

## 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 twelve (12) Directors, who each retire at the close of the annual general meeting 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 nationals (including the Chairman of the Board of Directors) and a majority of such majority (*i.e.*, 4/7) must be both European Union nationals and residents. No Director may be an active civil servant. The Board of Directors has one (1) Executive Director and eleven (11) non-Executive Directors. While the Board of Directors appoints the Chief Executive Officer of the Company (the “CEO”), the CEO is required to be an Executive Director and must be an EU national and resident; therefore it is anticipated that the Board of Directors will appoint as CEO the person appointed by the shareholders as an Executive Director. At least nine (9) of the non-Executive Directors must be “Independent Directors” (including the Chairman of the Board of Directors).

Under the Board Rules, an “Independent Director” is a non-Executive Director who is independent within the meaning of the Dutch Code and meets additional independence standards. Specifically, where the Dutch Code would determine independence, in part, by reference to a Director’s relationships with shareholders who own at least 10% of the Company, the Board Rules determine such Director’s independence, in relevant part, by reference to such Director’s relationships with shareholders who own at least 5% of the Company. Under the Dutch Code and the Board Rules, all non-Executive Directors (including the Chairman) other than Mr Ralph D. Crosby, qualify as an “Independent Director”. This number is consistent with the requirement set forth in the Board Rules.

The Remuneration, Nomination and Governance Committee 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 Remuneration, Nomination and Governance Committee, in recommending candidates for the Board of Directors, and the Board of Directors, in its resolutions proposed to the shareholders’ meeting regarding proposals to appoint or replace a resigning or incapacitated Director, are both required to apply the following principles:

- ▶ The preference for the best candidate for the position, and
- ▶ The maintenance, in respect of the number of Members of the Board of Directors, of the observed balance among the nationalities of the candidates in respect of the location of the main industrial centres of the Company (in particular among the nationals of the four (4) Member States of the European Union where these main industrial centres are located).

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 (A) two (2) of the Directors submitted to the shareholders for appointment should also be French Defence Outside Directors (as defined above) of the French Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the French State and (B) two (2) of the Directors submitted to the shareholders for appointment should also be German Defence Outside Directors (as defined above) of the German Defence Holding Company (as defined above) who have been proposed by the Company and consented to by the German State.

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

## Voting and rules

Most Board of Directors' decisions can be made by a simple majority of the votes of the Directors (a "**Simple Majority**"), but certain decisions must be made by a 2/3 majority (i.e., eight (8) favourable votes) of the Directors regardless of whether present or represented in respect of the decision (a "**Qualified Majority**"). In addition, amendments to certain provisions of the Board Rules require the unanimous approval of the Board of Directors, with no more than one Director not 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, makes decisions with respect to the management of the Company. However, the CEO may 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 the Group;
- ▶ Debating and approving the overall strategy and the strategic plan of the Group;

- ▶ Approving the operational business plan of the Group (the “Business Plan”) and the yearly budget (the “Yearly Budget”) of the Group, including the plans for Investment, 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 Remuneration, Nomination and Governance Committee;
- ▶ Approving the relocation of the headquarters of the principal companies of the Group and of the operational headquarters of the Company (Qualified Majority);
- ▶ Approving decisions in connection with the location of new industrial sites material to the Group as a whole or the change of the location of existing activities that are material to the Group;
- ▶ Approving decisions to invest and initiate programmes financed by the Group, 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 the Group, 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 the Group 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 (10) 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 (8) 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 with which each Member of the Board of Directors shall comply with and shall be bound by, such as acting in the best interest of the Company and its stakeholders, devoting necessary time and attention to the carrying out of their duties and avoiding any and all conflicts of interest.

## Airbus Group Board Of Directors

Name	Age	Since	Term expires	Director expertise	Status	Primary occupation & Other Public Company Board	Attendance to the Board meetings	Committee Memberships		
								Audit	Remuneration Nomination and Governance	
 Denis RANQUE	64	2013	2016	    	Independent	Chairman of the Board of Directors of Airbus Group SE	9/9			
 Thomas ENDERS	57	2012, re-elected in 2013	2016	  	Executive	Chief Executive Officer of Airbus Group SE	9/9			
 Manfred BISCHOFF	73	2013	2016	  	Independent	Chairman of the Supervisory Board of Daimler AG	7/9			
 Ralph D. CROSBY, JR.	68	2013	2016	   	Non-Independent	Former Member of the Management Boards of Airbus Group SE and of Northrop Grumman	9/9			
 Hans-Peter KEITEL	68	2013	2016	  	Independent	Vice President of the Federation of German Industry (BDI)	9/9			
 Hermann-Josef LAMBERTI	60	2007, re-elected in 2013	2016	  	Independent	Former Member of the Management Board of Deutsche Bank AG	8/9			
 Anne LAUVERGEON	56	2013	2016	  	Independent	Partner of Efficiency Capital and Chairman and CEO of A.L.P S.A.	8/9			
 Lakshmi N. MITTAL	65	2007, re-elected in 2013	2016	     	Independent	Chairman and Chief Executive Officer of ArcelorMittal	9/9			
 Maria Amparo MORALEDA MARTINEZ	51	2015	2018	  	Independent	Former General Manager of IBM Spain and Portugal	5/5 (from AGM 2015)			
 Sir John PARKER	73	2007, re-elected in 2013	2016	    	Independent	Chairman of Anglo American PLC	8/9			
 Michel PEBEREAU	74	2007, re-elected in 2013	2016	  	Independent	Honorary President of BNP Paribas S.A.	7/9			
 Jean-Claude TRICHET	73	2012, re-elected in 2013	2016	     	Independent	Honorary Governor of Banque de France and former President of the European Central Bank	9/9			
							5 meetings	6 meetings		
							80% average Attendance rate	96% average Attendance rate		

Status as of the date of this Board Report.

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

 Chairman  Member

 Global Industrial Business /  Engineering & Technology /  Manufacturing & Production /  Aerospace Industry /  Finance & Audit /  Asia

More details regarding the curriculum vitae and other mandates of all members of the Board of Directors can be found at the Company's website [www.airbusgroup.com](http://www.airbusgroup.com).

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

#### 4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2015

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##### Board of Directors meetings

The Board of Directors met 9 times during 2015, and was regularly informed of developments through business reports from the Chief Executive Officer, including progress on the strategic and operational plans. The average attendance rate at these meetings was at 91%.

Throughout 2015, the Board of Directors received reports on the technical and commercial progress of significant programmes, such as A400M, A350XWB, A320neo, A380, and the X6. During two off-site Board meetings, one in Seville at the A400M final assembly line, and the other in Toulouse, the Board seized the opportunity to meet with local management and with the operative workforce.

In 2015, the Board initiated the Group's digital transformation and streamlined its defence business. It reviewed the Airbus product policy and cost competitiveness as well as the evolution of Airbus Helicopters. Directors supported Management's initiative to establish a corporate venture capital fund, dubbed Airbus Group Ventures, as well as a business innovation centre in Silicon Valley to enhance the Company's ability to identify and capitalize on innovative and transformational technologies and business models. Furthermore, the Board welcomed the selection of Airbus Defence and Space by OneWeb Ltd. as its industrial partner for the design and manufacturing of its fleet of initially more than 900 small satellites.

Moreover, the Board of Directors focused on the Group's financial results and forecasts, asset management, compliance in key business processes and in major programmes, as well as efficiency, innovation and corporate social responsibility initiatives. It reviewed Enterprise Risk Management results, the internal audit plan, and reoriented the Group's compliance programme by implementing a reinforced anti-corruption policy called 'Business Development Support Initiative'.

Directors also reviewed the Board succession process and envisioned a Board staggering plan proposed for approval at this year's AGM in which four out of twelve Directors are either renewed or replaced every year at each AGM after 2016 to avoid large bloc replacements of Directors at one single AGM, with the corresponding loss of experience and integration challenges.

##### Board evaluation 2015

In December 2014 the Board of Directors mandated Spencer Stuart to perform a comprehensive evaluation of the Board and its Committees through individual interviews of all Directors. The interviews covered Directors' expectations, governance fit, Board effectiveness, Board composition, Committees as viewed from the Board and as viewed by their members, Board areas of expertise and working processes, chairmanship, interaction with executive management, shareholders, and stakeholders.

