethics and Compliance Committee

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

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

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

The E&C Committee is required to meet at least four times a year. In 2018, the E&C Committee met in total 11 times with an average attendance rate of 93%. All of the above described items were discussed during the meetings and the E&C Committee fully performed all the above described duties.

## The Remuneration, Nomination and Governance Committee

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

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

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

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

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

The RNGC is required to meet at least four times a year. In 2018, it met nine times with an attendance rate of 89%; it discussed all of the above described items during the meetings and it fully performed all of the above described duties.

### 4.1.4 EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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

- ▶ the preference for the best candidate for the position;
- ▶ the maintenance, in respect of the number of Members of the Executive Committee, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of Airbus (in particular among the nationals of France, Germany, Spain and the United Kingdom, where these main industrial centres are located); and
- ▶ at least two-thirds of the Members of the Executive Committee, including the CEO and the CFO, being EU nationals and residents.

## Role of CEO and Executive Committee

The CEO is responsible for executing the strategy, as approved by the Board of Directors, and for managing the day-to-day operations of Airbus’ business and he shall be accountable for its proper execution. For this purpose, the CEO regularly seeks advice from his core executive management team (EMT), which comprises some of the Executive Committee Members, on Airbus-wide topics such as corporate matters or major ongoing projects as well as on business development and performance improvement opportunities.

The Executive Committee further supports the CEO in performing these tasks, ensuring proper alignment of the Company's management beyond the EMT. The Executive Committee Members shall jointly contribute to the overall interests of the Company, in addition to each Member's individual operational or functional responsibility within Airbus. The CEO endeavours to reach consensus among the Members of the Executive Committee. In the event a consensus is not reached, the CEO is entitled to decide the matter.

The Executive Committee comprises the heads of the Divisions and key functions of the Company. It is dedicated to exchanging and agreeing on important matters such as:

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

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

## 4.2 Conflict of interest

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### Conflict of interest

The Company has a conflict of interest policy, which sets out that any potential or actual conflict of interest between the Company and any Member of the Board of Directors shall be disclosed and, where possible, avoided (please refer to the "Board Rules (Annex D – Article 8: Conflicts of interest)"). This policy is available on the Company's website: [www.airbus.com](http://www.airbus.com) (Company / Corporate Governance / Governance Framework and Documents), as is the related best practice provision 2.7 of the Dutch Code (as such term is defined in section 4.3 "Dutch Corporate Governance Code" below), which the Company complied with during 2018. Pursuant to the Articles of Association and the Board Rules, a conflicted Member of the Board of Directors should abstain from participating in the deliberation and decision-making process relating to the matters concerned. The Board of Directors must approve any decision to enter a transaction where a Director has conflicts of interest that are material to the Company or the individual Director.

In 2018, no transactions were reported. There were, however, related-party transactions: for an overview, please refer to "Notes to the IFRS Consolidated Financial Statements – Note 8: Related Party Transactions".

## 4.3 Dutch Corporate Governance Code

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

On 8 December 2016, the Dutch Code was revised; its updated recommendations apply to financial years starting on or after 1 January 2017. Airbus welcomed the updates to the Dutch Code and continues supporting the emphasis of the revised Dutch Code on topics such as long-term value creation and the importance of culture.

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

For the financial year 2018, and in respect of compliance with the Dutch Code, the Company states the following:

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

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

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

### **2. Termination indemnity**

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

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 (Base salary and target VR) 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 for the current CEO dates from the period he was not yet a member of the Board of Directors and it was decided to maintain this indemnity when the current CEO was appointed as a member of the Board of Directors in order to honour the contractual arrangements between Airbus and the current CEO as they applied at that time.

As from the 2019 AGM and subject to approval of the proposed amendments to the remuneration policy described in Section 4.4.3 below, the termination indemnity will be equal to one year salary in line with the recommendation of the Dutch Code above mentioned.

The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors had been fulfilled by the CEO.

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

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

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

### **4. Dealings with analysts**

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

these meetings and presentations in real time, and that after the meetings the presentations shall be posted on the Company's website.

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

## 5. Gender diversity

The Company strives to comply with the composition guidelines regarding gender diversity under Dutch law pursuant to which the Board of Directors would be regarded as being composed in a balanced way if it contained at least 30% women and at least 30% men. The proportion of the female representation on the Board of Directors is currently at 25% (against 0% six years ago). The Company will continue to promote gender diversity within its Board of Directors in accordance with the principles mentioned in section 4.1.1 above. In addition, the Company will continue to give due consideration to any applicable gender targets in its search to find suitable candidates and to actively seek female candidates. However, the Company believes that candidates should not be recruited based on gender alone; the capabilities and skills of potential candidates are most important in this respect.

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

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

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

For information on the composition and operation of the Board of Directors and its respective committees, see " - 4.1.1: Composition, power and rules", " - 4.1.2: Operation of the Board of Directors in 2017", and " - 4.1.3: Board Committees".

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, see " - 3.1: Shareholding and voting rights – Shareholding structure at the end of 2018", " – 3.2: Relationships with Principal Shareholders", " - 4.1.1: Composition, powers and rules", " -3.1: Shareholding and voting rights – Amendments to the Articles of Association" and " - 3.1: Shareholding and voting rights – Modifications of share capital or rights attached to shares".

## 4.4 Remuneration Report

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### 4.4.1 INTRODUCTION

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The **RNGC** is pleased to present the 2018 Remuneration Report.

The report comprises the following sections:

4.4.2 presents the Company's Remuneration Policy;

4.4.3 presents the amendments to the Remuneration Policy that will be proposed for adoption by the shareholders at the AGM to be held in 2019. The application of the Remuneration Policy in 2018 (see “- 4.4.4: Implementation of the Remuneration Policy: CEO” and “- 4.4.5: Implementation of the Remuneration Policy in 2018: Non-Executives”) will be included as a separate agenda item for discussion at the AGM to be held in 2019.

4.4.4 illustrates how the Remuneration Policy was applied in 2018 in respect of the CEO, the only Executive Member of the Board of Directors (the cumulated remuneration of all Executive Committee Members is presented in the “Notes to the IFRS Consolidated Financial Statements – Note 31: Remuneration”);

4.4.5 illustrates how the Remuneration Policy was applied in respect of the Non-Executive Members of the Board of Directors;

4.4.6 miscellaneous.

For departure terms and conditions of the current CEO see section 4.4.4.

In respect of the remuneration of the future CEO, subject to his appointment as Executive Board Member, see Section 4.4.2. A, Section 4.4.3. and Section 4.4.4 for Base Salary allocation.

### 4.4.2 REMUNERATION POLICY

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

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

#### A — Executive Remuneration – Applicable to the CEO

Except with respect to the amendments proposed in Section 4.4.3. “Proposed amendments to the remuneration policy”, related to contracts and severance provisions, there will be no change in the remuneration policy in connection with the proposed appointment of a future CEO at the 2019 AGM; the policy as presented below will continue to apply.

##### a) Remuneration Philosophy

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

The Board of Directors and the RNGC are committed to making sure that the Executive remuneration structure is transparent and comprehensive for all stakeholders, and to ensure that executive rewards are consistent and aligned with the interests of long-term shareholders also taking into consideration salary evolution of employees across the group.

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

#### **b) Total Direct Compensation and Peer group**

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

The level of Total Direct Compensation for the CEO (Base Salary, VR and LTIP) is set at the median of an extensive peer group and takes into account the scope of the role of the CEO and the level and structure of executive rewards within Airbus. The benchmark is regularly reviewed by the RNGC 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 latest benchmark performed in November 2018 was based on the relevant peer group composed of 76 companies selected from CAC40 in France, DAX 30 in Germany, FTSE 100 in the UK and DJ 30 in the US as well as large European companies having comparable economic indicators such as revenues, number of employees and market capitalisation. Financial institutions were excluded from the peer group.



The elements of the Total Direct Compensation are described below:

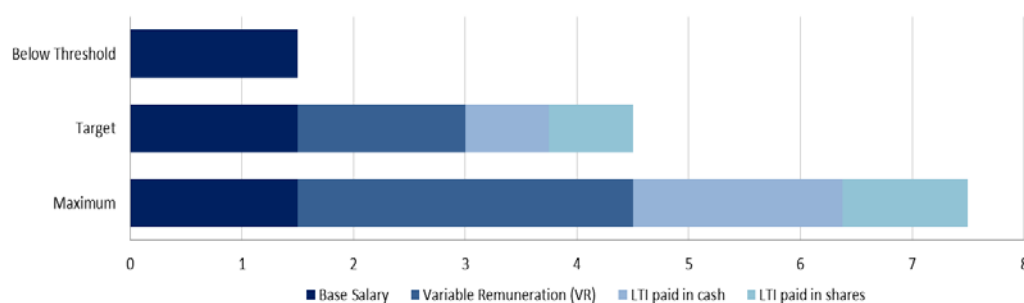
Remuneration Element	Main Drivers	Performance Measures	Target and Maximum
<b>Base Salary</b>	Reflects market value of position.	Not applicable	1/3 of Total Direct Compensation (when performance achievement is 100% of target).
<b>VR</b>	Rewards annual performance based on achievement of Company performance measures and individual objectives.	<p>Collective (50% of VR): divided between EBIT<sup>2</sup> (45%); Free Cash Flow<sup>3</sup> (45%) and RoCE (10%).</p> <p>Individual (50% of VR): Achievement of annual individual objectives, divided between Outcomes and Behaviour.</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. The VR is capped at 200% of Base Salary.
<b>LTIP</b>	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:</p> <ul style="list-style-type: none"> <li>- overall pay-out is capped at a maximum of 250% of the original value at the date of grant.</li> <li>- The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.</li> </ul>

As illustrated in the table below, the structure of the CEO's Total Direct Compensation will remain unchanged in 2019. This will apply in the same way to a future CEO. Indeed, the on-target levels of VR and LTIP will each amount to 100% of the CEO's Base Salary.

<sup>2</sup> The Company continues to use the term EBIT (Earnings before interest and taxes). It is identical to Profit before finance cost and income taxes as defined by IFRS Rules.

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



Indications are based on the current CEO's remuneration and 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 CEO's Base Salary is determined by the Board of Directors, taking into account the peer group analysis mentioned above.

### d) Annual Variable Remuneration

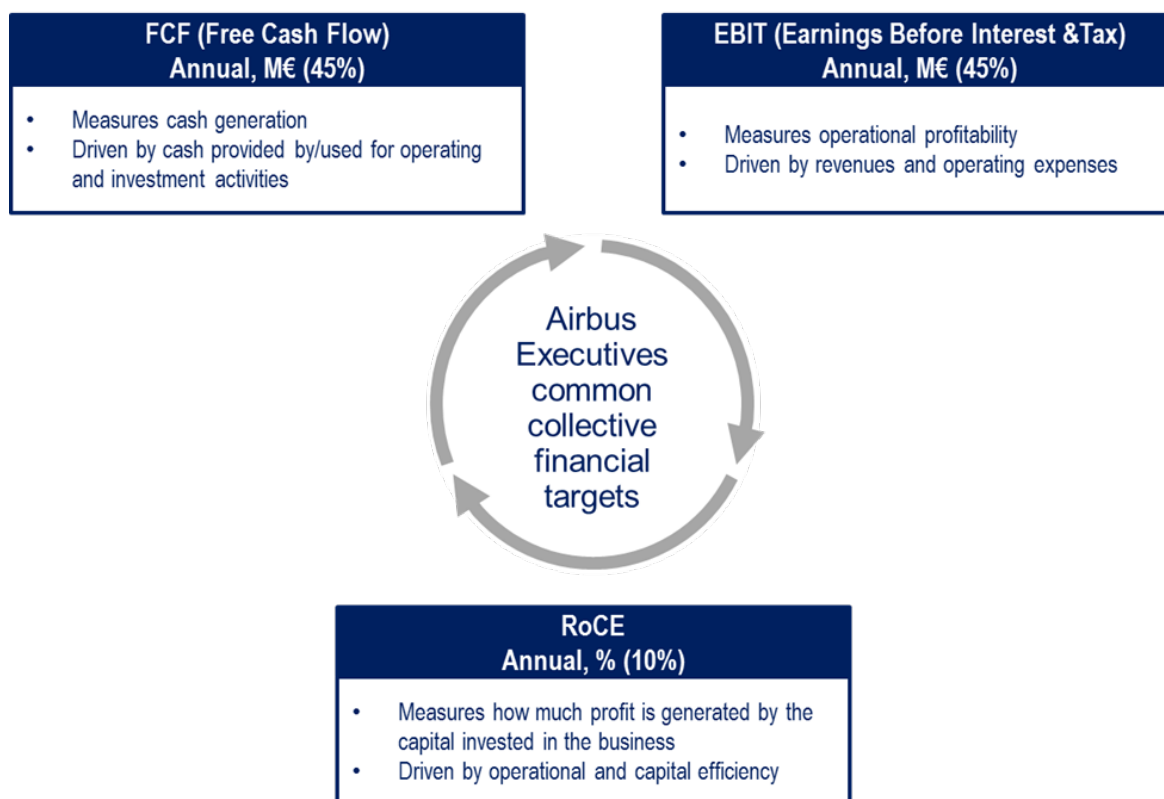
The Variable Remuneration is a cash payment that is paid following the end of each financial year, depending on the achievement of specific and challenging performance targets as determined at the beginning of each financial year. The level of the CEO's Variable Remuneration is targeted at 100% of the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

The performance measures that are considered when awarding the variable remuneration to the CEO are split 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 return on capital employed (RoCE) (10%) objectives ("Common Collective Component"). At the beginning of each year, the Board of Directors sets the targets for these key value drivers at Company and Division levels. The common collective targets relate closely to internal planning and to guidance given to the capital markets (although there may be variations from these).

To calculate the common collective annual achievement levels, actual EBIT, Free Cash Flow and RoCE performance is compared against the targets that were set for the year. This comparison forms the basis for computing achievement levels, noting that the actual EBIT, Free Cash Flow and RoCE levels are occasionally normalised 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.



In order to reinforce the alignment between the Company's strategy, values and remuneration structure, the Company is contemplating including in the Common Collective Component a specific R&S-related performance criterion in the future. The RNGC will seek to ensure alignment of the chosen R&S criteria with the 2018 Company's Priorities that are shared with all employees (See "- Section "2 Summary 2018"), while also making sure that the criteria can be measured.

### Individual Component

The individual element ("Individual Component") focuses on Outcomes and Behaviour (a defined below). 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 2018 Company Priorities;
- ▶ **Behaviour** refers to the way results have been achieved, which is also critical for long-term success: how the CEO and the Board of Directors work as a team, how the CEO leads the Executive Committee, quality of communication, encouragement of innovation, etc. A specific part of the behaviour assessment relates to ethics, compliance, R&S and quality issues.

#### e) Long-Term Incentive Plan

There are two types of long-term incentive plans ("Long-Term Incentive Plan" or "LTIP"): until 2015, LTIP was made up of performance units ("Performance Units" or "Units") only. Since 2016, following the approval of amendments by shareholders at the 2016 AGM, the LTIP has been composed of a mix of Performance Units and performance shares ("Performance Shares" or "Shares").

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

The achievement of the performance criteria is assessed over a three-year period based on relevant financial criteria with stringent targets set in advance and agreed by the Board of Directors as demonstrated by past Company practices.

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

- ▶ 0-50% of the allocation: In principle, this element of the Performance Unit/Share award will not vest if the Company reports negative cumulated **EBIT** results. Nonetheless, in case the Company's EBIT results are impacted by exceptional and unpredictable circumstances, the Board of Directors, upon recommendation of the RNGC, may decide that a maximum portion of 50% of the allocation will vest;
- ▶ 50-150% of the allocation: This element of the Performance Unit/Shares vests based on the two following performance criteria: average **earnings per share** (75%) ("Earnings per Share" or "EPS") 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"> <li>Measures profitability</li> <li>Driven by net income and number of shares</li> </ul>	<ul style="list-style-type: none"> <li>Measures cash generation</li> <li>Driven by cash provided by/used for operating and investment activities</li> </ul>

For reasons of confidentiality, the precise targets set for the average EPS and cumulative Free Cash Flow, even though they have been properly established in a 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 were granted to the CEO until 2015. LTIP awards were granted each year. Each grant was subject to a three-year cumulative performance objective. At the end of the three-year period, the grant was subjected to a performance calculation to determine whether and to what extent it should vest. Depending on continued employment, grants attributed until 2013 vested in four tranches, the payment of which took place approximately 6, 12, 18 and 24 months following the end of the performance period. Depending on continuous employment, grants attributed in 2014 and 2015 would vest in two tranches, the payment of which would take place approximately 6 and 18 months following the end of the performance period.

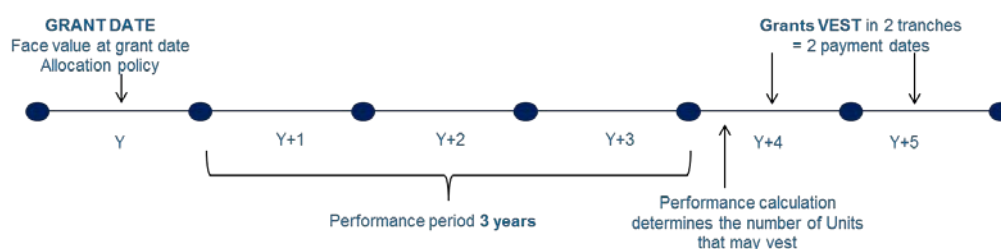
At the date of grant, the CEO had to decide what portion of the allocation (subject to the performance calculation) was to be released as cash payments and what portion was to be converted into shares. At least 25% (and up to 75%) of

the award had to be deferred into shares, and would be released on the last vesting date. For the conversion into shares, one Unit corresponds to one Airbus share.

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

## LTIP-SCHEME 2014 AND 2015

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### Performance Units & Performance Shares characteristics (since 2016)

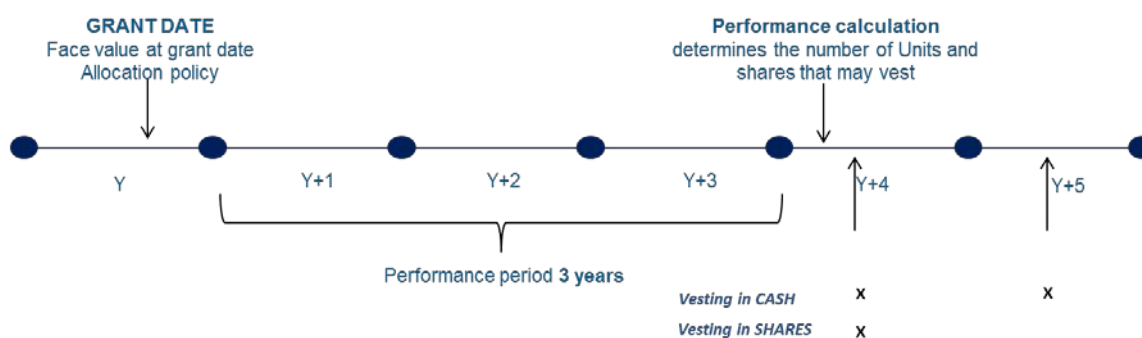
Since the 2016 plan, the CEO's LTIP is comprised of a mix of Performance Units and Performance Shares in order to increase the alignment with shareholders' interests.

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

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

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

Depending on continued employment, Performance Units attributed since 2016 will vest in two tranches, the payment of which takes place approximately 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 the Base Salary and to hold them throughout his tenure.

**g) Benefits**

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

**h) Retirement**

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

**i) 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.

**j) Loans**

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

**k) Contracts and Severance**

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

The CEO's contract currently 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 under the non-compete clause 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 and paid in monthly instalments.

Past LTIP awards may be maintained, in such cases as in the case of retirement or if a mandate is not renewed by the Company without cause. The vesting of past LTIP awards follows the plans' rules and regulations including performance conditions 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.

#### **Proposal of Policy from 2019 AGM onwards applicable to a future CEO**

In order to comply with the recommendation of provision 3.2.3 of the Dutch Code relating to the maximum remuneration payable in the event of departure of an Executive Board Member and in line with market practices, the Board confirmed on 13 February 2019 a proposal from the RNGC that the amount of the indemnity to be paid to the CEO in case of contract termination should be reduced to one year's salary. Consequently, the CEO will be entitled to an indemnity equal to one times the last Total Annual Remuneration (defined as Base Salary and VR most recently paid), subject to applicable local legal requirements if any. The other terms and conditions applicable to the payment of such indemnity, as per the remuneration policy currently in force, will remain unchanged. In particular such indemnity will not apply if the CEO's mandate is terminated for a specific cause, in case of dismissal, if he resigns or if the CEO has reached retirement age.

In addition, the Board confirmed on 13 February 2019 the recommendation of the RNGC to limit the non-compete compensation payable to the CEO in case of contract termination to a maximum of one year. The other terms and conditions applicable to the non-compete compensation, as per the remuneration policy currently in force, will remain unchanged. In particular, the compensation will remain equal to 50% of the last Total Annual Remuneration (defined as Base Salary and VR most recently paid), subject to applicable local legal requirements if any.

All other components of the remuneration policy will remain unchanged.

## **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; and
- ▶ 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 have been reviewed to recognise the increase in Board Members' responsibilities, their greater time commitment and Airbus' continuous need to attract and retain highly competent Directors. 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 or a Board meeting held 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).



## Proposal of Policy from 1 January 2019 onwards applicable to Non-Executive Directors

In order to ensure continuous commitment of the Members of the Board and Airbus' ability to retain highly competent members, regular reviews of the Board remuneration policy are undertaken by the Company. Following the benchmark performed in 2015, a comprehensive review of the remuneration policy applicable to the Non-Executive Members of the Board was undertaken in 2018.

In September 2018, the independent consultant Willis Towers Watson completed a compensation benchmark for the Non-Executive Directors (incl. the Chairman of the Board) against an extensive peer group.

