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Airbus Group SE
IFRS Consolidated Financial Statements

Airbus Group SE — IFRS Consolidated Income Statements for the years ended 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Revenues	10	**66,581**	**64,450**
Cost of sales	10	(61,317)	(55,599)
Gross margin	10	**5,264**	**8,851**
Selling expenses		(997)	(1,065)
Administrative expenses		(1,726)	(1,586)
Research and development expenses	11	(2,970)	(3,460)
Other income	13	2,689	474
Other expenses	13	(254)	(222)
Share of profit from investments accounted for under the equity method	12	231	1,016
Other income from investments	12	21	54
Profit before finance costs and income taxes		**2,258**	**4,062**
Interest income		247	183
Interest expense		(522)	(551)
Other financial result		(692)	(319)
Total finance costs	14	(967)	(687)
Income taxes	15	(291)	(677)
Profit for the period		**1,000**	**2,698**
Attributable to:			
Equity owners of the parent (Net income)		995	2,696
Non-controlling interests		5	2

Earnings per share		**€**	**€**
Basic	16	1.29	3.43
Diluted	16	1.29	3.42

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

Airbus Group SE — IFRS Consolidated Statements of Comprehensive Income for the years ended 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Profit for the period		**1,000**	**2,698**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of the defined benefit pension plans		(1,649)	761
Share of remeasurement of the defined benefit pension plans from investments accounted for under the equity method		(102)	(36)
Income tax relating to items that will not be reclassified	15	365	(235)
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		(174)	222
Change in fair value of cash flow hedges	35	(247)	(4,699)
Change in fair value of available-for-sale financial assets		(53)	368
Share of changes in other comprehensive income from investments accounted for under the equity method		(35)	(142)
Income tax relating to items that may be reclassified	15	(7)	1,112
Other comprehensive income, net of tax		**(1,902)**	**(2,649)**
Total comprehensive income of the period		**(902)**	**49**
Attributable to:			
Equity owners of the parent		(917)	76
Non-controlling interests		15	(27)

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

Airbus Group SE — IFRS Consolidated Statements of Financial Position at 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Assets			
Non-current assets			
Intangible assets	17	12,068	12,555
Property, plant and equipment	18	16,913	17,127
Investment property		5	66
Investments accounted for under the equity method	7	1,608	1,326
Other investments and other long-term financial assets	19	3,655	2,492
Non-current other financial assets	23	976	1,096
Non-current other assets	24	2,358	2,166
Deferred tax assets	15	7,557	6,759
Non-current securities	34	9,897	9,851
		55,037	**53,438**
Current assets			
Inventories	20	29,688	29,051
Trade receivables	21	8,101	7,877
Current portion of other long-term financial assets	19	522	178
Current other financial assets	23	1,257	1,402
Current other assets	24	2,576	2,819
Current tax assets		1,110	860
Current securities	34	1,551	1,788
Cash and cash equivalents[(1)]	34	10,143	6,590
		54,948	**50,565**
Assets and disposal group of assets classified as held for sale	6	1,148	1,779
Total assets[(1)]		**111,133**	**105,782**

(In € million)	Note	**2016**	2015
Equity and liabilities			
Equity attributable to equity owners of the parent			
Capital stock		773	785
Share premium		2,745	3,484
Retained earnings		4,987	6,316
Accumulated other comprehensive income		(4,845)	(4,316)
Treasury shares		(3)	(303)
		3,657	**5,966**
Non-controlling interests		(5)	7
Total equity[(2)]	**32**	**3,652**	**5,973**
Non-current liabilities			
Non-current provisions	22	10,826	9,871
Long-term financing liabilities	34	8,791	6,335
Non-current other financial liabilities	23	13,313	14,038
Non-current other liabilities	24	16,279	14,993
Deferred tax liabilities	15	1,292	1,200
Non-current deferred income		288	263
		50,789	**46,700**
Current liabilities			
Current provisions	22	6,143	5,209
Short-term financing liabilities	34	1,687	2,790
Trade liabilities[(1)]	21	12,532	10,864
Current other financial liabilities	23	5,761	5,021
Current other liabilities	24	27,535	27,037
Current tax liabilities		1,126	908
Current deferred income		917	1,049
		55,701	**52,878**
Disposal group of liabilities classified as held for sale	6	991	231
Total liabilities[(1)]		**107,481**	**99,809**
Total equity and liabilities[(1)]		**111,133**	**105,782**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

(2) As of 31 December 2016, the accumulated other comprehensive income, previously classified within equity relating to assets and disposal groups classified as held for sale, amounts to €-56 million.

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

Airbus Group SE — IFRS Consolidated Statements of Cash Flows for the years ended 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Profit for the period attributable to equity owners of the parent (Net income)		**995**	**2,696**
Profit for the period attributable to non-controlling interests		5	2
Adjustments to reconcile profit for the period to cash provided by operating activities:			
Interest income		(247)	(183)
Interest expense		522	551
Interest received		139	131
Interest paid		(378)	(388)
Income tax expense		291	677
Income tax paid		(559)	(595)
Depreciation and amortisation	9	2,294	2,466
Valuation adjustments		1,132	487
Results on disposals of non-current assets		(1,870)	(234)
Results of investments accounted for under the equity method		(231)	(1,016)
Change in current and non-current provisions		1,321	(54)
Contribution to plan assets		(290)	(217)
Change in other operating assets and liabilities: [(1)]		**1,245**	**(1,432)**
• Inventories		(3,477)	(4,133)
• Trade receivables		(1,215)	(1,378)
• Trade liabilities[(1)]		2,398	894
• Advance payments received		4,628	3,752
• Other assets and liabilities		(837)	(417)
• Customer financing assets		(202)	(193)
• Customer financing liabilities		(50)	43
Cash provided by operating activities[(1) (2)]		**4,369**	**2,891**
Investments:			
• Purchases of intangible assets, property, plant and equipment, investment property		(3,060)	(2,924)
• Proceeds from disposals of intangible assets, property, plant and equipment, investment property		72	78
• Acquisitions of subsidiaries, joint ventures, businesses and non-controlling interests (net of cash)	6	(120)	(13)
• Proceeds from disposals of subsidiaries (net of cash)	6	731	127
• Payments for investments accounted for under the equity method, other investments and other long-term financial assets		(691)	(258)
• Proceeds from disposals of investments accounted for under the equity method, other investments and other long-term financial assets		182	1,731
• Dividends paid by companies valued at equity	7	192	34
Disposals of non-current assets and disposal groups classified as assets held for sale and liabilities directly associated	6	1,527	127
Payments for investments in securities		(2,280)	(7,151)
Proceeds from disposals of securities		2,617	4,790

(In € million)	Note	**2016**	2015
Cash (used for) investing activities		**(830)**	**(3,459)**
Increase in financing liabilities	34	3,297	1,254
Repayment of financing liabilities	34	(1,725)	(262)
Cash distribution to Airbus Group SE shareholders	32	(1,008)	(945)
Dividends paid to non-controlling interests		(4)	(3)
Changes in capital and non-controlling interests		60	195
Share buyback	32	(736)	(264)
Cash (used for) financing activities		**(116)**	**(25)**
Effect of foreign exchange rate changes on cash and cash equivalents		60	171
Net increase (decrease) in cash and cash equivalents(1)		**3,483**	**(422)**
Cash and cash equivalents at beginning of period(1)		**6,677**	**7,099**
Cash and cash equivalents at end of period(1)	**34**	**10,160**	**6,677**
thereof presented as cash and cash equivalents(1)	*34*	*10,143*	*6,590*
thereof presented as part of disposal groups classified as held for sale	*6*	*17*	*87*

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted accordingly (cash and cash equivalents at 31 December 2015: €-899 million and at 31 December 2014: €-190 million; change in trade liabilities in 2015: €-709 million).

(2) The 2016 cash provided by operating activities has been positively impacted by certain agreements reached with Airbus' suppliers relating to the settlement of claims and negotiation on payment terms.

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

Airbus Group SE — IFRS Consolidated Statements of Changes in Equity for the years ended 31 December 2016 and 2015

		Equity attributable to equity holders of the parent									Non-controlling interests	Total equity
					Accumulated other comprehensive income							
(In € million)	Note	Capital stock	Share premium	Retained earnings	Available-for-sale financial assets	Cash flow hedges	Foreign currency translation adjustments	Treasury shares	Total			
Balance at 31 December 2014		**785**	**4,500**	**2,989**	**670**	**(3,310)**	**1,435**	**(8)**	**7,061**		**18**	**7,079**
Profit for the period		0	0	2,696	0	0	0	0	2,696		2	2,698
Other comprehensive income		0	0	491	165	(3,554)	278	0	(2,620)		(29)	(2,649)
Total comprehensive income of the period		0	0	3,187	165	(3,554)	278	0	76		(27)	49
Capital increase	32	3	115	0	0	0	0	0	118		24	142
Share-based payment (IFRS 2)	30	0	0	29	0	0	0	0	29		0	29
Cash distribution to Airbus Group SE shareholders / dividends paid to non-controlling interests	32	0	(945)	0	0	0	0	0	(945)		(3)	(948)
Equity transaction (IAS 27)		0	0	61	0	0	0	0	61		(5)	56
Equity component convertible bond	32	0	0	53	0	0	0	0	53		0	53
Change in treasury shares	32	0	0	(3)	0	0	0	(484)	(487)		0	(487)
Cancellation of treasury shares		(3)	(186)	0	0	0	0	189	0		0	0
Balance at 31 December 2015		**785**	**3,484**	**6,316**	**835**	**(6,864)**	**1,713**	**(303)**	**5,966**		**7**	**5,973**
Profit for the period		0	0	995	0	0	0	0	995		5	1,000
Other comprehensive income		0	0	(1,383)	(65)	(289)	(175)	0	(1,912)		10	(1,902)
Total comprehensive income of the period		0	0	(388)	(65)	(289)	(175)	0	(917)		15	(902)
Capital increase	32	2	58	0	0	0	0	0	60		0	60
Share-based payment (IFRS 2)	30	0	0	31	0	0	0	0	31		0	31
Cash distribution to Airbus Group SE shareholders / dividends paid to non-controlling interests	32	0	0	(1,008)	0	0	0	0	(1,008)		(4)	(1,012)
Equity transaction (IAS 27)		0	0	38	0	0	0	0	38		(23)	15
Change in treasury shares	32	0	0	(2)	0	0	0	(511)	(513)		0	(513)
Cancellation of treasury shares		(14)	(797)	0	0	0	0	811	0		0	0
Balance at 31 December 2016		**773**	**2,745**	**4,987**	**770**	**(7,153)**	**1,538**	**(3)**	**3,657**		**(5)**	**3,652**

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

2.

Notes to the
IFRS Consolidated Financial Statements

2.1 Basis of Presentation

1. The Company

The accompanying IFRS Consolidated Financial Statements present the financial position and the results of operations of **Airbus Group SE**, (the “Company”), and its subsidiaries, a European Company (*Societas Europaea* (“SE”)) legally seated in Amsterdam (current registered office at Mendelweg 30, 2333 CS Leiden, The Netherlands, under number 24288945). On 1 January 2017, the Company has been further integrated by merging its Group structure with the commercial aircraft activities of Airbus, with associated restructuring measures. In this new set-up, the Company will retain Airbus Defence and Space and Airbus Helicopters as divisions. Airbus Group SE will change its name to Airbus SE; the legal name change from Airbus Group SE to Airbus SE is still subject to the approval of the Annual General Meeting due to be held on 12 April 2017. Therefore, the Company together with its subsidiaries will be referred to as “Airbus” and no longer as “the Group”. As a consequence, the segment formerly known as Airbus will now be referred to as “Airbus Commercial Aircraft”; there are no changes to the segment reporting in 2016. The Company is listed on the European stock exchanges in Paris, Frankfurt am Main, Madrid, Barcelona, Valencia and Bilbao. The IFRS Consolidated Financial Statements were authorised for issue by the Company’s Board of Directors on 21 February 2017. They are prepared and reported in euro (“€”) and all values are rounded to the nearest million appropriately.

2. Significant Accounting Policies

Basis of preparation — Airbus’ Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”) as endorsed by the European Union (“EU”) and with Part 9 of Book 2 of the Netherlands Civil Code. When reference is made to IFRS, this intends to be EU-IFRS. The Consolidated Financial Statements have been prepared on a historical cost basis, unless otherwise indicated.

Airbus describes the accounting policies applied in each of the individual notes to the financial statements and avoids repeating the text of the standard, unless this is considered relevant to the understanding of the note’s content. The most significant accounting policies are set out below:

Revenue recognition — Revenue is recognised to the extent that it is probable that the economic benefit arising from the ordinary activities of Airbus will flow to Airbus, that revenue can be measured reliably and that the recognition criteria, for each type of revenue-generating activity (sales of goods and services and construction contracts), have been met. Revenue is measured at the fair value of the consideration received or receivable.

Revenues from the sale of commercial aircraft are recognised when the aircraft is delivered, risks and rewards of ownership have been transferred to the customer and revenues can be measured reliably except for launch customer contracts (see “Revenue from construction contracts”). Revenues from sales of aircraft (and related cost of sales) always include the engine component. Customers will generally benefit from a concession from the engine manufacturer, negotiated directly between the customer and the engine manufacturer. When reliable information exists, the engine prices considered in our revenues (and cost of sales) reflect the effect of the concessions.

Revenue from construction contracts — Construction contract accounting is applied for military programmes, space projects as well as for launch customer contracts in the civil aircraft business if customers have significantly influenced the structural design and technology of the aircraft type under the contract. As a result of certain airline customers’ increasing involvement in the development and production process of the A350 XWB programme, Airbus applies IAS 11 “Construction contracts” to a fixed number of launch customer contracts of the A350 XWB programme. When the outcome can be estimated reliably, revenues and contract costs are recognised as revenue and expensed respectively by reference to the percentage of completion of the contract activity at the end of the reporting period (“PoC method”). Contract revenues include the purchase price agreed with the customer considering escalation formulas, contract amendments and claims and penalties when assessed as probable. The PoC method used depends on the contract. The method is based either on inputs (*i.e.* costs incurred for development contracts) or outputs (*i.e.* contractually agreed technical milestones, delivered units).

Whenever the outcome of a construction contract cannot be estimated reliably – for example during the early stages of a contract or during the course of a contract’s completion – all related contract costs that are incurred are immediately expensed and revenues are recognised only to the extent of those costs being recoverable (the “early stage”, also called “zero profit margin” method of accounting) (see “– Note 3: Key Estimates and Judgements”).

Provision for loss making contracts — Airbus records provisions for loss making contracts when it becomes probable that the total contract costs will exceed total contract revenues. Before a provision for loss making contracts is recorded, the related assets under construction are written-off. Loss making sales contracts are identified by monitoring the progress of the contract as well as the underlying programme and updating the estimate of contract costs, which requires significant and complex assumptions, judgements and estimates related to achieving certain performance standards as well as estimates involving warranty costs (see "– Note 3: Key Estimates and Judgements", "– Note 10: Revenues, Cost of Sales and Gross Margin" and "– Note 22: "Provisions, Contingent Assets and Contingent Liabilities").

Research and development expenses — Research and development activities can be either contracted or self-initiated.

The costs for contracted research and development activities, carried out in the scope of externally financed research and development contracts, are expensed when the related revenues are recorded.