The subsequent discussion of the report by the whole Board in February last year was action-oriented and resulted in a 'Board Improvement Action Plan' for the year 2015. In the meeting on February 23, 2016 the Board reviewed the

implementation progress of this action plan and Directors unanimously agreed that the following improvement measures have been launched or are already successfully realized:

- ▶ Semi-annual deep-dive in risk management;
- ▶ Rotation opportunities of Audit Committee membership;
- ▶ Identification of new Board candidates based on Board skills matrix;
- ▶ Introduction of further female candidates to reach 25% (i.e. 3) women on Board in 2016;
- ▶ Refreshed induction program for new Board of Directors members;
- ▶ Non-executive sessions scheduled at the end of each Board meeting;
- ▶ Identification of individual potential top-executive successors;
- ▶ Inclusion of Governance into the Remuneration and Nomination Committee;
- ▶ Intensification of exchange with Heads of Business Units and their direct reports;
- ▶ Integration of Board members' input when agendas of Board meetings are drafted;
- ▶ Increase of information circulated to Directors particularly in-between meetings (e.g. analyst reports);
- ▶ Integration of outside expertise to Board meetings as required.

The Board of Directors decided that a formal evaluation of the functioning of the Board 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 will perform a self-evaluation and focus on the implementation of the improvement action plan resulting from the third party assessment. In the intervening second year the General Counsel will issue a questionnaire and consult with Board members to establish an internal evaluation. The next Board evaluation will be performed by the General Counsel for the year 2016.

### 4.1.3 BOARD COMMITTEES

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#### The Audit Committee

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

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

The Audit Committee is required to meet at least four times a year. In 2015, it fully performed all of the above described duties, and met 5 times with an average attendance rate of 80%. The average attendance rate was lower than usual due to the unavailability of former Board member Josep Piqué i Camps. The average attendance rate of the Audit Committee would have otherwise been 93%.

## The Remuneration, Nomination and Governance Committee

Based upon the recommendations resulting from the Spencer Stuart Board evaluation at year-end 2014, the Board decided to systematically include governance matters into the Remuneration and Nomination Committee as part of its 'Improvement Action Plan'. In its meeting on July 30 the Board approved the corresponding change of the Internal Rules and renamed the Committee into: Remuneration, Nomination and Governance Committee ("**RNGC**").

Pursuant to the Board Rules, the Remuneration, Nomination and Governance Committee 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, Group Executive Committee and Senior Management levels; remuneration strategies and long-term remuneration plans. Furthermore the Committee decides on the service contracts and other contractual matters in relation to the members of the Board of Directors and the Group Executive Committee. The rules and responsibilities of the Remuneration, Nomination and Governance Committee have been set out in the Board Rules.

The Chairman of the Board of Directors and the Chief Executive Officer are invited to attend meetings of the Remuneration, Nomination and Governance Committee. The Head of Airbus Group Human Resources is requested to attend meetings to present management proposals and to answer questions.

In addition, the Remuneration, Nomination and Governance Committee reviews top talents, discusses measures to improve engagement and to promote diversity, reviews the remuneration of the Group Executive Committee members for this year, the LTIP, and the variable pay for the previous year.

Finally, the Remuneration, Nomination and Governance Committee 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 in the Group 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 Remuneration, Nomination and Governance Committee is required to meet at least twice a year. In 2015 it fully performed all of the above described duties and met 6 times with an average attendance rate of 96%.

### 4.1.4 EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

The CEO proposes all of the Members of the Executive Committee of the Company (the "**Executive Committee**") for approval by the Board of Directors, after consultation with (a) the Chairman of the Remuneration, Nomination and Governance Committee and (b) 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 the Group (in particular among the nationals of the four (4) Member States of the European Union where these main industrial centres are

located); and

- ▶ At least 2/3 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 the Group's business and he shall be accountable for its proper execution accordingly. The Executive Committee supports the CEO in performing this task. 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 the Group. 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.

## 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 avoided (please refer to the Board Rules and to the Code of Ethics both available on the Company's website: [www.airbusgroup.com](http://www.airbusgroup.com)). 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 concerning the matters concerned. The Board of Directors must approve any decision to enter into a transaction where a Director has conflicts of interest that are material to the Company or the individual Director. In 2015 no transactions were reported where there was a conflict of interest that was material to the Company. There were, however, related-party transactions: for an overview, please see: "[Notes to the Consolidated Financial Statements (IFRS) – 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 Code, which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While the Company, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the "apply or explain" principle, provide the explanations below.

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

For the financial year 2015, the Company states the following:

### 1. Vice-Chairmanship

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

The Board of Directors is headed by the Chairman of the Board of Directors. In case of dismissal or resignation of the Chairman, the Board of Directors shall immediately designate a new Chairman. There is therefore no need for a vice-Chairman to deal with the situation when vacancies occur.

## 2. Termination indemnity

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

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

## 3. Securities in Airbus Group as long-term investment

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

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

## 4. Dealings with analysts

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

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

## 5. Gender diversity

The Company strives to comply with composition guidelines whereby the Board of Directors would be composed in a balanced way if it contains at least 30% women and at least 30% men. These percentages are based on those included in a Dutch draft bill that is expected to come into force in the course of 2016 in continuation of legislation in force up to 31 December 2015 stipulating the same percentages. With the election of Amparo Moraleda to the Company's Board of Directors at the AGM held on 27 May 2015, the female representation on the Board increased to 16.7%. The Company is pleased with this development and will continue to promote gender diversity within its Board of Directors by striving to increase the proportion of female Directors.

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

For information on the composition and operation of the Board of Directors and its respective committees, please refer to section 4.1.1 “Composition, power and rules, section, 4.1.2 “Operation of the Board of Directors in 2015”, and section 4.1.3 “Board Committees”.

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to section 3.1 “Shareholding and voting rights – Shareholding structure at the end of 2015”, section 3.2 “Relationships with Principal Shareholders”, section 4.1.1 “Composition, powers and rules”, section 3.1 “Shareholding and voting rights – Amendments to the Articles of Association” and section 3.1 “Shareholding and voting rights – Modifications of share capital or rights attached to shares”

## 4.4 Remuneration Report

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### 4.4.1 INTRODUCTION

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The Board of Directors and the Remuneration and Nomination Committee (“**RNGC**”) are pleased to present the 2015 Remuneration Report.

The Report comprises the following sections:

- ▶ 4.4.2 presents the Company’s Remuneration Policy;
- ▶ 4.4.3 sets out the changes to the Remuneration Policy that will be proposed for adoption by the 2016 AGM;
- ▶ 4.4.4 illustrates how the Remuneration Policy was applied in 2015 in respect of the CEO, the only Executive Member of the Board of Directors. (The cumulated remuneration of all Group Executive Committee Members is presented in the “Notes to the Consolidated Financial Statements (IFRS) — Note 8: Related Party Transactions”;
- ▶ 4.4.5 illustrates how the Remuneration Policy was applied in 2015 in respect of the non-Executive Members of the Board of Directors;
- ▶ 4.4.6 miscellaneous.

### 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 (which is comprised of non-Executive Directors).

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

## A — Executive Remuneration – Applicable to the CEO

### a) Remuneration Philosophy

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

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

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

### b) Total Direct Compensation and Peer Group

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

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

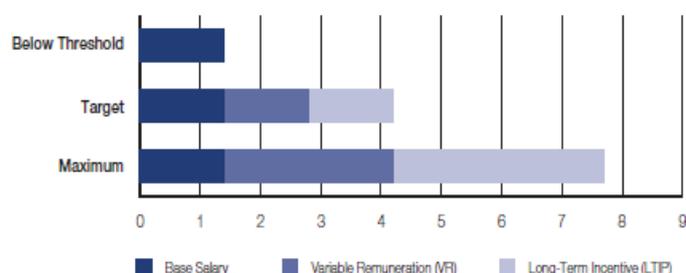
- ▶ Global companies in Airbus Group's main markets (France, Germany, UK and US); and
- ▶ Companies operating in the same industries as Airbus Group worldwide.

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>Annual Variable Remuneration (VR)</b>	Rewards annual performance based on achievement of company performance measures and individual objectives.	Collective (50% of VR): divided between EBIT* (45%); FCF (45%) and RoCE (10%). Individual (50% of VR): Achievement of annual individual objectives, divided between Outcomes and Behaviour.	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>Long-Term Incentive Plan (LTIP)</b>	Rewards long term commitment and company performance, and engagement on financial targets subject to cumulative performance over a three-year period.	Vesting ranges from 0% to 150% of initial grant, subject to cumulative performance over a three-year period. In principle, no vesting if cumulative negative EBIT*. If EBIT* is positive, vesting from 50% to 150% of grant based on EPS (75%) and Free Cash Flow (25%)	The original allocation to the CEO is capped at 100% of Base Salary at the time of grant. Since 2012, the overall pay-out is capped at a maximum 250% of the original value at the date of grant. The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.