This analysis encompassed approximately 50 comparable companies in various indices from five countries (France, Germany, Netherlands, Spain and the UK) and other large companies from the aerospace and defence sector (including BAE Systems, Boeing, Dassault Aviation, Honeywell International Inc., Lockheed Martin Corp., Northrop Grumman Corp., Raytheon, Rolls Royce, Safran, Textron, Thales, United Technologies Corp). Financial institutions were excluded from the peer group.

From the analysis, it appeared that the total target remuneration for the non-Executive Board members (i) for membership of the Board of Directors (fixed and attendance fees) and (ii) for membership of a Committee (fixed fee) are positioned within the market spectrum of the Company's peer group.

The remuneration policy for membership of a Committee has been applicable since 2008 and only provides for a fixed fee calculated on the basis of four regular meetings per Committee per year.

However, since 2016, due to exceptional circumstances, the Committees' workload has significantly increased. The current remuneration policy does not take into account directors' attendance to a greater number of Committee meetings when the workload substantially intensifies. Further, the current remuneration policy does not take into account such temporary increased intensity in the workload.

Therefore, in order to allow for a temporary increase in the remuneration of the non-Executive Members of the Board of Directors for their membership of a Committee when the workload increases), the Board approved in October 2018 the recommendation of the RNGC to allocate the following attendance fees per Committee above four Committee meetings per year (whether these meetings are held physically or by phone):

- in case of physical attendance: €3,000 per additional meeting for Members based in Europe and €6,000 per additional meeting for Members based outside Europe,
- in case of attendance by phone (whether the meeting is held physically or by phone): € 1,500 per additional meeting.

Such attendance fee will be identical for both the Chair and Members of a Committee.

As the fixed fees for membership of a Committee will remain unchanged (€ 30,000 for chair and € 20,000 for member), the allocation of an attendance fee per Committee above a certain number of meetings per year will ensure automatic return to the current level of remuneration when exceptional circumstances end and workload decreases.

The contemplated total remuneration for membership of a Committee (based on the average number of additional Committee meetings effectively attended physically or by phone by the Company's directors in 2017 and 2018) will remain within the market spectrum of the Company's peer group (between the median and Q3, as per the findings of the above-mentioned benchmark).

Fixed fee for membership of the Board and attendance fees for attendance of Board meetings will remain unchanged.

Under the new policy, and in greater details, non-Executive Members of the Board would be entitled to the following fees for their membership of a Committee:

The proposal is to add an attendance fee per Committee meeting above four meetings per year (whether these meetings were held physically or by phone). The fixed fee would remain unchanged.

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

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

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

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

## C – Employee Share Ownership Plan (ESOP)

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

According to shareholders' resolutions adopted at the AGM, the powers to issue shares and to set aside preferential subscription rights of existing shareholders have been granted to the Board of Directors at the 2018 AGM. Such powers include the approval of the ESOP.

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

#### 4.4.3 PROPOSED AMENDMENTS OF THE REMUNERATION POLICY

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At the 2019 AGM, the Board of Directors is proposing that shareholders adopt the following amendments to the Airbus Remuneration Policy:

##### **Proposal of Policy from AGM 2019 onwards applicable to a future CEO:**

In order to comply with the Dutch Code and in line with market practices, the Board proposes, as described in details above, that the termination indemnity will be equal to one times the last Total Annual Remuneration (defined as Base Salary and VR most recently paid) subject to applicable local legal requirements if any, and that the non-compete clause will apply for a maximum of one year.

The other terms and conditions applicable to the termination indemnity and the non-compete compensation as per the remuneration policy currently in force will remain unchanged. In particular the termination indemnity will not apply if the CEO's mandate is terminated for a specific cause, in case of dismissal, if he resigns or if the CEO has reached retirement age and the non-compete compensation will remain equal to 50 % of the last Total Annual Remuneration (defined as Base Salary and VR most recently paid).

##### **Proposal of Policy from 1 January 2019 onwards applicable to non executive directors:**

In order to ensure continuous commitment of the Members of the Board and Airbus' ability to retain highly competent members, the Company regularly reviews Board remuneration policy.

As described in detail above, in order to increase the remuneration of Non-Executive Directors who are Members of a Committee when the workload of that Committee increases, the Company proposes to allocate an attendance fee per Committee if and when such Committee would have more than four Committee meetings per year (whether these meetings are held physically or by phone).

Such an attendance fee is identical for chair and membership but differs depending on whether attendance of the meeting is physical or by phone and, in case of physical attendance, where the Committee Members are based.

As the fixed fees for membership of a Committee remain unchanged, the proposed amendment will ensure the automatic return to the current level of remuneration when workload decreases.

While incentivising attendance to the meetings and recognising the key role of the Committees for the Board of Directors, the contemplated total target remuneration (fixed and proposed attendance fees) for membership of a Committee remains within the market spectrum of the Company's peer group, as per the findings of the above-mentioned benchmark.

The other components of the remuneration policy will remain unchanged.

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

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##### **a) Benchmarking**

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

## b) Base Salary

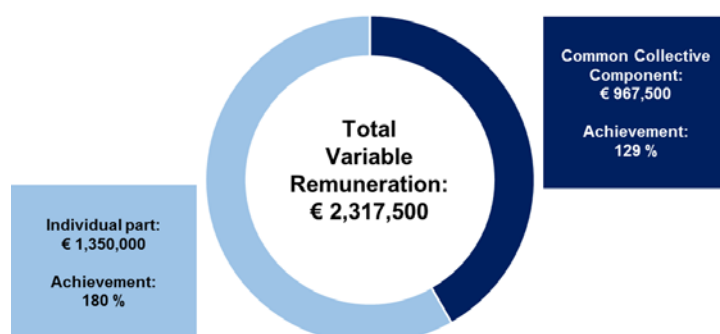
For 2018, the Base Salary of the current CEO remained at € 1,500,000. The CEO's Base Salary level was reviewed in 2015 and approved by shareholders at the 2016 AGM.

The Base Salary of the future CEO is € 1,350,000 on a full year basis. Any increase of the future CEO's Base Salary will also take into consideration salary increases of employees across the group.

## c) Annual Variable Remuneration

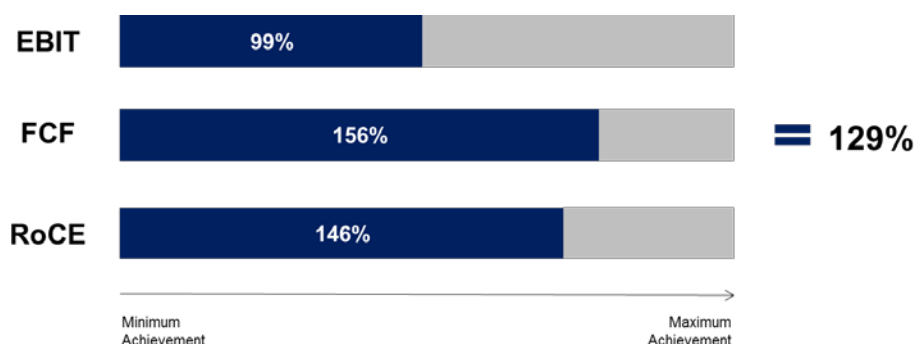
As stipulated in the Company's Remuneration Policy, the CEO's VR is targeted at 100% of the Base Salary and capped at 200% of the Base Salary. It is subject to the fulfilment of collective and individual performance targets. This applies for both the current and future CEO.

For 2018, the VR of the current CEO amounted to an aggregate € 2,317,500 composed of € 967,500 (129%) for the Common Collective Component and € 1,350,000 (180%) for the Individual Component.



At the end of the financial year 2018, the **Common Collective Component** results from a composite 129% achievement of EBIT (45%), Free Cash Flow (45%) and RoCE (10%) objectives.

### PERFORMANCE ACHIEVEMENT - COMMON COLLECTIVE COMPONENT 2018



This achievement mainly reflects a solid **EBIT** and strong **Free Cash Flow** generation against the budgeted targets. The main drivers of that success were the strong operational performance and programme execution in all our businesses, in particular record deliveries in Airbus, healthy pre-delivery payments inflows, on-going efforts to control working capital including payment terms to suppliers and sound CapEx spending.

Finally, **RoCE** was above the target.

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

The **Individual part** results from an excellent achievement level of 180% out of 200%, assessed by the RNGC and approved by the Board on the basis of the CEO's performance and behaviour, mostly with respect to the four Airbus priorities agreed at the start of the year (see: Chapter 2 – Summary 2018). For each of these outcomes, leadership, personal performance and contributions were examined.

**The factors determining the assessment in 2018 were among other achievements:**

- ▶ Solid financial figures achieving the envisaged targets.
- ▶ Record delivery achievements despite industrial challenges especially on A320. Largest number of deliveries in Airbus history, +11% vs. 2017.
- ▶ Good progress in industrial milestones of key development programmes including first deliveries of Airbus A350-1000 and ULR.
- ▶ Remarkable successful closing of the acquisition of Bombardier C Series programme (A220 family) complementing the Airbus product portfolio and integration into Airbus organisation as C-SALP.
- ▶ Strong sales performance in Airbus Helicopters with book-to-bill above 1 and satisfactory delivery performance with 357 units within a high competitive market.
- ▶ Solid result in Airbus Defence and Space, Stabilisation of the A400M programme with good progress on capability development, retrofit campaign and solid contractual rebaselining. Record number of Military Aircraft deliveries and satellite launches. Notable progress on future programs with key decisions on political level for UAS and FCAS.
- ▶ Strong key advancement in the Company's further integration through successful closure of the "Gemini" project by merging Airbus and Airbus Group for a leaner and more efficient management, helping to prepare the future of the Company.
- ▶ Excellent progress on digital roadmap for product and services offerings with Skywise and internal processes with DDMS.
- ▶ Strong progress on innovation and R&T activities, growth in activities of Airbus ventures, establishing of innovation centres with opening of Shenzhen innovation centre. Strongly evolved Airbus role on UAM, exploration of new business models and smart partnering for future trends.
- ▶ Strong and very successful steering of management transition with selection, on-boarding and up-skilling of new C-level leaders. Including the new CEO.
- ▶ Strong and solid emphasis of ethics and compliance and responsibility & sustainability as key pillars for future developments. High momentum on values journey ensured CEO & leadership team consistently demonstrate values & behaviours and that E&C and R&S are interconnected drivers of culture change.
- ▶ Reinforced efforts on diversity in all its forms.

Due to the current CEO's departure in 2019, the VR for 2019 amounts to an aggregate € 416,096 composed of € 208,048 for the Common Collective Component (100%) and € 208,048 for the Individual Component (100%).

## d) Long-Term Incentive Plan

### Granting 2018 and 2019

Due to the announcement of his departure, the current CEO has been granted neither Performance Units nor Performance Shares for 2018 and 2019.

In 2019, the future CEO will be granted LTIPs in accordance with the applicable policy.

### Vesting values in 2018 for the current CEO

In 2018, the CEO received both cash payments and vested shares in connection with the vesting of 2013 and 2014 LTIP awards:

- ▶ **Cash:** the total cash payment to the CEO amounted to € 1,364,541 in 2018 vs. € 1,372,048 in 2017.
- ▶ **Shares:**
  - In connection with the 2013 LTIP award, the CEO had elected that 50% of his grant should be deferred into shares. Therefore, the CEO received 11,360 vested shares (11,192 vested shares in 2017) on the fourth vesting date for LTIP 2013 (5 November 2018).
  - In connection with the 2014 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the vesting of 2,950 Performance Units for the LTIP 2014 will be released in the form of shares on the second vesting date for the 2014 LTIP (which will take place in 2019).

## 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 <sup>st</sup> vesting – 3 May 2017: € 72.12
								2 <sup>nd</sup> vesting– 3 November 2017: € 81.92
								3 <sup>rd</sup> vesting – 3 May 2018: € 92.34
2013	Units	30,300	€ 46.17	€ 1,398,951	Conditional	75%	22,724	4 vestings in 2017 - 2018
								5 November 2018: € 92.34
2014	Units	29,500	€ 47.45	€ 1,399,775	Conditional	80%	23,600	2 vestings in 2018 - 2019
								1 <sup>st</sup> vesting – 3 May 2018: € 94.40
2015	Units	24,862	€ 56.31	€ 1,399,979	Conditional	75%	18,648	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
2017	Units	10,162	€ 73.81	€ 750,057	Conditional	Not yet known	Not yet known	2 vestings in 2021 - 2022
								Not yet known
2017	Shares	10,162	€ 73.81	€ 750,057	Conditional	Not yet known	Not yet known	1 vesting in 2021
								Not yet known

Calculations may involve rounding to the nearest unit.

\* LTIP 2013 and 2014 cap was applied to the share price

\* Vesting will occur according to the respective rules and regulations of each plan. There will be no accelerated vesting due to the current CEO's departure in 2019.

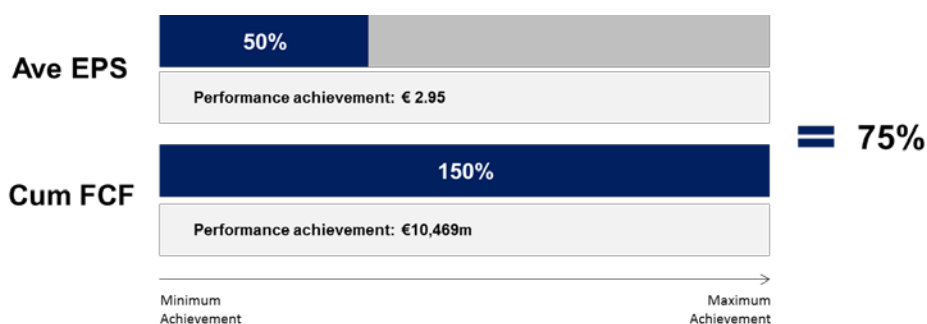
### Performance Conditions of LTIP 2015:

- ▶ The performance conditions for LTIP 2015 were determined as follows: if Airbus reports negative cumulated EBIT results, the Board of Directors can decide at its sole discretion to review the vesting of the Performance Units, including the 50% portion which is not subject to performance conditions.
- ▶ 50% to 150% of the allocation would be granted depending on the compounded achievement of the two following performance criteria:
  - 75% of average EPS ("Ave EPS"): determined on a linear basis depending on three-year Ave EPS for the 2016, 2017 and 2018 fiscal years, with the three-year Ave EPS target for an allocation of 100% equal to € 4.02, and
  - 25% of cumulative FCF ("Cum FCF"): determined on a linear basis depending on three-year Cum FCF for the 2016, 2017 and 2018 fiscal years, with the three-year Cum FCF target for an allocation of 100% equal to € 8,281m.

## Review of Achievement of Performance Conditions:

The Board of Directors on 13 February 2019 noted the achievement of the performance conditions of the 2015 plan, i.e. for the 2016, 2017 and 2018 fiscal years. The three-year Ave EPS was €2.95 and the three-year Cum FCF was €10,469m, after normalisation to align them with policies in force when setting the target (notably IFRS 15 and A220 impacts)

### LTIP 2015 PERFORMANCE ACHIEVEMENT



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
2013	Ave EPS	30,300	€ 3.64	€ 2.28	50%	75%	22,724	€ 1.15*
	Cum FCF before M&A		€ 2,650m	€ 3,440m	150%			
2014	Ave EPS	29,500	€ 3.31	€ 2.81	56%	80%	23,600	€ 1.51**
	Cum FCF		€ 4,298m	€ 9,741m	150%			
2015	Ave EPS	24,862	€ 4.02	€ 2.95	50%	75%	18,646	€ 2.10***
	Cum FCF		€ 8,281m	€ 10,469m	150%			

\* Average EPS of 2012, 2011 and 2010

\*\* Average EPS of 2013, 2012 and 2011

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



#### **e) Share Ownership**

The CEO owned 76,521 Company shares on 31 December 2018, which represents more than 200% of the Base Salary. He herewith respects Airbus' share ownership policy.

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

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

In March 2018, the Company offered all eligible employees the opportunity to subscribe to a share matching plan, through which the Company matches a certain number of directly acquired shares with a grant of matching shares. This ratio varies depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 44%. The total offering was up to 2.2 million shares of the Company, open to all qualifying employees. Information about the plan can be found on the Company's website.

Under the umbrella of the ESOP 2018, a dedicated UK tax advantageous Share Incentive Plan ("SIP") was also deployed in March 2018.

Although the CEO was eligible for the plan, he did not participate to the ESOP 2018 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 2018 amounted to € 61,144.

#### **h) Retirement**

The defined benefit obligation for the current CEO's pension results from the Company's pension policy as described above and takes into account: (i) the seniority of the CEO in the Company and on its Executive Committee and (ii) the significantly lower public pension promise deriving from the German social security pension system, compared to a pension resulting from membership in the French pension system. There has been no change in the pension promise for the CEO in 2018.

The present value of the CEO's pension obligation including deferred compensation is estimated annually by an independent actuarial firm according to the international accounting standard IAS19 as applied by the group for post-employment benefits. As of 31 December 2018, the defined benefit obligation amounts to € 26,303,940 vs. € 21,176,042 at the end of 2017. The change in valuation is due to changes in actuarial assumptions (e.g. mortality table, expected pension increase, retirement age).

For the fiscal year 2018, the current service and interest costs related to the CEO's pension promise represented an expense of € 1,136,706. This obligation has been accrued in the 2018 Consolidated Financial Statements.

#### **i) Clawback**

The Board has not applied any clawback in 2018.

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

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

The Airbus pay ratio is calculated by comparing the cash compensation of the CEO with a median full-time permanent employee from France, Germany, UK and Spain for Airbus, excluding subsidiaries.

The aggregate cash compensation over the 2018 fiscal year was used as a reference amount (i.e., excluding the value of equity incentive awards and other non-cash compensation components). To calculate the ratio, the gross

sum of the Base Salary, annual bonus, profit and success sharing, overtime, premium for work conditions and other premiums was taken in to account.

The full time equivalent headcount of this target European population was taken into account.

Based on this methodology, the ratio between the cash compensation of the CEO and the median full-time equivalent permanent employee for the fiscal year to which this report relates is 51 (rounded to the nearest integer). Airbus did not analyse the ratios in comparison with the previous financial year, because in 2017 ratios have not been calculated.

#### **k) Contract and severance**

With regards to his planned departure and according to the policy, the current CEO is not entitled to any termination indemnity.

The CEO's contract includes a non-compete clause, which will apply for one year. It will be paid in monthly instalments of € 266,854.

Past LTIP awards are maintained. There will be no accelerated vesting.

### **4.4.5 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018: NON-EXECUTIVE DIRECTORS**

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

For personal reasons, and with regards to the implementation of remuneration policy approved at the AGM 2016, Denis Ranque decided in 2016 and onwards to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds € 240,000 (his total target remuneration for 2015, based on six meetings per year and including chairmanship Board fixum and attendance fees) until further notice.

Taking into account the increased number of Board meetings in 2018, the remuneration of Denis Ranque for 2018 as Chairman of the Board of Directors (Board chairmanship fixum and attendance fees) is € 255,000.

Therefore, the Board recommended that the remuneration exceeding € 255,000 would be converted into an annual contribution to the Airbus Foundation, as long as Denis Ranque waived this part of his remuneration which corresponds to € 67,500 based on the number of Board meetings in 2018.

**Summary Table of the 2018 and 2017 fees of all non-Executive Members of the Board (current and former):**

(in €)	2018			2017		
	Fixum <sup>(1)</sup>	Attendance Fees <sup>(2)</sup>	Total	Fixum	Attendance Fees	Total
<b>Former Non-Executive Board Members</b>						
Mr RANQUE Denis	210,000 €	75,000 €	285,000 €	204,293 €	80,000 €	284,293 €
Mr CROSBY JR Ralph	100,000 €	75,000 €	175,000 €	94,420 €	80,000 €	174,420 €
Mr DRAYSON <sup>3</sup> Paul	114,475 €	55,000 €	169,475 €	72,100 €	60,000 €	132,100 €
Ms GUILLOUARD Catherine	120,000 €	75,000 €	195,000 €	120,000 €	70,000 €	190,000 €
Mr KEITEL <sup>4</sup> Hans-Peter	27,900 €	10,000 €	37,900 €	100,000 €	60,000 €	160,000 €
Mr LAMBERTI Hermann-Josef	130,000 €	65,000 €	195,000 €	135,707 €	70,000 €	205,707 €
Ms MORALEDA Amparo	127,238 €	65,000 €	192,238 €	120,000 €	80,000 €	200,000 €
Ms NEMAT Claudia	100,000 €	75,000 €	175,000 €	100,000 €	70,000 €	170,000 €
Sir PARKER <sup>4</sup> John	36,270 €	10,000 €	46,270 €	135,707 €	65,000 €	200,707 €
Mr TAVARES Carlos	80,000 €	50,000 €	130,000 €	80,000 €	65,000 €	145,000 €
Mr TRICHET <sup>4</sup> Jean Claude	27,900 €	10,000 €	37,900 €	100,000 €	80,000 €	180,000 €
Mr CHU <sup>5</sup> Victor	72,376 €	50,000 €	122,376 €	0 €	0 €	0 €
Mr CLAMADIEU <sup>6</sup> Jean-Pierre	72,376 €	50,000 €	122,376 €	0 €	0 €	0 €
Mr OBERMANN <sup>5</sup> René	72,376 €	55,000 €	127,376 €	0 €	0 €	0 €
<b>Former Non-Executive Board Members</b>						
Mr MITTAL Lakshmi	0 €	0 €	0 €	28,176 €	10,000 €	38,176 €
<b>TOTAL</b>	<b>1,290,910 €</b>	<b>720,000 €</b>	<b>2,010,910 €</b>	<b>1,290,403 €</b>	<b>790,000 €</b>	<b>2,080,403 €</b>

1) The fixum includes a base fee for a Board membership and a Committee fee membership within the Audit Committee, the RNGC and/or the E&C Committee. The fixum for the year 2018 was paid 50% in January 2018 and 50% in July 2018. The fixum for the year 2017 was paid 50% in January 2017 and 50% in July 2017.