The costs for self-initiated research are expensed when incurred. The costs for self-initiated development are capitalised when:

- the product or process is technically feasible and clearly defined (*i.e.* the critical design review is finalised);
- adequate resources are available to successfully complete the development;
- the benefits from the assets are demonstrated (a market exists or the internal usefulness is demonstrated) and the costs attributable to the projects are reliably measured;
- Airbus intends to produce and market or use the developed product or process and can demonstrate its profitability.

Income tax credits granted for research and development activities are deducted from corresponding expenses or from capitalised amounts when earned.

Development costs which are capitalised, are recognised either as intangible assets or, when the related development activities lead to the construction of specialised tooling for production ("jigs and tools"), or involve the design, construction and testing of prototypes and models, as property, plant and equipment. Capitalised development costs are generally amortised over the estimated number of units produced. If the number of units produced cannot be estimated reliably, capitalised development costs are amortised over the estimated useful life of the internally generated intangible asset. Amortisation of capitalised development costs is recognised in cost of sales.

Inventories are measured at the lower of acquisition cost (generally the average cost) or manufacturing cost and net realisable value. Manufacturing costs comprise all costs that are directly attributable to the manufacturing process, such as direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs), including depreciation charges. Net realisable value is the estimated selling price in the ordinary course of the business less the estimated costs to complete the sale. Inventories include work in progress arising under construction contracts for which revenues are recognised based on output methods.

Transactions in foreign currency, *i.e.* transactions in currencies other than the functional currency of an Airbus entity, are translated into the functional currency at the foreign exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured into the functional currency at the exchange rate in effect at that date. Except when deferred in equity as qualifying cash flow hedges (see "– Note 35: Information about Financial Instruments"), these foreign exchange remeasurement gains and losses are recognised, in line with the underlying item:

- in the profit before finance costs and income taxes if the substance of the transaction is commercial (including sales financing transactions); and
- in the finance costs for financial transactions.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated into functional currency at the foreign exchange rate in effect at the date of the transaction. Translation differences on non–monetary financial assets and liabilities that are measured at fair value are reported as part of the fair value gain or loss. However, translation differences of non–monetary financial assets measured at fair value and classified as available–for–sale are included in Accumulated other comprehensive income ("AOCI").

Hedge accounting — Most of Airbus' revenues are denominated in US dollar ("US$"), while a major portion of its costs are incurred in euro. Airbus is significantly exposed to the risk of changes in US$/€ exchange rates. Furthermore, Airbus is exposed, though to a much lesser extent, to foreign exchange risk arising from costs incurred in currencies other than the euro and to other market risks such as interest rate risk, commodity price and equity price risk.

In order to manage and mitigate those risks, Airbus enters into derivative contracts. Airbus applies cash flow hedge accounting to its derivative contracts whenever the relevant IFRS criteria can be met. Hedge accounting ensures that derivative gains or losses are recognised in profit or loss (mainly as part of the revenue) in the same period that the hedged items or transactions affect profit or loss.

The major portion of Airbus' derivative contracts is accounted for under the cash flow hedge model. The fair value hedge model is used only for certain interest rate derivatives. Derivative contracts which do not qualify for hedge accounting are accounted for at fair value through profit and loss, any related gains or losses being recognised in financial result.

Airbus' hedging strategies and hedge accounting policies are described in more detail in "– Note 35: Information about Financial Instruments".

3. Key Estimates and Judgements

The preparation of Airbus' Consolidated Financial Statements requires the use of estimates and assumptions. In preparing these financial statements, management exercises its best judgement based upon its experience and the circumstances prevailing at that time. The estimates and assumptions are based on available information and conditions at the end of the financial period presented and are reviewed on an ongoing basis. Key estimates and judgements that have a significant influence on the amounts recognised in Airbus' Consolidated Financial Statements are mentioned below:

Revenue recognition on construction contracts — The PoC method is used to recognise revenue under construction contracts. This method places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the construction contract significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgements.

The management of the operating Divisions continually review all estimates involved in such construction contracts and adjusts them as necessary (see "– Note 21: Trade Receivables and Trade Liabilities" for further information).

Provisions — The determination of provisions, for example for contract losses, warranty costs, restructuring measures and legal proceedings is based on best available estimates. Loss making contracts are identified by monitoring the progress of the contract as well as the underlying programme and updating the estimate of contract costs, which also requires significant judgement related to achieving certain performance standards as well as estimates involving warranty costs. Depending on the size and nature of Airbus' contracts and related programmes, the extent of assumptions, judgements and estimates in these monitoring processes differs. In particular, the introduction of commercial or military aircraft programmes (such as the A350 XWB and the A400M) or major derivative aircraft programmes particularly involves an increased level of estimates and judgements associated with the expected development, production and certification schedules and expected cost components.

Airbus makes estimates and provides, across the programmes, for costs related to in service technical issues which have been identified and for which solutions have been defined, which reflects the latest facts and circumstances. Airbus is contractually liable for the repair or replacement of the defective parts but not for any other damages whether direct, indirect, incidental or consequential (including loss of revenue, profit or use). However, in view of overall commercial relationships, contract adjustments may occur, and be considered on a case by case basis.

Estimates and judgements are subject to change based on new information as contracts and related programmes progress. Furthermore, the complex design and manufacturing processes of Airbus' industry require challenging integration and coordination along the supply chain including an ongoing assessment of suppliers' assertions which may additionally impact the outcome of these monitoring processes (see "– Note 10: Revenues, Cost of Sales and Gross Margin" and "– Note 22: Provisions, Contingent Assets and Contingent Liabilities" for further information).

Employee benefits — Airbus accounts for pension and other post-retirement benefits in accordance with actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. The actuarial assumptions may differ materially from actual developments due to changing market and economic conditions and therefore result in a significant change in post–retirement employee benefit obligations and the related future expense (see "– Note 29: Post–Employment Benefits").

Legal contingencies — Airbus companies are parties to litigations related to a number of matters as described in "– Note 36: Litigation and Claims". The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of Airbus. Management regularly analyses current information about these matters and provides provisions for probable cash outflows, including the estimate of legal expenses to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavourable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The filing of a suit or formal assertion of a claim against Airbus companies or the disclosure of any such suit or assertion, does not automatically indicate that a provision may be appropriate.

Income taxes — Airbus operates and earns income in numerous countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining the worldwide income tax liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final tax outcome of these matters will be consistent with what is reflected in the historical income tax provisions. At each end of the reporting period, Airbus assesses whether the realisation of future tax benefits is probable to recognise deferred tax assets. This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realised from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced, through valuation allowances recognition, if estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of Airbus' ability to utilise future tax benefits. The basis for the recoverability test of deferred tax assets is the same as Airbus' latest five year operative planning also taking into account certain qualitative aspects regarding the nature of the temporary differences. Qualitative factors include but are not limited to an entity's history of planning accuracy, performance records, business model, backlog, existence of long-term contracts as well as the nature of temporary differences (see "– Note 15: Income Tax").

Other subjects that involve assumptions and estimates are further described in the respective notes (see "– Note 6: Acquisitions and Disposals", "– Note 17: Intangible Assets" and "– Note 21: Trade Receivables and Liabilities".

4. Change in Accounting Policies and Disclosures

The accounting policies applied by Airbus for preparing its 2016 year-end Consolidated Financial Statements are the same as applied for the previous year. Amendments and improvements to standards effective on 1 January 2016 have no impact on the Consolidated Financial Statements.

New, Revised or Amended IFRS Standards and Interpretations Issued but not yet Applied

A number of new or revised standards, amendments and improvements to standards as well as interpretations are not yet effective for the year ended 31 December 2016 and have not been applied in preparing these Consolidated Financial Statements and early adoption is not planned:

Standards and amendments	IASB effective date for annual reporting periods beginning on or after	Endorsement status
IFRS 9 “Financial instruments”	1 January 2018	Endorsed
IFRS 15 “Revenue from contracts with customers”	1 January 2018	Endorsed
Clarifications to IFRS 15 “Revenue from contracts with customers”	1 January 2018	Not yet endorsed
Amendments to IFRS 10 and IAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”	-	Not yet endorsed
Amendment to IAS 7 “Disclosure initiative”	1 January 2017	Not yet endorsed
Amendments to IFRS 2 “Classification and measurement of share-based payment transactions”	1 January 2018	Not yet endorsed
IFRIC 22 “Foreign currency transactions and advance consideration”	1 January 2018	Not yet endorsed
IFRS 16 “Leases”	1 January 2019	Not yet endorsed

IFRS 9 “Financial Instruments”

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 “Financial instruments: recognition and measurement”. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

An assessment of the materiality of IFRS 9 impact on Airbus’ Financial Statements is currently being performed.

IFRS 15 “Revenue from Contracts with Customers”

On May 2014, the IASB issued IFRS 15 which establishes a single comprehensive framework for determining when to recognise revenue and how much revenue to recognise. IFRS 15 will replace the current revenue recognition standards IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations when it becomes effective.

Airbus has completed an initial qualitative assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

Revenue recognition should depict the transfer of control of the goods and services to the customer. IFRS 15 will require Airbus to identify the different performance obligations it assumes under a contract, and account for them separately based on their relative stand-alone selling prices. For all contracts, including long-term construction contracts currently accounted for under the PoC method, Airbus will only be able to recognise revenue once certain conditions providing evidence that control of a good or service has transferred to the customer are met. IFRS 15 introduces three criteria among which control is transferred over time and as a result revenue could be recognised over time:

(i) Customer simultaneously received and consumes the benefits provided by the entity’s performance as the entity performs.

(ii) The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

(iii) The entity’s performance does not create an asset with alternative use to the entity and the entity has enforceable right to payment to performance completed to date.

The current significant accounting policies (see “– Note 2 - Significant Accounting Policies”) will be impacted by IFRS 15, as follows:

Sales of commercial aircraft – Revenue will be recognised once the customer is controlling the aircraft. In most of the cases, the physical delivery of the aircraft results in the transfer of control to the customer. Airbus does not expect any change in the timing of the revenue recognition of commercial aircraft.

The assessment of the impact on the measurement of the revenue is still ongoing specifically on the concessions granted by some of Airbus’ suppliers to Airbus’ customers and on potential impact of significant financing component.

Construction contracts – This notion is not maintained under IFRS 15. Airbus has been analysing its major construction contracts (see "– Note 2: Significant Accounting Policies") and may conclude for some of them that the criteria stated under the criteria (ii) and/or (iii) criteria above are not fulfilled. In such case, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

In certain circumstances, the standard considers work in progress to be controlled by the customer, in which case it would be inappropriate for an entity to recognise work in progress as an asset on its balance sheet. As a result, Airbus will use a method which will reflect the over time transfer of control when sold assets have no alternative use to the final customer. The assessment of the quantitative impact of the implementation of the new revenue standard is still ongoing.

Transition - Airbus plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach.

The implementation of IFRS 15 will generate more extensive disclosures in the financial statements (i.e. backlog based on contract transaction price).

IFRS 16 "Leases"

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to underlying asset and a lease liability representing its obligation to make lease payments.

Airbus does not expect significant change on current financial leases and on the current accounting recognition of its actual leases when Airbus is acting as a lessor.

The assessment of the materiality of IFRS 16 impact on operating leases on Airbus' Financial Statements is currently being performed.

2.2 Airbus Structure

5. Scope of Consolidation

Consolidation — Airbus' Consolidated Financial Statements include the financial statements of Airbus Group SE and all material subsidiaries controlled by Airbus. Airbus' subsidiaries prepare their financial statements at the same reporting date as Airbus' Consolidated Financial Statements (see Appendix "Simplified Airbus Structure Chart").

Subsidiaries are entities controlled by Airbus including so–called Structured Entities ("SE") which are created to accomplish a narrow and well–defined objective (see "– Note 25: Sales Financing Transactions"). They are fully consolidated from the date control commences to the date control ceases.

The assessment of the control of SE is performed in three steps. In a first step, Airbus identifies the relevant activities of the SE (which may include managing lease receivables, managing the sale or re-lease at the end of the lease and managing the sale or re-lease on default) and in a second step, Airbus assesses which activity is expected to have the most significant impact on the SE's return. Finally, Airbus determines which party or parties control this activity.

Airbus' interests in equity-accounted investees comprise investments in associates and joint ventures. Investments in associates and in joint ventures are accounted for using the equity method and are initially recognised at cost.

The financial statements of Airbus' investments in associates and joint ventures are generally prepared for the same reporting period as for the parent company. Adjustments are made where necessary to bring the accounting policies and accounting periods in line with those of Airbus.

PERIMETER OF CONSOLIDATION

	31 December	
Number of companies	**2016**	2015
Fully consolidated entities	244	262
Investments accounted for using the equity method:		
• in joint ventures	52	53
• in associates	23	19
Total	**319**	**334**

For more details related to unconsolidated and consolidated SE, please see "– Note 25: Sales Financing Transactions".

6. Acquisitions and Disposals

Business combinations are accounted for using the acquisition method, as at the acquisition date, which is the date on which control is transferred to Airbus.

The determination of the fair value of the acquired assets and the assumed liabilities which are the basis for the measurement of goodwill requires significant estimates. Land, buildings and equipment are usually independently appraised while marketable securities are valued at market prices. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, Airbus either consults with an independent external valuation expert or develops the fair value internally, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows.

These evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

Loss of control, loss of joint control, loss of significant influence — Upon loss of control of a subsidiary, the assets and liabilities and any components of Airbus' equity related to the subsidiary are derecognised. Any gain or loss arising from the loss of control is recognised within other income or other expenses in the Consolidated Income Statement. If Airbus retains any interest in the previous subsidiary, such interest is measured at fair value at the date the control is lost.

Assets and liabilities of a material subsidiary for which a loss of control is highly probable are classified as assets and liabilities held for sale when Airbus has received sufficient evidence that the loss of control will occur in the 12 months after the classification. These assets and liabilities are presented after elimination of intercompany transactions.

When the loss of significant influence or the loss of joint control of an investment accounted under the equity method is highly probable and will occur in the coming 12 months, this associate or joint venture is classified as an asset held for sale.

Sale of investment in an associate or joint venture — Any gain or loss arising from the disposal of investment accounted for under the equity method is recognised within share of profit from investments accounted for under the equity method.

6.1 Acquisitions

On 9 March 2016, Airbus Commercial Aircraft acquired 100% of the shares of the **Navtech Inc. Group ("Navtech")**, a leading global provider of flight operations solutions, and has recognised goodwill of € 104 million. The one year window period for the completion of the purchase price allocation will end on 9 March 2017.
Navtech provides aviation services with a suite of flight operations products, aeronautical charts, navigation data solutions, flight planning, aircraft performance and crew planning solutions. Navtech generates annual revenues of approximately US$ 40 million and employs over 250 employees, mainly based in Waterloo (Canada) and in Hersham and Cardiff (UK).

There were no material acquisitions in 2015.

6.2 Disposals

On 17 June 2015, Airbus Commercial Aircraft signed an agreement with Singapore-based ST Aerospace Ltd. ("STA") to offer passenger-to-freighter ("P2F") conversion solutions for its A320 and A321 aircraft. **Elbe Flugzeugwerke's ("EFW")**, Dresden (Germany), assets and liabilities were classified as disposal groups held for sale as of 31 December 2015. On 4 January 2016, STA acquired an additional 20% of the shares by way of a contribution in kind and a capital increase to EFW, and consequently, Airbus lost the control of EFW. Airbus retains 45% of the shares of EFW with significant influence. Airbus Commercial Aircraft has recognised in other income a € 19 million gain during the year.