\* Unless otherwise indicated, EBIT\* figures presented in this report are Earning before Interest and Taxes, pre-goodwill impairment and exceptionals.

## Scenarios CEO total direct compensation 2015



Indications are in million euros.

“Below Threshold” includes annual base Salary; Annual Variable Remuneration at 0%; LTIP not vesting.

“Target” includes Base Salary, Annual Variable Remuneration at target and LTIP grant face value.

“Maximum” includes Base Salary; maximum Annual Variable Remuneration value (200%); LTIP grant projected at vesting date (250%).

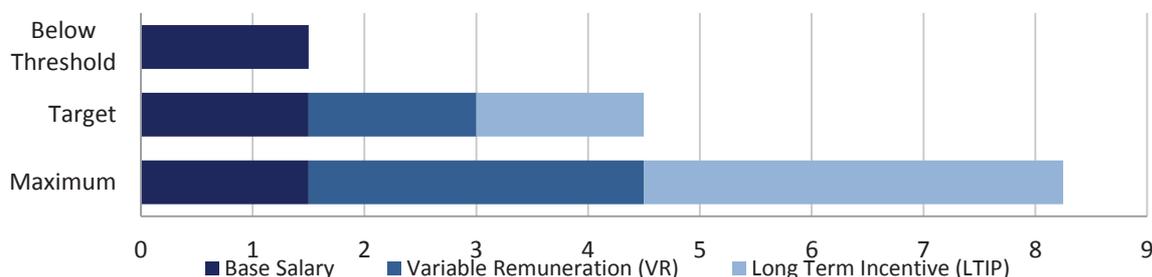
## Proposal of policy from 2016

The Remuneration Committee regularly benchmarks the CEO’s Total Direct Compensation (Base Salary, Annual Variable Remuneration and LTIP) against an extensive peer group. The last review took place in October 2014, and was completed with the assistance of an independent consultant: Towers Watson. The relevant peer groups that were considered were proposed by Towers Watson, and comprised 31 companies having comparable economic indicators such as revenue, number of employees, and market capitalization. Financial institutions were excluded from the peer group (you may refer to Paragraph 4.4.4 below for further details).

This review showed that the CEO’s Total Direct Compensation was slightly below the median level of the peer group. Based on these findings and with regards to the track record of the CEO, the RNGC recommended to increase the Total Target Remuneration of the CEO by 7% to € 3,000,000 (€ 1,500,000 Base Salary + € 1,500,000 Target Variable Pay). in the frame of the renewal of his mandate. This increase takes into consideration the fact that his remuneration was not reviewed since 2012 and is in line with the salary policy applied to employees across the Group over that period.

As illustrated in the table below, the structure of the CEO’s Total Direct Compensation will remain unchanged in 2016. Indeed, the on-target levels of Annual Variable Remuneration and LTIP will each amount to 100% of the CEO’s base salary.

## Scenarios CEO Total Direct Compensation 2016



Indications are in million euros.

“Below Threshold” includes annual base Salary; Annual Variable Remuneration at 0%; LTIP not vesting.

“Target” includes Base Salary, Annual Variable Remuneration at target and LTIP grant face value.

“Maximum” includes Base Salary; maximum Annual Variable Remuneration value (200%); LTIP grant projected at vesting date (250%).

### c) Base Salary

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

### d) Annual Variable Remuneration

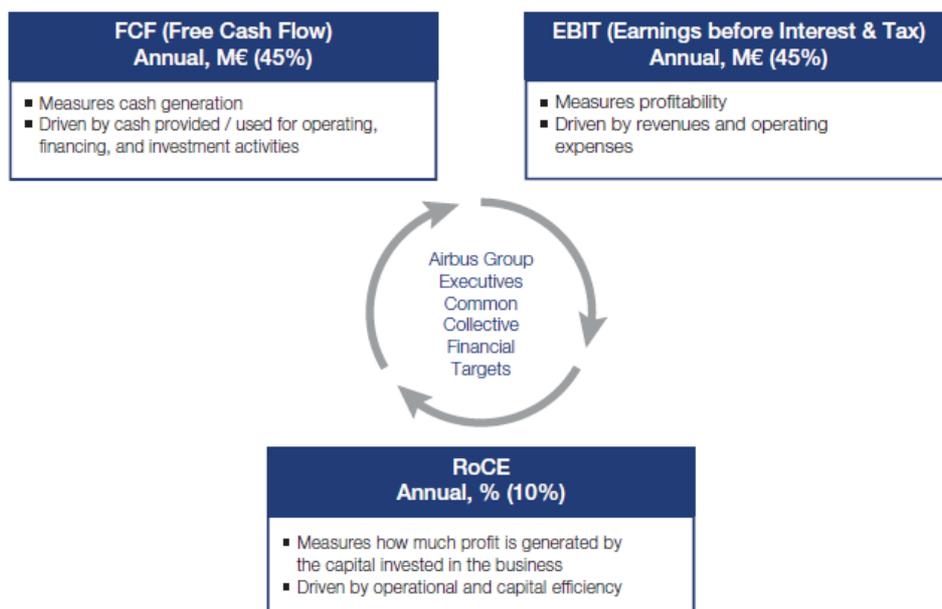
The variable remuneration is a cash payment that is paid each year, depending on the achievement of specific and challenging performance targets. The level of the variable remuneration for the CEO is targeted at 100% of Base Salary; it is capped at a maximum level of 200% of Base Salary. The entire variable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

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

#### Common Collective Component

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

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



## Individual

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

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

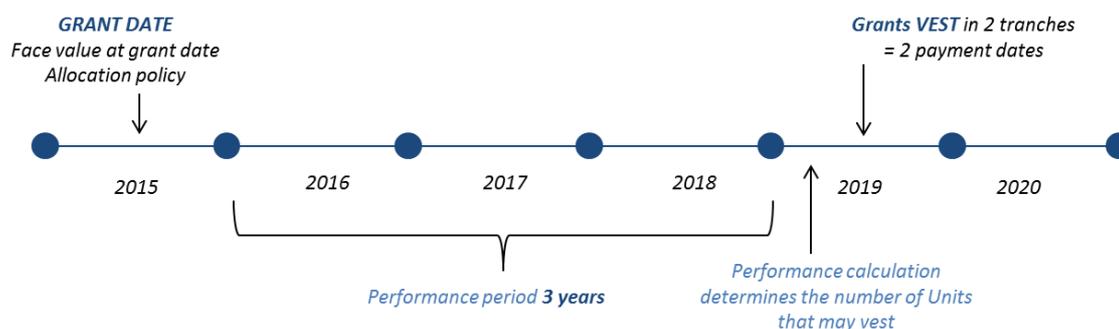
### e) Long-Term Incentive Plan

For the CEO, the Company's current Long-Term Incentive Plan ("LTIP") is comprised only of Performance Units. One Unit is equal in value to one Airbus Group share.

### Performance Units

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

### LTIP-Scheme



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

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

For the CEO, the value of the Performance Unit allocation is capped, at the time of grant, at 100% of Base Salary. The number of Units that vest can vary between 0% and 150% of the Units 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: The Board of Directors has the discretion to decide that this element of the Performance Unit award will not vest if Airbus Group reports negative cumulated **EBIT\*** results;
- ▶ 50-150% of the allocation: This element of the Performance Unit award vests based on one performance criteria: average **Earnings Per Share**. Starting with the 2013 plan, the Company proposes that this element be based on two performance criteria: average **Earnings Per Share** (75%) and cumulative **Free Cash Flow** (25%).

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

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

- ▶ the maximum level of vesting is 150% of the number of Units granted;
- ▶ 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.

#### **f) Share Ownership Guideline**

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

#### **g) Benefits**

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

#### **h) Retirement**

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

#### **i) Contracts and Severance**

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

The CEO's contract includes a non-compete clause which applies for a minimum of one year, and can be extended at the Company's initiative for a further year. The Board of Directors has the discretion to invoke the extension of the non-compete clause. The compensation for each year that the non-compete clause applies is equal to 50% of the last

Total Annual Remuneration (defined as Base Salary and Annual Variable Remuneration most recently paid) with respect to applicable local legal requirements if any.

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

#### **j) Clawback**

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

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

#### **k) Loans**

Airbus Group does not provide loans or advances to the CEO.