(2) The attendance fees related to the first semester 2018 were paid in July 2018, those related to the second semester 2018 were paid in January 2019. The attendance fees related to the first semester 2017 were paid in July 2017; those related to the second semester 2017 were paid in January 2018.

(3) Member of the E&C Committee as of 11 April 2018.

(4) Not a Member of the Company Board of Directors as of 11 April 2018.

(5) Member of the Company Board of Directors and the AC as of 11 April 2018.

(6) Member of the Company Board of Directors and the RNGC as of 11 April 2018.

## 4.4.6 MISCELLANEOUS

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### **Policy for Loans and Guarantees Granted**

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

## 4.5 Enterprise Risk Management System

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

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

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

### **The ERM system is articulated along four axes:**

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

### **ERM Process**

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

### **The ERM process consists of four elements:**

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

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

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

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

## ERM Governance and Responsibility

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

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

## ERM Effectiveness

The ERM effectiveness is analysed by:

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

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

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

## Board Declaration

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

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

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

## 4.6 Risk Factors

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

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

### 4.6.1 FINANCIAL MARKET RISKS

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#### Global Economic Concerns

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

On 29 March 2017, the UK triggered Article 50 of the Lisbon Treaty, the mechanism to leave the European Union ("Brexit"), before having achieved a roadmap for the complex negotiations. The negotiation period ends on 29 March 2019 and if no agreement is ratified by this time, the UK leaves the European Union with effect from this date and is considered as a third country without a privileged relationship with the European Union. Although the terms of the UK's post-Brexit relationship with the EU are still unknown, the Company, its operations and supply chain may be disrupted by this uncertainty and may be affected by potentially divergent national laws and regulations between the EU and the UK. This will in particular include but not limited to:

- ▶ Greater restrictions on the import and export of goods and services between the UK and EU countries in which the Company operates along with increased regulatory and legal complexities;
- ▶ Changes in customs regime between the UK and the European Union which could result in significant changes at borders and customs controls. An insufficient level of preparedness could also significantly delay the import and export of goods including goods which are transferred between Airbus (and its suppliers') entities in the UK to Airbus (and its suppliers') entities in the EU; and
- ▶ Limitations on the free movement of people and skilled labour are also possible.

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

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

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

- ▶ requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decisions by customers to review their order intake strategy due to, among other things, lack of adequate credit supply from the market to finance aircraft purchases or change in operating costs or weak levels of passenger demand for air travel and cargo activity more generally;
- ▶ an increase in the amount of sales financing that the Company must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interests the Company might have in the underlying aircraft;
- ▶ variations in public spending for defence, homeland security and space activities;
- ▶ financial instability, inability to obtain credit or insolvency on the part of key suppliers and 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**

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

The major part of its hedging activities is devoted to foreign exchange risks, as a significant portion of the Company's revenues is denominated in US dollars, while a major portion of its costs is incurred in euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that the Company does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies. The Company has therefore implemented a long-



term hedging portfolio to help secure the rates at which a portion of its future US dollar-denominated revenues (arising primarily at Airbus) are converted into euro or pound sterling.

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

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

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

### **Sales Financing Arrangements**

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

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

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

### **Counterparty Credit**

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

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

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

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

### **Pension Commitments**

The Company participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. For information related to these plans, please refer to the "Notes to the IFRS Consolidated Financial Statements — Note 29.1: Post-employment Benefits — Provisions for Retirement Plans". Although the Company has recorded a provision in its balance sheet for its share of the underfunding based on

current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading the Company to record additional provisions in respect of such plans.

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

### **Tax Exposure**

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

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

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

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

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

## **4.6.2 BUSINESS-RELATED RISKS**

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### **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 third party financing for aircraft purchases, (vi) evolution of fuel price, (vii) regulatory environment, (viii) environmental constraints imposed upon aircraft operations, such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), carbon standards and other environmental taxes; and (ix) market evolutionary factors such as the growth of low-cost passenger airline business models or the impact of e-commerce

on air cargo volumes. The market for commercial aircraft could continue to be cyclical, and downturns in broad economic trends may have a negative effect on its financial condition and results of operations.

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

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

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

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

### **Cyber Security Risks**

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

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

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

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

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

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

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

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

The Company relies upon the good performance of its suppliers and subcontractors to meet the obligations defined under their contracts. Supplier performance is continually monitored and assessed so that supplier development programmes can be launched if performance standards fall below expectations.

In case of supplier non-performance a systematic review and application of contractual liabilities linked to contract execution allows the Company to mitigate its financial exposure due to the supplier non-performance. The Company also implements performance improvement agreements with suppliers to incentivise suppliers to sustainably restore contractual performance levels.

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

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

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

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

### **Industrial Ramp-Up**

As a result of the large number of new orders for aircraft recorded in recent years, the Company is in the process of accelerating its production in order to meet the agreed upon delivery schedules for such new aircraft. The Company's ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled

employees given the high demand by the Company and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of engines and buyer-furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, across Airbus and the two Divisions, which carry their own resource demands. Therefore, failures relating to any or all of these factors could lead to missed or delayed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders. The associated risks may increase as the Company and its competitors announce further production rate increases. Significant efforts have been made to improve supply chain stability and performance. Specific areas of risk with suppliers of engines and of cabin equipment continue to be carefully managed.

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

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

Certain of Airbus' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, to provide cancellation rights, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should the Company fail to meet delivery schedules or other measures of contract performance — in particular with respect to new development programmes such as the A220, A350-900 and -1000 XWB, A400M, H175 or H160 and to modernisation programmes such as the A320neo and the A330neo. See “— Programme-Specific Risks” below.

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

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

### **Dependence on Public Spending and on Certain Markets**

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

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

## Availability of Government and Other Sources of Financing

From 1992 to 2004, the EU and the US operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US unilaterally withdrew from this agreement, which eventually led to the US and the 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. Separately, Brazil has initiated WTO proceedings citing Canadian support to the C-Series aircraft. Here too, a negotiated outcome would be preferable. Domestic proceedings in the United States based on alleged subsidies to the C-Series were dismissed. The terms and conditions of any new agreement, or the final outcome of the formal WTO or other trade law proceedings, may limit access by the Company to risk-sharing-funds for large projects, may establish an unfavourable balance of access to government funds by the Company as compared to its US competitors or may in an extreme scenario cause the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the Company.

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

## Competition and Market Access

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

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

## Major Research and Development Programmes

The business environment in many of the Company’s principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. The business plans underlying such investments often contemplate a long payback period before these investments

are recouped, and assume a certain level of return over the course of this period in order to justify the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

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

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

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

### **Digital Transformation, Continuous Improvement and Competitiveness Programmes**

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

#### **Digital transformation**

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

#### **Traditional cost-saving and competitiveness programmes**

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

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



## Acquisitions, Divestments, Joint Ventures and Strategic Alliances

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

## Public-Private Partnerships and Private Finance Initiatives

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

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

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

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

## Programme-Specific Risks

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

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: A320neo (new engine option) ramp up including the A321neo ACF (Airbus Cabin Flex); management of the internal and external supply chain pressure as a result of the industrial ramp-up; ensuring maturity and high quality service support for a growing number of operators of A320neo. The main focus will be with the further ramp-up for Airbus and both engine suppliers. For both engine suppliers, challenges are to (i) meet the delivery commitments in line with agreed schedule and ensure sufficient engine availability; (ii) fix in-service maturity issues in line with Airbus and customer expectations and mitigate the associated consequences; (iii) manage engine upgrades and performance. The E2E industrial and delivery process at Airbus is under review and will result in significant process and organisation changes.

**A400M programme.** In 2018, Airbus continued with development activities toward achieving the technical capabilities, including the achievement of an important development milestone according to schedule. After the signature of a

Declaration of Intent (“DOI”) in February 2018, the Company has been working together with OCCAR and concluded the negotiations on the contract amendment. The customer Nations are now set to endorse the agreement to allow pursuing the domestic approval processes before signing the contract amendment.

Risks remain on development of technical capabilities and the associated costs, on securing sufficient export orders in time, on aircraft operational reliability in particular with regards to engines and on cost reductions as per the revised baseline.

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

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

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges: ramp down the yearly production rate in line with demand and further reduce fixed costs and adjust resources to the new delivery level; and manage maturity in service.

**A330 programme.** In connection with the A330 programme, the main challenge the Company faces is to manage the transition to A330neo. The A330neo development progresses after successful EIS (Entry Into Service). For the engine supplier, the main challenges relate to meeting the delivery commitments and ensuring engine maturity.

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

**H225 programme and AS332 L2 fleet.** In connection with the H225 programme and the AS332 L2 fleet, the Company faces the following main challenges: since the crash in April 2016 of a H225 in Norway, the Company is dealing with protective measures validated by EASA who lifted the flight suspension on 7 October 2016 and by UK and Norwegian aviation authorities on 7 July 2017 to put the fleet back into flight operations. Publication of the final AIBN report in July 2018 confirmed the work on incremental improvements on the H225 as part of its ongoing, continuous improvement.

**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 delivery of the six first H175 in Public Services intermediate operational configuration in 2018, the Company is working on the maturity plan of the aircraft with the associated industrial ramp-up and on the customer support.

**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.

**H160 programme.** In connection with the H160 programme, the main challenge the Company faces is to manage the certification and the production ramp-up. H160 development and supply chain performance and production ramp-up progress after 1,050 flights hours performed by the end of 2018 by prototypes and pre-serial 2 (PS2) move to the flight line.

**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. Export licenses from Germany to Saudi Arabia are currently suspended.

### 4.6.3 LEGAL RISKS

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#### Dependence on Joint Ventures and Minority Holdings

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

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

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

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

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

#### Product Liability and Warranty Claims

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

#### Intellectual Property

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

In addition, although the Company believes that it lawfully complies with the monopolies inherent in the IP rights granted to others, it has been accused of infringement on occasion and could have additional claims asserted against it in the future. These claims could harm its reputation, result in financial penalties or prevent it from offering certain products or services which may be subject to such third-party IP rights. Any claims or litigation in this area, whether the Company

ultimately wins or loses, could be time-consuming and costly, harm the Company's reputation or require it to enter into licensing arrangements. The Company might not be able to enter into these licensing arrangements on acceptable terms. If a claim of infringement were successful against it, an injunction might be ordered against the Company, causing further losses.

### **Export Controls Laws and Regulations**

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

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

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

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

### **Anti-Corruption Laws and Regulations**

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

In 2016, for example, the Company announced that it had discovered misstatements and omissions in certain applications for export credit financing for Airbus customers, and had engaged legal, investigative and forensic accounting experts to conduct a review. Separately, the UK Serious Fraud Office announced that it had opened a criminal investigation into allegations of fraud, bribery and corruption in the civil aviation business of Airbus, relating to irregularities concerning third party consultants. Airbus was subsequently informed that the French authorities, the Parquet National Financier ("PNF"), had also opened a preliminary investigation into the same subject and that the two authorities will act in coordination going forward. The Company has engaged with the government of the United States relating to conduct forming part of the SFO/PNF investigation that could fall within US jurisdiction. The Company has also engaged with the government of the United States concerning potential issues of ITAR Part 130 and related matters.

The Company cannot predict at this time the impact on it as a result of these matters, and accordingly cannot give any assurance that it will not be adversely affected. The Company may be subject to administrative, civil or criminal liabilities

including significant fines and penalties, as well as suspension or debarment from government or non-government contracts for some period of time. The Company may also be required to modify its business practices and compliance programme and/or have a compliance monitor imposed on it. Any one or more of the foregoing could have a significant adverse effect on the Company's reputation and its business, financial condition and results of operations.

### Legal and Regulatory Proceedings

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

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

## 4.6.4 ENVIRONMENT, HEALTH & SAFETY RISKS

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

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

In addition, the various products manufactured and sold by the Company must comply with relevant health, safety and environmental laws, for example those designed to protect customers and downstream workers, and those covering substances and preparations, in the jurisdictions in which they operate. Although the Company seeks to ensure that its products meet the highest quality standards, increasingly stringent and complex laws and regulations, new scientific

discoveries, delivery of defective products or the obligation to notify or provide regulatory authorities or others with required information (such as under the EU Regulation known as “REACH”, which addresses the production and use of chemical substances) may force the Company to adapt, redesign, redevelop, recertify and/or eliminate its products from the market. Seizures of defective products may be pronounced, and the Company may incur administrative, civil or criminal liability. Any problems in this respect may also have a significant adverse effect on the reputation of the Company and its products and services.

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

## 5. Financial Performance

The Airbus SE IFRS Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards.

### 5.1 IFRS Consolidated Financial Statements

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Please refer to the “Airbus SE – IFRS Consolidated Financial Statements” and the “Notes to the IFRS Consolidated Financial Statements” for the years ended 31 December 2018 and 2017.

#### **IFRS 15 “Revenue from Contracts with Customers”**

The Company adopted the new standard on 1 January 2018, using the full retrospective transition method. Accordingly, the Company restated the comparative 2017 results included in 2018 Unaudited Condensed IFRS Consolidated Financial Statements. The opening equity was restated as of 1 January 2017.

As a result, as of 31 December 2017 total assets restated amount to € 109,449 million (2017 as reported: € 113,937 million) and total equity restated amounts to € 10,742 million (2017 as reported: € 13,351 million).

The most significant changes result from the following:

- ▶ Several performance obligations are identified instead of recognising a single contract margin under IAS 11 (e.g. A400M, NH90 contracts). In some cases, the over time method (e.g. PoC method) revenue recognition criteria are not fulfilled under IFRS 15. In particular, for A350 launch contracts, A400M series production and certain NH90 contracts, revenue and production costs relative to the manufacture of aircraft are recognised at a point in time (e.g. upon delivery of the aircraft to the customer);
- ▶ Under IFRS 15, measurement of the revenue takes into account variable consideration constraints in order to achieve high likelihood that a significant reversal of the recognised revenue will not occur in the future. The constraint in assessing revenue at completion for some contracts (A400M) generates a decrease in recognised revenue;
- ▶ For the application of the over time method (PoC method), the Company measures its progress towards complete satisfaction of performance obligations based on inputs (i.e. cost incurred) rather than on outputs (i.e. milestones achieved). For the Company’s current long-term construction contracts progresses were usually measured based on milestones achieved (e.g. Tiger programme, satellites, orbital infrastructures). Under IFRS 15, the Company measures progress of work performed using a cost-to-cost approach, whenever control of the work performed transfers to the customer over time.

Please refer to the “Notes to the IFRS Consolidated Financial Statements — Note 2: Significant Accounting Policies”.

#### **IFRS Consolidated Income Statement**

Please refer to the “Airbus SE – IFRS Consolidated Income Statements” for the years ended 31 December 2018 and 2017”.

## Revenue

Consolidated revenues increased to € 63.7 billion (2017 (restated): € 59.0 billion), mainly reflecting the record commercial aircraft deliveries. At Airbus, a total of 800 commercial aircraft were delivered (2017: 718 aircraft), comprising 20 A220s, 626 A320 Family, 49 A330s, 93 A350s and 12 A380s. Airbus Helicopters delivered 356 units (2017: 409 units) with revenues stable year-on-year on a comparable basis despite the lower deliveries. Higher revenues at Airbus Defence and Space were supported by its Space Systems and Military Aircraft activities.

## EBIT and Financial Result

Consolidated 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 € 5,834 million (2017 (restated): € 3,190 million), reflecting the strong operational performance and programme execution across the Company.

Airbus' EBIT Adjusted increased to € 4,808 million (2017 (restated): € 2,383 million) reflecting the higher aircraft deliveries. The strong improvement compared to 2017 is driven by progress on the learning curve and pricing for the A350 as well as the A320neo ramp-up and pricing premium. Currency hedging rates also contributed favourably.

On the A220 programme, the focus remains on commercial momentum, the production ramp-up and cost reduction. A320neo Family deliveries increased to 386 aircraft (2017: 181 aircraft) and represented over 60% of overall A320 Family deliveries during 2018. The first long-range A321LR was delivered in the fourth quarter. Deliveries of the Airbus Cabin Flex version of the A321 are expected to increase in 2019 although the ramp-up will remain challenging. Further upgrades of the Pratt & Whitney GTF engine for the A320neo are due to arrive in 2019. Airbus continues to monitor in-service engine performance. Overall, the A320 programme is on track to reach the monthly targeted production rate of 60 aircraft by mid-2019 with rate 63 targeted in 2021. On the A330neo programme, the first A330-900s were delivered and the smaller A330-800 conducted its maiden flight in the final quarter of 2018. In 2019, A330neo deliveries are due to ramp-up. Airbus is working closely with its A330neo engine partner to deliver on customer commitments.

Following a strategic fleet review, Emirates Airline has decided to reduce its A380 orderbook by 39 aircraft with 14 A380s remaining in the backlog yet to be delivered. As a consequence of this decision, deliveries of the A380 will cease in 2021. The recognition of the onerous contract provision as well as other specific provisions and the remeasurement of the liabilities have led to a negative impact on EBIT of € -463 million and a positive impact on the other financial result of € 177 million.

A350 deliveries increased compared to 2017 and included 14 of the larger A350-1000s. The programme reached rate 10 in the fourth quarter of 2018. The backlog supports this rate going forward, including the latest commercial discussions with Etihad Airways to reduce their A350 order by 42 A350-900, leaving 20 A350-1000 for Etihad in the backlog. Airbus will continue to improve the programme's performance to reach breakeven in 2019 and improve margins beyond this.

Airbus Helicopters' EBIT Adjusted increased to €380 million (2017 (restated): €247 million), reflecting higher Super Puma Family deliveries, a favourable mix and solid underlying programme execution.

Airbus Defence and Space's EBIT Adjusted totalled €935 million (2017 (restated): €815 million), mainly reflecting solid programme execution.

On the A400M programme, 17 aircraft were delivered during the year (2017: 19 aircraft). Airbus continued with development activities toward achieving the revised capability roadmap. Retrofit activities are progressing in line with the customer agreed plan. The customer Nations are now set to endorse the agreement which will allow them to pursue their domestic approval processes. An update of the contract estimate at completion triggered a net



additional charge of € 436 million on the programme. This mainly reflects the outcome of the negotiations and updated estimates on the export scenario, escalation and some cost increases. Risks remain on the development of technical capabilities and the associated costs, on securing sufficient export orders in time, on aircraft operational reliability in particular with regards to engines, and on cost reductions as per the revised baseline.

Consolidated EBIT (reported) amounted to € 5,048 million (2017 (restated): € 2,665 million), including Adjustments totalling a net € -786 million. These Adjustments comprised:

- ▶ The net negative impact of € -463 million related to the A380 programme;
- ▶ The net additional charge of € 436 million for the A400M programme;
- ▶ A negative € -123 million related to compliance costs;
- ▶ A positive € 188 million related to Mergers and Acquisitions, including the sale of Airbus DS Communications, Inc. business in the first quarter;
- ▶ A positive € 129 million relating to the dollar pre-delivery payment mismatch and balance sheet revaluation;
- ▶ A negative € -85 million related to other costs.

Consolidated net income of € 3,054 million (2017 (restated): € 2,361 million) and earnings per share of € 3.94 (2017 (restated): € 3.05) included a negative impact from the financial result, mainly driven by the evolution of the US dollar and revaluation of financial instruments. The other financial results included the positive adjustment of € 177 million from the A380. The finance result was € -763 million (2017 (restated): € +1,161 million).

**Table 1 – EBIT and Revenue by Division**

<i>(In € million)</i>	Revenue			EBIT (reported)		
	2018	2017	Change	2018	2017	Change
Airbus	47,970	43,486	+10%	4,295	2,257	+90%
Airbus Helicopters	5,934	6,335	-6%	366	247	+48%
Airbus Defence and Space	11,063	10,596	+4%	676	462	+46%
Transversal / Eliminations	(1,260)	(1,395)		(289)	(301)	
<b>Total</b>	<b>63,707</b>	<b>59,022</b>	<b>+8%</b>	<b>5,048</b>	<b>2,665</b>	<b>+89%</b>

## IFRS Consolidated Statements of Financial Position

Please refer to the “Airbus SE – IFRS Consolidated Statements of Financial Position” at 31 December 2018 and 2017.

### Intangible Assets and Property, Plant and Equipment

Intangible assets increased by € +5,097 million to € 16,726 million (2017: € 11,629 million). Intangible assets mainly relate to goodwill of € 13,039 million (2017: € 9,141 million). The increase is primarily due to the acquisition of CSALP.

The annual impairment tests performed in 2018 led to no impairment charge.

Property, plant and equipment increased by € +163 million to € 16,773 million (2017: € 16,610 million), mainly at Airbus Defence and Space (€ +150 million). Property, plant and equipment includes leased assets of € 45 million (2017: € 52 million).

### Investments Accounted for under the Equity Method

Investments accounted for under the equity method increased by € +76 million to € 1,693 million (2017 (restated): € 1,617 million) and mainly include the equity investments in ArianeGroup, MBDA and ATR GIE.

## Other Investments and Other Long-Term Financial Assets

<i>(In € million)</i>	31 December	
	2018	2017
Other investments	2,267	2,441
Other long-term financial assets	1,544	1,763
<b>Total non-current other investments and other long-term financial assets</b>	<b>3,811</b>	<b>4,204</b>
<b>Current portion of other long-term financial assets</b>	<b>489</b>	<b>529</b>
<b>Total</b>	<b>4,300</b>	<b>4,733</b>

Other investments mainly comprise the Company's participations. The significant participations at 31 December 2018 include the remaining investment in Dassault Aviation (Airbus share: 9.89%, 2017: 9.93%) amounting to € 999 million (2017: € 1,071 million).

Other long-term financial assets and the current portion of other long-term financial assets include other loans in the amount of € 1,523 million as of 31 December 2018 (2017: € 1,521 million), and the sales finance activities in the form of finance lease receivables and loans from aircraft financing.