On 2 June 2016, Airbus DS Holding SAS (France) and Astrium International Holdings B.V. (Netherlands), as beneficiaries, and a French private equity firm, Apax Partners, closed the sale of the **business communications entities**. The assets and liabilities of these entities were previously classified as disposal groups held for sale. The gain resulting from this transaction of € 146 million was recognised in other income (reported in Airbus Defence and Space Division).

On 25 March 2015, Airbus sold 1,612,407 **Dassault Aviation** shares, corresponding to 17.5% of the Dassault Aviation's share capital, of which 460,688 shares (5%) were sold to Dassault Aviation for € 980 per share and 1,151,719 shares (12.5%) were sold to institutional investors at € 1,030 per share. On 14 April 2015, Airbus sold an additional 115,172 shares (1.25%) to institutional investors at € 1,030 per share.
As of 31 March 2015, the remaining equity investment in Dassault Aviation with the carrying amount of € 1,320 million was classified as an asset held for sale (reported in "Other / HQ / Conso.") as Airbus intends to pursue market opportunities to sell the remainder of this investment. Prior to the reclassification, the carrying amount included the Airbus interest in Dassault Aviation's first quarter 2015 result and a negative catch-up on 2014 of € -119 million.
In 2015, Airbus recognised € 748 million (€ 697 million in share of profit from investments accounted for under the equity method and € 51 million in other income) representing the net capital gain on partial disposal after transaction costs.
On 14 June 2016, Airbus Group SAS sold approximately 1.33 million shares in Dassault Aviation, around 62% to institutional investors and 38% to Dassault Aviation, at a price of € 950 per share. The total gain on these transactions amounted to € 528 million recognised in other income (reported in "Other / HQ / Conso.").
The remaining investment, representing 10% of Dassault Aviation's share capital, is now classified as other investments and measured at fair value (see "– Note 19: Other Investments and Other Long-Term Financial Assets"). The resulting gain of € 340 million is recognised in other income (reported in "Other / HQ /Conso."). Previously, the investment in Dassault Aviation was classified as asset held for sale.

The Company also issued bonds exchangeable in Dassault Aviation shares (see "– Note 34: Net Cash"). In the event of exchange in full of the bonds, Airbus will have fully disposed of its Dassault Aviation stake.

On 14 January 2015, Airbus and Safran completed the first phase of the integration process of **Airbus Safran Launchers ("ASL")** enabling the entity to become operational. Coordination and programme management of the civil activities of the launcher business as well as relevant participations were transferred to ASL.

Airbus received 50% of issued shares in ASL initially recognised at € 56 million as at-equity investment. The loss of control in the business resulted in a capital gain of € 49 million, which is reported in Airbus Defence and Space Division in other income.

On 16 June 2015, ASL, the French state and the Centre National d'Etudes Spatiales ("CNES"), the French space agency, reached an agreement to transfer CNES's stake in Arianespace to ASL, which was authorised on 20 July 2016 by the European Commission. On 12 August 2015, ASL was awarded the Ariane 6 development contract by the European Space Agency ("ESA").

On 20 May 2016, Airbus and Safran signed the second phase of the Master Agreement enabling the joint venture to be fully equipped for all design, development, production and commercial activities related to civil and military launchers and associated propulsion systems. During the second phase, Safran and Airbus integrated within the joint venture all the remaining contracts, assets and industrial resources, related to space launchers and associated propulsion systems. On 30 June 2016, Airbus contributed the second phase assets and liabilities in exchange for shares issued by Airbus Safran Launchers Holding, and also sold additional assets in exchange for € 750 million in cash. Airbus participation in ASL accounted for at-equity amounts to € 677 million. The loss of control in the business resulted in a capital gain of € 1,175 million recognised in other income (reported in Airbus Defence and Space Division).

Airbus and Safran finalised the respective contribution balance sheet in the third quarter 2016 in alignment with the provision of the Master Agreement. On 31 December 2016, the transfer of the 34.68% of CNES's stake in Arianespace to ASL was completed. ASL holds 74% of the shares of Arianespace. This change in the shareholder mix at Arianespace finalises the creation of a new launcher governance in Europe.

The allocation of the purchase price is currently ongoing at ASL level and is expected to be finalised during the one year window period ending on 30 June 2017. As a result of this preliminary allocation, € 7 million depreciation expense net of tax was recognized during the year 2016.

On 20 August 2015, Airbus Defence and Space GmbH, Rohde & Schwarz GmbH und Co. KG, Thales Electronic Systems GmbH and Northrop Grumman Litef GmbH sold their shares in **Elektroniksystem und Logistik GmbH ("ESG")** to E-Sicherheitsbeteiligungen GmbH. Airbus recognised a € 59 million gain in share of profit from investments accounted for under the equity method, which is reported in Airbus Defence and Space Division. The assets and liabilities of this company were classified as held for sale as at 31 December 2014.

On 1 October 2015, Airbus sold its shares in its fully owned subsidiary **Cimpa SAS** to Sopra Steria Group. The € 72 million gain on this disposal is recognised in other income.

6.3 Assets and Disposal Groups Classified as Held for Sale

As of 31 December 2016, Airbus accounted for **assets and disposal groups of assets classified as held for sale** in the amount of € 1,148 million (2015: € 1,779 million). **Disposal group of liabilities classified as held for sale** as of 31 December 2016 amount to € 991 million (2015: € 231 million). The assets and disposal groups classified as held for sale are related to the defence electronics companies and Atlas Elektronik GmbH ("Atlas").

On 18 March 2016, Airbus reached an agreement with affiliates of KKR & Co. L.P. (the acquirer) to sell its **defence electronics business**, a leading global provider of mission-critical sensors, integrated systems and services for premium defence and security applications mainly based in Ulm (Germany). Such divestment is part of the strategic review of the Airbus Defence and Space business portfolio. The transaction is expected to be closed within 12 months of the date of the agreement. The assets and liabilities relative to this disposal group have been classified as held for sale since 31 March 2016.

On 20 December 2016, Airbus signed a sale purchase agreement to sell to Thyssen Krupp its 49% stake in **Atlas**.

The assets and disposal group of assets and liabilities classified as held for sale consist of:

	31 December	
(In € million)	**2016**	2015
Non-current financial assets	13	1,253
Other non-current assets	354	269
Inventory	428	75
Trade receivables	247	84
Other assets	89	11
Cash and cash equivalents	17	87
Assets and disposal group of assets classified as held for sale	**1,148**	**1,779**
Provisions	559	69
Non-current financial liabilities	6	0
Trade liabilities	85	0
Other liabilities	341	162
Disposal group of liabilities classified as held for sale	**991**	**231**

6.4 Cash Flows from Disposals including Assets and Disposal Groups Classified as Held for Sale

The following chart provides details on cash flow from disposals (resulting in assets and liabilities disposed) of subsidiaries, joint ventures and businesses:

	31 December	
(In € million)	**2016**	2015
Total selling price received by cash and cash equivalents	2,273	277
Cash and cash equivalents included in the disposed subsidiaries	(15)	(23)
Total	**2,258**	**254**

The aggregate cash flow from disposals of subsidiaries and assets and disposals groups classified as held for sales in 2016 results mainly from the completion of the creation of ASL, the sale of Dassault Aviation shares and the sale of business communication entities.

The aggregate cash flow from disposals of subsidiaries and assets and disposals groups classified as held for sales in 2015 results mainly from the sale of CIMPA, the partial sale of Dassault Aviation share and the completion of the first phase of the creation of ASL.

7. Investments Accounted for under the Equity Method

	31 December	
(In € million)	**2016**	2015
Investments in joint ventures	1,437	1,264
Investments in associates	171	62
Investments accounted for under the equity method	**1,608**	**1,326**

7.1 Investments in Joint Ventures

The joint ventures in which Airbus holds interests are structured in separate incorporated companies. Under joint arrangement agreements, unanimous consent is required from all parties to the agreement for all relevant activities. Airbus and its partners have rights to the net assets of these entities through the terms of the contractual agreements.

Airbus' interests in its joint ventures, being accounted for under the equity method, are stated in aggregate in the following table:

(In € million)	**2016**	2015
Airbus' interest in equity on investee at beginning of the year	**1,264**	**885**
New joint ventures(1)	595	179
Result from continuing operations attributable to Airbus	182	243
Other comprehensive income attributable to Airbus	(93)	46
Dividends received during the year	(195)	(89)
Reclassification as asset held for sale	(198)	0
Deconsolidation of investment	(112)	0
Others	(6)	0
Carrying amount of the investment at 31 December	**1,437**	**1,264**

(1) In 2016, it includes the impact of the completion of the second phase of the ASL creation (see "– Note 6: Acquisitions and Disposals").

Airbus' individually material joint ventures are ASL, Paris (France), MBDA S.A.S., Paris (France), and GIE ATR, Blagnac (France), as parent companies of their respective groups. Neither of these joint venture companies is publicly listed.

ASL is a 50% joint venture between Airbus and Safran. ASL is the head company in a group comprising several subsidiaries and affiliates, all leading companies in their fields, such as: APP, Arianespace, Cilas, Eurockot, Eurocryospace, Europropulsion, Nuclétudes, Pyroalliance, Regulus, Sodern and Starsem. ASL inherits a rich portfolio of products and services, enabling it to deliver innovative and competitive solutions to numerous customers around the world.

Airbus held a 37.5% stake in **MBDA** at 31 December 2016 and 2015, which is a joint venture between Airbus, BAE Systems and Leonardo (formerly Finmeccanica). MBDA offers missile systems capabilities that cover the whole range of solutions for air dominance, ground-based air defence and maritime superiority, as well as advanced technological solutions for battlefield engagement.

GIE ATR is manufacturing advanced turboprop aircraft. It is a 50% joint venture between Alenia Aermacchi, a Leonardo (formerly Finmeccanica) group company and Airbus. Both Alenia Aermacchi and Airbus provide airframes which are assembled by GIE ATR in France. The members of ATR GIE are legally entitled to the whole benefits and are liable for the commitments of the company. GIE ATR is obliged to transfer its cash to each member of the joint venture.

Atlas was a joint venture of Thyssen Krupp and Airbus (which at 31 December 2015 held a 49% stake). As of 31 December 2015, it was also considered an individually material joint venture. Following the signature of the sale purchase agreement, its remaining equity investment has been reclassified as asset held for sale (see "– Note 6: Acquisitions and Disposals").

The following table summarises financial information for ASL, MBDA and GIE ATR based on their Consolidated Financial Statements prepared in accordance with IFRS:

	ASL		MBDA		GIE ATR	
(In € million)	**2016**	2015	**2016**	2015	**2016**	2015
Revenues	2,227	1,215	2,955	2,875	1,651	1,760
Depreciation and amortisation	(35)	0	(92)	(86)	(18)	(50)
Interest income	2	0	8	2	0	1
Interest expense	(2)	0	(3)	(15)	(3)	(2)
Income tax expense	(40)	5	(66)	(74)	(3)	0
Profit from continuing operations	102	(8)	213	218	331	340
Other comprehensive income	(4)	0	(215)	65	14	16
Total comprehensive income (100%)	**98**	**(8)**	**(2)**	**283**	**345**	**356**
Non-current assets	5,324	229	2,339	2,010	147	94
Current assets	5,518	1,652	6,425	5,384	814	639
thereof cash and cash equivalents	*797*	*21*	*1,890*	*1,420*	*7*	*5*
Non-current liabilities	526	11	1,357	1,249	98	111
thereof non-current financial liabilities (excluding trade and other payables and provisions)	*35*	*0*	*7*	*9*	*0*	*0*
Current liabilities	6,511	1,669	7,119	5,811	407	159
thereof current financial liabilities (excluding trade and other payables and provisions)	*333*	*10*	*122*	*26*	*0*	*0*
Total equity (100%)	**3,805**	**201**	**288**	**334**	**456**	**463**
Equity attributable to equity owners of the parent	3,797	201	288	334	456	463
Non-controlling interests	8	0	0	0	0	0

	ASL		MBDA		GIE ATR	
(In € million)	**2016**	2015	**2016**	2015	**2016**	2015
Airbus' interest in equity on investee	1,899	101	108	125	228	232
Goodwill	255	0	282	282	0	0
PPA adjustments, net of tax	(1,479)	(49)	0	0	0	0
Fair value adjustments and modifications for differences in accounting policies	0	0	(14)	(13)	0	0
Elimination of downstream inventory	2	(1)	0	0	(4)	0
Carrying amount of the investment at 31 December	**677**	**51**	**376**	**394**	**224**	**232**

The development of these investments is as follows:

	ASL		MBDA		GIE ATR	
(In € million)	**2016**	2015	**2016**	2015	**2016**	2015
Airbus' interest in equity on investee at beginning of the year	**51**	**0**	**394**	**306**	**232**	**118**
Result from continuing operations attributable to Airbus	38	(4)	80	84	166	170
Other comprehensive income attributable to Airbus	(2)	0	(82)	28	7	8
Dividends received during the year	0	0	(16)	(24)	(177)	(64)
Changes in consolidation	590	55	0	0	0	0
Others	0	0	0	0	(4)	0
Carrying amount of the investment at 31 December	**677**	**51**	**376**	**394**	**224**	**232**

Airbus' share of contingent liabilities of MBDA as of 31 December 2016 is € 455 million (2015: € 399 million).

7.2 Investments in Associates

Airbus' interests in associates, being accounted for under the equity method, are stated in aggregate in the following table:

(In € million)	**2016**	2015[1]
Airbus' interest in equity on investee at beginning of the year	**62**	**77**
Result from continuing operations attributable to Airbus	49	40
Other comprehensive income attributable to Airbus	(27)	(29)
Dividends received during the year	(10)	(10)
Disposal of shares	(3)	(16)
Changes in consolidation[2]	100	0
Carrying amount of the investment at 31 December	**171**	**62**

(1) In 2015, excluding the individually material investment in Dassault Aviation, reclassified during the year to assets held for sale (see "– Note 6: Acquisitions and Disposals").
(2) In 2016, it includes the change in consolidation method of EFW.

The cumulative unrecognised comprehensive loss amounts for these associates to € -108 million and € -117 million as of 31 December 2016 and 2015, respectively (thereof € +9 million for the period).

8. Related Party Transactions

(In € million)	Sales of goods and services and other income	Purchases of goods and services and other expense	Receivables due as of 31 December	Payables due as of 31 December	Other liabilities / Loans received as of 31 December
2016					
Total transactions with associates	11	55	4	9	85
Total transactions with joint ventures	1,904	488	1,213	203	815
2015					
Total transactions with associates	7	40	96	4	79
Total transactions with joint ventures	1,771	121	1,850	14	544

Transactions with unconsolidated subsidiaries are immaterial to Airbus' Consolidated Financial Statements.

A part of the shares in Dassault Aviation was sold back to Dassault Aviation during 2016 and 2015 (for more details, see "– Note 6: Acquisitions and Disposals").

As of 31 December 2016, Airbus granted guarantees of € 152 million to Air Tanker group in the UK (2015: € 503 million).

For information regarding the funding of Airbus' pension plans, which are considered as related parties, please see "– Note 29: "Post-Employment Benefits".

The information relative to compensation and benefits granted to members of the Executive Committee and Board of Directors are disclosed in "– Note 31: Remuneration".