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

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

### **Fees and Entitlements**

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

- ▶ a base fee for membership or chair of the Board;
- ▶ a Committee fee for membership or chair on each of the Board's Committees;
- ▶ an attendance fees for the attendance of 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, members of the Board are entitled to the following fees:

#### **Fixed fee for membership of the Board EUR / year**

- ▶ Chairman of the Board: 180,000
- ▶ 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: 10,000
- ▶ Member: 5,000

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 2016

In order to recognize the increase in Board members' responsibilities, their greater time commitment and the Group's continuous need to attract and retain highly competent members, a comprehensive review of the Board remuneration policy was undertaken in 2015.

In October, an independent consultant, KornFerry, completed a benchmark on the remuneration of non-executive Directors and the Chairman of the Board. The analysis reviewed 60 comparable companies from 7 countries (France, Germany, Italy, Netherlands, Spain, Switzerland and the UK) and the aerospace/defence sector (BAE Systems, Boeing, Dassault Aviation, Finmeccanica, General Dynamics, Honeywell, Lockheed Martin, Northrop Grumman, Raytheon, Rolls Royce, Safran, Textron, Thales, United Technologies Corp). The findings of the benchmark showed that Airbus Group's Chairman total compensation was among the lowest across the peer group; also, non-executive Directors' remuneration was below the average.

In the meeting on February 23, 2016 the Board confirmed the recommendation of the RNGC to increase the total target remuneration of the Chairman of the Board of Directors to EUR 300,000 (currently EUR 240,000) while that of a non-executive Director shall increase to EUR 140,000 (currently EUR 110,000). The calculation is based on 6 regular Board meetings per year. This increase is the first since the comprehensive revision and modification of the Board remuneration policy launched by the Board of Directors in 2007.

Incentivising Board attendance the new Board remuneration policy will double the attendance fee of a non-executive Director to EUR 10,000 while leaving the fixed fee unchanged. The Chairman's remuneration will be increased with regards to both the fixed fee by EUR 30,000 and the attendance fee by EUR 5,000. However, attendance fees will decrease by 50% in case of an attendance by phone.

For personal reasons, Denis Ranque decided to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds EUR 240,000 (his current total target remuneration) until further notice. The Board recommended that the Company makes an annual contribution of € 60,000 to the Airbus Group Foundation as long as Denis Ranque waives the part of his remuneration which exceeds € 240,000.

The following entitlements remain:

- ▶ A base fee for membership or chair of the Board;
- ▶ A committee fee for membership or chair on each of the Board's Committees;
- ▶ An attendance fees for the attendance of Board meetings.

Under the new policy, and in greater details, members of the Board would be entitled to the following fees:

#### CHAIRMAN OF THE BOARD

The proposal is to increase the Chairman's remuneration with regards to both the fixed fee and the attendance fee:

- ▶ Fixed fee: 210,000
- ▶ Attendance fee: 15,000

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

#### NON-EXECUTIVE DIRECTORS

The proposal is to increase the attendance fees of the non-executive directors; the objective being to incentivise the attendance. The fixum would remain unchanged,

- ▶ Fixed fee: 80,000
- ▶ Attendance fee: 10,000

#### MEMBERSHIP OF A COMMITTEE

The remuneration for the membership of a Committee would remain unchanged

- ▶ Chairman of a Committee: 30,000 per year (no attendance fee)
- ▶ Member of a Committee: 20,000 per year (no attendance fee)

### C – Employee Share ownership plan (ESOP)

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

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

#### 4.4.3 PROPOSED AMENDMENTS OF THE REMUNERATION POLICY

At the 2016 AGM, the Board of Directors is proposing that shareholders adopt a number of amendments to the Airbus Group Remuneration Policy.

The following changes are being proposed:

- ▶ **CEO remuneration:** The remuneration of the CEO was not reviewed since 2012. Therefore, in the frame of the renewal of his mandate, the Company proposes to increase the remuneration of the CEO as described above. This increase takes into consideration the track record of the CEO and is in line with the salary policy applied to employees across the Group over that period.

- ▶ **Non-executive remuneration:** In order to recognize the increase in responsibilities, greater time commitment and the continuous need to attract and retain highly competent Board members, a review of the Board remuneration policy was undertaken in 2015, the first comprehensive revision since 2007. As described in detail above, the Company proposes to increase the remuneration of the Chairman and that of the non-executive Board members to be in line with market practice, incentivise attendance and recognize the strategic role played by the Board of Directors in the Airbus Group' developments.
- ▶ **LTIP:** In order to maintain the alignment with shareholders' interests, and to ensure both the Company and the beneficiaries benefit from new tax and social regimes (offered by the Macron Act in France in favour of French tax resident employees), the Company intends to replace all or part of future LTIP allocations with substantially similar instruments, such as performance shares or other equity-related allocations. As with the Performance Units, the value of the CEO's LTIP allocation would continue to be capped as a percentage of Base Salary at the date of grant and be subject to performance conditions. The other features would remain unchanged (performance conditions assessed over a 3 year period based on relevant financial criteria: average Earning Per Share and cumulated Free Cash Flow) with stringent targets set, as demonstrated by the past Group practice.
- ▶ **ESOP:** The Company intends to implement an ESOP in 2017, subject to approval by the Board of Directors, open to all qualifying employees (including the CEO). The Company intends to replace future ESOP through the issuance of shares or free distribution of shares of other existing or new securities giving access to the capital as a matching contribution. This plan would aim at favouring the development of employee shareholding.

#### 4.4.4 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2015: CEO

##### a) Benchmarking

The RNGC regularly benchmarks the CEO's Total Direct Compensation (Base Salary, Annual Variable Remuneration and LTIP) against an extensive peer group.

The last review took place in October 2014, and was completed with the assistance of an independent consultant: Towers Watson. The relevant peer groups that were considered were proposed by Towers Watson, and comprised 31 companies\* having comparable economic indicators such as revenue, number of employees, and market capitalisation. Financial institutions were excluded from the peer group.

Based on this review the RNGC concluded again this year, that the CEO's Total Direct Compensation was slightly below the median level of the peer group.

[\***France:** Air Liquide, Danone, Michelin, Renault, Sanofi, Schneider Electric, GDF Suez, Vinci. **Germany:** BASF, Bayer, BMW, Daimler, Lufthansa, Deutsche Post World Net, Deutsche Telekom, E.ON, Henkel, RWE, SAP, Siemens, ThyssenKrupp. **UK:** Anglo American, BP, GlaxoSmithKline, Glencore, Imperial Tobacco, Rio Tinto, Rolls-Royce, Royal Dutch Shell, Unilever. **US:** AT&T, Boeing, Caterpillar, Cisco Systems, Coca-Cola, General Electric, IBM, Intel, Johnson & Johnson, Microsoft, Pfizer, Procter and Gamble, United Technologies, Verizon.]

##### b) Base Salary

For 2015, the Base Salary was set by the Board of Directors at € 1,400,004 (unchanged compared to the annualised salary paid in the previous year). The CEO's Base Salary level was set in July 2012, shortly after his appointment. Any review of the CEO's Base Salary will also take into consideration salary increases of employees across the Group.

### c) Annual Variable Remuneration

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

For 2015, the Annual Variable Remuneration amounted to an aggregate € 1,932,000 composed of € 987,000 for the Common Collective Component (141%), and € 945,000 for the Individual part (135%).

The **Common Collective Component** results from a composite **141% achievement** of EBIT\*, Free Cash Flow and RoCE objectives.

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

**EBIT\***, compared to the budgeted target and guidance, was globally good, in spite of an unplanned A400M provisions. Finally, **RoCE** slightly exceeded the target, thanks to a well-controlled capital employed.

**Normalisation adjustments** of EBIT\* were made to exclude currency exchange differences against the budget rate, or those arising from phasing mismatches. Importantly, the impact of M&A (especially the Dassault shares sale) was excluded from EBIT\* and Free Cash Flow to determine the achievement level.

The **Individual part** results from a high achievement level of 135% 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 eight Group priorities agreed at the start of the year (see: Chapter 2 - Summary 2015). For each of these outcomes, leadership, personal performance and contributions were examined.