## Inventories

Inventories of € 31,891 million (2017 (restated): € 29,737 million) increased by € +2,154 million. This is mainly driven by Airbus (€ +2,128 million) reflecting an increase in work in progress associated with the A320 programme ramp-up, including the impact of late engine deliveries.

## Contract Assets, Contract Liabilities and Trade Receivables

As of 31 December 2018, contract assets include receivables from revenue recognised on over time contracts in the amount of € 10,380 million (2017: € 11,349 million) and contract liabilities include customer advance payment received in the amount of € 50,281 million (2017: € 47,580 million).

## Provisions

<i>(In € million)</i>	31 December	
	2018	2017
Provisions for pensions	7,072	8,361
Other provisions <sup>(1)</sup>	11,817	7,690
<b>Total <sup>(1)</sup></b>	<b>18,888</b>	<b>16,051</b>
<i>thereof non-current portion <sup>(1)</sup></i>	<i>11,571</i>	<i>9,779</i>
<i>thereof current portion <sup>(1)</sup></i>	<i>7,317</i>	<i>6,272</i>

(1) Previous year figures are restated due to the application of IFRS 15.

**Provisions for pensions** decreased mainly due to contributions made into the various pension vehicles.

Other provisions are presented net of programme losses against inventories and increased due to the inclusion of liabilities related to acquired customer contracts linked to the acquisition of CSALP and due to the A380 net charge recorded in 2018.

A restructuring provision associated with the re-organisation of the Company of € 160 million was recorded at year-end 2016, following the communication of the plan to the employees and the European Works Council in November 2016. The French social plan was agreed between the Company and the works council in June 2017. The German social plan was agreed between the Company and the works councils in September 2017, and the reconciliation of interests were finalised on 21 February 2018.

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

An H225 Super Puma helicopter was involved in an accident on 29 April 2016. Management is cooperating fully with the authorities and have agreed a retrofit plan for the implementation of corrective measures. An estimate of the related net future costs has been prepared and is included in other provisions.

## Other Financial Assets and Other Financial Liabilities

### Other Financial Assets

<i>(In € million)</i>	31 December	
	2018	2017
Positive fair values of derivative financial instruments	1,031	2,901
Others	77	79
<b>Total non-current other financial assets</b>	<b>1,108</b>	<b>2,980</b>
Receivables from related companies	1,082	992
Positive fair values of derivative financial instruments	286	663
Others	443	324
<b>Total current other financial assets</b>	<b>1,811</b>	<b>1,979</b>
<b>Total</b>	<b>2,919</b>	<b>4,959</b>

### Other Financial Liabilities

<i>(In € million)</i>	31 December	
	2018	2017
Liabilities for derivative financial instruments	1,132	1,127
European Governments' refundable advances	4,233	5,537
Others <sup>(1)</sup>	2,644	40
<b>Total non-current other financial liabilities <sup>(1)</sup></b>	<b>8,009</b>	<b>6,704</b>
Liabilities for derivative financial instruments	1,623	1,144
European Governments' refundable advances	344	364
Liabilities to related companies <sup>(1)</sup>	175	199
Others	320	343
<b>Total current other financial liabilities <sup>(1)</sup></b>	<b>2,462</b>	<b>2,050</b>
<b>Total <sup>(1)</sup></b>	<b>10,471</b>	<b>8,754</b>

(1) Previous year figures are restated due to the application of IFRS 15.

The total net fair value of derivative financial instruments decreased by € -2,731 million to € -1,438 million (2017: € 1,293 million) as a result of the devaluation of the US dollar versus the euro associated with the mark to market valuation of the hedge portfolio.

As of 31 December 2018, the total hedge portfolio with maturities up to 2024 amounts to US\$ 81.9 billion (2017: US\$ 88.7 billion) and covers a major portion of the foreign exchange exposure expected over the period of the operative planning. The average US\$/€ hedge rate of the US\$/€ hedge portfolio until 2024 amounts to 1.24 US\$/€ (2017: 1.23 US\$/€) and for the US\$/£ hedge portfolio until 2023 amounts to 1.40 US\$/£ (2017: 1.43 US\$/£).

The European Governments' refundable advances decreased by € -1,324 million to € 4,577 million (2017: € 5,901 million), primarily related to the update on the A380 programme.

## Other Assets and Other Liabilities

### Other Assets

<i>(In € million)</i>	31 December	
	2018	2017
Cost to fulfil a contract <sup>(1)</sup>	777	868
Prepaid expenses <sup>(1)</sup>	33	15
Others <sup>(1)</sup>	78	92
<b>Total non-current other assets <sup>(1)</sup></b>	<b>888</b>	<b>975</b>
Value added tax claims	3,255	1,892
Cost to fulfil a contract <sup>(1)</sup>	464	522
Prepaid expenses <sup>(1)</sup>	121	146
Others	406	377
<b>Total current other assets <sup>(1)</sup></b>	<b>4,246</b>	<b>2,937</b>
<b>Total <sup>(1)</sup></b>	<b>5,134</b>	<b>3,912</b>

(1) Previous year figures are restated due to the application of IFRS 15.

### Other Liabilities

<i>(In € million)</i>	31 December	
	2018	2017
Others <sup>(1)</sup>	460	298
<b>Total non-current other liabilities <sup>(1)</sup></b>	<b>460</b>	<b>298</b>
Tax liabilities (excluding income tax)	2,706	1,397
Others	2,582	2,512
<b>Total current other liabilities <sup>(1)</sup></b>	<b>5,288</b>	<b>3,909</b>
<b>Total <sup>(1)</sup></b>	<b>5,748</b>	<b>4,207</b>

(1) Previous year figures are restated due to the application of IFRS 15.

## Total Equity

The Company's shares are exclusively ordinary shares with a par value of €1.00. The following table shows the development of the number of shares issued and fully paid:

<i>(In number of shares)</i>	2018	2017
<b>Issued at 1 January</b>	<b>774,556,062</b>	<b>772,912,869</b>
Issued for ESOP	1,811,819	1,643,193
<b>Issued at 31 December</b>	<b>776,367,881</b>	<b>774,556,062</b>
Treasury shares	(636,924)	(129,525)
<b>Outstanding at 31 December</b>	<b>775,730,957</b>	<b>774,426,537</b>

Holders of ordinary shares are entitled to dividends and to one vote per share at general meetings of the Company.

Equity attributable to equity owners of the parent (including purchased treasury shares) amounts to €9,724 million (2017 (restated): €10,740 million) representing a decrease of €-1,016 million. This is due to a decrease in other comprehensive income of €-2,982 million, principally related to the mark to market revaluation of the hedge portfolio of €-2,249 million, a change in actuarial gains and losses income of €-569 million and a dividend payment of €-1,161 million (€1.50 per share), partly compensated by a net income for the period of €3,054 million.

Non-controlling interests ("NCI") from non-wholly owned subsidiaries decreased to €-5 million as of 31 December 2018 (2017 (restated): €2 million). These NCI do not have a material interest in the Company's activities and cash flows.

## Net Cash

The net cash position provides financial flexibility to fund the Company's operations, to react to business needs and risk profile and to return capital to the shareholders.

<i>(In € million)</i>	31 December	
	2018	2017
Cash and cash equivalents	9,413	12,016
Current securities	2,132	1,627
Non-current securities	10,662	10,944
<b>Gross cash position</b>	<b>22,207</b>	<b>24,587</b>
Short-term financing liabilities	(1,463)	(2,212)
Long-term financing liabilities	(7,463)	(8,984)
<b>Total</b>	<b>13,281</b>	<b>13,391</b>

The net cash position on 31 December 2018 was € 13,281 (2017: € 13,390 million), with a gross cash position of € 22,207 million (2017: € 24,587 million).

## Cash and Cash Equivalents

Cash and cash equivalents are composed of the following elements:

<i>(In € million)</i>	31 December	
	2018	2017
Bank account and petty cash	1,862	3,672
Short-term securities (at fair value through profit and loss)	6,576	6,256
Short-term securities (at fair value through OCI) <sup>(1)</sup>	984	2,085
Others	6	8
<b>Total cash and cash equivalents</b>	<b>9,428</b>	<b>12,021</b>
Recognised in disposal groups classified as held for sale	15	5
<b>Recognised in cash and cash equivalents</b>	<b>9,413</b>	<b>12,016</b>

(1) IFRS 9 new classification category (2017: available-for-sale).

Only securities with a maturity of three months or less from the date of the acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, are recognised in cash equivalents.

## Securities

The Company's security portfolio amounts to € 12,794 million and € 12,571 million as of 31 December 2018 and 2017, respectively. The security portfolio contains a non-current portion classified at fair value through OCI of € 10,662 million (2017: € 10,944 million available-for-sale securities), and a current portion of € 2,132 million (2017: € 1,627 million).

## Financing Liabilities

<i>(In € million)</i>	Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	<b>Total</b>
Bonds and commercial papers	0	2,386	4,273	6,659
Liabilities to financial institutions	86	150	117	353
Loans	70	203	26	299
Finance lease liabilities	23	146	161	330
Others	1,284	1	0	1,285
<b>31 December 2018</b>	<b>1,463</b>	<b>2,886</b>	<b>4,577</b>	<b>8,926</b>
Bonds and commercial papers	512	1,524	5,027	7,063
Liabilities to financial institutions	290	1,397	325	2,012
Loans	144	200	185	529
Finance lease liabilities	17	139	186	342
Others	1,249	1	0	1,250
<b>31 December 2017</b>	<b>2,212</b>	<b>3,261</b>	<b>5,723</b>	<b>11,196</b>

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

Long-term financing liabilities, mainly comprising bonds and liabilities to financial institutions, decreased by € -1,521 million to € 7,463 million (2017: € 8,984 million), as a result of early settlement of liabilities to financial institutions with the European Investment Bank ("EIB").

Short-term financing liabilities decreased by € -749 million to € 1,463 million (2017: € 2,212 million). The decrease in short-term financing liabilities is mainly related to the settlement of a Euro Medium Term Note ("EMTN") bond in September 2018.

## Free Cash Flow

Consolidated free cash flow before M&A and customer financing was stable at € 2,912 million (2017: € 2,949 million) including the A220 dilution, supported by the earnings performance and record deliveries. Consolidated free cash flow of € 3,505 million (2017: € 3,735 million) included around € 0.5 billion related to M&A activities. The consolidated net cash position on 31 December 2018 was stable at € 13.3 billion (year-end 2017: € 13.4 billion) after the 2017 dividend payment of € 1.2 billion and pension funding of € 2.5 billion, including an additional € 1.3 billion in the fourth quarter. The gross cash position was € 22.2 billion (year-end 2017: € 24.6 billion).

## Order Intake and Order Book

Net commercial aircraft orders totalled 747 (2017: 1,109 aircraft), including 40 A350 XWBs, 27 A330s and 135 A220s. Showing the underlying health of the market, the order backlog reached an industry record of 7,577 commercial aircraft at year-end, including 480 A220s. Net helicopter orders increased to 381 units (2017: 335 units) with a book-to-bill ratio above 1 in terms of both value and units. Order intake included 15 H160 and 29 NH90 helicopters. Airbus Defence and Space's 2018 order intake of around € 8.4 billion included the Eurofighter for Qatar, four A330 MRTT tanker aircraft and two new generation telecommunication satellites.

Consolidated order intake in 2018 totalled € 55.5 billion with the consolidated order book valued at € 460 billion on 31 December 2018 under IFRS 15.

**Table 2 – Order Intake and Order Book by Division<sup>(1)</sup>**

	Order Intake (net)			Order Book		
	2018	2017	Change	2018	2017	Change
Airbus, in units	<b>747</b>	1,109	-33%	<b>7,577</b>	7,265	+4%
Airbus, in million	<b>41,519</b>	N/A	N/A	<b>411,659</b>	N/A	N/A
Airbus Helicopters, in units	<b>381</b>	335	+14%	<b>717</b>	692	+4%
Airbus Helicopters, in million	<b>6,339</b>	N/A	N/A	<b>14,943</b>	N/A	N/A
Airbus Defence and Space, in million	<b>8,441</b>	N/A	N/A	<b>35,316</b>	N/A	N/A

(1) The order intake and order backlog and is measured under IFRS 15. The unit backlog reflects the contractual view. The backlog value now reflects the assessment of recoverability and net transaction price on airframe and engine. The 2017 backlog is not being restated.

## 5.2 Information on Airbus SE auditors

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	Date of first appointment	Expiration of current term of office <sup>(1)</sup>
<b>Ernst &amp; Young Accountants LLP</b> Boompjes 258 3011 XZ Rotterdam Postbus 488 3000 AL Rotterdam The Netherlands Represented by A.A. van Eimeren	28 April 2016	10 April 2019

1) A resolution will be submitted to the Annual General Meeting of Shareholders in 2019, in order to appoint Ernst & Young Accountants LLP as the Company's auditors for the 2019 financial year.

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

# 6. Non-Financial Information and other Corporate Activities

## 6.1 Non-Financial Information

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### 6.1.1 AIRBUS APPROACH TO RESPONSIBILITY AND SUSTAINABILITY

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#### Airbus and its main stakeholders

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

Airbus is engaged in stakeholder dialogue at various levels of the Company. The responsibility for stakeholder engagement is decentralised at Airbus and employees are encouraged to initiate, develop and maintain relationships with their respective stakeholders. Airbus often seeks a sectorial approach in order to strengthen the impact.

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

- ▶ generate long-term value by developing a sustainably profitable portfolio of aeronautics, helicopter, defence and space businesses. For its shareholders, lenders and other financial counterparts, the Company must meet its obligations and foster its standing of creditworthiness and profitability;
- ▶ be a provider of choice, offering superior value-for-money products and services to customers;
- ▶ engage employees to share its goals and rise to its challenges. Within the confines of applicable laws and regulations, Airbus must respond to their expectations about development, people management and values;
- ▶ build sustainable relationships with its suppliers based on mutual interest to satisfy its customers to encourage responsible practices. The Company promotes the Supplier Code of Conduct as standards consistent with its own code of conduct, and also develops and implements adequate mechanisms to monitor supplier performance;
- ▶ play a key role in society and towards local communities. The Company is committed to responsible business practices in terms of respect for human rights, labour, the environment and anti-corruption. In addition, the Company encourages initiatives that contribute to tackling societal challenges whether through its products and services, skills and resources or via key partnerships.

#### Materiality Assessment

In order to prioritise its responsible and sustainable efforts, Airbus performed a materiality assessment in 2017. Airbus approached a set of stakeholders through qualitative interviews. A list of top issues for the Company was developed, consolidated and ranked by the Company's Responsibility & Sustainability Network. The network gathers a group of experts advising on Airbus' Responsibility & Sustainability ("R&S") strategy, monitoring progress in their respective areas of responsibility, sharing knowledge and best practices throughout the entire Company. It is trans-functional, trans-national and trans-divisional and meets on a regular basis.

You will find these issues covered within the following sections of this chapter:

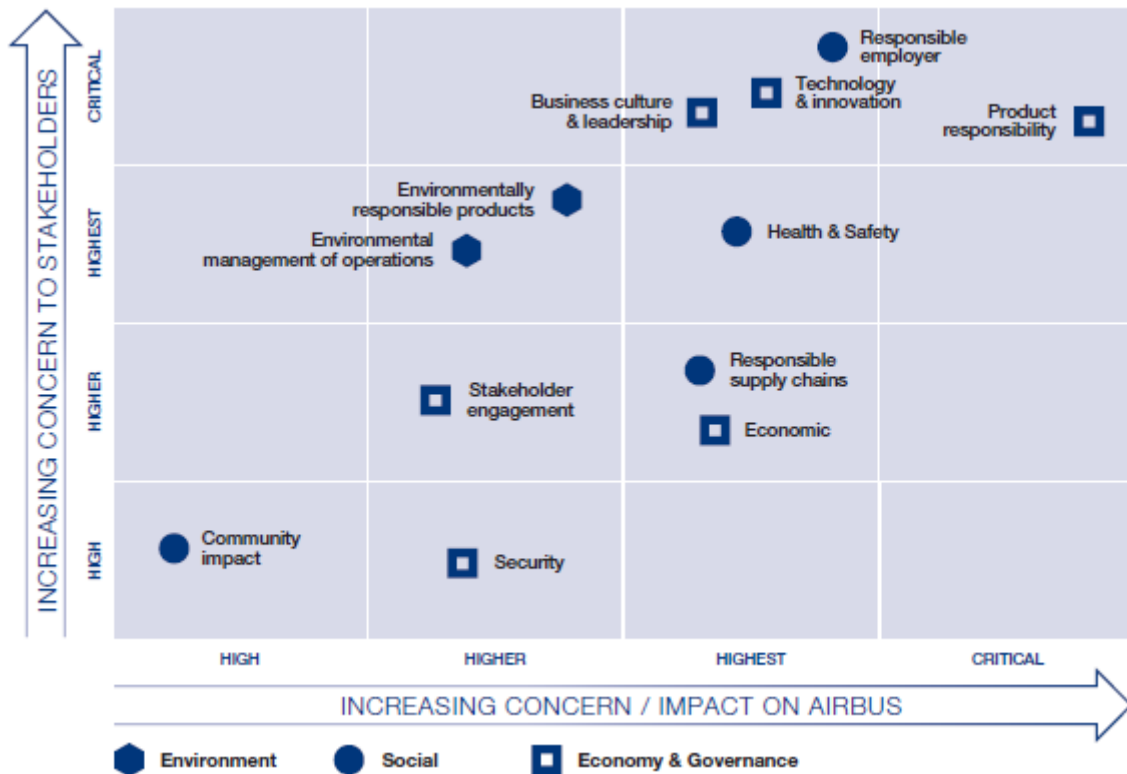
- ▶ Responsible Manufacturer: 6.1.2(a) Product & Aviation Safety ("product responsibility" in the matrix), 6.1.2(b) Research & Technology ("technology and innovation" in the matrix), 6.1.2(c) Environment ("environmentally



responsible products” and “environmental management of operations” in the matrix), 6.1.2(d) Responsible Defence and Space products (“security” and “product responsibility” in the matrix);

- ▶ Responsible Employer: 6.1.3(a) Airbus’ workforce and 6.1.3(b) Human Capital Management, Labour Relations and Human Rights (“responsible employer” in the matrix), 6.1.3(c) Health and Safety (same in the matrix), 6.1.3(d) Inclusion & Diversity (“business culture and leadership” in the matrix);
- ▶ Responsible Business: 6.1.4(a) Ethical business practices (“business culture and leadership” in the matrix), 6.1.4(b) Responsible Suppliers (“responsible supply chains” in the matrix), 6.1.4(c) Community Engagement (“community impact” in the matrix).

#### MATERIALITY MATRIX 2017



#### UN Sustainable Development Goals

Airbus has been a signatory to the UN Global Compact since 2003 and has reached “Advanced Level”.

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

- ▶ SDG 4: Quality education
- ▶ SDG 5: Gender equality
- ▶ SDG 8: Decent work and economic growth
- ▶ SDG 9: Industry, innovation and infrastructure
- ▶ SDG 12: Responsible consumption and production
- ▶ SDG 13: Climate action

- ▶ SDG 16: Peace, justice and strong institutions
- ▶ SDG 17: Partnerships for the goals

### **Airbus' Responsibility & Sustainability Charter**

In 2017, Airbus outlined its commitments in its Responsibility & Sustainability Charter ("the Charter"). The Charter demonstrates how Airbus intends to contribute to the requirements and needs of society and how employees will live Airbus' six values -- respect, customer focus, reliability, creativity, integrity, team work -- in their daily work with all stakeholders whether customers, suppliers, partners, shareholders. The Charter is available at [www.airbus.com](http://www.airbus.com). In 2018, the Charter was the subject of a series of internal communication activities.

In 2017, Airbus started to put in place an internal mapping of its contributions to the commitments it made in the Charter and the corresponding SDGs. Airbus has worked on mapping internally and identifying targets or KPIs to assess its overall contributions. The objective is to reach common agreement on one target per commitment contained within the Charter.

### **Airbus' Way Forward: Vigilance Plan**

Airbus is determined to conduct its business responsibly and with integrity. The Company is convinced that promoting responsible business conduct within our value chain is key to sustainable growth.

As far as its own operations are concerned, Airbus has adopted internal policies and management tools to perform the assessment, monitoring, mitigation, reporting of risk and compliance allegations, which are fully embedded into the Company's culture and processes. At Airbus, heads of programmes and functions, as well as managing directors of affiliates, supported by respective specialists, shall ensure proper deployment of the Company's policies, management of Enterprise Risk Management (ERM) in their fields or perimeters as well as duly reporting issues to top management. Airbus' approach is thus based on its existing strengths, namely strong management process already established and adopted by employees; empowerment of specialists; industry approach whenever possible.

In 2017, Airbus established a working group composed of specialists representing supplier management, health and safety, environmental affairs, labour rights, ethics and compliance, corporate governance as well as risk managers and representatives from the Company's two Divisions. One of the tasks of the working group was to perform a risk assessment and define concrete actions in order to ensure continuous monitoring of the entire Company and to mitigate principal risks or prevent serious violations. In 2018, the working group focused on leveraging every opportunity to embed R&S elements throughout the Company and including them into internal processes and tools.

With regard to risk management, Airbus performed an in-depth review of its ERM system in order to identify potential missing risks related to human rights and fundamental freedoms, health and safety and the environment in 2017. The ERM system was updated to take into account the most significant potential risks related to these areas that Airbus may generate as part of its operations. These risks and related action plans are now consolidated and reported to the top management of the Company. For more information on ERM, see section " - 4.5, Enterprise Risk Management System". For more information on Airbus' risks, see section " - 4.6, Risk Factors.

To support our commitment to and promotion of a speak-up culture, Airbus created the OpenLine to provide the Company's employees with an avenue for raising concerns in a confidential way. In 2018, Airbus decided to extend the scope to responsibility and sustainability related topics. For more information on the OpenLine, see section " - 6.1.4(a) Ethical Business Practices.