2.3 Segment Information

Airbus operates in three reportable segments which reflect the internal organisational and management structure according to the nature of the products and services provided.

- **Airbus Commercial Aircraft** (formerly Airbus) — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats; aircraft conversion and related services; development, manufacturing, marketing and sale of regional turboprop aircraft and aircraft components.
- **Airbus Helicopters** — Development, manufacturing, marketing and sale of civil and military helicopters; provision of helicopter related services.
- **Airbus Defence and Space** — Military combat aircraft and training aircraft; provision of defence electronics and of global security market solutions such as integrated systems for global border security and secure communications solutions and logistics; training, testing, engineering and other related services; development, manufacturing, marketing and sale of missiles systems; development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; provision of space related services; development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft and related services.

9. Segment Information

The following table presents information with respect to Airbus' business segments. As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Airbus Commercial Aircraft and Airbus Defence and Space and between Airbus Helicopters and Airbus Commercial Aircraft. The holding function of Airbus, the Airbus Group Bank and other activities not allocable to the reportable segments, combined together with consolidation effects, are disclosed in the column "Other / HQ / Conso.".

Airbus uses EBIT as a key indicator of its economic performance.

Business segment information for the year ended the 31 December 2016 is as follows:

(In € million)	Airbus Commercial Aircraft	Airbus Helicopters	Airbus Defence and Space	Total segments	Other / HQ / Conso.	**Consolidated**
Total revenues	49,237	6,652	11,854	67,743	57	67,800
Internal revenues	(646)	(448)	(118)	(1,212)	(7)	(1,219)
Revenues	**48,591**	**6,204**	**11,736**	**66,531**	**50**	**66,581**
Profit before finance costs and income taxes (EBIT)	**1,543**	**308**	**(93)**	**1,758**	**500**	**2,258**
thereof:						
• *depreciation and amortisation*	*(1,568)*	*(183)*	*(483)*	*(2,234)*	*(60)*	*(2,294)*
• *research and development expenses*	*(2,147)*	*(327)*	*(332)*	*(2,806)*	*(164)*	*(2,970)*
• *share of profit from investments accounted for under the equity method*	*185*	*6*	*41*	*232*	*(1)*	*231*
• *additions to other provisions*	*1,395*	*693*	*3,700*	*5,788*	*311*	*6,099*
Interest result						(275)
Other financial result						(692)
Income taxes						(291)
Profit for the period						**1,000**

Business segment information for the year ended the 31 December 2015 is as follows:

(In € million)	Airbus Commercial Aircraft	Airbus Helicopters	Airbus Defence and Space	Total segments	Other / HQ / Conso.	Consolidated
Total revenues	45,854	6,786	13,080	65,720	296	66,016
Internal revenues	(764)	(633)	(163)	(1,560)	(6)	(1,566)
Revenues	**45,090**	**6,153**	**12,917**	**64,160**	**290**	**64,450**
Profit before finance costs and income taxes (EBIT)	**2,287**	**427**	**736**	**3,450**	**612**	**4,062**
thereof:						
• *depreciation and amortisation*	*(1,608)*	*(159)*	*(654)*	*(2,421)*	*(45)*	*(2,466)*
• *research and development expenses*	*(2,702)*	*(325)*	*(344)*	*(3,371)*	*(89)*	*(3,460)*
• *share of profit from investments accounted for under the equity method*	*179*	*4*	*159*	*342*	*674*	*1,016*
• *additions to other provisions*	*897*	*616*	*2,009*	*3,522*	*263*	*3,785*
Interest result						(368)
Other financial result						(319)
Income taxes						(677)
Profit for the period						**2,698**

Segment capital expenditures		
(In € million)	**2016**	2015
Airbus Commercial Aircraft	2,304	2,001
Airbus Helicopters	236	280
Airbus Defence and Space	469	552
Other / HQ / Conso.	51	91
Total capital expenditures[(1)]	**3,060**	**2,924**

(1) Excluding expenditure for leased assets.

Segment assets	31 December	
(In € million)	**2016**	2015
Airbus Commercial Aircraft	51,457	47,857
Airbus Helicopters	10,104	10,172
Airbus Defence and Space	16,457	19,388
Other / HQ / Conso.	1,709	738
Total segment assets	**79,727**	**78,155**
Unallocated		
Deferred and current tax assets	8,667	7,619
Securities	11,448	11,639
Cash and cash equivalents[(1)]	10,143	6,590
Assets classified as held for sale	1,148	1,779
Total assets	**111,133**	**105,782**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

The property, plant and equipment by geographical areas is disclosed in "– Note 18: Property, Plant and Equipment". The revenues by geographical areas are disclosed in "– Note 10: Revenues, Cost of Sales and Gross Margin".

2.4 Airbus Performance

10. Revenues, Cost of Sales and Gross Margin

Revenues

Revenues are mainly comprised of sales of goods and services, as well as revenues associated with construction contracts accounted for under the PoC method, contracted research and development and customer financing.

(In € million)	**2016**	2015
Revenues from construction contracts	10,956	9,860
Other revenues[(1)]	55,625	54,590
Total[(2)]	**66,581**	**64,450**
thereof service revenues including sale of spare parts	*9,045*	*8,328*

(1) Includes mainly revenues from sales of commercial aircraft recognised under IAS 18.

(2) For more details, please see "– Note 9: Segment Information".

Revenues increased by 3.3%, mainly at Airbus Commercial Aircraft, mostly driven by a positive volume effect and a favourable foreign exchange impact. Deliveries increased to 688 aircraft (635 in the previous year). Airbus Defence and Space revenues decreased mainly due to perimeter changes for defence activities (see "– Note 6: Acquisitions and Disposals") and include revenues related to the A400M programme of € 1,702 million (2015: € 1,648 million).

Revenues by geographical areas based on the location of the customer are as follows:

(In € million)	**2016**	2015
Europe	21,377	20,060
Asia – Pacific	21,266	18,755
North America	8,931	10,217
Middle East	8,464	8,612
Latin America	4,925	4,096
Other countries	1,618	2,710
Total	**66,581**	**64,450**

Cost of Sales and Gross Margin

Cost of sales increased by 10.3%. The increase was primarily due to business growth at Airbus Commercial Aircraft, the higher net charge related to A400M programme for € 2,210 million (in 2015: € 290 million) and to A350 XWB programme for € 385 million (in 2015: € 0 million).

Inventories recognised as an expense during the period amount to € 47,835 million (in 2015: € 45,289 million).

The **gross margin** decreased by € -3,587 million to € 5,264 million compared to € 8,851 million in 2015, resulting in a gross margin rate decrease from 13.7% to 7.9%. Included are net charges recorded in 2016, as mentioned above.

In 2016, Airbus Commercial Aircraft has delivered 49 A350 XWB aircraft, including to 7 new customers.

To reflect expected lower revenues escalation, increased learning curve costs and delivery phasing, Airbus Commercial Aircraft recorded a net charge of € 385 million on A350 XWB loss making contracts in the second quarter 2016.

The industrial ramp-up is progressing and associated risks continue to be closely monitored in line with the schedule, aircraft performance and overall cost envelope, as per customer's commitment. Despite the progress made, challenges remain with the ramp-up acceleration and recurring costs convergence.

17 A400M aircraft were delivered during 2016. Acceptance activities of one additional aircraft were finalised at the end of December 2016, but transfer of title only took place on 1 January 2017 (corresponding revenues will be recognised in 2017). In total, 38 aircraft have now been delivered to the customer as of 31 December 2016.

Industrial efficiency and military capabilities remain a challenge for the A400M programme and furthermore, the EASA Airworthiness Directive, linked to the Propeller Gear Box ("PGB") on the engine, and various PGB quality issues have strongly impacted the customer delivery programme.

The first major development milestone of the mission capability roadmap defined with customers earlier in 2016 was successfully completed in June with certification and delivery of "MSN 33", the ninth aircraft for the French customer, however achievement of contractual technical capabilities remains challenging.

In the first half-year 2016, management reviewed the programme evolution and estimated contract result incorporating the implications at this time of the revised engine programme and its associated recovery plan, technical issues related to the aluminium alloy used for some parts within the aircraft, recurring cost convergence issues, an updated assumption of export orders during the launch contract phase and finally some delays, escalation and cost overruns in the development programme. During the second half-year 2016, the programme encountered further challenges to meet military capabilities and management reassessed the industrial cost of the programme, now including an estimation of the commercial exposure. As a result of these reviews, Airbus Defence and Space has recorded a charge of € 2,210 million in 2016 (thereof € 1,026 million in the first half-year 2016). This represents the current best management assessment. Challenges remain on meeting contractual capabilities, securing sufficient export orders in time, cost reduction and commercial exposure, which could be significant. Given the order of magnitude on the cumulative programme loss, the Board of Directors has mandated the management to re-engage with customers to cap the remaining exposure.

The A400M contractual SOC 1, SOC 1.5 and SOC 2 milestones remain to be achieved. SOC 1 fell due end October 2013, SOC 1.5 fell due end December 2014, and SOC 2 end of December 2015. The associated termination rights became exercisable by OCCAR on 1 November 2014, 1 January 2016, and 1 January 2017, respectively. Management judges that it is highly unlikely that any of these termination rights will be exercised.

11. Research and Development Expenses

Research and development expenses decreased by 14.2% primarily reflecting R&D activities on the A350 XWB programme at Airbus Commercial Aircraft. In addition, an amount of € 311 million of development costs has been capitalised, mainly related to the H160 and A350 XWB programmes.

12. Share of Profit from Investments Accounted for under the Equity Method and Other Income from Investments

(In € million)	**2016**	2015
Share of profit from investments in joint ventures	182	243
Share of profit from investments in associates(1)	49	773
Share of profit from investments accounted for under the equity method	**231**	**1,016**
Other income from investments	**21**	**54**

(1) In 2015, it includes a significant impact from the investment in Dassault Aviation. For more details, please see "– Note 6: Acquisitions and Disposals".

13. Other Income and Other Expenses

Other income increased by € +2,215 million. This increase is mainly due to the capital gain of € 1,175 million following the completion of the creation of ASL, the capital gain of € 146 million from the sale of the business communications entities, the capital gain from the sale of Dassault Aviation shares of € 528 million and the revaluation at fair value of the remaining investment in Dassault Aviation for € 340 million, and (see "– Note 6: Acquisitions and Disposals").

Other expenses increased to € -254 million compared to € -222 million in 2015.

14. Total Finance Costs

Interest income derived from Airbus' asset management and lending activities is recognised as interest accrues, using the effective interest rate method.

(In € million)	**2016**	2015
Interest on European government refundable advances	(212)	(280)
Others	(63)	(88)
Total interest result(1)	**(275)**	**(368)**
Change in fair value measurement of financial instruments	(370)	(119)
Foreign exchange translation of monetary items	(220)	(74)
Unwinding of discounted provisions	(65)	(101)
Others	(37)	(25)
Total other financial result	**(692)**	**(319)**
Total	**(967)**	**(687)**

(1) In 2016, the total interest income amounts to € 247 million (in 2015: € 183 million) for financial assets which are not measured at fair value through profit or loss. For financial liabilities which are not measured at fair value through profit or loss € -522 million (in 2015: € -551 million) are recognised as total interest expenses. Both amounts are calculated by using the effective interest method.

15. Income Tax

The expense for income taxes is comprised of the following:

(In € million)	**2016**	2015
Current tax expense	(753)	(661)
Deferred tax benefit (expense)	462	(16)
Total	**(291)**	**(677)**

In 2016, € 15 million of current tax income (in 2015: € 42 million) and € -13 million of deferred tax expense (in 2015: € -56 million) relate to prior years.

Main income tax rates and main changes impacting Airbus:

Countries	2016	2017	> 2017
Netherlands	25.00%	25.00%	25.00%
France(1)	34.43%	34.43%	34.43%
Germany	30.00%	30.00%	30.00%
Spain	25.00%	25.00%	25.00%
UK(2)	20.00%	19.00%	18.00%

(1) A tax law has been enacted in December 2016 changing the rate for income taxes from 34.43% to 28.92% as of 1 January 2020.

(2) 20% from 1 April 2015 until 31 March 2017, 19% from 1 April 2017 until 31 March 2020 and 17% from 1 April 2020.

The following table shows a reconciliation from the theoretical income tax (expense) using the Dutch corporate tax rate to the reported income tax (expense):

(In € million)	**2016**	2015
Profit before income taxes	1,291	3,375
Corporate income tax rate	25.0%	25.0%
Expected (expense) for income taxes	(323)	(844)
Effects from tax rate differentials	(194)	(329)
Income from investments / associates(1)	580	412
Tax credit	73	66
Change of tax rate	(117)	(90)
Change in valuation allowances	(102)	96
Non-deductible expenses and tax-free income	(208)	12
Reported tax (expense)	**(291)**	**(677)**

(1) In 2016, it includes the impact of the completion of the second phase of the ASL creation and the impact from the sale of shares of Dassault Aviation, both subject to specific tax treatment. In 2015, it includes the impact of the partial sale of shares of Dassault Aviation subject to specific tax treatment. For more details, see "– Note 6: Acquisitions and Disposals".

Changes in valuation allowances represent reassessments of the recoverability of deferred tax assets based on future taxable profits of certain companies mainly for Airbus Commercial Aircraft and Airbus Defence and Space in Germany. The amount of change in valuation allowances of € -102 million in 2016 (2015: € 96 million) excludes a positive impact of € 2 million (2015: € 1 million) from a change in tax rates which is presented in the line "change of tax rate".

As Airbus controls the timing of the reversal of temporary differences associated with its subsidiaries (usually referred to as "outside basis differences") arising from yet undistributed profits and changes in foreign exchange rates, it does not recognise a deferred tax liability. For temporary differences arising from investments in associates Airbus recognises deferred tax liabilities. The rate used reflects the assumptions that these differences will be recovered from dividend distribution unless a management resolution for the divestment of the investment exists at the closing date. For joint ventures, Airbus assesses its ability to control the distribution of dividends based on existing shareholder agreements and recognises deferred tax liabilities accordingly.

As of 31 December 2016, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised, amounts to € 104 million.

Companies in deficit situations in two or more subsequent years recorded a total deferred tax asset balance of € 1 million (in 2015: € 52 million). Assessments show that these deferred tax assets will be recovered in future through either (i) own projected profits, or (ii) profits of other companies integrated in the same fiscal group ("*régime d'intégration fiscale*" in France, "*steuerliche Organschaft*" in Germany) or (iii) via the "loss surrender-agreement" in the UK.

Deferred taxes on net operating losses ("NOL"), trade tax loss carry forwards and tax credit carry forwards:

(In € million)	France	Germany	Spain	UK	Other countries	**31 December 2016**	31 December 2015
NOL	958	1,565	307	1,809	270	4,909	6,503
Trade tax loss carry forwards	0	1,510	0	0	0	1,510	1,955
Tax credit carry forwards	0	0	392	54	14	460	323
Tax effect	**330**	**462**	**470**	**361**	**83**	**1,706**	**1,849**
Valuation allowances	(9)	(268)	(149)	(51)	(9)	(486)	(423)
Deferred tax assets on NOL's and tax credit carry forwards	**321**	**194**	**321**	**310**	**74**	**1,220**	**1,426**

NOLs, capital losses and trade tax loss carry forwards are indefinitely usable in France, Germany, the UK and in Spain. In Spain, R&D tax credit carry forwards still expire after 18 years. The first tranche of tax credit carry forwards (€ 1 million) will expire in 2020. No deferred tax has been recognised for this tranche.