The **factors determining the high assessment** were among other achievements: a solid financial and operational performance with a record order book supporting the commercial aircraft ramp-up plans and driving operational efficiency (e.g.: break even on the A380 programme, delivery of 14 A350s in the first year of industrialization, acceleration of the A350 and A400M ramp-ups and A320neo transition, signature of Ariane 6, launch of the X6); an initiated digital strategy (e.g.: selection of OneWeb to build 900 small satellites to enable global internet access, creation of a new corporate venture capital and business innovation center in Silicon Valley, and the implementation of a cyber security improvement plan); reinforcement of corporate social responsibility (e.g.: opening of new algae cultivation facility to produce bio-kerosene and chemical products, launching of a programme to help airlines reduce their environmental footprint with tailored services and expertise), reinforced anti-corruption policy and programme (e.g.: updating Group policies with overarching standards of business conduct, integrity and transparency, including for suppliers and business partners); a reinforced worldwide footprint with local industrial presence (e.g.: inauguration of Airbus Final Assembly Line in Alabama, launching of 'Make-in-India' initiative).

## Performance against Target



### d) Long-Term Incentive Plan

#### Granting 2015

As stipulated in the Company's Remuneration Policy, the CEO is eligible for a Performance Unit award under the Company's LTIP. The value of the Performance Unit award is capped at 100% of Base Salary at the date of grant. During 2015 the CEO was granted 24,862 Performance Units.

The table below gives an overview of the Performance Units granted to the Chief Executive Officer in 2015 pursuant to the LTIP:

	Unit plan: number of Performance Units	
	Granted in 2015	Vesting dates
Thomas Enders	24,862	Vesting schedule is made up of 2 tranches over 2 years: (i) 50% expected in June 2019; (ii) 50% expected in June 2020.

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

#### Vesting values in 2015

In 2015, the CEO received both cash payments and vested shares in connection with the vesting of 2010 and 2011 LTIP awards:

- ▶ **Cash:** The total cash payment to the CEO amounted to € 3,148,629.
- ▶ **Shares:** In connection with the 2010 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the CEO received 18,496 vested shares on the fourth vesting date for the 2010 LTIP (4<sup>th</sup> November 2015).

In connection with the 2011 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the vesting of 8,224 Performance Units was delayed and these will be released in the form of shares on the fourth vesting date for the 2011 LTIP (which will take place in 2016).

In connection with the 2012 LTIP award, the CEO had elected that 25% of his grant should be deferred into shares. Therefore, the vesting of 12,575 Performance Units will be delayed and these will be released in the form of shares on the fourth vesting date for the 2012 LTIP (which will take place in 2017).

## LTI overview: granting and vesting

Date of grants	Number	Share price at grant date	Value at grant date (Un)	Performance conditional achievement	Performance achievement	Units with performance achievement	Dates of vesting	2014 Share value at vesting dates
							4 vestings in 2014 - 2015	3 <sup>rd</sup> vesting – 6 May 2015 : € 62.17 4 <sup>th</sup> vesting – 4 November 2015 : € 57.97
2010	54,400	€ 18.40	€ 1,000,960	Conditional	136%	73,984		
							4 vestings in 2015 - 2016	1 <sup>st</sup> vesting – 6 May 2015 : € 62.17 2 <sup>nd</sup> vesting – 4 November 2015 : € 57.97
2011	51,400	€ 21.41	€ 1,100,474	Conditional	128%	65,792		
					Not yet known	Not yet known	4 vestings in 2016 - 2017	Not yet known
2012	50,300	€ 27.83	€ 1,399,849	Conditional				
					Not yet known	Not yet known	4 vestings in 2017 - 2018	Not yet known
2013	30,300	€ 46.17	€ 1,398,951	Conditional				
					Not yet known	Not yet known	2 vestings in 2018 - 2019	Not yet known
2014	29,500	€ 47.45	€ 1,399,775	Conditional				
					Not yet known	Not yet known	2 vestings in 2019 - 2020	Not yet known
2015	24,862	€ 56.31	€ 1,399,979	Conditional				

Calculations may involve rounding to the nearest unit.

### Performance conditions of 2011 LTI plan:

The performance conditions were determined as follows:

- ▶ if the Airbus Group reports negative cumulated EBIT\* results, the definitive grant shall be 0%.
- ▶ 50% to 150% of the allocation would be granted on a linear basis depending on three year average EPS for the 2012, 2013 and 2014 fiscal years, with the three year average EPS target for an allocation of 100% equal to 1.55 euro.

### Review of achievement of performance conditions:

The Board of Directors on 26<sup>th</sup> of February 2015 noted the achievement of the performance conditions of the 2011 plan, i.e. for the 2012, 2013 and 2014 fiscal years: The three year average EPS, was € 2.10, after normalization to align it with policies in force when setting the target (notably IAS11).

Date of grants	Number of units	Target average EPS for a 100% allocation	Achieved average EPS	Resulting vesting in percentage	Resulting vesting in number	For comparison, average EPS for the last 3 reported years at the date of grants
2010	54,400	0.90 euro	1.54 euro	136%	73,984	0.15 euro*
2011	51,400	1.55 euro	2.10 euro	128%	65,792	0.56 euro**

[\*Average EPS of 2009, 2008 and 2007]    [\*\* Average EPS of 2010, 2009 and 2008.]

#### e) Share ownership

The CEO owned 64,521 Airbus Group shares on 31/12/2015, which represents more than 200% base salary. He herewith respects the Group's share ownership policy.

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

In March 2015, the Company has invited employees of the Group to subscribe for a share matching plan whereby the Company matched a certain number of directly acquired shares with a grant of matching shares. This ratio varied depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 50%. The total offering was up to 2 million shares of the Company, open to all qualifying employees.

Under the umbrella of the ESOP 2015, a dedicated UK tax advantageous Share Incentive Plan, SIP, was also deployed in March 2015.

Although the CEO was eligible to the plan, he did not participate to the ESOP 2015 plan favouring the development of a shareholding among other employees of the Group.

#### 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 2015 amounted to € 69,050.

#### h) Retirement

As of 31 December 2015, the present value of the CEO's pension defined benefit obligation including deferred compensation amounted to € 17,118,048 vs. 18,584,426 a year ago. While the plan benefits remain identical, the present value of the pension obligation was calculated applying a 1.9% discount rate in 2014 compared to a 2.3% discount rate in 2015, which mainly explains the change in value. For the fiscal year 2015, the current service and interest costs related to the CEO's pension promise represented an expense of € 1,079,861. This obligation has been accrued in the Consolidated Financial Statements.

The defined benefit obligation for the CEO's Company pension results from the Company's pension policy as described above and takes into account (1) the seniority of the CEO in the Company and on its Group Executive Committee and (2) the significantly lower public pension promise deriving from the German social security pension system, compared to a pension resulting from membership in the French pension system.

#### i) Clawback

The Board has not applied any claw back in 2015.

#### 4.4.5 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2015: NON-EXECUTIVE FEES

The RNGC recommended and the Board of Directors decided not to increase non-executive fees in 2015, and therefore the non-executive fees remain unchanged from the level set in October 2007. The CEO is the only Member of the Board of Directors who is not entitled to any Board membership fee.

Summary table of the 2015 and 2014 fees of all non-Executive Members of the Board (current and former):

	Directors' remuneration related to 2015*			Directors' remuneration related to 2014		
	Fixum	Attendance Fees**	Total	Fixum	Attendance Fees	Total
	(in €)	(in €)	(in €)	(in €)	(in €)	(in €)
<b>Current Non Executive Board Members</b>						
Denis Ranque	180,000	70,000	250,000	180,000	70,000	250,000
Manfred Bischoff	80,000	25,000	105,000	80,000	25,000	105,000
Ralph D Crosby Jr	80,000	35,000	115,000	80,000	35,000	115,000
Hans-Peter Keitel	100,000	35,000	135,000	100,000	30,000	130,000
Hermann-Josef Lamberti	110,000	30,000	140,000	110,000	35,000	145,000
Anne Lauvergeon	100,000	30,000	130,000	100,000	30,000	130,000
Lakshmi N. Mittal	100,000	35,000	135,000	100,000	30,000	130,000
Maria Amparo Moraleda Martínez ***	50,000	20,000	70,000	N/A	N/A	N/A
Sir John Parker	110,000	30,000	140,000	110,000	35,000	145,000
Michel Pébereau	100,000	25,000	125,000	100,000	30,000	130,000
Jean-Claude Trichet	100,000	35,000	135,000	100,000	35,000	135,000
<b>Former Non Executive Board Members</b>						
Josep Piqué i Camps	41,668	0	41,668	100,000	15,000	115,000
<b>TOTAL</b>	<b>1,151,668</b>	<b>370,000</b>	<b>1,521,668</b>	<b>1,160,000</b>	<b>370,000</b>	<b>1,530,000</b>

\* The Fixum related to 2014 was paid in 2015; the Fixum related to 2015 was paid 50% in July 2015 and 50% in January 2016.