In addition to the current training catalogue of over 80 e-learning courses on labour relations, diversity, environmental and health and safety matters, as well as R&S and human rights, Airbus is working on specific learning programmes for target groups. One programme targeting all Airbus employees worldwide will focus on increasing general awareness on R&S as well as Airbus' commitments as outlined in the Charter. A second programme will be dedicated to risk-exposed populations, such as directors of subsidiaries and buyers, aiming at

developing in-depth understanding of legal requirements with regards to environment, health & safety, human rights, labour relations, anti-corruption within the Company's operations and supply chain, and promoting Airbus' internal processes to help mitigate potential risks and help prevent violations. The Airbus Leadership University took the lead to embed R&S strategy and commitments into the courses it offers in order to ensure Airbus managers are trained and equipped to instil the right behaviours, foster cultural change and encourage the search for innovative solutions to answer societal challenges. In addition, the Company also provides training to its employees on the Airbus Standards of Business Conduct.

All Airbus affiliates (affiliates where Airbus owns more than one half of the voting rights, or is able to appoint or discharge more than one half of the members of the board) with operational activities are expected to deploy similar internal policies applying Airbus directives. A corporate directive assists Airbus affiliates in effectively fulfilling their responsibilities while assuring Airbus' ongoing commitment to high standards of corporate governance. In 2018, Airbus, working closely with its two Divisions, approved one single directive on corporate governance for the Company's affiliates, which defines rules, processes and procedures applicable to Airbus affiliates and their respective boards, directors and officers. Airbus leveraged this in-depth work to integrate enhanced requirements on labour and human rights, environment, health and safety and procurement matters into the new directive on the basis of related Airbus internal policies including:

- ▶ International Framework Agreement;
- ▶ Agreement on the European Works Council;
- ▶ Supplier Code of Conduct;
- ▶ Health & Safety Policy;
- ▶ Standards of Business Conduct;
- ▶ Environmental Policy;
- ▶ Airbus Anti-corruption Policy and related Directives.

In 2018, Airbus and its two Divisions each sent their respective affiliates a questionnaire to assess their internal controls including as they relate to the environment, human resources and compliance. Regarding all the above activities, affiliates were asked to confirm that all relevant Airbus policies were accessible to their employees and duly communicated to them and that dedicated training was organised for risk-exposed employees. In 2019, the scope of the questionnaire will evolve to cover topics included in the new Directive, including R&S, and harmonised between Airbus and the two Divisions.

In 2019, affiliates will be asked to evaluate risks via the Airbus ERM system as well as to regularly monitor them as part of their risk assessment process. Airbus endeavours to ensure that the procedures to assess, investigate and manage allegations are well aligned throughout the Company.

Each affiliate with operational activities has in place a Board of Directors and/or a shareholders' meeting where strategic decisions are made. Each affiliate has an Airbus supervisor who is a member or chairman of the board who ensures that all Airbus requirements are considered by the affiliate's management. At least once a year the agenda of the board will include an update on ethics and compliance matters (including training, awareness and any other relevant issues).

In order to ensure proper and systematic cascading of R&S-related policies throughout the Company, Airbus' head of Affiliates has joined the R&S Network.

For its principal minority joint ventures, Airbus will ensure the proper application of its policies or those of its partner.

A dedicated programme has been launched by the Procurement function in order to monitor Airbus' suppliers. For more information on the programme and its implementation, including the vigilance plan for suppliers, see section 6.1.4(b) Responsible Suppliers. For more information on Airbus' approach to the environment, see section 6.1.2(c). For more information on Airbus' approach to human rights and health and safety, see sections 6.1.3(b) and 6.1.3(c).

## 6.1.2 Responsible Manufacturer

### a. Aviation and Product Safety

Airbus recognises the significant trust placed in the company's products by their operators and passengers, and takes its responsibility for their safety seriously. Whilst the foundations of safety are built on regulatory compliance, Airbus goes beyond airworthiness requirements to also focus on safety enhancement activities in products, services, customer operation, and with international stakeholders, whilst also adapting the organisation to meet evolving conditions.

Whenever safety topics must be discussed, it is done at the appropriate level, including by Airbus' senior executives.

The Product Safety Process (PSP) is Airbus' primary means of responding to what is happening with the 10,000 Airbus aircraft flying today, and of maintaining continued airworthiness. It enables Airbus to analyse reports from the field and other in-service events, and frequently leads to the introduction of safety enhancements either to new products under development or to existing designs.

#### Regulatory compliance

Product certifications are provided by the competent aviation authorities including the main civil aviation authorities (EASA, FAA, NAA) and specific military authorities (EMAR, NAA). Specific approvals are granted by these authorities to the relevant parts of Airbus' organisation at commercial aircraft level and within each Division, according to their function.

Airbus therefore works to ensure compliance through:

- ▶ Design and certification of products under EASA Part 21 Design Organisation Approvals (DOA), ECSS-QST-40-C for (Space Products) and Def-Stan 00-56 (Defence Products);
- ▶ Manufacturing under Production Organisation Approvals (POA);
- ▶ Monitoring of in-service safety through approved EASA Part-M Continuing Airworthiness Management Organisations (CAMO);
- ▶ Aircraft maintenance and retrofit operations conducted in line with civil and military EASA Part 145 regulations; and
- ▶ Training provided to flight crews, cabin crews and maintenance crews through EASA Part 147 Approved Training Organisations (ATO).

The certified organisations of Airbus are audited by the aviation authorities to ensure the surveillance of the full compliance of Airbus to regulatory requirements. Additional audits are also conducted by third parties as part of the quality certifications appropriate to each Division, including EN9100, EN9001, EN9110, AQAP 2110, AQAP 2210 and AQAP 2310.

#### Going beyond compliance

For enhancing safety by managing and reducing safety risks, a number of company-wide organisational initiatives ensure that departments throughout Airbus work together to harmonise the Company's overall approach to aviation and product safety.

Airbus commercial aircraft and each Division includes a dedicated Aviation and Product Safety function which provides a voice for safety which is independent of other corporate priorities, and empowered to take action across each business to ensure the highest levels of product safety.

For the commercial aircraft activities of Airbus and in each Division, a Safety Management System (SMS) is deployed in order to ensure definition and clarity of safety policy and objectives, manage safety risks, assure effectiveness of implemented risk control strategies and promote safety culture amongst the workforce.

Safety policy is set within the Divisions, following common themes in behavioural values:

- ▶ Putting safety first with a commitment to recognising that lives depend on safety
- ▶ Being engaged with safety, and aware of the impact of our actions on safety
- ▶ Ensuring that potential safety topics are reported and applicable lessons learnt shared with stakeholders

One of the key elements of the Company's safety culture is the open sharing of technical information and lessons learnt with operators and industry stakeholders, including during major investigations within the constraints of ICAO Annex 13 practices. Safety culture is reinforced by the provision of means for confidential reporting of safety topics across Airbus. Just & Fair Culture policies and commitments, which provide assurance and protection from penalisation to employees who report unintentional errors, are defined and deployed throughout the Company.

The Company's safety policies identify axes of safety enhancement activity including in the safety of Airbus products, the safety of flight operations of Airbus products, and safety of the environment in which products are operated. Enhancement activities are tailored to take into account differences in the customer base and operating environment of Airbus commercial aircraft and each Division.

## **b. Research & Technology**

The Chief Technology Office (CTO) applies a lean, project-based approach, encouraging collaboration with external research communities and develop partnerships, especially through open innovation with technical and scientific experts.

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

Technology Planning and Roadmapping provides R&T Portfolio exhaustive view across the Company, manages CTO portfolio planning process and develops technology roadmaps including the use of key Figures of Merit to enable a value based technology planning.

Flight Demonstrators provide a maturation mechanism and maturity gates for the group R&T portfolio. The Demonstrators employ a CTO-established development methodology, including phasing and key gates, lightweight project management and earned-value management processes, including budgeting, HR and contracting mechanisms tailored for speed of execution.

Central R&T is an R&T planning and delivery vehicle identifying and delivering technology through breakthrough research for future product generations. Central R&T portfolio is shared with Division R&T and is organised in five boost areas - data science, materials, communication technologies, electrics expertise and virtual product engineering.

Ax R&T The Divisional R&T functions are primarily planning, decision making and arbitration teams accountable within their perimeters to both CTO and to Divisional Engineering and Product Strategy. Their responsibilities include securing continuous improvement in Divisional competitiveness and ability to develop business.

Fast Track Domains serve as principal advisors to the CTO on technical vision and roadmaps for associated Technology Domain areas. Fast Tracks established to ensure coherency in the portfolio of activities and to rapidly advance strategic priorities are:

- ▶ Electrification;
- ▶ Industrial Systems and Manufacturing;
- ▶ Connectivity;
- ▶ Autonomy;
- ▶ Materials; and
- ▶ Artificial Intelligence.

## Key Progress in 2018

### Flight Demonstrators

Flight Demonstrators are a technology delivery vehicle for technological breakthroughs, providing a maturation mechanism and maturity gate for the R&T portfolio. The E-Fan family of technology demonstrators is a bold step towards all-electric and hybrid-electric flight aimed at establishing requirements for future certification of electrically powered airplanes and at training a new generation of designers and engineers for the challenges of electric flying.

### A<sup>3</sup>

A<sup>3</sup> (pronounced “A-cubed”), is the advanced projects and partnerships outpost of Airbus in Silicon Valley with the mission to disrupt the aerospace industry.

- ▶ **Altiscope** helps integrating unmanned aircraft systems (UAS) into the airspace. Using a simulator to evaluate policy options and operational models for air traffic management systems, it aims to service all forms of airborne traffic.
- ▶ **Vahana** is an electric urban air mobility vehicle designed to carry a single passenger or cargo. The objective is to fly at full scale an all-electric, self-piloted VTOL aircraft and discover the core set of requirements and technologies to enable self-piloted operations. The first Vahana full-size prototype successfully completed its first test flights in early 2018.
- ▶ **Adam** (Advanced Digital Design and Manufacturing) aims to develop methods and tools to drastically reduce development lead-time and production cost by leveraging emerging digital technologies.
- ▶ **Wayfinder** develops a scalable and certifiable platform for Autonomy and Machine Learning to enable future autonomous flight projects.
- ▶ **Voom** delivers an on-demand urban air mobility service using helicopters. It successfully completed its beta phase pilot in Sao Paulo, Brazil and Mexico City.

The operational management of Vahana, Voom and Altiscope is exercised by the new UAM organisation.

### **Airbus China Innovation Centre (ACIC)**

ACIC, based in Shenzhen, is the first Innovation Centre set up by Airbus in Asia. Its mission is to fully leverage local advantages including innovative talents, partners and the eco-system, and combine this with Airbus' expertise in aerospace to explore breakthroughs in technologies, business models and new growth opportunities.

### **BizLab**

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

### **Airbus Helicopters**

Safety remained the 2018 priority by significant progress on components architecture and advanced usage and health systems development. Advanced algorithms to provide specific, early and reliable damaging diagnostic on crack initiation were developed to provide our H225 customers with maintenance credit.

City Airbus, a three-to-four passenger optionally piloted electric vehicle demonstrator for unmanned air mobility, was a top priority of 2018 to gain experience and expertise on urban mobility and vehicle requirements. It has transitioned into Airbus Helicopters from the ExO and has successfully performed a power-on in November 2018 to launch the flight campaign in January 2019.

The urban last mile delivery solution, Skyways, has demonstrated a delivery solution in 2018 after a first flight in January.

### **Airbus Defence and Space**

A priority in 2018 was technology development supporting unmanned aerial systems data driven services to accelerate the business development in this area. Light weight sensors and communication links deployed on the Zephyr High-Altitude Pseudo Satellite were equally important than the automated data analytics on images and other surveillance data which in future will be more and more based on artificial intelligence algorithms.

Integration and implementation of 3-D printing capabilities across the Division's flying products was accelerated through group-wide initiatives and will continue to be qualified for flight (in military and commercial aircraft as well as in spacecraft / satellites).

Technologies ensuring efficient satellite constellation management as well as preparing the next generation payload modules were matured to Technology Readiness for Product Integration.

## **c. Environment**

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

As aviation represents around 2% of global man-made CO<sub>2</sub> emissions, Airbus recognises its role in reducing the global environmental footprint of the sector and the importance of staying in line with the global 2°C trajectory. Climate change may also affect the environmental conditions in which Airbus' manufacturing activities and products are operated. Another area of attention is the elimination of substances that may pose a risk to human health or the environment. Airbus is continually seeking technically-feasible sustainable solutions to reduce the

environmental impacts of its products and operations, in cooperation with Airbus' suppliers and industrial stakeholders.

The following section explains Airbus' engagement in managing these challenges.

## **1. Governance and Environmental Management at Airbus**

“Shaping the future” for Airbus means developing products and services taking into consideration current and foreseeable future environmental challenges for future generations and with long-term value creation in mind. In 2018, Airbus updated its environmental policy, with a strong engagement from the CEO. The new policy focuses on three main directions:

- ▶ driving development of eco-efficient products and services taking into account environmental challenges;
- ▶ continually improving our manufacturing and site operations;
- ▶ working in cooperation with the aerospace sector to develop sustainable operations of air transportation.

Airbus Environment Steering Committee coordinates on all matters related to the environment. The Steering Committee meets four times a year and is composed of the heads of Environment for Helicopters, Defence and Space and the commercial aircraft activities of Airbus, as well as a representative from the R&S department. The responsibilities of the members are to provide consistency in environmental policy across divisions and businesses in a harmonised manner, where appropriate and specific actions are agreed for operational implementation.

Airbus also monitors environmental regulatory developments to understand, evaluate and prepare for legal and regulatory evolutions applicable to its activities and products.

Airbus has put in place robust Environmental Management Systems (EMS) based on ISO 14001. Airbus was the first aircraft manufacturer to be ISO 14001 certified. Amongst this year's achievements was the successful certification of the production site in Mobile, Alabama, which is now part of the certification scope.

Environmental risks and opportunities are managed following the company's ERM process. Risks and opportunities are reported quarterly to the Executive Committee of each division and top risks are consolidated at company level to be brought to the attention of Airbus' top management.

On an annual basis, Airbus undertakes an extensive exercise to collect, consolidate and report the Company's environmental performance data. Quantitative data is gathered as well as qualitative data (including certification, incidents and activities on site). This enables Airbus to measure the environmental impact of its site operations, track its performance and communicate information on environmental matters to internal and external stakeholders.

The reporting of environmental indicators is being extended to progressively include relevant categories of Scope 3 emissions. This provides a greater understanding of the environmental impact of Airbus products and operations.

The emissions of the products in operation are largely influenced by downstream stakeholders: airlines' operations of aircraft, air traffic management, and fuel development are amongst them, reinforcing the need for development of appropriate methodology at sectorial level.

In 2018, Airbus reporting includes CO<sub>2</sub> emissions on the upstream value chain, with emissions linked to employee business travel and oversized transportation. Airbus is looking into developing methodology regarding the CO<sub>2</sub> emissions of purchased goods and services.

### **Working in cooperation**

Airbus understands the importance of working together with other stakeholders to find solutions.

Airbus is a Founding Member of International Aerospace Environmental Group (IAEG) and participates in different areas of IAEG, such as greenhouse gas emissions, substances management, substitution technologies and supply chain to share practises and promote development of global standards.



Airbus is an active board member of the Air Transport Action Group (ATAG) which sets industry goals including CO2 emission reduction goals, and mobilises action on strategic aviation issues.

Aviation is a global industry and requires global solutions. ICAO, a specialised agency of the UN, has a proven track record of delivering robust aviation environmental standards and guidance (i.e. air quality, noise, CO2).

Airbus supported the ICAO agreement in 2016 on the CO2 standard and also the adoption of the new Carbon Offsetting & Reduction Scheme for International Aviation (CORSIA) in 2017. Within the framework of this sectorial offsetting scheme, airlines will start the monitoring and reporting process of CO2 emissions on 1 January 2019. CORSIA is the first global sectorial offsetting scheme.

Airbus continues to proactively support emissions and noise reductions once the aircraft goes into service with our customers, through fuel efficiency services, weight saving projects, developing and offering retrofits (i.e. sharklets) and ground operation solutions (i.e. e-Taxi) and the Sustainable Aviation Engagement Programme.

Airbus has worked with the European Space Agency (ESA) in Earth observation for over 25 years. EarthCARE (Earth clouds, aerosols and radiation explorer) and Copernicus, the most ambitious Earth observation programme to date, are two examples.

Recyclability is another important topic that Airbus is tackling in cooperation with other entities. With TARMAC Aerosave, a joint venture between Airbus SAS, Safran Aircraft Engines and Suez, more than 90% of an aircraft weight is today recycled or re-used through a selective dismantling (reverse manufacturing) process. As airplanes manufactured with large volumes of composites start retiring in the next few decades, Airbus is working in cooperation with several specialist companies involved in carbon fibre recycling, as part of an industry goal to determine the best processes and uses for recycled and reused carbon fibre materials.

## **2. Environmental Concerns**

### **Regulated substances across its products' lifecycles**

Many substances used in the global aerospace industry to achieve high levels of product quality, safety and reliability are subject to strict regulatory requirements.

In the aerospace industry, regulations on substances impact key processes and products, such as surface treatments, paints and fire protection.

Facing this challenge, Airbus remains committed to move towards replacement of such substances in products and processes. To help achieve this, the Company has put in place a portfolio of activities and projects, working with suppliers to identify, develop, qualify and deploy new technologies and solutions that avoid use of substances classified as posing a risk to human health or the environment, whilst satisfying airworthiness, certification and performance requirements. Airbus also engages with suppliers to promote the adoption of a similar approach through regular communication and, more widely, by working together with the aerospace industry to promote worldwide harmonisation of regulations and ways of working, taking into account the sector's safety and lifecycle specificities.

Using information obtained from its suppliers, Airbus tracks, registers, assesses and declares regulated substances. The Company has already qualified and deployed over 300 alternative products for substances such as ozone-depleting substances and fluorinated gases.

Airbus invests substantial time and resources in research and development for technologies that use alternatives to regulated substances. When it can be demonstrated that these technologies meet the strict safety and reliability criteria required for aviation, Airbus seeks to implement them in its aircraft design and manufacturing.

For example, in 2006, the Airbus Chromate-Free project was launched with the aim of developing, qualifying and deploying chromate-free alternatives to materials containing and processes using chromates in aircraft production

and maintenance. Chromate-free external paint systems developed initially for the A380 programme are now used in all Airbus commercial aircraft manufacturing programmes and across the aerospace industry.

Another example is the Airbus Basic Primer project that researches potential alternatives with the aim of phasing out the green chromated primer coat.

### **Environmental impact of Airbus industrial operations**

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

Analysis of the current trends shows that regulatory pressure on the international scene to reduce the environmental footprint of the aerospace industry is steadily growing (circular economy and resources efficiency, energy transition and climate change engagement, air and water quality improvement).

Airbus has committed and continues to commit to setting up ambitious short-, mid- and long-term environmental targets. In 2006, the environmental vision was set up for 2020 with goals (by reference to a baseline of 2006 at constant revenue) for reduction of energy consumption, CO<sub>2</sub> emissions, water consumption, VOC emissions, and waste production.

So far, the Company’s energy consumption (stationary sources) has been cut by 38%, exceeding the goal of 30%; CO<sub>2</sub> emissions have decreased by 40% (scope 1 stationary sources + scope 2 total) against the goal of 50%; VOC emissions have been cut by 60% exceeding the goal of 50%; water consumption has been reduced by 46% against a goal of 50%; and waste production has been diminished by 42% against a goal of 50%.

Thus, since 2017, Airbus has set an extended 2030 Vision.

The following operational objectives on commercial aircraft manufacturing activities have been set:

- ▶ respect the Paris Agreement by keeping a global temperature rise well below 2°C above pre-industrial levels, and absorb production ramp-up impacts by reducing CO<sub>2</sub> emissions intensity by 60%\*;
- ▶ reduce its water intensity by 50%\* ;
- ▶ maintain levels in compliance with air emissions regulations and absorb production ramp-up impacts;
- ▶ deploy environmental requirements for and evaluation of suppliers and use these results in supplier selection processes.

*\*Baseline : 2015 and constant production*

The two Divisions are in the process of developing similar approaches.

Airbus monitors and makes available data verified by external auditors, and publishes transparently its industrial performance. Environmental data has been externally audited since 2010. Below is a selection of externally reviewed environmental indicators.

Environmental performance	GRI	KPI	Unit	2018	2017
Energy		Total energy consumption (excluded electricity generated by CHP on site for own use)	MWh	3,962,484	4,098,475
	EN3	Energy consumption from stationary sources	MWh	1,296,135	1,357,724
		Energy consumption from mobile sources	MWh	1,098,179	1,206,689
		Total electricity consumption	MWh	1,568,169	1,534,062
		Generated electricity from CHP on-site for own use	MWh	190,287	190,127
Air emissions		Total Scope 1 + Scope 2 CO <sub>2</sub> emissions	tons CO <sub>2</sub>	965,633	1,013,101
	EN16	Total direct CO <sub>2</sub> emissions (Scope 1)	tons CO <sub>2</sub>	553,063	591,002
		Total indirect CO <sub>2</sub> emissions (Scope 2)	tons CO <sub>2</sub>	412,570	422,099
	EN17	Indirect CO <sub>2</sub> emissions Business Travel (Scope 3)	tons CO <sub>2</sub>	111,666	na
		Indirect CO <sub>2</sub> emissions Oversize Transportation* (Scope 3)	tons CO <sub>2</sub>	185,500	na
	EN20	Total VOC emissions**	tons	1,526	1,565
	EN21	Total SO <sub>x</sub> emissions	tons	17	15
		Total NO <sub>x</sub> emissions	tons	321	314
Water	EN8	Total water consumption	m <sup>3</sup>	4,016,913	4,011,897
	EN22	Total water discharge	m <sup>3</sup>	3,336,712	3,416,506
Waste		Total waste production, excluding exceptional waste	tons	98,592	105,839
	EN23	Material recovery rate	%	57,8	58,5
		Energy recovery rate	%	20,7	20,6
EMS certification		Number of sites with ISO 14001 /EMAS certification*** vs total number of covered by environmental reporting	Unit	60/71	61
		Workforce effectively covered by reporting over workforce subject to reporting according to the environmental guidelines.****	%	89	90

A220 sites are not yet included according to reporting rules.