Roll forward of deferred taxes:

(In € million)	**2016**	2015
Net deferred tax asset at beginning of the year	**5,559**	**4,587**
Deferred tax benefit (expense) in income statement	462	(16)
Deferred tax recognised directly in AOCI (IAS 39)	(7)	1,112
Deferred tax on remeasurement of the net defined benefit pension plans	365	(235)
Others	(114)	111
Net deferred tax asset at 31 December	**6,265**	**5,559**

Details of deferred taxes recognised cumulatively in equity are as follows:

	31 December	
(In € million)	**2016**	2015
Available-for-sale investments	(97)	(86)
Cash flow hedges	2,616	2,612
Deferred tax on remeasurement of the net defined benefit pension plans	1,678	1,313
Total	**4,197**	**3,839**

Deferred income taxes as of 31 December 2016 are related to the following assets and liabilities:

(In € million)	1 January 2016 Deferred tax assets	1 January 2016 Deferred tax liabilities	Other movements OCI / IAS 19	Other movements Others[1]	Movement through income statement R&D tax credits	Movement through income statement Deferred tax benefit (expense)	**31 December 2016 Deferred tax assets**	**31 December 2016 Deferred tax liabilities**
Intangible assets	53	(538)	0	16	0	(71)	70	(610)
Property, plant and equipment	832	(1,353)	0	8	0	(130)	741	(1,384)
Investments and other long-term financial assets	186	(157)	(10)	(46)	0	(82)	197	(306)
Inventories	1,333	(752)	0	111	0	(879)	1,140	(1,327)
Receivables and other assets	837	(2,615)	(4)	21	0	2,601	2,007	(1,167)
Prepaid expenses	3	(1)	0	0	0	(1)	1	0
Provision for retirement plans	1,519	0	393	(77)	0	(415)	1,420	0
Other provisions	1,999	(627)	0	14	0	1,055	3,876	(1,435)
Liabilities	4,007	(440)	1	(71)	0	(1,400)	4,785	(2,688)
Deferred income	98	(74)	0	(7)	0	17	105	(71)
NOLs and tax credit carry forwards	1,849	0	0	(91)	81	(133)	1,706	0
Deferred tax assets (liabilities) before offsetting	**12,716**	**(6,557)**	**380**	**(122)**	**81**	**562**	**16,048**	**(8,988)**
Valuation allowances on deferred tax assets	(600)	0	(22)	(15)	(58)	(100)	(795)	0
Set-off	(5,357)	5,357	0	0	0	0	(7,696)	7,696
Net deferred tax assets (liabilities)	**6,759**	**(1,200)**	**358**	**(137)**	**23**	**462**	**7,557**	**(1,292)**

(1) "Others" mainly comprises changes in the consolidation scope and foreign exchange rate effects.

Deferred income taxes as of 31 December 2015 are related to the following assets and liabilities:

(In € million)	1 January 2015 Deferred tax assets	1 January 2015 Deferred tax liabilities	Other movements OCI / IAS 19	Other movements Others[1]	Movement through income statement R&D tax credits	Movement through income statement Deferred tax benefit (expense)	31 December 2015 Deferred tax assets	31 December 2015 Deferred tax liabilities
Intangible assets	50	(475)	0	(1)	0	(59)	53	(538)
Property, plant and equipment	490	(1,355)	0	(10)	0	354	832	(1,353)
Investments and other long-term financial assets	332	(167)	(35)	80	0	(181)	186	(157)
Inventories	1,219	(457)	0	(8)	0	(173)	1,333	(752)
Receivables and other assets	397	(2,267)	(115)	(1)	0	208	837	(2,615)
Prepaid expenses	2	0	0	0	0	0	3	(1)
Provision for retirement plans	1,897	0	(235)	13	0	(156)	1,519	0
Other provisions	2,422	(498)	0	(2)	0	(550)	1,999	(627)
Liabilities	2,335	(871)	1,389	1	0	713	4,007	(440)
Deferred income	53	(22)	0	0	0	(7)	98	(74)
NOLs and tax credit carry forwards	2,080	0	0	82	(51)	(262)	1,849	0
Deferred tax assets (liabilities) before offsetting	**11,277**	**(6,112)**	**1,004**	**154**	**(51)**	**(113)**	**12,716**	**(6,557)**
Valuation allowances on deferred tax assets	(578)	0	(127)	8	0	97	(600)	0
Set-off	(4,982)	4,982	0	0	0	0	(5,357)	5,357
Net deferred tax assets (liabilities)	**5,717**	**(1,130)**	**877**	**162**	**(51)**	**(16)**	**6,759**	**(1,200)**

(1) "Others" mainly comprises changes in the consolidation scope and foreign exchange rate effects.

16. Earnings per Share

	2016	2015
Profit for the period attributable to equity owners of the parent (Net income)	€ 995 million	€ 2,696 million
Weighted average number of ordinary shares	773,798,837	785,621,099
Basic earnings per share	€ 1.29	€ 3.43

***Diluted earnings per share* –** Airbus' categories of dilutive potential ordinary shares are **Stock Option Plan ("SOP")**, share-settled Performance Units relating to **Long-Term Incentive Plans ("LTIP")** and the convertible bond issued on 1 July 2015. The last SOP expired in December 2016. During 2016, the average price of the Company's shares exceeded the exercise price of the share-settled Performance Units and therefore 287,807 shares (in 2015: 359,335 shares) were considered in the calculation of diluted earnings per share. The dilutive effect of the convertible bond was also considered in the calculation of diluted earnings per share in 2016, by adding back € 7 million of interest expense to the profit for the period attributable to equity owners of the parent (2015: € 3 million) and by including 5,022,990 of dilutive potential ordinary shares (2015: 2,511,495 shares).

	2016	2015
Profit for the period attributable to equity owners of the parent (Net income)	€ 1,002 million	€ 2,699 million
Weighted average number of ordinary shares (diluted)[1]	779,109,634	788,491,929
Diluted earnings per share	€ 1.29	€ 3.42

(1) Dilution assumes conversion of all potential ordinary shares.

2.5 Operational Assets and Liabilities

17. Intangible Assets

Intangible assets comprise (i) goodwill (see "– Note 5: Scope of Consolidation"), (ii) capitalised development costs (see "– Note 2: "Significant Accounting Policies") and (iii) other intangible assets, *e.g.* internally developed software and acquired intangible assets.

Intangible assets with finite useful lives are generally amortised on a straight-line basis over their respective estimated useful lives (3 to 10 years) to their estimated residual values.

Intangible assets as of 31 December 2016 and 2015 comprise the following:

	31 December 2016			1 January 2016		
(In € million)	**Gross amount**	**Amortisation / Impairment**	**Net book value**	Gross amount	Amortisation / Impairment	Net book value
Goodwill	10,498	(1,073)	9,425	10,995	(1,088)	9,907
Capitalised development costs	2,871	(1,164)	1,707	2,686	(1,027)	1,659
Other intangible assets	3,399	(2,463)	936	3,375	(2,386)	989
Total	**16,768**	**(4,700)**	**12,068**	**17,056**	**(4,501)**	**12,555**

Net Book Value

(In € million)	Balance at 1 January 2016	Exchange differences	Additions	Changes in consolidation scope	Reclassification[1]	Disposals[1]	Amortisation / Impairment	**Balance at 31 December 2016**
Goodwill	9,907	(11)	89	52	(102)	(510)	0	9,425
Capitalised development costs	1,659	(38)	311	3	(19)	0	(209)	1,707
Other intangible assets	989	10	199	21	(15)	(26)	(242)	936
Total	**12,555**	**(39)**	**599**	**76**	**(136)**	**(536)**	**(451)**	**12,068**

(1) Includes intangible assets from entities disposed and reclassified to assets of disposal groups classified as held for sale (see "– Note 6: Acquisitions and Disposals").

(In € million)	Balance at 1 January 2015	Exchange differences	Additions	Changes in consolidation scope	Reclassification[1]	Disposals	Amortisation / Impairment	Balance at 31 December 2015
Goodwill	9,979	60	0	0	(107)	(25)	0	9,907
Capitalised development costs	1,688	20	154	0	0	0	(203)	1,659
Other intangible assets	1,091	17	211	0	(37)	(11)	(282)	989
Total	**12,758**	**97**	**365**	**0**	**(144)**	**(36)**	**(485)**	**12,555**

(1) Includes intangible assets from entities reclassified to assets of disposal groups classified as held for sale (see "– Note 6: Acquisitions and Disposals").

Development Costs

Airbus has capitalised development costs in the amount of € 1,707 million as of 31 December 2016 (€ 1,659 million as of 31 December 2015) as internally generated intangible assets mainly for the Airbus Commercial Aircraft A350 XWB (€ 808 million) and A380 (€ 336 million) programmes. The amortisation for the A380 and A350 XWB programmes development costs is performed on a unit of production basis.

Impairment Tests

Airbus assesses at each end of the reporting period whether there is an indication that a non-financial asset or a Cash Generating Unit ("CGU") to which the asset belongs may be impaired. In addition, intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill are tested for impairment in the fourth quarter of each financial year irrespective of whether there is any indication for impairment. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of impairment testing any goodwill is allocated to the CGU or group of CGUs in a way that reflects the way goodwill is monitored for internal management purposes.

The discounted cash flow method is used to determine the recoverable amount of a CGU or the group of CGUs to which goodwill is allocated. The discounted cash flow method is particularly sensitive to the selected discount rates and estimates of future cash flows by management. Discount rates are based on the weighted average cost of capital ("WACC") for the groups of cash-generating units. The discount rates are calculated based on a risk-free rate of interest and a market risk premium. In addition, the discount rates reflect the current market assessment of the risks specific to each group of cash-generating units by taking into account specific peer group information on beta factors, leverage and cost of debt. Consequently, slight changes to these elements can materially affect the resulting valuation and therefore the amount of a potential impairment charge.

These estimates are influenced by several assumptions including growth assumptions of CGUs, availability and composition of future defence and institutional budgets, foreign exchange fluctuations or implications arising from the volatility of capital markets. Cash flow projections take into account past experience and represent management's best estimate about future developments.

As of 31 December 2016 and 2015, goodwill was allocated to CGUs or group of CGUs, which is summarised in the following schedule:

(In € million)	Airbus Commercial Aircraft	Airbus Helicopters	Airbus Defence and Space	Other / HQ	**Consolidated**
Goodwill as of 31 December 2016	6,873	308	2,230	14	9,425
Goodwill as of 31 December 2015	6,759	299	2,835	14	9,907

The goodwill mainly relates to the creation of Airbus in 2000 and the Airbus Combination in 2001.

General Assumptions Applied in the Planning Process

The basis for determining the recoverable amount is the value in use of the CGUs. Generally, cash flow projections used for Airbus' impairment testing are based on operative planning.

The operative planning, which covers a planning horizon of five years, used for the impairment test, is based on the following key assumptions which are relevant for all CGUs:

- increase of expected future labour expenses of 2% (in 2015: 2%);
- future interest rates projected per geographical market, for the European Monetary Union, the UK and the US;
- future exchange rate of 1.25 US$/€ (in 2015: 1.25 US$/€) to convert in euro the portion of future US dollar which are not hedged;

Airbus follows an active policy of foreign exchange risk hedging. As of 31 December 2016, the total hedge portfolio with maturities up to 2023 amounts to US$ 102 billion (US$ 102 billion as of 31 December 2015) and covers a major portion of the foreign exchange exposure expected over the period of the operative planning (2017 to 2021). The average US$/€ hedge rate of the US$/€ hedge portfolio until 2023 amounts to 1.25 US$/€ (previous year: 1.28 US$/€) and for the US$/£ hedge portfolio until 2022 amounts to 1.49 US$/£ (previous year: 1.58 US$/£). For the determination of the operative planning in the CGUs, management assumed future exchange rate of 1.25 US$/€ from 2017 onwards to convert in euro the portion of future US dollar which are not hedged.

General economic data derived from external macroeconomic and financial studies has been used to derive the general key assumptions.

In addition to these general planning assumptions, the following additional CGU specific assumptions, which represent management's current best assessment as of the date of these Consolidated Financial Statements, have been applied in the individual CGUs.

Airbus Commercial Aircraft

- The planning takes into account the decision to ramp-up A320 programme deliveries progressively to a maximum of 60 aircraft per month. A330 deliveries are now at rate 6 as Airbus Commercial Aircraft transitions for the introduction of the first A330 Neo from 2018. The A350 XWB delivery rate increases to 10 aircraft per month from the end of 2018 whilst A380 deliveries are expected to reduce to 12 deliveries per year from 2018.
- In the absence of long-term financial reference, expected cash flows generated beyond the planning horizon are considered through a terminal value.
- Long-term commercial assumptions in respect of market share, deliveries and market value are based on General Market Forecast updated in 2016. The development of market share per segment considers enlargement of the competition as per current best assessment. Current market evolutions are considered through sensitivities.
- Due to the huge hedge portfolio, the carrying value and the planned cash flows of the CGU Airbus Commercial Aircraft are materially influenced.
- Cash flows are discounted using a euro weighted WACC of 6.9% (in 2015: 8.4%).

Airbus Helicopters

- The planning takes into account the ramp-up of our medium segment driven by the H135 which has been certified in 2015 and the H175, the continuing deliveries of NH90 and a continuous growth of our support and services activity.
- In the absence of long-term financial reference, expected cash flows generated beyond the planning horizon are considered through a terminal value. The terminal value reflects management's assessment of a normative operating year based on an outlook of a full aeronautic cycle over the next decade.
- Long-term commercial assumptions in respect of market share, deliveries and market value are based on the helicopter market forecast considering the decrease of last three years in the civil and parapublic market partially driven by decrease of investment in oil and gas, needs of helicopter fleet renewal and growth markers and the increase of Airbus Helicopters market share in this environment. Current market evolutions are considered through sensitivities.
- Cash flows are discounted using a euro weighted WACC of 6.7% (in 2015: 8.2%).

Airbus Defence and Space

After a successful restructuring and portfolio review, Airbus Defence and Space's focus for the planning period is to increase business and profitability while implementing a growth strategy to pave the way for future upsides.

- The planning period is characterised by a strong forecasted order intake across Military Aircraft and Space Systems.
- The major products driving significant growth are A400M programme, including export contracts, Combat aircraft, Tankers, satellites and Services.
- Airbus Defence and Space assumes a further increase in profitability over the planning period, driven by higher programme performance and cost savings.
- Airbus Defence and Space's free cash flow target is also expected to grow leveraging on a solid cash generation from current contracts and businesses as well as future order intakes (Military Aircraft, Satellites, Communication Intelligence and Security) and improvement on the A400M programme.
- Cash flows are discounted using a euro weighted WACC of 6.5% (in 2015: 8.0%).

18. Property, Plant and Equipment

Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation and impairment losses. Items of property, plant and equipment are generally depreciated on a straight-line basis. The following useful lives are assumed:

Buildings	10 to 50 years
Site improvements	6 to 30 years
Technical equipment and machinery	3 to 20 years
Jigs and tools[1]	5 years
Other equipment, factory and office equipment	2 to 10 years

(1) If more appropriate, jigs and tools are depreciated using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method).

For details on assets related to lease arrangements on sales financing, please see "– Note 25: Sales Financing Transactions".