\*\* The Board meetings of March 24 and June 3 were telephone-based and it was agreed that no remuneration will be paid for it.

\*\*\* Member of the Company Board of Directors, Audit Committee as of 27/05/2015.

#### 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 Ethics and Compliance Organisation

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

There are two foundation documents in the Group E&C Programme: the "Standards of Business Conduct" which were revised in 2013 and "Our Integrity Principles" which summarises the Group's 6 key Ethics and Compliance commitments and which was rolled out group-wide to each individual employee in 2013 by his / her manager.

Those foundation documents are complemented by policies addressing specific topics and providing the necessary framework for Airbus Group to operate. In light of regulatory investigations and commercial disputes, the Group has determined to enhance certain of its policies, procedures and practices, including ethics and compliance. The Group is accordingly in the process of revising and implementing improved procedures, including those with respect to its engagement of consultants and other third parties, in particular in respect of sales support activities, and is conducting enhanced due diligence as a pre-condition for future or continued engagement and corresponding payment. The Group believes that these enhancements to its controls and practices best position it for the future, particularly in light of advancements in regulatory standards. The Group cannot exclude that these changes lead to additional commercial disputes or other consequences in the future.

In terms of organization, in 2015 the decision was made to merge the Ethics & Compliance Organisation with the Legal Department under the ultimate responsibility of the Group General Counsel. The Group General Counsel reports to the CEO and is now a Group Executive Committee member and reports to the Board. In order to maintain the necessary independence, the SVP Group Ethics and Compliance Officer ("ECO"), reports to the Group General Counsel and has access to the Audit Committee of the Board of Directors.

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

To further ensure its independence, the decision was also made to fully integrate the new Legal and Compliance function, such that the Division General Counsels report only to the Group General Counsel.

The Ethics and Compliance organization is made of 5 pillars:

- ▶ The E&C Programme sets the rules and policies and deals with the allegations and investigations;
- ▶ The International Compliance Office addresses corruption and bribery risks;
- ▶ The Export Compliance Office ensures that the activities of the Group comply with all relevant export control rules and with the internal “sensitive countries” policy;
- ▶ The Procurement Compliance Officer supervises compliance in the supply chain; while
- ▶ The Data Protection Compliance Officer is in charge of data privacy risk.

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

Furthermore, in 2015 we maintained five E&C Country Managers in the following zones: Brazil, India, Russia Middle East and Africa, China. The E&C Country Managers report to the Group Ethics & Compliance organization.

Like previous years, E&C was a top priority for the Group in 2015 and the E&C Organisation had a set of objectives. Similarly, each of our Executives had E&C objectives to meet.

Our E&C Cycle includes the following steps which are put in motion by empowered E&C Resources:



Employees, customers, suppliers, and third-party intermediaries are encouraged to freely share their E&C concerns with the management or with E&C resources. While we have a non-retaliation principle, we recognise that a confidential channel for reporting may be useful and we have an alert system called OpenLine. Subject to local legal restrictions, OpenLine is available to employees of controlled entities in France, Germany, Spain, the UK, Australia, Brazil, Canada, China, Mexico and Saudi Arabia. It has been extended to India in 2015. A separate system is also available for the USA. The Airbus Group OpenLine can be used by employees to raise concerns in relation with Corruption and Bribery, Accounting, Finance, Anti-Competitive practices, Harassment, Conflicts of Interest, Quality or Product Safety.

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

## 4.6 Enterprise Risk Management System

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The aerospace and defence industry's complex programmes delivered over volatile market cycles, amplify risk and opportunity. Airbus Group's 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 Group and its main subsidiaries, ERM facilitates achieving and applying common understanding, methodology, practice and language. ERM is a permanent top-down and bottom-up process, which is executed across Airbus Group Divisions on each level of the organisation. It is designed to identify and manage risks and opportunities focusing on business-relevant aspects. A particular focus is put on the operational dimension due to the importance of Programmes and Operations for Airbus Group.

### **Required key activities in Risk and Opportunity Management are:**

- ▶ anticipation of future events and conditions;
- ▶ early warning;
- ▶ early risks reduction;
- ▶ seizing and capturing of opportunities.

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

### **The aim of the ERM process is to:**

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

### **Through ERM, the Airbus Group Management enables the:**

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

### **The Airbus Group Board of Directors supervises the:**

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

## ERM Process

The objectives, principles and process for the ERM system as endorsed by the Board of Directors are set forth in the Company's ERM Policy and communicated throughout the Group. The Company's ERM Policy is supplemented by various manuals, guidelines, handbooks, etc. External standards that contribute to the Company's ERM system include the Internal Control and ERM frameworks of COSO, as well as industry-specific standards as defined by the International Standards Organisation (ISO).

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

### The ERM process consists of four elements:

- ▶ the operational process, which consists of a sequence of eight consistent standardised components to enhance operational risk and opportunity management;
- ▶ the reporting process, which contains procedures for the status reporting of the ERM system and the risk/opportunity situation;
- ▶ the compliance process, which comprises procedures to assess the effectiveness of the ERM system; and
- ▶ the support process, which includes procedures to maintain and increase the quality of the ERM system.

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

**For the main risks to which the Group is exposed. See “— Chapter 4.7 (Risk Factors)” of this document.**

## ERM Governance and Responsibility

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

- ▶ the Board of Directors supervises the design and effectiveness of the ERM system including management actions to mitigate the risks inherent in the Company's business activities. The board discusses the major risks based on ERM reporting or as required depending on development of business risks. The board is supported by the Audit Committee, which discusses at least yearly the activities with respect to the operation, design and effectiveness of the ERM system;
- ▶ the Group's Chief Executive Officer, backed by the Group Executive Committee, is responsible for an effective ERM system, the related internal environment (i.e. values, culture) and risk philosophy. He is supported by the Group's Chief Financial Officer, who supervises the Head of Risk and Opportunity Management Airbus & Airbus Group, and the ERM system design and process implementation;
- ▶ the Head of Risk and Opportunity Management Airbus & Airbus Group 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 on Group and Division level focusing on the operational dimension, early warning and anticipation culture development while actively seeking to reduce overall

risk criticality. The risk management organisation is structured as a cross-divisional Centre of Competence (“CoC”) and pushes for a proactive risk management culture; and

- ▶ the management on executive levels assume responsibility for the operation and monitoring of the ERM system in their respective area of responsibility. They seek to ensure transparency and effectiveness of the ERM system and adherence to its objectives. They take responsibility for the implementation of appropriate response activities to reduce probability and impact of risk exposures, and conversely for the implementation of appropriate responses to increase probability and impact of opportunities.

### ERM Effectiveness

The ERM effectiveness is analysed by:

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

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

Organisation	Explanations
Board of Directors/ Audit Committee	<b>Regular monitoring</b> The Board of Directors and the Audit Committee review, monitor and supervise the ERM system.
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 Business Units to top management.
Management	<b>ERM confirmation letter procedure</b> Entities and department heads that participate in the annual ERM compliance procedures have to sign ERM confirmation letters.
ERM department	<b>ERM effectiveness measurement</b> Assess ERM effectiveness by consideration of ERM reports, ERM confirmations, in situ sessions (risk reviews etc.), participation to key controls (e.g. major Programme Maturity Gate Reviews).
Corporate Audit	<b>Audits on ERM</b> Provide independent assurance to the Audit Committee on the effectiveness of the ERM system.
Ethics and Compliance	<b>Alert System</b> Detect deficiencies regarding conformity to applicable laws and regulations as well as to ethical business principles.

### Board Declaration

The Board of Directors believes to the best of its knowledge that the internal risk management and control system over financial reporting has worked properly in 2015 and provides reasonable assurance that the financial reporting does not contain any errors of material importance.

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

## 4.7 Risk Factors

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

### 4.7.1 FINANCIAL MARKET RISKS

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#### **Global Economic and Sovereign Debt 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 those in the Near and Middle East, Ukraine, Africa and other regions). Any such disruption or downturn could affect the Company's activities for short or extended periods and have a negative effect on the Company's future results of operation and financial condition.