2018 data audited by Ernst & Young. 2018 data covers 89% of total group employees.

\* Oversize emissions cover transport of large and non standards shipments. 2018 values cover Aircraft Commercial activities.

\*\* 2018 VOC emissions data is estimated. The precise 2018 data will be consolidated and available in March 2019

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

\*\*\*\* Airbus environmental reporting guidelines include sites worldwide with a workforce on-site higher or equal to 50 employees. Note that only 100% consolidated entities are taken into account to calculate this 50 employee threshold. For electricity, coverage is slightly higher (90,3%) due to inclusion of AD Stevenage site.

## Environmental Impact of Airbus products in operation

In the last 50 years, the aviation industry has cut fuel consumption and CO<sub>2</sub> emissions per seat / kilometre by more than 80%, NO<sub>x</sub> emissions by 90% and noise by 75% of aircraft in operation.

Whilst this performance is impressive, Airbus and the aviation industry recognise the importance to continue improving the sector's environmental performance in all areas – from noise to air quality and GHG emissions, notably CO<sub>2</sub>. Due to the industry's short- to medium-term reliance on fossil-based fuels as well as potential additional impacts from non-CO<sub>2</sub> factors, the reduction of aviation's impact on climate change remains an environmental challenge.

To address the CO<sub>2</sub> challenge, Airbus, along with airlines, airports, air traffic management and other manufacturers, committed in 2008 to the ATAG CO<sub>2</sub> emission goals:

- ▶ improve fleet fuel efficiency by an average of 1.5% per annum between 2009 and 2020;
- ▶ stabilise: from 2020, net carbon emissions from aviation will be capped through carbon neutral growth (CNG);
- ▶ by 2050, net aviation carbon emissions will be half of what they were in 2005.

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

Good progress has already been made on the first two ATAG CO<sub>2</sub> emission targets:

- ▶ The average global fleet fuel efficiency has improved by more than 2% per annum over the last 5 years. Airbus has contributed significantly to this reduction by delivering new aircraft (such as the A350 XWB, 25% more efficient than the previous generation aircraft; the A320neo, offering today 15% less fuel consumption compared to A320ceo (targeting 20% in the near future); and the just recently delivered A330neo, providing 14% improved fuel consumption efficiency);
- ▶ The recently agreed ICAO Carbon Offsetting & Reduction Scheme for International Aviation (CORSIA) should also play an important role towards achieving Carbon Neutral Growth from 2020.

Since 2008 Airbus has been actively supporting the development of sustainable aviation fuel, promoting its use with Airbus customers and supporting its certification. After having started offering the possibility to perform commercial aircraft delivery flights with sustainable aviation fuel from its delivery centre in Toulouse, Airbus has now enlarged the offer for sustainable aviation fuel delivery flights to its delivery centre in Mobile since October 2018. Airbus' ambition is to further scale-up these activities and to make available significant quantities of sustainable fuels for its commercial aircraft customers' delivery flights on a regular basis – and in the longer term from all Airbus commercial aircraft delivery centres around the world.

For the ambitious long-term 2050 target, Airbus continues its research in step-change technologies that further improve the sustainability of our products. Electrification and hybridisation can bring not only significant benefits in addressing CO<sub>2</sub> but also for noise and NO<sub>x</sub> emissions reductions. Airbus is therefore investing in research efforts on developing electric and hybrid-electric propulsion technologies. Airbus already started its journey towards electric flight with the E-Fan family of aircraft in 2011, a success that permitted Airbus to learn from the hundreds of flights performed since. In November 2017, Airbus launched E-Fan X in cooperation with Siemens and Rolls-Royce. E-Fan X is an ambitious technology demonstrator project that aims to be a stepping stone toward a hybrid electric commercial aircraft at the scale of today's single aisle family.

Alongside reducing CO<sub>2</sub> emissions, Airbus' latest aircraft models also offer improvements in both noise and NO<sub>x</sub> emissions reduction: A350 XWB with up to 21 EPNdB lower noise and 31% lower NO<sub>x</sub> emission compared to CAEP/6 industry standards, A320neo with up to 20 EPNdB lower noise compared to ICAO chapter 4 and 60% lower NO<sub>x</sub> emission compared to CAEP/6 industry standards. Moreover, A330neo is the first aircraft to receive ICAO chapter 14 noise certification, with a margin of 6 EPNdB and up to 13 EPNdB compared to chapter 4 as well as 27% lower NO<sub>x</sub>. The H160 helicopter brings noise levels down by 50% compared previous generation helicopters.

Airbus works with stakeholders across the industry including engine manufacturers, airlines, air traffic management providers and airports to be part of the solution in reducing commercial aircraft noise impacts through optimised operational techniques and preferential routings, as well as quieter aircraft. Extensive efforts to reduce noise at the source are already applied in the design process. High priority is being placed on finding new innovative solutions and technology improvements such as low-noise nacelle designs.

With the establishment of an ecodesign team in 2018, Defence and Space has broadened the environmental analyses carried out on its products, including conducting life cycle assessments on various space products. The aim is to advance the environmental performance of its products. Engineers are being provided with such information to reduce the use of regulated substances in product development and to increase resource efficiency.

#### **Services for products in operation**

Airbus is supporting the CO2 roadmap not only through state-of-the-art technologies improving environmental performance of aircraft, but also through services such as NAVBLUE, a 100% Airbus company. NAVBLUE develops digital flight operations and air traffic management solutions which offer improved navigation, enhanced operational efficiency and fuel savings (i.e. SkyBreathe software).

### **d. Responsible Defence and Space Products**

Airbus products provide invaluable insights on global environmental challenges and natural disasters, contribute to a safer space environment, and are being deployed to meet world governments' ever-changing needs to protect citizen's rights.

#### **Defence & Security**

Airbus works with the EU, NATO and other governments to supply the necessary equipment to support their efforts to make the world a safer place. Nations need defence systems and equipment to guarantee sovereignty, security and human rights. Airbus military aircraft, satellites and security technologies help protect democratic values around the globe. A partnership with Airbus also helps them to protect their nations from the changing nature of terrorism threats and cybercrime.

Unique product features include:

- ▶ ALTAIR is an innovative unmanned airship that performs emission free, multi-hour visibility over cities and crowds of people, enabling police forces to secure critical events.
- ▶ Ocean Finder delivers fast satellite-based detection and identification reports for assets at sea, including ships, locating hijacked boats, illegal activities detection, maritime mission preparation as well as supporting search and rescue operations.
- ▶ Spationav is the coastal surveillance project of Airbus DS SAS.
- ▶ Deutsche Küste - As part of the security concept Deutsche Küste (German Coast Security Concept), Airbus Security Solutions is providing a maritime information system is used for managing the planning and coordination of vessel traffic and safety of shipping within German territorial waters.

For information on risks related to security, see section 4.6, Risk Factors – Business-Related Risks – Physical Security, Terrorism, Pandemics and Other Catastrophic Events” and “Cyber Security Risks”.

Environmental contributions – With its low earth orbit meteorology satellite systems, optical and radar imagery from Airbus satellites shed light on significant environmental issues such as climate change, pollution, deforestation and natural disasters. Programme highlights include:

- ▶ Copernicus is the European Union's Earth Observation programme. The satellites built and managed by Airbus as part of the EU's programme include Sentinel 2 circles the Earth's landmasses every ten days, delivering data for agriculture, forestry, natural disaster control and humanitarian relief efforts. ADM-Aeolus provides global observations of atmospheric modelling and analysis techniques, which benefit operational weather forecasting and climate research.
- ▶ METOP mission provides meteorological observations from polar orbit and contributes to the long-term climate

monitoring programme. It also has a search and rescue function.

- ▶ BIOMASS will provide global scale maps of biomass, changes due to forest loss (from logging/burning) and forest regrowth, improving the understanding of the contribution of forests to the global carbon budget.
- ▶ Twin Grace-FO Satellite observes changes in the Earth's gravitational field over time to better understand the dynamic processes beneath the Earth's surface and the changes in the ice coverage at the poles.
- ▶ Starling is a service that assists companies in verifying commitments made to stop deforestation.
- ▶ Zephyr is the world's leading solar-powered High Altitude Pseudo-Satellite (HAPS), providing persistent surveillance, tracing the world's changing environmental landscape, and will be able to provide communications to the most unconnected parts of the world.

The Airbus Foundation's partners, such as non-governmental organisations, benefit from Airbus satellite images to assist them in carrying out relief efforts following natural disaster events, as well as the use of Airbus platforms in the transport of relief aid. Further details on the Airbus Foundation are provided later in this chapter.

Sustainable Space – Airbus is working to ensure a safe and sustainable space environment for current and future generations by pioneering relevant technologies and participating in leading sector initiatives. Examples include:

- ▶ RemoveDEBRIS, a collaborative space debris removal technology mission
- ▶ Technology for Self-Removal of Spacecraft (TeSeR), is a consortium which aims to reduce the risk of spacecraft colliding with debris through a module that prevents collision risk.
- ▶ O-Cubed is an on-orbit servicing solution for active debris removal, satellite maintenance and in-space manufacturing.

## 6.1.3 Responsible Employer

### a. Airbus' Workforce

As of 31 December 2018, Airbus' workforce amounted to 133,671 employees (compared to 129,442 employees in 2017), 95.78% of which consisted of full-time employees. These statistics take into account consolidation effects and perimeter changes throughout 2018. Depending on country and hierarchy level, the average working time is between 35 and 40 hours per week.

<b>Entries &amp; Leaves</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Newcomers</b>	<b>10,959</b>	<b>7,318</b>	<b>7,532</b>
Core division	5,246	3,900	3,843
Subsidiaries	5,713	3,418	3,689
<b>Leavers (including partial retirement)</b>	<b>6,198</b>	<b>5,151</b>	<b>4,698</b>
Core division	3,245	2,646	2,274
Subsidiaries	2,953	2,505	2,424

In terms of nationalities, 36.3% of Airbus' employees are from France, 31.5% from Germany, 9.0% from the UK and 9.9% from Spain. US nationals account for 1.8% of employees. The remaining 11.6% are employees coming from a total of 136 other countries. In total, 90.7% of Airbus' active workforce is located in Europe on more than 100 sites.

Furthermore, Airbus expects its workforce to evolve naturally to support the business.

## Workforce by Division and Geographic Area

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

<b>Employees by Division</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Airbus Commercial Aircraft*	80,924	74,542	73,852
Airbus Helicopters	19,745	20,161	22,507
Airbus Defence and Space	33,002	32,171	34,397
Airbus (former HQ)	0	2,568	3,026
<b>Group Total</b>	<b>133,671</b>	<b>129,442</b>	<b>133,782</b>

\* Airbus commercial Aircraft includes population of Airbus Former HQ since 01 January 2018

<b>Employees by geographic area</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
France	48,144	47,865	47,963
Germany	45,387	44,214	46,713
Spain	13,684	13,177	12,682
UK	11,214	11,304	12,020
US	2,489	2,707	2,829
Other Countries	12,753	10,175	11,575
<b>Group Total</b>	<b>133,671</b>	<b>129,442</b>	<b>133,782</b>

<b>% Part time employees</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Group Total</b>	<b>4.22%</b>	<b>4.20%</b>	<b>4.13%</b>

<b>Active Workforce by contract type</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Unlimited contract	130,131	126,534	131,153
Limited contract > 3 months	3,540	2,908	2,629

Airbus' attrition rate is 4.9% overall (incl. subsidiaries) and 8.51% in subsidiaries only.

Airbus' headcount reporting includes all consolidated companies worldwide. The internationally comparative figures are based on the active workforce, i.e. the number of permanent and short-term employees, irrespective of their individual working times. The headcount is calculated according to the consolidation quota of the respective companies. The scope for HR structure reporting covers about 97% of Airbus' total active workforce from consolidated companies. In total, about 3% of Airbus' employees are not included in the scope, as no detailed employee data is available at group level for some companies belonging to Airbus, usually recently acquired.

For more details on Scope and Methodology, please refer to the Airbus website at <http://www.airbus.com>.

## b. Human Capital Management, Labour Relations and Human Rights

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

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

### Training & Mobility

In 2018\*, Airbus provided more than 1,3 million training hours and more than 11,000 employees participated to learning linked to leadership domain.

	2018*	2017
Number of Classroom Training	114,327	134,427
Number of Digital Training	248,448	144,624

\* Change of reporting period in 2018: from 1 Oct 2017 to 30 Sep 2018

In addition, in 2018 more than 30 000 employees benefitted from others developments and transformation solutions proposed by the Airbus Leadership University. The purpose of the university is to strengthen the company's approach to leadership, offering equivalent opportunities for all leaders to drive their development one step ahead, while accelerating the culture evolution and human transformation in Airbus.

Mobility of employees within or across Divisions is one of the main priorities for the overall benefit of the company. In 2018, as of end of December, more than 12,500 employees changed jobs cross-divisionally and cross-country.

### Labour Relations

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

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

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

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

Airbus is in continuous dialogue with social partners on its sites in Europe, principally through meetings with management at the European Committee level but also through meetings and negotiations at national or local



level. Sites outside Europe are covered by Airbus' ILA framing the social dialogue and social culture in line with local labour legislation, culture and practices of respective countries.

Regular social dialogue is ensured as per ILO requirements and local legislation thanks to Airbus' Societa Europea Work Council (SEWC) agreement in 2015.

Strengthening the role of industrial relations & social dialogue is an enabler of shaping the future of work through workplace cooperation, collective bargaining by enhancing cooperation between employees' representatives and the top management of Airbus.

In line with its commitments, Airbus demonstrated its engagement through the following significant milestones in 2018:

- ▶ In 2018, Airbus signed the SEWC Reshape agreement promoting mutual understanding and the co-construction of transnational solutions, which should be then reflected at national level. In this frame, the "Airbus Global Forum Initiative" was launched, with the aim of piloting constructive exchange of information with staff representatives at a global level, in line with responsibility and sustainability policies to further engage the social dialogue towards Company globalisation. The first meeting will be held in June 2019 chaired by the Airbus CEO.
- ▶ In October 2018, Airbus also joined the Global Deal for Decent Work and Inclusive Growth initiative ("Global Deal"). Launched in 2016, the Global Deal is a multi-stakeholders' partnership that seeks to address two of the greatest challenges of our time: to reduce high and rising inequalities in opportunities and outcomes and to restore fading trust in the ability of governments and institutions to make economic growth work for all against a backdrop of rapid changes in the world of work. The Global Deal's founding principles aim at encouraging action through voluntary commitments, increasing knowledge base about social dialogue and sound industrial relations and providing platforms for sharing experiences and best practices. Airbus' active representation demonstrates that social dialogue's globalisation is rooted in Airbus' R&S strategy and commitments reflecting Airbus being an employer of choice.

In France, following the entry into force of a new legislative framework related to employee representative bodies with the creation of a single body--the new works council Comité Social et Economique (CSE)— Airbus seized the opportunity for an in-depth review of its social dialogue model which resulted in a unanimous signing of six revised agreements pertaining to the regeneration of the social dialogue. These agreements enable the harmonised development within Airbus in France of a social dialogue that is more focused on strategic issues and the general operation of the company with an architecture giving employee representatives access to an overall vision and the opportunity to better support the transformation being undergone by Airbus (including digitalisation, new ways of working, competitiveness, etc.), without neglecting representation of proximity.

In a fast-paced transforming business environment, the quality of social dialogue, proximity and cooperation has demonstrated its added value in supporting our employees. This was accomplished through transnational restructuring plans by negotiating state of the art accompaniment redeployment measures supporting impacted employees in a constructive social climate with no protests and resulting in finding redeployment solutions to 99% of our employees mainly internally as a result of solidarity and priority principles founded in Airbus' HR values.

## Human Rights

Airbus has a zero tolerance approach to all forms of human rights abuse, including modern slavery, within its business, its operations and within its supply chain.

In light of changing regulatory requirements, Airbus has identified a risk of insufficient awareness of human rights impacts relating to its business and its operations. In response, Airbus has decided to launch a programme of work to understand more fully its negative and positive human rights impacts, and to undertake a human rights gap

analysis that will consider current and upcoming regulatory requirements, international best practice, the UN Guiding Principles and the UN Global Compact. This work is intended to commence in early 2019.

As part of its obligations under the UK Modern Slavery Act, and in recognition of the global aim of this topic, Airbus published its second Modern Slavery Statement in 2018. Modern slavery, along with wider human rights, is a topic followed by the Airbus R&S Network. Actions to address these issues and understand associated risks to its business and supply chain continued during 2018. For further information on the evaluation of human rights risks in Airbus' supply chain, see section 6.1.4(b) Responsible Suppliers.

Airbus also continued the roll-out of its e-learning modules focused on helping employees identify the signs of human rights abuse and modern slavery, including raising awareness of what to do if they have concerns. At the end of 2018, 4,972 employees had completed this e-learning, which is available in four languages and forms part of the ethics and compliance catalogue of learning. Airbus is also committed to promote awareness through internal communication initiatives and awareness sessions and to train its most impacted employees on potential risks. Modern slavery risks will also be covered in the human rights impact and gap analysis which Airbus intends to launch in early 2019.

During 2018, Airbus started to identify potential KPIs related to human rights which could be used to measure progress. Airbus is currently evaluating the availability of data in order to start report using these KPIs.

### **c. Health & Safety**

The health and safety of our employees is a top priority at Airbus. It is Airbus policy to continuously reinforce health and safety related to Airbus work activities as part of the business culture and to deliver responsible health and safety management that sustainably reduces risk to people, the environment and the business.

## Governance of Health and Safety at Airbus

A new company-wide Occupational Health and Safety Policy has been issued in 2018 as the foundation of the Company's system for management of health and safety at work. The new Policy reflects the changes in company structure and evolving external and internal requirements.

The purpose of this new policy is to:

- ▶ Reinforce the following principles:
  - Responsible management of health and safety, taking all feasible steps to protect people and the business from the health and safety risks that could arise from its work activities.
  - All employees accepting appropriate responsibility for themselves and others.
  - A health and safety management system that drives continuous improvement and compliance.
  - A preventative approach based on analysis of leading and lagging indicators and other occupational health and safety data.
- ▶ Reiteration of the health and safety mission and vision:
  - Our mission is to deliver a culture and management systems that promote health and safety at work, related compliance, and the sustained reduction of health and safety risk related to Airbus work activities.
  - Our vision is that Airbus has world class health and safety risk management and is known as a company where safety, health and welfare are valued as an integral part of our success. Airbus aspires to zero work related injuries and ill-health.
- ▶ Focus on key initiatives:
  - A health and safety management system based on the principles of the ISO Standard 45001.
  - The implementation of a company-wide health and safety software platform (Federated Information on Safety and Health called FISH).
  - The reinforcement of a company-wide health and safety function by the harmonisation of health and safety philosophy and methodology.

To achieve the objectives of this Policy, Airbus is consolidating health and safety resources into a single organisation to deliver company-wide harmonisation and gain improvements in risk control and efficiency benefits. In this respect, Airbus has defined Transversal Expert Groups (TEG), for Industrial Hygiene, Health and Wellbeing, and Safety Management. These TEG span Airbus, its Divisions and countries, providing advice and helping to improve management of risk control work.

Airbus is structuring its corporate health and safety management framework based on the principles of the newly introduced international standard - ISO45001. The new Policy is one of the foundation documents which has evolved in this regard. The FISH management platform and the harmonisation of the company-wide health and safety function are two of the pillars supporting the health and safety management framework for health and safety at work. Airbus will progressively certify some entities under ISO 45001.

### Tools

The company-wide management framework health and safety at work is supported by FISH – the global health and safety software platform. The deployment of this platform started in 2018 and will enhance Airbus' incident, risk health and safety capability. This will enable improved aggregation and analysis of health and safety data to form a risk topography that focuses resources to best effect. Such module will support measurement and evaluation of work-related incidents (eg: near misses) which will improve accident avoidance.

The incident management module of this platform has been deployed in France for Airbus commercial aircraft activities and Airbus Helicopters, in Spain for Airbus and its Divisions and in UK for Airbus' commercial aircraft activities and Airbus Defence and Space. It is expected that the full deployment of this module in the FISH tool will be completed in 2019. Thus Airbus will progressively improve its ability to collect, analyse and report on work related health and safety information, continuously improving the identification and mitigation of risk.

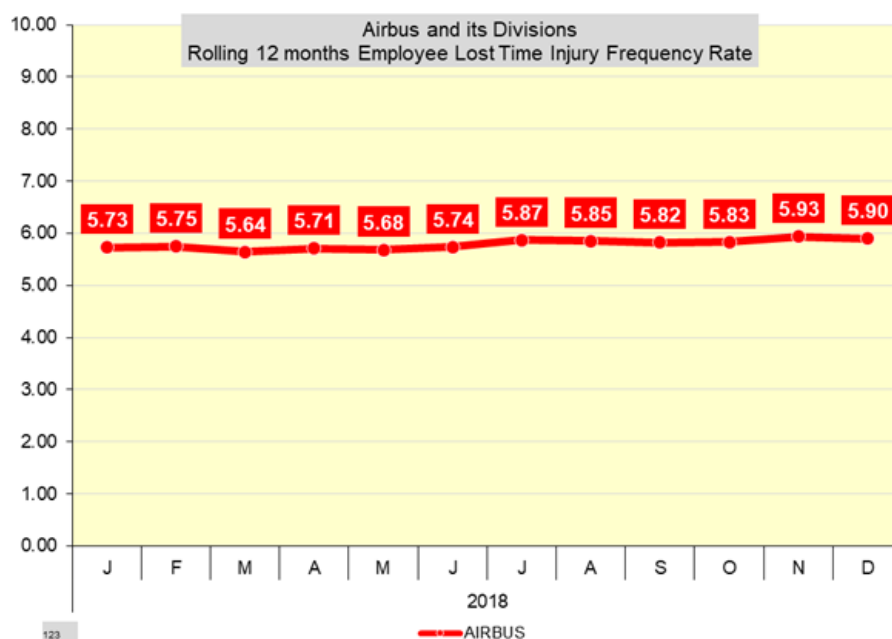
Commencing the deployment of the incident management module and the overall harmonisation process have allowed improvement in the production and collection of overall company-wide KPIs which are detailed below.