Property, plant and equipment as of 31 December 2016 and 2015 comprise the following:

	31 December 2016			1 January 2016		
(In € million)	Gross amount	Depreciation / Impairment	Net book value[1]	Gross amount	Depreciation / Impairment	Net book value[1]
Land, leasehold improvements and buildings including buildings on land owned by others	9,444	(4,252)	5,192	9,518	(4,349)	5,169
Technical equipment and machinery	20,331	(12,076)	8,255	20,296	(11,946)	8,350
Other equipment, factory and office equipment[2]	3,933	(2,939)	994	4,324	(3,290)	1,034
Construction in progress	2,472	0	2,472	2,574	0	2,574
Total	**36,180**	**(19,267)**	**16,913**	**36,712**	**(19,585)**	**17,127**

(1) Includes the net book value of aircraft under operating lease (see "– Note 25: Sales Financing Transactions").

(2) Buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts to € 356 million (2015: € 364 million).

Net Book Value

(In € million)	Balance at 1 January 2016	Exchange differences	Additions	Changes in consolidation scope	Reclassification[1]	Disposals[1]	Depreciation / Impairment	**Balance at 31 December 2016**
Land, leasehold improvements and buildings including buildings on land owned by others	5,169	(61)	67	(3)	349	(37)	(292)	5,192
Technical equipment and machinery	8,350	(263)	531	20	1,059	(137)	(1,305)	8,255
Other equipment, factory and office equipment	1,034	(5)	419	2	109	(351)	(214)	994
Construction in progress	2,574	(88)	1,788	1	(1,615)	(188)	0	2,472
Total	**17,127**	**(417)**	**2,805**	**20**	**(98)**	**(713)**	**(1,811)**	**16,913**

(1) Includes property, plant and equipment from entities disposed and reclassified to assets of disposal groups classified as held for sale (see "– Note 6: Acquisitions and Disposals").

(In € million)	Balance at 1 January 2015	Exchange differences	Additions	Changes in consolidation scope	Reclassification[1]	Disposals[1]	Depreciation / Impairment	Balance at 31 December 2015
Land, leasehold improvements and buildings including buildings on land owned by others	4,808	33	339	0	372	(79)	(304)	5,169
Technical equipment and machinery	8,246	154	508	0	869	(154)	(1,273)	8,350
Other equipment, factory and office equipment	1,162	38	377	0	0	(199)	(344)	1,034
Construction in progress	2,105	24	1,811	0	(1,366)	0	0	2,574
Total	**16,321**	**249**	**3,035**	**0**	**(125)**	**(432)**	**(1,921)**	**17,127**

(1) Includes property, plant and equipment from entities disposed and reclassified to assets of disposal groups classified as held for sale (see "– Note 6: Acquisitions and Disposals").

In 2016, Airbus capitalised € 5 million of borrowing cost on the production of qualifying assets (2015: € 8 million). Airbus' borrowing rate at the end of 2016 was 1.46% (2015: 2.06%).

Property, Plant and Equipment by Geographical Areas

	31 December	
(In € million)	**2016**	2015
France	7,263	7,035
Germany	4,348	4,294
UK	2,472	3,015
Spain	1,636	1,560
Other countries	1,078	1,105
Property, plant and equipment by geographical areas[1]	**16,797**	**17,009**

(1) Property, plant and equipment by geographical areas excludes leased assets of € 116 million (2015: € 118 million).

Off-Balance Sheet Commitments

Commitments related to property, plant and equipment comprise contractual commitments for future capital expenditures and contractual commitments for purchases of "Land, leasehold improvements and buildings including buildings on land owned by others" (€ 310 million as of 31 December 2016 compared to 2015 of € 320 million).

Future nominal operating lease payments (for Airbus as a lessee) for rental and lease agreements not relating to aircraft sales financing amount to € 768 million as of 31 December 2016 (2015: € 844 million), and relate mainly to procurement operations (*e.g.* facility leases).

Maturities as of 31 December 2016 and 31 December 2015 are as follows:

	31 December	
(In € million)	**2016**	2015
Not later than 1 year	159	158
Later than 1 year and not later than 5 years	397	393
Later than 5 years	212	293
Total	**768**	**844**

19. Other Investments and Other Long–Term Financial Assets

	31 December	
(In € million)	**2016**	2015
Other investments	2,091	1,232
Other long-term financial assets	1,564	1,260
Total non-current other investments and other long-term financial assets	**3,655**	**2,492**
Current portion of other long-term financial assets	**522**	**178**
Total	**4,177**	**2,670**

Other investments mainly comprise Airbus' participations. The increase is mainly due to the reclassification in other investments (see Note 6 "Acquisitions and disposals") of the remaining investment in Dassault Aviation (Airbus share: 10%) amounting to € 876 million as of 31 December 2016. Other significant participations at 31 December 2016 include AviChina (Airbus share: 5.0%, 2015: 5.0%) amounting to € 180 million (2015: € 199 million) and CARMAT SAS (Airbus share: 22.4%, 2015: 24.2%) amounting to € 38 million (2015: € 43 million).

Other long-term financial assets and the **current portion of other long-term financial assets** encompass other loans in the amount of € 1,147 million and € 717 million as of 31 December 2016 and 2015, and the sales finance activities in the form of finance lease receivables and loans from aircraft financing (see "– Note 25: Sales Financing Transactions").

20. Inventories

	31 December 2016		
(In € million)	Gross amount	Write-down	Net book value
Raw materials and manufacturing supplies	3,288	(508)	2,780
Work in progress	27,304	(6,246)	21,058
Finished goods and parts for resale	3,374	(624)	2,750
Advance payments to suppliers	3,155	(55)	3,100
Total	**37,121**	**(7,433)**	**29,688**

	31 December 2015		
(In € million)	Gross amount	Write-down	Net book value
Raw materials and manufacturing supplies	3,229	(476)	2,753
Work in progress	25,585	(5,150)	20,435
Finished goods and parts for resale	3,134	(779)	2,355
Advance payments to suppliers	3,559	(51)	3,508
Total	**35,507**	**(6,456)**	**29,051**

The increase in work in progress of € +623 million is driven by Airbus Commercial Aircraft mainly associated with A350 XWB ramp-up, partly offset by a decrease in Airbus Defence and Space, mainly related to the reclassification of defence electronics entities to disposal groups classified as held for sale and the creation of ASL (see "– Note 6: Acquisitions and Disposals"). It is also related to a decrease in work in progress for the A400M programme reflecting the netting inventories with the respective portion of the loss making contracts provision (see "– Note 22: Provisions, Contingent Assets and Contingent Liabilities"). Finished goods and parts for resale increased by € +395 million, primarily at Airbus Commercial Aircraft. Advance payments to suppliers decreased at Airbus Defence and Space, mostly due to the creation of ASL.

Write-downs for inventories are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. In 2016, write-downs of inventories in the amount of € -306 million (2015: € -410 million) are recognised in cost of sales, whereas reversal of write-downs amounts to € 217 million (2015: € 66 million). At 31 December 2016 € 9,374 million of work in progress and € 2,301 million of finished goods and parts for resale were carried at net realisable value.

21. Trade Receivables and Trade Liabilities

Trade receivables arise when Airbus provides goods or services directly to a customer with no intention of trading the receivable. Trade receivables include claims arising from revenue recognition that are not yet settled by the debtor as well as receivables relating to construction contracts. Trade receivables are initially recognised at their transaction price and are subsequently measured at amortised cost less any allowance for impairment. Gains and losses are recognised in the Consolidated Income Statement when the receivables are derecognised or impaired as well as through the amortisation process.

Allowance for doubtful accounts involves significant management judgement and review of individual receivables based on individual customer creditworthiness, current economic trends including potential impacts from the EU sovereign debt crisis and analysis of historical bad debts.

Assets and liabilities relative to constructions contracts — In the construction contract business, an asset or liability is classified as current when the item is realised or settled within Airbus' normal operating cycle for such contracts and as non-current otherwise. As a result, assets and liabilities relating to the construction contract business such as trade receivables and payables and receivables from PoC method, that are settled as part of the normal operating cycle are classified as current even when they are not expected to be realised within 12 months after the reporting period.

Trade Receivables

	31 December	
(In € million)	**2016**	2015
Receivables from sales of goods and services	8,366	8,153
Allowance for doubtful accounts	(265)	(276)
Total	**8,101**	**7,877**
thereof trade receivable not expected to be collected within 1 year	*1,153*	*1,819*

The **trade receivables** increased by € +224 million, mainly in Airbus Commercial Aircraft.

In application of the **PoC method**, as of 31 December 2016 an amount of € 2,882 million (in 2015: € 2,936 million) for construction contracts is included in the trade receivables net of related advance payments received.

The **aggregate amount of costs incurred and recognised profits (less recognised losses) to date** amounts to € 73,017 million (in 2015: € 71,813 million).

The **gross amount due from customers** for contract work, on construction contracts recognised under the PoC method, is the net amount of costs incurred plus recognised profits less the sum of recognised losses and progress billings. In 2016, it amounts to € 7,887 million (in 2015: € 9,190 million). Due to the nature of certain contracts and the respective recognition of revenues, these incurred costs also include associated work in progress and respective contract losses.

The **gross amount due to customers** for contract work on construction contracts recognised under the PoC method, is the net amount of costs incurred plus recognised profits less the sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses). In 2016, the **gross amount due to customers** amounts to € 87 million (in 2015: € 77 million).

The respective movement in the allowance for doubtful accounts in respect of trade receivables during the year was as follows:

(In € million)	**2016**	2015
Allowance balance at beginning of the year	**(276)**	**(289)**
Foreign currency translation adjustment	(1)	0
Utilisations / disposals	39	15
(Additions)	(27)	(2)
Allowance balance at 31 December	**(265)**	**(276)**

Trade Liabilities

As of 31 December 2016, trade liabilities amounting to € 133 million (2015: € 129 million) will mature after more than one year.

22. Provisions, Contingent Assets and Contingent Liabilities

Provisions — The determination of provisions, for example for contract losses, warranty costs, restructuring measures and legal proceedings is based on best available estimates.

In general, as the contractual and technical parameters to be considered for provisions in the aerospace sector are rather complex, uncertainty exists with regard to the timing and amounts of expenses to be taken into account.

The majority of other provisions are generally expected to result in cash outflows during the next 1 to 12 years.

	31 December	
(In € million)	**2016**	2015
Provision for pensions (Note 29)	8,656	7,615
Other provisions (Note 22)	8,313	7,465
Total	**16,969**	**15,080**
thereof non-current portion	*10,826*	*9,871*
thereof current portion	*6,143*	*5,209*

Movements in other provisions during the year were as follows:

(In € million)	Balance at 1 January 2016	Exchange differences	Increase from passage of time	Additions	Reclassification / Change in consolidated group	Used	Released	**Balance at 31 December 2016**
Contract losses	356	(3)	0	2,787	(1,196)	(674)	(119)	1,151
Outstanding costs	2,431	2	0	1,099	(219)	(967)	(186)	2,160
Aircraft financing risks(1)	618	21	40	50	(14)	(66)	(55)	594
Obligation from services and maintenance agreements	600	8	14	138	0	(134)	(35)	591
Warranties	385	2	2	87	(40)	(73)	(24)	339
Personnel-related provisions(2)	1,145	(1)	1	615	(80)	(538)	(122)	1,020
Litigation and claims(3)	130	0	0	39	3	(14)	(36)	122
Asset retirement	161	(1)	6	2	1	(1)	(2)	166
Other risks and charges	1,639	(4)	2	1,282	(105)	(523)	(121)	2,170
Total	**7,465**	**24**	**65**	**6,099**	**(1,650)**	**(2,990)**	**(700)**	**8,313**

(1) See "– Note 25: Sales Financing Transactions".
(2) See "– Note 28: Personnel-Related Provisions".
(3) See "– Note 36: Litigation and Claims".

In 2016, provision for contract losses mainly includes the A400M programme (€ 825 million) and other Airbus Defence and Space programmes (€ 260 million). The additions to the contract losses provision include the net charge of € 2,210 million for the A400M programme before netting with work in progress. Reclassification / Change in consolidated group mainly relates to the offsetting of the A400M programme contract provision to respective inventories (see "– Note 10: Revenues, Costs of Sales and Gross Margin").

The majority of the addition to provisions for outstanding costs relates to Airbus Defence and Space (€ 529 million) and corresponds among others to the Eurofighter programme and to diverse tasks to complete on construction contracts, as well as to Airbus Helicopters (€ 501 million), mainly for the NH90 and Tiger programmes.

The agreement on insurance reimbursement that was under negotiation at year-end 2015 was settled during the first half-year 2016.

An additional provision of € 160 million related to restructuring measures has been recorded at year-end 2016 following the announcement in September 2016 of the merger of Airbus structure with the commercial aircraft activities of its largest division Airbus Commercial Aircraft to increase future competitiveness. Accordingly, a plan including temporary contract termination, non-replacement of attrition, redeployment, partial and early retirement as well as voluntary leaves in Germany, France, the UK and Spain has been communicated to the employees and the European Works Council in November 2016.

In Airbus Helicopters, the business has been reassessed in 2016 leading to a restructuring provision of € 42 million.

In 2016, after reassessing and adjusting the restructuring provision recorded in 2013 in Airbus Defence and Space and Headquarters, € 20 million has been released.

An H225 Super Puma helicopter was involved in an accident on 29 April 2016. Management is cooperating fully with the authorities to determine the precise cause of the accident. On the basis of recent developments, an estimate of the related future costs has been prepared and consequently a provision has been recorded in the accounts as of 31 December 2016.

Contingent assets and contingent liabilities — Airbus is exposed to technical and commercial contingent obligations due to the nature of its businesses. To mitigate this exposure, Airbus has subscribed a Global Aviation Insurance Programme ("GAP"). When Airbus has obtained insurance coverage from third parties for these risks, any reimbursement is recognised separately only when it is virtually certain to be received. Information required under IAS 37 "Provisions, contingent liabilities and contingent assets" is not disclosed if Airbus concludes that disclosure can be expected to prejudice seriously its position in a dispute with other parties.

For other contingent liabilities, please see "– Note 36: Litigation and Claims" and "– Note 10: Revenues, Cost of Sales and Gross Margin" (mainly A400M programme).

Other commitments include contractual guarantees and performance bonds to certain customers as well as commitments for future capital expenditures and amounts which may be payable to commercial intermediaries if future sales materialise.

23. Other Financial Assets and Other Financial Liabilities

Other Financial Assets

	31 December	
(In € million)	**2016**	2015
Positive fair values of derivative financial instruments(1)	893	931
Others	83	165
Total non-current other financial assets	**976**	**1,096**
Receivables from related companies	517	616
Positive fair values of derivative financial instruments(1)	258	349
Others	482	437
Total current other financial assets	**1,257**	**1,402**
Total	**2,233**	**2,498**

(1) See "– Note 35: Information about Financial Instruments".

Other Financial Liabilities

	31 December	
(In € million)	**2016**	2015
Liabilities for derivative financial instruments(1)	6,544	6,703
European Governments refundable advances	6,340	6,716
Others	429	619
Total non-current other financial liabilities	**13,313**	**14,038**
Liabilities for derivative financial instruments(1)	4,476	3,884
European Governments refundable advances	730	570
Liabilities to related companies	116	80
Others	439	487
Total current other financial liabilities	**5,761**	**5,021**
Total	**19,074**	**19,059**
thereof other financial liabilities due within 1 year	*5,761*	*5,021*

(1) See "– Note 35: Information about Financial Instruments".