In recent years European financial markets have experienced significant disruptions as a result of concerns regarding the ability of certain countries in the euro-zone to reduce their budget deficits and refinance or repay their sovereign debt obligations as they come due. The European Central Bank and euro-zone policy makers have so far succeeded to stabilise the euro-zone and the European banks. However, austerity measures as well as lower credit supply to the real economy have slowed down economic activity and as a result consumer prices are far below the target levels. The European Central Bank has amplified its expansive monetary policy in order to fight against deflationary trends, induce economic growth and complement structural reforms. The policy includes negative deposit rates and a quasi open-ended quantitative easing programme started in March 2015 and further extended in December 2015 to an equivalent of about € 1.5 trillion which triggered a weakening of the euro. The progressive implementation of an institutional framework for Eurozone has decreased the immediate pressure on EU sovereign debt but risks for medium term economic prospects remain.

Improving economic fundamentals such as in particular the low unemployment rate in the U.S. have triggered the first increase in interest rates of 0.25% by the Federal Reserve in nearly a decade signalling confidence in the continued strength and sustainability of a U.S. recovery. The strong labour market, the recovery of the housing prices, and low energy cost support the recovery of the US economy. However, a further strengthening of the US dollar, the slowdown of growth in Emerging Countries, the fall of equity markets and more globally the development of risk aversion may reduce the growth dynamic in the US. Risks on growth and more importantly deflationary risks linked to the drop of oil price might reduce the pace and magnitude of the further normalization of the US monetary policy. Medium term concerns about the increasing budget deficit and the sustainability of sovereign debt will likely have to be addressed over the next several years through a combination of tax increases, agreed budget cuts or budget sequestration in defence and entitlement spending, combined with an increase in the debt ceiling to finance further borrowing. This could negatively affect economic growth in the US and worldwide, the creditworthiness of US Treasury securities and the exchange rate of the US dollar against other major currencies (in particular euro or pound sterling), which may in turn adversely impact the Company's sales in the defence sector, the market value of the Company's investments or the exchange rates at which the Company is able to hedge its foreign currency exposure.

China has acknowledged additional downward revisions in its GDP growth targets, confirming fears of a slowdown in the world's largest growth engine. This reversion in Chinese demand is exacerbating pressures on global commodity markets

and subsequently to other economies with high exposure on commodities such as Russia, Middle East or Brazil. Beside the diverging policies of European Central Bank and Federal Reserve, In parallel, the reduction of monetary easing by the Federal Reserve Bank and the expected increase of US treasury yields impact financial markets of emerging countries, in particular those with high current account deficits. The noticeable slowdown of emerging markets results in cuts of policy rates and the devaluation of local currencies against USD. The continued reallocation of investments to the US and the devaluation of emerging market currencies deteriorate the external refinancing conditions for issuers from emerging countries including our customers in these countries.

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

- ▶ requests by customers to postpone or cancel existing orders for aircraft (including helicopters) or decision by customers to review their order intake strategy due to, among other things, lack of adequate credit supply from the market to finance aircraft purchases or change in operating costs or weak levels of passenger demand for air travel and cargo activity more generally;
- ▶ an increase in the amount of sales financing that the Company must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interests the Company might have in the underlying aircraft;
- ▶ further reductions in public spending for defence, homeland security and space activities, which go beyond those budget consolidation measures already proposed by governments around the world;
- ▶ financial instability, inability to obtain credit or insolvency of key suppliers and subcontractors, thereby impacting the Company's ability to meet its customer obligations in a satisfactory and timely manner;
- ▶ continued de-leveraging as well as mergers, rating downgrades and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by the Company for its businesses or restrict its ability to implement desired foreign currency hedges;
- ▶ default of investment or derivative counterparties and other financial institutions, which could negatively impact the Company's treasury operations including the cash assets of the Company; and
- ▶ decreased performance of the Group's 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.

### **Foreign Currency Exposure**

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

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

When effectively hedged, the Company recognises fair value changes of the derivative portfolio in equity until instruments' maturity. If the US dollar appreciates against the euro compared to the rate at which the Company has hedged its future US dollar denominated revenues the mark to market of the derivative portfolio becomes negative. Hence, the Company's equity is accordingly reduced which could eventually result into restrictions of equity otherwise available for dividend distribution or share buy-backs. Currency exchange rate fluctuations in those 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, pre-goodwill impairment and exceptionals, other financial result, assets and liabilities.

### **Sales Financing Arrangements**

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

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

exercise window date of an asset value guarantee with respect to that aircraft, the Company would be exposed to losing as much as the difference between the market value of such aircraft and the guaranteed amount, though such amounts are usually capped. The Company regularly reviews its exposure to asset values and adapts its provisioning policy in accordance with market findings and its own experience. However, no assurances may be given that the provisions taken by the Company will be sufficient to cover these potential shortfalls. Through the Airbus Asset Management department or as a result of past financing transactions, the Company is the owner of used aircraft, exposing it directly to fluctuations in the market value of these used aircraft.

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

### **Counterparty Credit**

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

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

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

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

### **Equity Investment Portfolio**

The Company holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. Equity investments are either accounted for using the equity method (associated

companies), if the Company has the ability to exercise significant influence, or at fair value. If fair value is not readily determinable, the investment is measured at cost.

As of 31 December 2014, the Company's principal investment in associates was Dassault Aviation. The book value of this investment was € 2.4 billion. Following the partial sale, the remaining equity investment in Dassault Aviation has been reclassified as asset held for sale. As such, the Company is still exposed to the risk of unexpected material adverse changes in the fair value of Dassault Aviation and that of other associated companies. For equity investments other than associates, which make up only a fraction of the Company's total assets, the Company regards the risk of negative changes in fair value or impairments on these investments as non-significant.

Treasury shares held by the Company are not considered to be equity investments. Additionally, treasury shares are not regarded as being exposed to risk, as any change in value of treasury shares is recognised directly in equity only when sold to the market and never affects net income. Treasury shares are primarily held to hedge the dilution risk arising from employee stock ownership plans and the exercise by employees of stock options.

### **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, see "Notes to the Consolidated Financial Statements (IFRS) — Note 29.1: 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 are driven by (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 Issues**

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

## **4.7.2 BUSINESS-RELATED RISKS**

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### **Commercial Aircraft Market Factors**

Historically, the market for commercial aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel and cargo activity, which are in turn primarily influenced by economic or gross domestic product ("GDP") growth. 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, (v) airline financial health and the availability of outside financing for aircraft purchases, (vi) evolution of fuel price, (vii) deregulation and (viii) environmental constraints imposed upon aircraft operations. The market for commercial aircraft could continue to be cyclical, and downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

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

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

As past terrorist attacks and the spread of pandemics (such as H1N1 flu) have demonstrated, terrorism and pandemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest in a given region may also affect the willingness of the public to travel by air. Furthermore, major airplane crashes may have a negative effect on the public's or regulators' perceptions of the safety of a given class of aircraft, form of design, airline or air traffic. As a result of terrorism, geopolitical instability, pandemics and other catastrophic events, an airline may be confronted with sudden reduced demand for air travel and be compelled to take costly security and safety measures. In response to such events, and the resulting negative impact on the airline industry or particular airlines, the Company may 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, the occurrence of catastrophic events could disrupt the Company's internal operations or its ability to deliver products and services to customers. Disruptions may be related to threats to physical security and infrastructure, information technology or cyber-attacks or failures, damaging weather or acts of nature and other crises. Any significant production delays, or any destruction, manipulation, theft or improper use of the Company's data, information systems or networks could have a significant adverse effect on the Company's future results of operation and financial condition as well as on the reputation of the Company and its products and services.

### **Security Risks**

The Company is exposed to a number of different types of potential security risk, arising from actions that may be intentional and hostile, accidental, or negligent. Industrial espionage, cyber-attacks (including systems sabotage), data breach, identity theft and intellectual property breach are the main types of risk that we may face in this category. The risk to the availability and integrity of our industrial control systems, manufacturing processes, and products is growing, with the increase of interconnectivity and digitalization, and with a growing gap developing between the defences of older, relatively insecure industrial systems and the capabilities of potential attackers.

In this context, 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.

As of the date of this report, the most serious cyber security risk is the Advanced Persistent Threat (APT), where technically capable and determined attackers use sophisticated methods, frequently including carefully crafted malicious software, to covertly extract information from our systems. These risks mostly arise from external connections to our systems, and can be exacerbated if we extend trusted connections to partners or suppliers. APT could be used to impact the security of our products through direct cyber-attack on the product itself, or through the compromise of the product's security design, or active disruption of the product's security functions, either of which could take place at any stage of the

product's life-cycle. While the Company has undertaken significant effort to prevent such events from happening, no assurance can be given that these efforts will successfully prevent attacks or damage from such attacks.

Malicious software (including but not limited to petty cyber-criminality) of a more general kind predominantly poses a threat to the integrity and availability of our products and business systems, potentially impacting our business continuity.