Airbus has held an innovation workshop to focus on future technologies to support and reinforce safety and ill-health risk-prevention by using new technologies, such as exoskeleton, ergonomic analysis and virtual reality training.

### Risks and Management Performance

The company identifies work-related hazards and seeks to eliminate, substitute, isolate or otherwise manage them to support legal and regulatory compliance. It is intended that company processes further be improved through the company software platform, FISH. Risks that could arise from work activities include the possibility of injury, physical and mental ill-health, damage to equipment, business interruption and regulatory action. Any reputational risk and claims against Airbus that may result will also need to be managed. In 2018, main causes of injury remain slip, trip and fall events and ergonomic/manual handling. Work at height and chemicals present additional concerns.

Collection of health and safety data is being harmonised company-wide using common indicators such as Frequency Rate. The reporting scope of such harmonised health and safety data (reflected in the table below) covers Airbus and its Divisions for the four home countries and the Mobile USA and Tianjin China plants, covering around 92% of the Airbus Active Workforce, and will be progressively extended. Analyses of such reporting data will continue and evolve in light of the level of maturity of data collection.



FISH (the new company-wide software platform for health and safety) will develop consistency of health and safety incident reporting and investigation to improve the Company's incident management results. This will in turn improve data analysis capability and help reinforce preventative activities. The People Safety@Work project was launched for Airbus commercial aircraft activities mid-2018. This project aims to improve the management of work-related healthy and safety injuries in operational areas and drive a safety mind-set. The project is structured through

a multi-functional team led by all impacted functions (e.g., Human Resources, Industry, Final Assembly Line, Facility Management, Procurement).

### **Key Initiatives**

Airbus regularly consults and provides information to employee representatives, for example in direct meetings and committees. Airbus has health and safety committees involving employees and their representatives in line with applicable regulations. As examples of such interaction, the health and safety software platform (FISH) project has been presented to more than 25 national and European employee committees and the health and safety team has contributed to an agreement signed with French social partners on quality of life at work (*Qualité de vie au travail*).

Airbus continues to conduct communication campaigns with the ongoing aim of encouraging employees to engage in health and safety risk management. In April 2018, Airbus held a company-wide risk awareness campaign to coincide with the ILO World H&S Day, extending to all employees throughout the group. Numerous other initiatives have been deployed locally on sites including the Safety Box (a dedicated space for safety training and information); Safety Road Risk initiatives; the Extended Enterprise Platform for onsite contractors; and the company-wide health and safety colloquium, where health and safety practitioners meet to exchange ideas and best practices.

The Airbus health and safety training catalogue is constantly evolving to support Airbus' risk management activities. Airbus has defined a health and safety development strategy focusing on harmonised and standardised training. Airbus is also continuously developing its health and safety learning catalogue including digital solutions and alternative learning approaches. From October 2017 to September 2018, the Company delivered over 137,000 hours of dedicated health and safety training to approximately 30,800 individual employees.

Protecting health and safety is one of the Company's top priorities, and Airbus is continuously reviewing its means and processes across plants and sites with this in mind. The 'REACH-IT' project within Airbus' commercial aircraft activities, including similar initiatives within the Divisions, reviews Airbus manufacturing processes, tools and workstations in light of the REACH authorisation application measures for environment, health and safety protection. It contributes to continuous improvement.

With regard to sub-contracting, as further detailed in section 6.1.4(b) Responsible Suppliers, Airbus strives to continuously improve the integration of health and safety elements into the purchasing process. Airbus standard procurement contracts contain health and safety provisions to be respected by suppliers.

In addition, on-site sub-contracting processes are in place and are continuously evolving with a harmonisation objective. Airbus identifies potential risks and defines prevention measures in cooperation with on-site sub-contractors, jointly producing dedicated documents, such as the prevention plans in France or job registration forms in the UK. Airbus then monitors on-site sub-contracting activities.

### **Outlook**

The health and safety management system aims to focus on proactive risk assessment and control, role appropriate competence and development, and active monitoring, analysis and oversight reporting. It is key for Airbus to further expand its health and safety management software platform (FISH) to enhance the ability to capture company-wide performance information in a common format to facilitate improved data collection, analysis and performance. Such data analysis will help reinforce preventative activities.

Airbus also aims to further use learning to support the integration of health and safety into the business culture and is therefore working on the harmonisation of employee training offers for employees and customisation of such offers, for example developing specific training for managers and executives.

## d. Inclusion & Diversity

Airbus is convinced that diversity helps foster innovation, collective performance and engagement. Harnessing everyone's unique potential while ensuring an inclusive workplace is what it takes to succeed together. At Airbus, we live diversity as a core part of our identity: Airbus is proud of its European roots and passionate about its achievements around the world. More than 135 nationalities are represented and more than 20 languages are spoken within the Company.

Airbus' approach to Inclusion & Diversity ("I&D") takes different forms including: I&D Steering Board chaired by the Airbus CEO, dedicated training and awareness, internal incentives for international mobility, initiatives to attract women, flexible work-life solutions. In fact, the Company strives to ensure I&D is embedded in all it does, serves business purposes and benefits all employees worldwide. With full support of the entire HR function, I&D initiatives are run and coordinated by a dedicated team of experts worldwide. The Company's efforts are also supported by several employee networks such as Balance for Business and platforms for exchange like "Knowing Me, Knowing You".

In line with its aspiration for a more diverse workplace, Airbus is working to increase the number of applications from areas that are currently under-represented in its workforce, including but not limited to women, nationalities, age groups and social backgrounds to ensure a broader range of candidates for open positions.

In order to support recruitment of women in all areas, Airbus has entered into partnerships to increase the number of women starting a career in the aeronautical industry – for example with Capital Filles, Women in Aviation, IAWA. Internally, an I&D network of over 4,000 employees work on how to attract, develop and retain diverse profiles, especially women, in the Company. In parallel, Airbus strives to increase the number of women in leadership positions, including through dedicated coaching and training such as "I Unleash My Potential" as well as by fighting stereotypes in internal conferences or workshops. In terms of internationalisation of profiles, Airbus facilitates the attraction of talents from around the world to Airbus' traditional home countries (France, Germany, Spain, UK) through an International Graduate Programme enabling talents from all around the world to come and work on their development over one year at Airbus sites in Europe. In addition, Airbus also put in place several actions to boost mobility from other regions to the home countries.

Although Airbus welcomes many forms of diversity, it measures the evolution of the diversity of its workforce with a specific focus on gender diversity and internationalisation with key KPIs such as: proportion of women promoted to a position of senior manager or above, proportion of women among white collar external hires, gender pay gap at all levels between women and men, and the number of moves from the key countries (including India, China, US) to the home countries.

Airbus has launched several actions to embrace other forms of diversity, including:

- ▶ reverse mentoring to connect all generations in the Company;
- ▶ accompany the creation of Employees Resource groups like Pride@Airbus (LGBT+ network);
- ▶ coordinate all local strategies towards disability with several thousand differently abled employees all around the world.

As far as the Airbus Board of Directors is concerned, Airbus is moving in the right direction with 3 women in 2018 compared to not a single woman on the Board in 2013.

For a description of the diversity policy of the Airbus Board of Directors, see section 4.1.2 Composition, Powers and Rules and section 4.3 Dutch Corporate Governance Code under the heading “Gender diversity”.

	31 December 2018	31 December 2017	31 December 2016
Women in active workforce	17.7%	17.5%	17.2%
Women in management positions	12.6%	12.4%	11.4%

The reference to “management positions” in the figure above only applies to the top 4% of the active workforce.

## 6.1.4. Responsible Business

### a. Ethical Business Practices

#### Leading by Example

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

In 2018, Ethics and Compliance was a top priority for Airbus as for 2017. In its list of priorities for the year, Airbus set the objective to:

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

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

The Independent Compliance Review Panel (ICRP), a panel of eminent external consultants appointed by Airbus in May 2017, has also progressed in its mission over the past year. Airbus is committed to putting in place the ICRP’s recommendations on how to further improve our compliance processes, policies, organisation and culture. Our E&C Organisation

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

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

#### Our Commitment

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

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

## Our Standards

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

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

## Our Programme

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

Each of these areas is, in turn, supported by dedicated compliance policies and a team responsible for their implementation, together with the identification and proposal of new measures to adapt to a constantly evolving regulatory landscape.

More broadly, the Ethics & Compliance programme at Airbus also covers other areas such as conflicts of interest, anti-competitive conduct, insider trading, fraud, etc., while also working with the Airbus R&S Network.

Improving the Ethics & Compliance programme is a constant and ongoing process, 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.

## Business Ethics/Anti-Corruption Compliance

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

The Anti-Corruption Policy (available at [airbus.com/company/ethics-compliance.html](http://airbus.com/company/ethics-compliance.html)) summarises its stance of zero tolerance. It also refers to some of the specific directives Airbus has adopted to address key anti-corruption risk areas, such as the engagement of third parties (e.g., business partners, lobbyists, etc.), gifts and hospitality exchange and the making of sponsorships and donations.

In addition to these existing anti-corruption directives, in 2018 the following new policies were adopted:

- a method defining the requirements for the prevention of corruption in the context of international cooperation & offset activities (IC&O), which provides employees with an explanation of the compliance due diligence that must be conducted on IC&O third parties depending on the function or services they perform;
- a method defining the requirements for the processes for “Manage Staffing and On-Boarding” and “Recruit People”, on how to manage applications, recommendations and referrals for recruitment at Airbus;
- a method related to the requirements for the investigation of compliance allegations, to ensure that these investigations are conducted in a consistent and professional manner in accordance with company standards and relevant laws.



In 2018, the Ethics & Compliance team also worked to align and integrate the compliance due diligence screening and on-boarding process of suppliers – formerly managed by the Procurement team through its “Watchtower” – into the overall Ethics & Compliance policy framework and tools. Further work will be conducted by the E&C team in 2019 to roll-out the process consistently across Airbus’ Divisions and subsidiaries.

### **Export Compliance**

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

### **Data Protection Compliance**

Building on the solid Personal Data Privacy policy foundation, governance and culture in place since years and the Binding Corporate Rules (available at <http://company.airbus.com/dam/assets/airbusgroup/int/en/group-division/ethics-compliance/documents/Airbus-Group-BCR-/Airbus%20Group%20BCR%20.pdf>) into force across the group since 2014, Airbus fully commits to Privacy and the General Data Protection Regulation (“GDPR”) requirements in its operations and products. Thus Airbus has deployed up-dated policies, tools and practices across its entire organisation to meet the Privacy by Design and other GDPR requirements into force since May 2018.

### **Awareness and Training**

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

In 2018, Airbus employees followed 204,667 Ethics & Compliance digital training sessions. In coordination with an effort to increase accessibility to the digital learning platform, one of Airbus’ 2018 objectives was for all employees with access to a computer to perform an Ethics and Compliance digital training session.

### **Speak-Up Channel: OpenLine**

Airbus recognises that the Standards of Business Conduct cannot address every challenging situation that may arise. Airbus therefore encourages its employees to speak-up through various channels, including through OpenLine (available at <https://www.airbusopenline.com/>). The OpenLine enables users to submit in good faith an alert securely and confidentially and also to ask all questions related to Ethics and Compliance. In 2018, Airbus decided to further improve the accessibility and use of the OpenLine by extending the geographical coverage of the tool, which should allow access to all employees based in the countries where Airbus operates. Airbus also decided to extend the scope of the OpenLine to responsibility and sustainability related topics. Finally, and beyond already existing measures to preserve the confidential use of the OpenLine, users are offered a new option allowing them to remain anonymous, where legally permissible. All of these improvements came into force on 1 January 2019. . Airbus does not tolerate retaliation against employees making reports in good faith and/or assisting in investigations of suspected violations of the Standards of Business Conduct. For further information, visit the OpenLine website.

## **b. Responsible Suppliers**

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

### **1. Procurement at Airbus**

More than 12,000 suppliers from more than 100 countries supply parts, components or sub-systems to Airbus. In 2017, the overall external sourcing volume of Airbus is valued at around € 52 billion.

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

The Airbus “Procurement Academy” provides training on core competences and skills to develop procurement expertise. and prepare Procurement employees for the challenges of the future.

### **2. Responsible Supplier Management**

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

Airbus suppliers must comply with all applicable laws and regulations of the countries in which operations are managed or services provided. In addition, wherever suppliers are located, all business should be conducted in a manner compatible with the Airbus Supplier Code of Conduct.

The Airbus Supplier Code of Conduct is the document of reference for Airbus’ responsible supplier management (available at <http://company.airbus.com/dam/assets/airbusgroup/int/en/group-vision/ethics-compliance/documents/Supplier-Code-of-Conduct/Supplier%20Code%20of%20Conduct.pdf>). This Code represents the group-wide values and principles in line with internationally recognised standards and conventions (such as OECD and ILO). Airbus implemented the International Forum on Business Ethical Conduct (“IFBEC”) Model Supplier Code of Conduct in its entirety as the Airbus Supplier Code of Conduct in 2016.

The Supplier Code of Conduct was sent to the 12,000 main suppliers across the world with a letter from the Airbus’ Chief Procurement Officer and the Airbus General Counsel requesting a commitment to the Code. Airbus expects its suppliers to comply with the key values set out in this. Suppliers are also expected to cascade these principles throughout their own supply chains.

#### **Supplier Mapping**

As part of supplier management activities, Airbus Commercial Aircraft has put in place, the Supplier Mapping tool with multiple capabilities, notably to identify Airbus supply chain sub-tiers and support identification of risks of supplier non-performance. In 2018, a total of 8,680 suppliers from 64 countries were identified by the Supplier

Mapping tool of which 1,071 were tier-one suppliers, 6,473 second tier suppliers, 1,314 qualified sub-tiers suppliers. A total of 141,148 activities were involved and 45 quality alerts resulted from 422 analyses and reports. The alerts were managed internally by the Procurement supply chain management department.

### **Ethics & Compliance Supplier Watchtower**

in 2018, the Ethics & Compliance Supplier Watchtower was managed by the Procurement Ethics & Compliance department proactively checking specific suppliers for compliance aspects.

In 2018, suppliers were checked depending on the risks linked to their country of registration. The risk rating of countries is defined by the Procurement Compliance department and updated regularly. Criteria comprise export restrictions and responsibility and sustainability-related elements such as anti-corruption, human and labour rights.

Supplier Integrity Checks investigate compliance concerns which are triggered by certain business relationships. Such concerns are comprised of, for the Company or its ownership, among others: legal investigations or judgements, negative press reports, incidents of corruption, listings on sanction lists/blacklists, proximity to governments or risky entities (shareholders, customers, beneficial owners and subsidiaries). In case a Supplier Integrity Check yields concerns, a Procurement management meeting is held to discuss potential additional due diligence measures and mitigation actions. About 700 Supplier Integrity Checks were conducted each year in both 2017 and 2018.

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

### **Environment, Health and Safety in the Supply Chain**

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

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

Current standard procurement contracts include i) requirements for suppliers to comply with all applicable laws and regulations regarding, products and services and ii) requirements for suppliers to provide information on substances used in manufacturing processes, contained in their products and on environmental, health and safety matters, including information for management of the product across its lifecycle (including waste management). Suppliers are also requested to implement an Environmental Management System – based on ISO 14001 or equivalent – which shall consider continuous improvement through the mitigation of significant environmental aspects and impacts, including air emissions (e.g., Greenhouse Gas, Volatile Organic Compounds); waste, water discharges, raw material consumption.

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

As mentioned above under section 6.1.2(c) Environment, Airbus is a founding member of IAEG, which is working on enabling a common approach at industry level, in regard to standards and tools to manage environmental obligations.

The Procurement function is ISO 14001 certified as part of the global Airbus environmental certification.

### **Zero Tolerance Approach to Modern Slavery in the Supply Chain**

As previously mentioned under section 6.1.3(b) "Human Rights" as part of its obligations under the UK Modern Slavery Act, Airbus published its second Modern Slavery Statement in 2018 in recognition of the global aim of this topic. Modern slavery, along with wider human rights, is a topic followed by the Airbus R&S network and Supplier R&S Programme. Actions to address these issues and understand associated risks in the supply chain continued during 2018 and are detailed in the chapter in regards to the Vigilance Plan.

In addition, Airbus continued the roll-out of its e-learning modules focused on helping all employees identify the signs of human rights abuse and modern slavery, including raising awareness of what to do if they have concerns. This e-learning, available in four different languages, is part of the mandatory Ethics & Compliance catalogue of learning. Airbus also plans to launch an in-depth training course specifically focused on human rights and modern slavery for employees engaged in activities in high risk areas identified through its supplier risk mapping and assessment.

### **Promoting Disability Friendly Companies**

Since 2011, Airbus in France has been promoting employment of people with disabilities by its suppliers. Concretely, a specific mention is integrated into all relevant calls for tender launched, requesting bidding suppliers to propose a partnership with a disability friendly company.

At the end of 2017, the global volume of business with disability friendly companies in France was €44.5 million with an increase of 19% compared to 2016 for Airbus in France. At the end of 2018, 56 disability friendly companies are working with Airbus compared to 10 in 2010. An extension of this project to Airbus sites in Spain and Germany is planned based on the same philosophy: create jobs for people with disabilities in specialised companies.

## **3. Moving forward: Airbus Supplier R&S Programme: Vigilance Plan**

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

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

Airbus acknowledges the challenge of obtaining sufficient visibility of its supply chain and recognises a risk regarding supplier compliance relating to stronger R&S regulations in terms of human rights, labour and environmental standards in the global supply chain. Willing to encourage development of responsible suppliers and manage the potential adverse impacts of its activities as well as to create new opportunities, in 2017 Airbus launched a Supplier R&S Programme, following international guidance such as the OECD guidance on responsible business conduct.

The Supplier R&S Programme initiated and defined in 2017 for Airbus' commercial aircraft activities will continue and evolve year on year on the principle of continuous improvement and roll-out in Airbus' Divisions. In 2019, Airbus will also launch the Supply Chain Environmental Sustainability (SCES) project to complement the response to the Vigilance Plan. The Supplier R&S Programme has been presented to and is regularly reviewed by the Procurement Executive Team led by the Airbus Chief Procurement Officer.

The Supplier R&S Programme and its activities are managed by the Airbus Procurement Ethics & Compliance department, together with relevant Airbus Procurement stakeholders. To this end, the existing Airbus Procurement environmental network with representatives from the different Procurement categories of purchase has been

extended to cover other R&S topics. The aim of this network is to ensure that the entire Airbus Procurement community is made aware of R&S-related topics and support the identification of risks according to the category of purchase. The Airbus Procurement R&S network can also support initiating cooperation with suppliers as well promoting industry-recognised practices. Additional governance exists with the corporate R&S, Legal and Ethics & Compliance departments. The Supplier R&S Programme manager is also part of the corporate cross-functional R&S network group.

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

**A. R&S-related risk identification and mapping**

All Procurement related risks for Airbus commercial aircraft activities are embedded into the Company's ERM system. A specific risk category regarding R&S-related risks in the supply chain has been integrated into the ERM system.

The Procurement function supported by the Procurement risk department manage ERM in procurement fields, as well as duly report issues to top management. Along with identification and reporting of R&S-related risks, a proactive supplier R&S risk mapping has been performed in line with international guidance. The risk mapping resulted from both a country risk and a purchasing category approach for human and labour rights and environmental matters. The R&S-related risks levels in the existing supply base require an in-depth analysis and review with the relevant Procurement commodities to agree on the deployment of the relevant internal and external mitigation actions.

This supplier risk mapping aims to detect areas where procurement activities are exposed to significant potential risks. With those suppliers linked to higher risk activities, specific actions started in 2017 and implementation continued in 2018. For new suppliers joining the Airbus supply base such mitigation actions currently include the performance of Supplier Integrity Checks (see previously mentioned part on Ethics & Compliance Supplier Watchtower) and on-site assessments including questions to evaluate maturity on Responsibility & Sustainability. New mitigation actions in the existing supply base such as dedicated R&S Supplier assessments started to be implemented in 2018 in a trial phase with a specialist service provider.

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

For the last few years, Procurement standard contracts have evolved to include clauses on specific topics such as environment. In 2018, a more detailed clause on anti-corruption has been incorporated into procurement contract templates to further specify Airbus' requirements in this domain.

Furthermore, Airbus has agreed to reinforce R&S-related requirements such as those on human and labour rights along the selection and contracting phase with suppliers. In 2018 the Supplier Code of Conduct has been integrated as a new R&S annex in Airbus standard contract templates. The implementation will be rolled out according to the contractual roadmap of each purchasing commodity. During the call for tender phase, results of the R&S-related risk assessment will be used to require further supplier evaluation if deemed necessary.

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

**C. R&S Supplier evaluation and continuous improvement**

Supplier R&S-related evaluation assesses the compliance of suppliers with Airbus requirements in these fields and allows the identification and integration of potential supplier improvement actions. In 2018 Airbus has started the supplier assessment activities in a trial phase with a specialist service provider that assesses social criteria including human and labour rights and environmental performance of 55 potentially critical suppliers in relation to R&S risks. Based on the outcome of the trial phase Airbus will define the long-term solution of regular supplier R&S-related evaluation and audits and its integration in the existing supplier assessment activities, such as supplier self-evaluation, desktop review or onsite audits. Airbus is also exploring potential solutions for the wider aerospace

and defence sector via its participation to sector national associations. Clear guidance on how to manage audit results and mitigation actions are being integrated into the relevant Procurement processes.