Refundable advances from European governments are provided to Airbus to finance research and development activities for certain projects on a risk-sharing basis, *i.e.* they have to be repaid to the European Governments subject to the success of the project.

24. Other Assets and Other Liabilities

Other Assets

	31 December	
(In € million)	**2016**	2015
Prepaid expenses	2,265	2,051
Others	93	115
Total non-current other assets	**2,358**	**2,166**
Value added tax claims	1,589	1,450
Prepaid expenses	552	663
Others	435	706
Total current other assets	**2,576**	**2,819**
Total	**4,934**	**4,985**

Other Liabilities

	31 December	
(In € million)	**2016**	2015
Customer advance payments	15,714	14,472
Others	565	521
Total non-current other liabilities	**16,279**	**14,993**
Customer advance payments(1)	24,115	23,612
Tax liabilities (excluding income tax)	1,047	885
Others	2,373	2,540
Total current other liabilities	**27,535**	**27,037**
Total	**43,814**	**42,030**
thereof other liabilities due within 1 year	*26,562*	*26,313*

(1) Of which € 6,318 million (2015: € 8,252 million) relate to construction contracts mainly in Airbus Defence and Space (2016: € 5,001 million and 2015: € 7,007 million) and Airbus Helicopters (2016: € 1,317 million and 2015: € 1,246 million).

25. Sales Financing Transactions

Sales financing — With a view to facilitating aircraft sales for Airbus Commercial Aircraft and Airbus Helicopters, Airbus may enter into either on-balance sheet or off-balance sheet sales financing transactions.

On-balance sheet transactions where Airbus Commercial Aircraft is lessor are classified as operating leases, finance leases and loans, inventory and to a minor extent, equity investments:

(i) *Operating leases* – Aircraft leased out under operating leases are included in property, plant and equipment at cost less accumulated depreciation (see "– Note 18: Property, Plant and Equipment"). Rental income from operating leases is recorded as revenues on a straight-line basis over the term of the lease.

(ii) *Finance leases and loans* – When, pursuant to a financing transaction, substantially all the risks and rewards of ownership of the financed aircraft reside with a third party, the transaction is characterised as either a finance lease or a loan. In such instances, revenues from the sale of the aircraft are recorded upon delivery, while financial interest is recorded over time as financial income. The outstanding balance of principal is recorded on the statement of financial position (on-balance sheet) in long-term financial assets, net of any accumulated impairments.

(iii) *Inventory* – Second hand aircraft acquired as part of a commercial buyback transaction, returned to Airbus after a payment default or at the end of a lease agreement are classified as inventory held for resale if there is no subsequent lease agreement in force (see "– Note 20: Inventories").

Off-balance sheet commitments — Financing commitments are provided to the customer either as backstop commitments before delivery, asset value guarantees at delivery, operating head-lease commitments or counter guarantees:

(i) *Backstop commitments* are guarantees by Airbus Commercial Aircraft, made when a customer-order is placed, to provide financing to the customer in the event that the customer fails to secure sufficient funding when payment becomes due under the order. Such commitments are not considered to be part of gross customer financing exposure as (i) the financing is not in place, (ii) commitments may be transferred in full or part to third parties prior to delivery, (iii) past experience suggests it is unlikely that all such proposed financings actually will be implemented and, (iv) Airbus retains the asset until the aircraft is delivered and does not incur an unusual risk in relation thereto. In order to mitigate customer credit risks for Airbus, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

(ii) *Asset value guarantees* are guarantees whereby Airbus guarantees a portion of the value of an aircraft at a specific date after its delivery. Airbus Commercial Aircraft considers the financial risks associated with such guarantees to be acceptable, because (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft, and (ii) the exercise dates of outstanding asset value guarantees are distributed through 2028. It is management policy that the present value of the guarantee given does not exceed 10% of the sales price of the aircraft.

As of 31 December 2016, the nominal value of asset value guarantees provided to beneficiaries amounts to € 836 million (2015: € 781 million), excluding € 51 million (2015: € 97 million) where the risk is considered to be remote. The present value of the risk inherent in asset value guarantees where a settlement is being considered probable is fully provided for and included in the total of provisions recognised for asset value risks of € 580 million (2015: € 550 million) (see "– Note 22: Provisions, Contingent Assets and Contingent Liabilities").

(iii) *Operating head-lease commitments* – Airbus has entered into head-lease sub-lease transactions in which it acts as a lessee under an operating head-lease and lessor under the sub-lease. Airbus' customer financing exposure to operating head-lease commitments, determined as the present value of the future head-lease payments, was € 0 million in 2016 (2015: € 92 million).

Exposure — In terms of risk management, Airbus manages its gross exposure arising from its sales financing activities ("gross customer financing exposure") separately for (i) customer's credit risk and (ii) asset value risk.

Gross customer financing exposure is the sum of (i) the book value of operating leases before impairment, (ii) the outstanding principal amount of finance leases or loans due before impairment, (iii) the guaranteed amounts under financial guarantees and the net present value of head-lease commitments, (iv) the book value of second hand aircraft for resale before impairment, and (v) the outstanding value of any other investment in sales financing SEs before impairment. This gross customer financing exposure may differ from the value of related assets on Airbus' Statement of Financial Position and related off-balance sheet contingent commitments, mainly because (i) assets are recorded in compliance with IFRS, but may relate to transactions that are financed on a limited recourse basis and (ii) the carrying amount of the assets on the Consolidated Statement of Financial Position may have been adjusted for impairment losses.

Gross customer financing exposure amounts to US$ 1.8 billion (€ 1.7 billion) (2015: US$ 1.5 billion (€ 1.4 billion)).

Net exposure is the difference between gross customer financing exposure and the collateral value. Collateral value is assessed using a dynamic model based on the net present value of expected future receivables, expected proceeds from resale and potential cost of default. This valuation model yields results that are typically lower than residual value estimates by independent sources in order to allow for what management believes is its conservative assessment of market conditions and for repossession and transformation costs. The net exposure is fully provided for by way of impairment losses and other provisions.

Impairment losses and provisions — For the purpose of measuring an impairment loss, each transaction is tested individually. Impairment losses relating to aircraft under operating lease and second hand aircraft for resale (included in inventory) are recognised for any excess of the aircraft's carrying amount over the higher of the aircraft's value in use and its fair value less cost to sell. Impairment allowances are recognised for finance leases and loans when their carrying amounts exceed the present value of estimated future cash flows (including cash flows expected to be derived from a sale of the aircraft). Under its provisioning policy for sales financing risk, Airbus records provisions as liabilities for estimated risk relating to off-balance sheet commitments.

Security — Sales financing transactions, including those that are structured through SE, are generally collateralised by the underlying aircraft. Additionally Airbus benefits from protective covenants and from security packages tailored according to the perceived risk and the legal environment.

Airbus endeavours to limit its sales financing exposure by sharing its risk with third parties usually involving the creation of an SE. Apart from investor interest protection, interposing an SE offers advantages such as flexibility, bankruptcy remoteness, liability containment and facilitating sell-downs of the aircraft financed. An aircraft financing SE is typically funded on a non–recourse basis by a senior lender and one or more providers of subordinated financing. When Airbus acts as a lender to such SEs, it may take the role of the senior lender or the provider of subordinated loan. Airbus consolidates an aircraft financing SE if it is exposed to the SE's variable returns and has the ability to direct the relevant remarketing activities. Otherwise, it recognises only its loan to the SE under other long–term financial assets. At 31 December 2016 the carrying amount of its loans from aircraft financing amounts to € 732 million (2015: € 553 million). This amount also represents Airbus' maximum exposure to loss from its interest in unconsolidated aircraft financing SEs.

On-Balance Sheet Operating and Finance Leases

The ***minimum future operating lease payments*** (undiscounted) due from customers to be included in revenues, and the future minimum lease payments (undiscounted) from investments in finance leases to be received in settlement of the outstanding receivable at 31 December 2016 are as follows:

(In € million)	Aircraft under operating lease	Finance lease receivable[1]
Not later than 1 year	25	133
Later than 1 year and not later than 5 years	60	71
Later than 5 years	8	15
31 December 2016	**93**	**219**

(1) Includes € 12 million of unearned finance income.

Off-Balance Sheet Commitments

Operating head-lease commitments comprise operating lease payments due by Airbus Commercial Aircraft as lessee under head-lease transactions. As of 31 December 2016 and as of 31 December 2015, the scheduled payments owed under sales financing head-leases are as follows:

	31 December	
(In € million)	**2016**	2015
Not later than 1 year	52	62
Later than 1 year and not later than 5 years	48	98
Later than 5 years	0	0
Total aircraft lease commitments[1]	**100**	**160**
Of which commitments where the transaction has been sold to third parties	(100)	(149)
Total aircraft lease commitments where Airbus bears the risk (not discounted)	**0**	**11**

(1) Backed by sublease income from customers with an amount of € 75 million in 2016 (2015: € 119 million).

Financing Liabilities

Financing liabilities from sales financing transactions are mainly based on variable interest rates (see "– Note 34.3: Financing Liabilities") and entered into on a non-recourse basis (*i.e.* in a default event, the creditor would only have recourse to the aircraft collateral).

	31 December	
(In € million)	**2016**	2015
Loans	45	94
Liabilities to financial institutions	0	0
Total sales financing liabilities	**45**	**94**

Customer Financing Exposure

The on-balance sheet assets relating to sales financing, the off-balance sheet commitments and the related financing exposure (not including asset value guarantees) as of 31 December 2016 and 2015 are as follows:

	31 December 2016			31 December 2015		
(In € million)	Airbus Commercial Aircraft	Airbus Helicopters	Total	Airbus Commercial Aircraft	Airbus Helicopters	Total
Operating leases[1]	169	44	213	337	0	337
Finance leases and loans	1,094	54	1,148	779	61	840
Inventory	208	0	208	179	0	179
Other investments	28	0	28	28	0	28
On-balance sheet customer financing	**1,499**	**98**	**1,597**	**1,323**	**61**	**1,384**
Off-balance sheet customer financing	182	21	203	84	8	92
Non-recourse transactions on-balance sheet	(109)	0	(109)	(17)	0	(17)
Off-balance sheet adjustments	0	0	0	(24)	0	(24)
Gross customer financing exposure	**1,572**	**119**	**1,691**	**1,366**	**69**	**1,435**
Collateral values	(1,157)	(60)	(1,217)	(922)	(20)	(942)
Net exposure	**415**	**59**	**474**	**444**	**49**	**493**
Operating leases	(89)	(9)	(98)	(220)	0	(220)
Finance leases and loans	(158)	(50)	(208)	(113)	0	(113)
On-balance sheet commitments - provisions[2]	0	0	0	0	(49)	(49)
On-balance sheet commitments - inventories	(154)	0	(154)	(93)	0	(93)
Off-balance sheet commitments - provisions[2]	(14)	0	(14)	(18)	0	(18)
Asset impairments and provisions	**(415)**	**(59)**	**(474)**	**(444)**	**(49)**	**(493)**

(1) For 2016 and 2015, depreciation amounts to € 12 million and € 27 million respectively and related accumulated depreciation is € 84 million and € 203 million respectively.

(2) See "– Note 22: Provisions, Contingent Assets and Contingent Liabilities".

2.6 Employees Costs and Benefits

26. Number of Employees

	Airbus Commercial Aircraft	Airbus Helicopters	Airbus Defence and Space	Total segments	Other / HQ	**Consolidated**
31 December 2016	73,852	22,507	34,397	130,756	3,026	133,782
31 December 2015	72,816	22,520	38,206	133,542	3,032	136,574

27. Personnel Expenses

(In € million)	**2016**	2015
Wages, salaries and social contributions	12,595	13,022
Net periodic pension cost (Note 29)	533	598
Total	**13,128**	**13,620**

28. Personnel-Related Provisions

Several German Airbus companies provide life-time working account models, being employee benefit plans with a promised return on contributions or notional contributions that qualify as **other long-term employee benefits** under IAS 19. The employees' periodical contributions into their life-time working accounts result in corresponding personnel expense in that period, recognised in **other personnel charges**.

(In € million)	Balance at 1 January 2016	Exchange differences	Increase from passage of time	Additions	Reclassification / Change in consolidated group	Used	Released	**Balance at 31 December 2016**
Restructuring measures / pre-retirement part-time work[(1)]	265	0	0	247	(11)	(97)	(39)	365
Other personnel charges	880	(1)	1	368	(69)	(441)	(83)	655
Total	**1,145**	**(1)**	**1**	**615**	**(80)**	**(538)**	**(122)**	**1,020**

(1) See "– Note 22: Provisions, Contingent Assets and Contingent Liabilities".

29. Post-Employment Benefits

(In € million)	31 December **2016**	2015
Provision for retirement plans (Note 29.1)	7,749	6,867
Provision for deferred compensation (Note 29.2)	907	748
Total	**8,656**	**7,615**

29.1 Provisions for Retirement Plans

When Airbus employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries in which Airbus operates.

France — The French pension system is operated on a "pay as you go" basis. Besides the basic pension from the French social security system, each employee is entitled to receive a complementary pension from defined contribution schemes *Association pour le régime de retraite complémentaire des salaries* ("ARRCO") and *Association générale des institutions de retraite des cadres* ("AGIRC"). Moreover, French law stipulates that employees are paid retirement indemnities in the form of lump sums on the basis of the length of service, which are considered as defined obligations.

Germany — Airbus has a pension plan (P3) for executive and non-executive employees in place. Under this plan, the employer provides contributions for the services rendered by the employees, which are dependent on their salaries in the respective service period. These contributions are converted into components which become part of the accrued pension liability at the end of the year. Total benefits are calculated as a career average over the entire period of service. Certain employees that are not covered by this plan receive retirement indemnities based on salary earned in the last year or on an average of the last three years of employment. For some executive employees, benefits are dependent on the final salary of the respective individual at the date of retirement and the time period served as an executive.

Parts of the pension obligation in Germany are funded by assets invested in specific funding vehicles. Besides a relief fund ("Unterstützungskasse"), Airbus has implemented a Contractual Trust Arrangement. The Contractual Trust Arrangement structure is that of a bilateral trust arrangement. Assets that are transferred to the relief fund and the Contractual Trust Arrangement qualify as plan assets under IAS 19.

UK — The Airbus Group UK Pension Scheme ("the Scheme") was implemented by Airbus Defence and Space Ltd., Stevenage (UK) as the principal employer. This plan comprises all eligible employees of Airbus Defence and Space Ltd. as well as all personnel, who were recruited by one of Airbus companies located in the UK and participating in the scheme. The majority of the Scheme's liabilities relate to Airbus Defence and Space Ltd. The major part of the obligation is funded by scheme assets due to contributions of the participating companies. The Scheme is a registered pension scheme under the Finance Act 2004. The trustee's only formal funding objective is the statutory funding objective under the Pensions Act part 6 2004, which is to have sufficient and appropriate assets to cover the Scheme's obligations. Since 1 November 2013, this plan is generally closed for new joiners, who participate in a separate defined contribution plan.

Moreover, Airbus participates in the UK in several funded trustee-administered pension plans for both executive and non–executive employees with BAE Systems being the principal employer. Airbus' most significant investments in terms of employees participating in these BAE Systems UK pension plans is Airbus Operations Ltd. Participating Airbus Operations Ltd. employees have continued to remain members in the BAE Systems UK pension plans due to the UK pension agreement between Airbus and BAE Systems and a change in the UK pensions legislation enacted in April 2006.