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

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

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

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

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

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

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

### **Industrial Ramp-Up**

As a result of the large number of new orders for aircraft recorded in recent years, the Company intends to accelerate its production in order to meet the agreed upon delivery schedules for such new aircraft (including helicopters). 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 high demand by the Company and its competitors, conversion of raw materials into parts and

assemblies, and performance by suppliers and subcontractors (particularly suppliers of buyer-furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, across the three Divisions, which carry their own resource demands. Therefore, the failure of any or all of these factors could lead to missed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders. This risk increases as the Company and its competitors announce even higher production rates. Good progress has been made in 2015 and the supply chain is in general more stable. Specific areas of risk with suppliers of cabin equipment continue to be carefully managed.

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

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

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

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

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

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

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

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

## Availability of Government and Other Sources of Financing

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

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

## Competition and Market Access

The markets in which the Company operates are highly competitive. In some areas, competitors may have more extensive or more specialised engineering, manufacturing and marketing capabilities than the Company. In addition, some of the Company's largest customers may develop the capability to manufacture products or provide services similar to those of the Company. This would result in these customers supplying 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 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 or market share.

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

## Major Research and Development Programmes

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

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

### **Restructuring, Transformation and Cost Saving Programmes**

In order to improve competitiveness, offset rising procurement costs and achieve profitability targets, among other things, the Company and its Divisions have launched several restructuring, transformation, cost saving and competitiveness programmes over the past several years. These include group-wide programmes, as well as Division- or Corporate-specific programmes such as the Airbus Defence and Space restructuring plan.

Anticipated cost savings under these programmes are based on estimates, however, and actual savings under these programmes may vary significantly. In particular, the Company's cost reduction measures are based on current conditions and do not take into account any future cost increases that could result from changes in its industry or operations, including new business developments, wage and cost increases or other factors. The Company's failure to successfully implement these planned cost reduction measures, or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition.

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

### **Acquisitions, Divestments, Joint Ventures & Strategic Alliances**

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

### **Public-Private Partnerships and Private Finance Initiatives**

Defence customers, particularly in the UK, increasingly 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 through Paradigm with Skynet 5 and related telecommunications services, and in the AirTanker (FSTA) project. One of the complexities presented by PFIs lies in the allocation of risks and the timing thereof among different parties over the lifetime of the project.

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

### Programme-Specific Risks

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

**A350 XWB programme.** In connection with the A350 XWB programme, after fourteen successful deliveries to four airlines in 2015, the Company faces the following main challenges: ensuring satisfaction of first operators and high quality support to its operations; maintaining supply chain performance and production ramp-up; controlling and reducing the level of outstanding work in final assembly line; managing recurring costs beyond the initial ramp-up phase; maintaining customisation and head of versions ramp-up; and maintaining the development schedule of A350 1000 XWB to ensure entry in service as planned.

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges: secure order flow in order to maintain current rate of production in the medium term; making continued improvements to lower the resources and costs associated with designing each customised "head of version" aircraft for new customers, in order to allow a higher number of head of version to be completed each year; and managing maturity in service. Further reduction of fixed costs to protect break even at lower volumes has started. However the success of some of the running sales campaigns will be key to mitigate the risk of the reduced backlog.

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: management of stress in the supply chain as a result of the industrial ramp-up; meeting the engine development status including performance targets, and its schedule; ensuring the availability of skilled personnel for the programme; ensuring maturity and service readiness for early operations. The transition from A320ceo (current engine option) to A320neo (new engine option) has begun in 2016 and will finish in 2019. The main focus will be with the slower start of PW engine deliveries for A320neo, as well as further ramp-up.

**A330 programme.** In connection with the A330 programme, the Company proactively addressed the current market situation by reducing production to rate 6 per month. The commercial transition has been secured at the lower rate, which helps mitigate against production gaps. The A330neo development progresses as planned and no new challenge emerged in 2015.

**A400M programme.** In connection with the A400M programme, the Company faces the following main challenges: finalising the development, tests and associated documentation to enable progressively enhanced aircraft capabilities through standard operational clearance (SOC1 to 3); such as cargo management and aerial delivery, self-defence and protection, air to air refuelling; continuing production ramp-up; managing the retrofit campaign and finalising the development of in-service support goods and services as well as providing high levels of service for integrated logistic

support. Industrial efficiency and military capability remain a challenge during the ramp up phase. Management is working with the customers to agree a schedule of military capability enhancement and deliveries as well as reviewing the escalation formulae. Industrial recovery measures have been identified and management is focused on delivery, but risk remains. The mission capability roadmap (including the achievement of the respective milestones) and the delivery plan remain under negotiation with OCCAR/Nations and are expected to be finalised in 2016. For further information, see “— Notes to the Consolidated Financial Statements (IFRS) — Note 10: Revenues, cost of sales and gross margin”.

**NH90 and Tiger programmes.** In connection with the NH90 and Tiger programmes, the Company succeeded in the negotiations of contract amendments with France and Germany, whilst renegotiations of some other contracts are still ongoing. In connection with multiple fleets entering into service it faces the challenge of assuring support readiness.

**H175 programme.** In connection with the H175 programme produced in cooperation with Avic, the Company faces the following main challenges: after the certification by EASA and the delivery of the 9 first H175 for Oil and Gas operations, the Company is proceeding with the industrial ramp-up, mastering the maturity plan of the aircraft and further certifications for new missions planned for 2016 and 2017.

**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 are currently ongoing.

### 4.7.3 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
- ▶ three principal joint ventures: MBDA, ATR and Atlas Elektronik.

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

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

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

## **Product Liability and Warranty Claims**

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

## **Intellectual Property**

The Company relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of the Company's direct or indirect intellectual property 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 intellectual property 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, cost it money and prevent it from offering certain products or services. Any claims or litigation in this area, whether the Company ultimately wins or loses, could be time-consuming and costly, injure the Company's reputation or require it to enter into licensing arrangements. The Company might not be able to enter into these licensing arrangements on acceptable terms. If a claim of infringement were successful against it, an injunction might be ordered against the Company, causing further damages.

## **Export Controls Laws and Regulations**

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

Operating worldwide, the Company must comply with several, sometimes inconsistent, sets of sanctions laws and regulations implemented by national/regional authorities. Depending on geopolitical considerations including national security interests and foreign policy, new sanctions programs 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 seeks to comply with all applicable anti-bribery laws and regulations and is fully committed to preventing corruption in all operations conducted by the Company or by third parties acting on its behalf. To that end, an anti-corruption programme has been put in place to ensure adequate identification, assessment, monitoring and control of corruption risks. This programme oversees business development activities and various other operations such as mergers and acquisitions, financial investments or procurement activities. The anti-corruption programme ensures a long-term view on the evolution of the corruption risk and continuously updates and, as the case may be, reinforces the Company controls and procedures to prevent corruption while aiming at ensuring business success. These controls are based on extensive due diligence of the environment of the business operations and all the stakeholders associated with it. All due diligence follows a risk-based approach and is based on internal and external information and expertise. Moreover, the anti-corruption programme provides comprehensive targeted training and communicates applicable policies to all Company employees.

Although the Company seeks to comply with all such laws and regulations, even unintentional violations or a failure to comply could result in administrative, civil or criminal liabilities including significant fines and penalties, suspension or debarment of the Company from government or non-government contracts for some period of time, and could also have a significant adverse effect on the reputation of the Company.

## Legal and Regulatory Proceedings

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

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

### 4.7.4 INDUSTRIAL AND ENVIRONMENTAL RISKS

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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 results of operation and financial condition.

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

In addition, the various products manufactured and sold by the Company must comply with relevant health, safety and environmental laws, for example those designed to protect customers and downstream workers, and those covering substances and preparations in the jurisdictions in which they operate. Although the Company seeks to ensure that its products meet the highest quality standards, increasingly stringent and complex laws and regulations, new scientific discoveries, delivery of defective products or the obligation to notify or provide regulatory authorities or others with required information (such as under the EU regulation known as "REACH", which addresses the production and use of chemical substances) may force the Company to adapt, redesign, redevelop, recertify and/or eliminate its products from the market. Seizures of defective products may be pronounced, and the Company may incur administrative, civil or criminal liability. In the event of an accident or other serious incident involving a product, the Company may be required to conduct investigations and undertake remedial activities. Employees, customers and other third parties may also file claims for personal injury, property damage or damage to the environment (including natural resources). Any problems in this respect may also have a significant adverse effect on the reputation of the Company and its products and services.