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

Airbus is currently assessing all Procurement processes and tools in order to integrate R&S-related requirements where relevant on top of environmental requirements, which are already largely considered. This will lead over the next years to the adaptation of Procurement process documentation managed by the Procurement strategy teams and set-up of dedicated R&S monitoring tools.

In 2018 Airbus started to implement the above four elements, deploying corresponding targets for each of them. The programme is integrated into Airbus' Procurement strategy and the embodiment of R&S compliance in supplier selection and management across the supply chain was part of the 2018 Procurement priorities for all employees. The R&S activities are discussed and reviewed by a steering committee composed of the Executive Committee of Procurement.

### **c. Community Engagement**

Airbus recognises the importance of contributing to the development of the communities in which it operates. Airbus was created by establishing a European partnership not only on one aircraft programme but on a long term industrial project. This same spirit of cooperation drives the development of the Company's international footprint. Airbus' approach to community engagement is driven by the willingness to develop a win-win cooperation with the local eco-system and often materialises through partnerships with local NGOs, institutions and other companies.

#### **Local Involvement**

On a country level, take Spain as an example. In addition, in 2017, the direct contribution of Airbus to the GDP of Spain was just under 1.3 Billion Euros, which represents 0.12% of national GDP and 60.7% of the contribution to GDP made by the sector. In addition, Airbus stands out in Spain for its contribution to quality employment. The percentage of permanent contracts exceeds the national average by 11 percent and 100% of its employees are covered by a collective agreement. The Company is also committed to training and development of its employees, investing five times more than the national average per employee. Airbus employees receive 4 hours more training per employee than the average for the Spanish industrial sector and 11 hours more than the national average.

On a municipal level, in Toulouse in 2018, Airbus continued to support regional economic, academic and institutional players to create the conditions for long-term sustainability and the development of innovation. Airbus provided answers to calls for cooperation in the areas of artificial intelligence, data management and urban mobility as well as sustainability and quality of life in the region. In terms of mobility, the partnership with Toulouse Metropole reached a new milestone in 2018 with the deployment of a car-sharing initiative on all Airbus sites. The job fair Carnet de Vol gathering over 650 young professionals and 80 companies and the launch of an employers' groups (GEIQ) supporting insertion and training of young professionals around digitalisation were key highlights in terms of human capital resources.

Sponsorships and donations are often meaningful ways to have a positive global impact in the communities and society at large. By leveraging its skills, know-how, expertise and passion of its employees, Airbus can bring positive contributions to local communities around its sites. Airbus' directive on sponsorships, donations and memberships provides a Company-wide framework to ensure its local actions are aligned with global strategy, priorities and values. While it naturally supports the local aerospace and defence community, Airbus encourages initiatives around:

- ▶ Education and Youth Development (preferably in Science, Technology, Engineering and Mathematics (STEM));
- ▶ Corporate citizenship and/or local community engagement;
- ▶ Humanitarian and/or Environment;
- ▶ Innovation, R&T and Science.

In addition, Airbus is an active member in several industry or other associations, and national or international advocacy organisations, such as GIFAS, World Economic Forum and Advanced Robotics for Manufacturing – ARM institute.

## Volunteering at Airbus

In 2018, more than 5,000 Airbus employees were involved in volunteering for 97 initiatives.

Airbus encourages and looks for ways to facilitate its employees' social and environmental initiatives to contribute to societal challenges in the communities around their workplaces.

For example, each week during term time, 115 employees from Airbus' Filton site in Bristol, UK, voluntarily go into local primary schools to provide valuable support in reading and maths hence contributing to SDG4.

## The Airbus Foundation

The Airbus Foundation's goal is to support the international aid organisations in regions where the Company operates and beyond. It brings products and resources, from relief flights to satellite imagery, to the humanitarian aid community to help alleviate some of the world's most pressing challenges.

Through its Humanitarian Flight Programme, the Foundation offers Airbus customers to use the delivery of their new aircraft to contribute to humanitarian efforts. By doing so, the programme helps the humanitarian community reduce its high logistics costs by delivering medical and school supplies, food, water sanitation equipment, toys, clothing and emergency response units to the most vulnerable around the world. The Programme also utilises, where possible, Airbus flight test aircraft for such missions. Since its launch in 2008, Airbus Foundation has coordinated 66 humanitarian flights, delivering over 827 tonnes of aid in over 27 countries. Since 2012 495 helicopters flight hours have been chartered in 15 countries, amounting to € 820,000. Finally, satellite images can be used to assist humanitarian organisations in the wake of a crisis in a number of ways. In 2017, a Foundation branded satellite portal was opened, providing free of charge access to satellite imagery to selected partners with whom we have entered into partnerships, including IFRC, WFP, ACF, MSF and KRC. To date, it was responded to 15 requests for satellite imagery to help our partners make assessments following crisis or disaster situations.

Since the launch of its youth development activities in 2012, more than 11,750 young people worldwide were involved with the aim to help them prepare for tomorrow's challenges. More than 1,980 Airbus volunteers supported these programmes. One of its flagship programmes, the Flying Challenge, focuses on young people who are at risk of dropping out of the educational system and subsequently missing training and employment opportunities. The programme has been deployed in sixteen Airbus sites across France, Germany, Spain, the UK, the US and Brazil.

With programmes like the Airbus Foundation Little Engineer (ALE) and Discovery Space (AFDS), the Foundation uses aerospace to spark an interest in STEM, facilitating the access to STEM skills for thousands of young minds around the world. In 2018, over 5,800 students participated to the ALE programme; and since its launch in May 2018, the Airbus Foundation Discovery Space digital platform has reached more than 7000 science centres and obtained over 50,000 content views.

For more information, please refer to the latest Airbus Foundation Activity Report, which is available at [www.airbus.com](http://www.airbus.com).

## 6.2 Other Corporate Activities

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### Digital Transformation Office

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

### Digital Office

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

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

2018 has seen an acceleration of a number of digital capabilities roadmaps such as Internet of Things, Artificial Intelligence, Connected Aircraft Solutions, Virtual & Augmented Reality and others.

Below are highlights of key projects of the DTO, such as Skywise and Digital Design Manufacturing and Services (“**DDMS**”); initiatives such as advanced analytics learning framework and harmonized data governance policy across all Divisions; with transverse enablement by key domains of Information Management and Security



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## **Skywise, Advanced Analytics and Data Governance**

Skywise has established an early lead in the race to connect the aviation industry since its launch in 2017 at the Paris Air Show. At the end of 2018, 53 airlines representing over 4500 aircraft (Airbus and other OEM) have signed up for Skywise. The focus in 2019 is to secure Skywise's position as the industry standard for access to aviation data and tools. In 2018, ten suppliers connected to Skywise and three high-value applications in on-time delivery, supplier quality, and in-service issue resolution. 2019 will see the industrialization and scale-up of these applications to aerostructure, cabin, propulsion, and equipment suppliers.

To realize the full value of data on Skywise, Airbus continued to invest in data science and AI capabilities to automate and apply intelligence to the data made available. To mature these capabilities we have continued to hire and train resources in the hundreds throughout 2018

A data governance network of 39 Data Officers and 147 Data Custodians supported these analysts and other users in the business to ensure that Airbus, customer, and supplier data was managed and used appropriately.

## **Digital Design Manufacturing and Services (DDMS)**

As experienced with 350 Programme PLM and Skywise, data continuity across functions brings superior operational performance. Beyond existing systems, DDMS is the programme aiming to build the next end-to-end company digital backbone: A Digital Twin. Beyond methods and tools, the transformation to be made is huge and it has to be conducted in parallel and tightly connected to the operational challenges. It impacts the whole company, its products, industrial systems, support & services enablers, company processes, information management systems and core competencies. There is a strong need to consider full cycle costs and service revenues (not just development costs) while defining our value chain positioning, sourcing policies, and supplier engagement models.

### **Key progress in 2018**

- ▶ Definition of the overall programme roadmap and key objectives across all the Airbus divisions
- ▶ Strong progress on identification of synergies across the different divisions
- ▶ Deployment of the DDMS organisation (capabilities and business demonstrators) and governance principles

### **Focus areas in 2019**

To optimize efficiency and accelerate the transformation, the DDMS programme will work in an agile, decentralized, and empowered manner. The next step is to set up plateaus across different sites that work towards these common objectives. To reiterate, the plan is to progress step by step towards the larger vision, to deploy DDMS principles on the current and incremental developments in order to capitalise on the value added, train the operational teams, and enhance these new capabilities before deploying them on the next generation products.

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## Information Management

Airbus now operates in a Digital-driven world where new technologies are reshaping businesses. To stay competitive, Airbus is transforming itself to become digitally-powered. In this context, Airbus Information Management (IM) has set out its vision to help make Airbus successful in the digital era and aligned its deliveries and Transformation Program to this objective.

### Key progress in 2018

On top of the daily management of a complex IT landscape (6000+ applications), IM has strongly supported Airbus strategic initiatives:

- ▶ Single Aisle ramp-up: significantly reduced IT related business risks which could potentially impact a successful ramp-up;
- ▶ Digital Design, Manufacturing and Support (DDMS): started to develop the future of the Product Lifecycle Management (PLM) toolset;
- ▶ Skywise: created a scalable data platform and applied tools to use data for smarter decisions and operations and build new services, highly recognised by Airbus customers;
- ▶ Digital Workplace: started deploying Google G-Suite to empower collaboration and transform the way people work together; and
- ▶ Security operations: launched strategic actions to strengthen business cyber resilience and reduce key cyber risks in the facing of a growing threat.

Digital Foundations and IM Transformation are key enablers to deliver these initiatives successfully and manage the complex IT landscape. Seven new Digital enterprise platforms were released in 2018 as reusable assets (API, Public Cloud, DevOps, Big Data, IoT, Real time Monitoring and IT Service Management).

Started a year ago, the transversal IM Transformation Program (In Motion) has steadily picked up speed to deliver value in 2018 whilst gaining Agile-at-scale maturity:

- Development of a new Operating Model, which is agile and enables to continuously deliver business value and to innovate faster
- Definition of 5-year plans for IM workforce, strategic sourcing and financial governance giving clear insights on IM ambitions
- Implementation of new tools and streamlined processes: a repository to better manage applications portfolio; an IM extended support for delivery centers; an E2E monitoring of critical business flows; a series of digital dashboards starting with Manufacturing

As IM is transforming, IM is becoming a more and more attractive place for talents inside and outside the company. Close to 250 new staff has been attracted to the function lowering the average age, improving gender balance and adding critical digital skills to the organisation.

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## Security

Airbus Security perimeter has been designed to cover all Physical and Cyber assets including IT, OT and Product security within all domains and divisions.

Security protects the business and its assets by qualifying and managing the security risks to anchor our company as a responsible and trusted player in the aerospace and defence industry.

However, security capabilities must do more than just addressing the threats that exist now – there is a need to continually gain a deeper understanding of the relevant threat actors, their motivations and attacks paths so that security teams can put its focus in the right areas while building the next generation cyber capabilities wisely.

Therefore, one year after the Gemini reorganisation, Airbus Security department is following two parallel paths:

- Leading security effectively by consolidating and developing ZS fundamental missions across the Group
- Going further by pro-actively support the business strategy, embracing innovations and following a best-in-class approach in cyber security

### Key achievements in 2018:

Strengthening of Airbus Security pillars:

- ▶ Leaner and business-centric security organisation;
- ▶ Single and simple governance model with one unique set of documentation and one shared security strategy;
- ▶ Implementation of a global risk-based security approach using ERM as a cornerstone;

Going further to enable Airbus business strategies in a fast transforming and threatening environment, in compliance with regulations and security standards:

- Continuous support to investigations and to major contracts negotiations (security clauses to protect the company assets);
- Maintain close link with both national and international regulatory authorities, while promoting partnerships and good-practices sharing internally and with external stakeholders (supply chain, extended enterprise, regulators, industries);
- Improve the company resilience to security attacks and crises by investing on the threat intelligence means of the Computer Emergency Response Team (CERT) and promoting cyber security expert career paths;
- Support to innovation & scouting through a formalized industrialization process for security innovations (from R&I, to incubator to accelerator).

## 7. Airbus Strategy

### 7.1 Commercial leadership, value creation and profitability

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2018 was the year Airbus operated as One Company after the completion of the Airbus Group and Airbus integration. This evolution simplified our company's governance, eliminated redundancies and supported further efficiencies, while at the same time driving further integration of the entire group. Airbus overall will derive considerable benefit from the integration through more focused business support and reduced costs..

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

Airbus Helicopters retained its leadership in civil and parapublic segment and managed to increase its market share in military segment, while operating in a challenging market environment.

The eight long term paths of the Company's strategy remain as follows:

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

The commercial aircraft business aims to be largely self-sufficient going forward. Focus upon on-time, on-cost and on-quality deliveries is paramount given the huge backlog execution challenge (over 7.500 aircraft). Airbus aims to further strengthen its position through focusing on digitalisation, innovation, services, improving our industrial system, and a more global approach.

On 1 July 2018, Airbus announced the closing of the A220 (formerly known as C Series) transaction between Airbus SAS, Bombardier Inc. and Investissement Québec. Airbus now owns a 50.01% majority stake in the aircraft programme. A220 aircraft expand the Airbus single-aisle family to cover the 100-150 seat segment – and respond to a worldwide market demand for single-aisle jetliners in that segment.

Despite challenges in the traditional helicopter market, Airbus Helicopters has shown resilient performance, keeping its market leadership in the civil & parapublic segments.

#### **2. Preserve our leading position in European Defence, Space, and Government markets by providing military platforms, space assets, and associated services, as well as through our participation in missile and launcher joint ventures**

The disproportionate scale of our Commercial aircraft business compared to our Defence, Space, and Government activities has diluted the latter's ability to serve as an effective tool to manage and hedge against commercial cycles. Nevertheless, the Company remains fully committed to serving its institutional and government customers by actively shaping and strengthening its Defence, Space, and Government businesses. The Company is doing so by: (i) leveraging customer funding to develop and deliver high performance military aircraft, Space, and related service offerings as well as through its participation in missile and launcher joint ventures; and (ii) focusing on productivity improvements – both through internal means and in the context of European industrial optimization – that will better position the Company in Space and export markets.

In 2018, Airbus worked with our government and institutional customers to anticipate and prepare competitive next generation solutions – including in the domains of Future Combat Air Systems, European MALE RPAS, Maritime

Airborne Warfare Systems, and space situational awareness – while concurrently developing new digital and other services, e.g Smartforce offerings that will improve availability and total lifecycle costs of our military aircraft fleets.

On military markets, Airbus Helicopters also showed strong performance, as market share increased.

### **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.

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

2018 is the year of the first flight and power-on of our two flight demonstrators and creation of a dedicated UAM organisation that bundles all related activity and has the mission to build on the learnings from the exploratory projects in order to develop a competitive solution and service offering. Creating the whole new UAM industry will require many capabilities beyond Airbus' scope, and therefore initial partnerships with automotive manufacturer have been started, to explore combined air and ground services.

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

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

Airbus launched Skywise, a data platform in collaboration with pioneers in data integration and advanced analytics. Skywise has established an early lead in the race to connect the aviation industry since its launch in 2017 at the Paris Air Show. Skywise aims to become the single platform of reference used by all major aviation players to improve their operational performance and business results and to support their own digital transformation.

In 2018, Airbus Defence and Space together with Airbus Helicopters launched the SmartForce suite of services to enable military operators to exploit the data gathered by their aircraft to enhance operational safety, boost mission availability and reduce maintenance support costs.

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

Airbus has a worldwide presence in 38 countries. The number of employees employed outside core countries is circa 15,300 and this will continue to grow. In Canada alone our numbers have increased significantly from 152 in 2017 to about 2,300 employees in 2018 following our C Series Joint Venture with Bombardier.

An important aspiration for Airbus with a global workforce is to build on its diversity and multicultural teams to support our Industrial cooperation, help us anticipate and respond to geopolitical changes. Our desire to move from an ethnocentric to a geocentric approach is reflected in our mobility strategy which aims to enrich our founding countries with international talents. Our 'Regional Focus Reviews' is another platform used to identify and develop our top talents in all regions and encourage inter and intra mobilities between our regions and founding countries.

Other key programs introduced are as follows:

- ▶ iJet: launched in 2017 to create customised development programs to accelerate the career of our top junior international talents. (Internal)
- ▶ IGP: a two-year international development programme aimed to attract young and talented individuals. (External)

Our Airbus Global University Partner Programme connects a global network of universities and aims to develop engineering and technology specialists of the future. The programme currently covers 26 universities in 13 countries over 4 continents.

We are also looking at developing new innovative ideas for the future like designing an end-to-end process between Airbus Foundation and Airbus HR programmes to channel students into Airbus jobs and to conduct a feasibility study on launching an International Bursary Program to inspire less privileged children from countries such as Africa and India to study Aerospace engineering.

Last but not least, in keeping a consistent view for an outside in perspective and disruption for innovation, Airbus has established in building an External Community of International leadership profiles to facilitate open exchanges with Airbus.

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

The strategy going forward is to focus on services where the Company can differentiate and add value for its customers according to the motto "no one knows our products better than we", aiming at developing long-term customer intimacy and bringing competitive advantage to its customers. As services are executed locally, the portfolio will be adapted to the increasingly global customer base. Cooperation with military customers is set to increase substantially through maintenance and support services thanks to the new platforms still to grow fleet, including about 600 Eurofighters, over 170 A400M aircraft, around 550 NH90s and over 200 Tiger helicopters. In Commercial, the installed base is expanding rapidly, and new innovative services (power by the hour, maintenance, training) are being offered successfully.

Since 1974, Airbus has delivered close to 12,000 commercial aircraft with over 7,500 still to be delivered. As the installed base is expanding rapidly, new innovative services (power by the hour, maintenance, and training) are being offered successfully.

Airbus Helicopters is a typical example of a well-balanced business mix between platform manufacturing and services. Through the HCare service offer, Airbus Helicopters provides material management, helicopter maintenance, technical support, training and flight ops, and connected services.

Airbus Defence & Space is developing GEO-Information & GEO-Intelligence services to better cater not just to governments but also commercial needs.

## 7. Strengthen the value chain position

Airbus' core capability has been programme management and architect / integrator capabilities in order to design, develop, manufacture, market and service large-scale aeronautics / space platforms and integrated systems. Airbus performs a strong prime integrator role, managing the supplier base to enable the delivery of on time and on quality product to the final customer. We aim to strengthen and optimise selected strategic value chain areas to protect our intellectual property, manage risks, improve customer satisfaction, increase profit, offer services, build competencies and differentiate our offerings. Airbus' suppliers provide a large proportion of the value in our products, necessitating a robust supply-chain governance framework. This is supported by processes and tools that foster partnership, risk mitigation and supplier performance development.

In order to secure our value chain position and maintain a competitive advantage, Airbus is continually assessing its strategy with regard to topics such as, supplier selection, dual source, make or buy, core non-core and M&A. This allows Airbus to offer & deliver the best product to the customer whilst consistently enhancing key bricks in the Value Chain.

## 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 2019

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### Airbus (commercial aircraft)

- ▶ Plan and deliver reliably on operational targets.
- ▶ Meet key programme milestones.
- ▶ Achieve sales targets and focus on strategic sales campaigns.
- ▶ Improve customer satisfaction.
- ▶ Deliver enhanced support and increase service offering.
- ▶ Ensure safety and quality.
- ▶ Deliver financial KPIs.
- ▶ Improve operational efficiency and performance.
- ▶ Pursue digital transformation across design, manufacturing, and services.

### Airbus Defence and Space

- ▶ Meet critical development milestones on quality, on time, on cost.
- ▶ Enhance customer intimacy and put the customer at the centre of all we do. Ensure customer satisfaction.
- ▶ Secure key European defence initiatives – European MALE, FCAS.

- ▶ Develop new businesses and new markets including digital services.
- ▶ Adapt our skills and competencies to our strategic future.
- ▶ Deliver financial KPIs.
- ▶ Systematically apply Safety and Quality preventive standards.
- ▶ Accelerate deployment of digital solutions with a focus on Digital Design, Manufacturing and Services (DDMS).

#### **Airbus Helicopters**

- ▶ Deliver on our commitments and achieve key programme milestones.
- ▶ Strengthen our focus on Quality and deliver our Aviation Safety commitment.
- ▶ Improve customer satisfaction towards Customer Loyalty.
- ▶ Sustain safety at work.
- ▶ Deliver financial KPIs and boost competitiveness.
- ▶ Achieve key milestones for demonstrators and prepare technological bricks for future platforms.
- ▶ Roll out digital road-map for customers, operations, and employees.

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

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

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

- ▶ The financial statements for the year ended 31 December 2018 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 2018 financial year of the Company and undertakings included in the consolidation taken as a whole, and the principal risks facing the Company have been described herein.



## 8. Financial targets for 2019

As the basis for its 2019 guidance, Airbus expects the world economy and air traffic to grow in line with prevailing independent forecasts, which assume no major disruptions.

Airbus' 2019 earnings and Free Cash Flow guidance is before M&A.

- ▶ Airbus targets 880 to 890 commercial aircraft deliveries in 2019.

On that basis:

- ▶ Airbus expects to deliver an increase in EBIT Adjusted of approximately +15% compared to 2018 and FCF before M&A and Customer Financing of approximately €4 billion.

## **The Board of Directors**

Denis Ranque, Chairman

Tom Enders, Chief Executive Officer

Victor Chu, Director

Jean-Pierre Clamadieu, Director

Ralph Dozier Crosby, Jr., Director

Lord Drayson (Paul), Director

Catherine Guillaud, Director

Hermann-Josef Lamberti, Director

María Amparo Moraleda Martínez, Director

Claudia Nemat, Director

René Obermann, Director

Carlos Tavares, Director

**Leiden, 13 February 2019**