For the most significant of these BAE Systems Pension Schemes, the Main Scheme, BAE Systems, Airbus and the scheme Trustees agreed on a sectionalisation, which was implemented on 1 April 2016. Though BAE Systems remains the only principal employer of the Scheme, Airbus has obtained powers in relation to its section which are the same as if it were the principal employer. The deficit of the Main Scheme was allocated between BAE Systems and Airbus based in principle on each member's last employer, which was done in December 2015. Before, the deficit allocation was based on the relative payroll contributions of active members which amounted to a share of Airbus in BAE Systems' main scheme in 2015 to 20.96%. The impact of this change was mainly reflected in the remeasurements of the previous period.

The other schemes qualify as multi-employer defined benefit pension plans under IAS 19 "Employee benefits". Based on detailed information about the other pension schemes provided by BAE Systems, Airbus is able to appropriately and reliably estimate the share of its participation in the schemes, i.e. its share in plan assets, defined benefit obligation ("DBO"), and pension costs. The information enables Airbus to derive keys per plan to allocate for accounting purposes an appropriate proportion in plan assets, DBO and pension costs to its UK investments as of the reporting date, taking into account the impact of contributions as well as future extra contributions agreed by BAE Systems with the trustees. Therefore, Airbus accounts for its participation in BAE Systems' UK defined benefit schemes under the defined benefit accounting approach in accordance with IAS 19.

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

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

Risks

The DBO exposes Airbus to actuarial risks, including the following ones:

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

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

Inflation risk — The pension liabilities can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increasing liability. Since some pension plans are directly related to salaries, increases in compensations could result in increasing pension obligations. A fixed interest rate has been agreed for the deferred compensation plan P3, which is financed by the employees.

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

The weighted-average assumptions used in calculating the actuarial values of the most significant retirement plans as of 31 December are as follows:

	Pension plans in							
	Germany		France		UK		Participation in BAE Systems Pension Scheme (UK)	
Assumptions in %	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Discount rate	1.7	2.4	1.9	2.5	2.7	3.9	2.6	3.9
Rate of compensation increase	2.75	2.75	2.5	2.5	2.6	3.0	2.6	3.2
Rate of pension increase	1.7	1.7	- / 1.7	- / 1.7	3.0	2.9	3.1	2.3-3.2
Inflation rate	1.7	1.7	1.7	1.7	3.1	3.0	3.1	3.2

For Germany and France, Airbus derives the discount rate used to determine the DBO from yields on high quality corporate bonds with an AA rating. The determination of the discount rate is based on the iBoxx€ Corporates AA bond data and uses the granularity of single bond data in order to receive more market information from the given bond index. The discount rate for the estimated duration of the respective pension plan is then extrapolated along the yield curve. In the UK it is determined with reference to the full yield curve of AA-rated sterling-denominated corporate bonds of varying maturities. The salary increase rates are based on long-term expectations of the respective employers, derived from the assumed inflation rate and adjusted by promotional or productivity scales.

Rates for pension payment increases are derived from the respective inflation rate for the plan.

Inflation rate for German plans corresponds to the expected increase in cost of living. In the UK, the inflation assumptions are derived by reference to the difference between then yields on index-linked and fixed-interest long-term government bonds.

For the calculation of the German pension obligation, the "2005 G" mortality tables (generation tables) as developed by Professor Dr. Klaus Heubeck are applied. For the UK schemes, the Self-Administered Pensions S1 mortality tables based on year of birth (as published by the Institute of Actuaries) is used in conjunction with the results of an investigation into the actual mortality experience of scheme members. In France, Institute for French Statistics ("INSEE") tables are applied.

The development of the DBO is set out below:

	DBO			Plan assets			**Total provisions**
(In € million)	Pension plans of Airbus	Participation in BAE Systems Pension Scheme in the UK	Total	Pension plans of Airbus	Participation in BAE Systems Pension Scheme in the UK	Total	
Balance as of 1 January 2015	**10,625**	**4,337**	**14,962**	**(4,237)**	**(3,158)**	**(7,395)**	**7,567**
Service cost	358	81	439	0	0	0	439
Interest cost and income	219	175	394	(105)	(130)	(235)	159
Remeasurements: Actuarial (gains) and losses arising							
• from changes in demographic assumptions	(2)	0	(2)	0	0	0	(2)
• from changes in financial assumptions	(642)	(1,218)	(1,860)	0	0	0	(1,860)
• from changes in experience adjustments	213	(44)	169	0	0	0	169
• from plan assets	0	0	0	67	898	965	965
Change in consolidation, transfers and others	(95)	5	(90)	0	0	0	(90)
Benefits paid	(338)	(168)	(506)	139	168	307	(199)
Contributions by employer and other plan participants	0	0	0	(245)	(117)	(362)	(362)
Foreign currency translation adjustment	54	279	333	(50)	(202)	(252)	81
Balance as of 31 December 2015	**10,392**	**3,447**	**13,839**	**(4,431)**	**(2,541)**	**(6,972)**	**6,867**
Service cost	316	63	379	0	0	0	379
Interest cost and income	251	119	370	(126)	(90)	(216)	154
Settlements	(4)	0	(4)	0	0	0	(4)
Remeasurements: Actuarial (gains) and losses arising							
• from changes in demographic assumptions	6	0	6	0	0	0	6
• from changes in financial assumptions	1,027	786	1,813	0	0	0	1,813
• from changes in experience adjustments	158	0	158	0	0	0	158
• from plan assets	0	0	0	(179)	(296)	(475)	(475)
Change in consolidation, transfers and others	(530)	2	(528)	44	0	44	(484)
Benefits paid	(348)	(79)	(427)	132	79	211	(216)
Contributions by employer and other plan participants	0	0	0	(104)	(167)	(271)	(271)
Foreign currency translation adjustment	(164)	(530)	(694)	133	383	516	(178)
Balance as of 31 December 2016	**11,104**	**3,808**	**14,912**	**(4,531)**	**(2,632)**	**(7,163)**	**7,749**

The funding of the plans is as follows:

	31 December			
	2016		2015	
(In € million)	DBO	Plan assets	DBO	Plan assets
Unfunded pension plans	1,577	0	1,491	0
Funded pension plans (partial)	13,335	(7,163)	12,348	(6,972)
Total	**14,912**	**(7,163)**	**13,839**	**(6,972)**

In 2016, contributions in the amount of € 104 million (2015: € 241 million) are made into the pension plans of Airbus, mainly relating to the relief fund in Germany with € 50 million (2015: € 50 million), the Airbus Group UK scheme with € 50 million (2015: € 58 million). Previous year included additionally the Contractual Trust Arrangement of € 130 million.

Contributions of approximately € 400 million are expected to be made in 2017.

The weighted average duration of the DBO for retirement plans and deferred compensation is 16 years at 31 December 2016 (31 December 2015: 14 years).

The split of the DBO for retirement plans and deferred compensation between active, deferred and pensioner members for the most significant plans is as follows (as of 31 December 2016 unless otherwise noted):

	Active	Deferred	Pensioner
Germany	44%	6%	50%
France	99%	0%	1%
UK(1)	67%	16%	17%
Participation in BAE Systems Pension Scheme (Main Scheme)	60%	17%	23%

(1) As of 5 April 2016.

The following table shows how the present value of the DBO of retirement plans and deferred compensation would have been influenced by changes in the actuarial assumptions as set out for 31 December 2016:

	Change in actuarial assumptions	Impact on DBO	
		Change as of 31 December	
		2016	2015
Present value of the obligation		15,930	14,680
Discount rate	Increase by 0.5%-point	(1,197)	(1,007)
	Decrease by 0.5%-point	1,322	1,062
Rate of compensation increase	Increase by 0.25%-point	106	188
	Decrease by 0.25%-point	(279)	(305)
Rate of pension increase	Increase by 0.25%-point	342	256
	Decrease by 0.25%-point	(486)	(369)
Life expectancy	Increase by 1 year	287	283
	Reduction by 1 year	(461)	(411)

Sensitivities are calculated based on the same method (present value of the DBO calculated with the projected unit method) as applied when calculating the post–employment benefit obligations. The sensitivity analyses are based on a change of one assumption while holding all other assumptions constant. This is unlikely to occur in practice and changes of more than one assumption may be correlated leading to different impacts on the DBO than disclosed above. If the assumptions change at a different level, the effect on the DBO is not necessarily in a linear relation.

The fair value of the plan assets for retirement plans and deferred compensation can be allocated to the following classes:

	31 December 2016			31 December 2015		
(In € million)	**Quoted prices**	**Unquoted prices**	**Total**	Quoted prices	Unquoted prices	Total
Equity securities						
Europe	1,112	0	1,112	990	0	990
Rest of the world	5	0	5	0	0	0
Emerging markets	248	0	248	221	0	221
Global	1,474	0	1,474	1,454	0	1,454
Bonds						
Corporates	1,877	0	1,877	1,549	0	1,549
Governments	1,464	0	1,464	1,715	0	1,715
Pooled investment vehicles	17	288	305	273	0	273
Commodities	161	0	161	119	0	119
Hedge funds	236	0	236	251	0	251
Derivatives	0	(60)	(60)	0	(58)	(58)
Property	337	3	340	331	4	335
Cash and money market funds	62	0	62	48	0	48
Others	209	(142)	67	252	(64)	188
	7,202	**89**	**7,291**	**7,203**	**(118)**	**7,085**

The majority of funded plans apply broadly an asset-liability matching ("ALM") framework. The strategic asset allocation ("SAA") of the plans takes into account the characteristics of the underlying obligations. Investments are widely diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2016 consists of fixed income instruments, equities, although Airbus also invests in property, commodities and hedge funds. Airbus is reassessing the characteristics of the pension obligations from time to time or as required by the applicable regulation or governance framework. This typically triggers a subsequent review of the SAA.

The amount recorded as provision for retirement plans can be allocated to the significant countries as follows:

	Pension plans of Airbus				Share of multi-employer plan in the UK	Total
(In € million)	Germany	France	UK	Others		
DBO	7,793	1,545	1,044	10	3,447	13,839
Plan assets	3,464	17	950	0	2,541	6,972
Recognised as of 31 December 2015	**4,329**	**1,528**	**94**	**10**	**906**	**6,867**
DBO	8,227	1,643	1,223	11	3,808	14,912
Plan assets	3,514	17	1,000	0	2,632	7,163
Recognised as of 31 December 2016	**4,713**	**1,626**	**223**	**11**	**1,176**	**7,749**

Employer's contribution to state and private pension plans, mainly in Germany and France, are to be considered as defined contribution plans. Contributions in 2016 amount to € 703 million (in 2015: € 689 million).

29.2 Provisions for Deferred Compensation

This amount represents obligations that arise if employees elect to convert part of their remuneration or bonus into an equivalent commitment for deferred compensation which is treated as a defined benefit post-employment plan. The development for the DBO and plan assets is as follows:

	2016			2015		
(In € million)	**DBO**	**Plan assets**	**Total**	DBO	Plan assets	Total
Balance as of 1 January	**841**	**(113)**	**728**	**744**	**(81)**	**663**
Service cost	118	0	118	137	0	137
Interest cost	20	0	20	14	0	14
Interest income	0	(3)	(3)	0	(2)	(2)
Remeasurements: Actuarial (gains) and losses arising						
• from changes in financial assumptions	0	0	0	(34)	0	(34)
• from changes in experience adjustments	35	0	35	0	0	0
• from plan assets	91	2	93	0	3	3
Transfer and change in consolidation	(80)	1	(79)	(15)	0	(15)
Benefits paid	(7)	0	(7)	(5)	0	(5)
Contributions	0	(15)	(15)	0	(33)	(33)
Balance as of 31 December	**1,018**	**(128)**	**890**	**841**	**(113)**	**728**

Recognised as:

	31 December	
(In € million)	**2016**	2015
Provision	907	748
Non-current other assets and current other assets	17	20
Total	**890**	**728**

The portion of the obligation, which is not protected by the pension guarantee association or *Pensions-Sicherungs Verein* ("PSV") in case of an insolvency of Airbus companies concerned, is covered by securities. Trust agreements between the trust and the participating companies stipulate that some portions of the obligation must be covered with securities in the same amount, while other portions must be covered by 115% leading to an overfunding of the related part of the obligation. These amounts are recognised as other non-current and current assets.

30. Share-Based Payment

Share-based compensation — In 2007, Airbus introduced a **Performance and Restricted Unit Plan** or **LTIP** which qualifies as a **cash settled share-based payment plan** under IFRS 2. The grant of so called "units" will not physically be settled in shares (except with regard to Airbus Executive Committee Members). For details of the conversion of some Performance Units granted to Executive Committee Members into equity–settled plans please see "– Note 31.1: Remuneration–Executive Committee". In 2016, Airbus implemented a **Performance Units and Performance Share Plan**, which is granted in units as well as in shares.

For plans settled in cash, provisions for associated services received are measured at fair value by multiplying the number of units expected to vest with the fair value of one LTIP unit at the end of each reporting period, taking into account the extent to which the employees have rendered service to date. The fair value of each LTIP unit is determined using a forward pricing model. Changes of the fair value are recognised as personnel expense of the period, leading to a remeasurement of the provision.

Besides the **SOP** that has been granted in the past and the equity settled part of the LTIP 2016, the **Employee Share Ownership Plan ("ESOP")** is an additional equity settled share-based payment plan. Airbus offers its employees under this plan the Company shares at fair value matched with a number of free shares based on a determining ratio. The fair value of shares provided is reflected as personnel expense in Airbus' Consolidated Income Statements with a corresponding increase in equity.

30.1 SOP and LTIP

Based on the authorisation given to it by the shareholders' meetings, Airbus' Board of Directors approved a SOP in 2006 (see date below). This plan provides to the members of the Executive Committee as well as to Airbus' senior management the grant of options for the purchase of the Company's shares.

For the Company's SOP, the granted exercise price exceeded the share price at the grant date.

In the years 2011 to 2015, the Board of Directors of Airbus approved the granting of LTIP Performance and Restricted Units. In 2016, it approved an LTIP Performance Units and Performance Share Plan.

In 2014, Airbus decided to hedge the share price risk inherent in the cash-settled LTIP units by entering equity swaps where the reference price is based on the Airbus share price. To the extent that LTIP units are hedged, compensation expense recognised for these units will effectively reflect the reference price fixed under the equity swaps.

In 2016, compensation expense for LTIPs including the effect of the equity swaps amounted to € 35 million (in 2015: € 175 million). For the SOP, expenses were neither recognised in 2016 nor in 2015.

The fair value of units and shares granted per vesting date is as follows (LTIP plan 2016):

Expected vesting date *(In € per unit / share granted)*	FV of Performance Units and Shares
May 2020 – Performance share	45.15
May 2020 – Performance unit	45.13
May 2021 – Performance unit	44.71

As of 31 December 2016 provisions of € 179 million (2015: € 320 million) relating to LTIP have been recognised.

The lifetime of the Performance and Restricted Units as well as Performance Shares is contractually fixed (see the description of the respective tranche). For the units, the measurement is next to other market data, mainly affected by the share price as of the end of the reporting period (€ 62.84 as of 31 December 2016) and the lifetime of the units.

The principal characteristics of the SOP as at 31 December 2016 are summarised in the table below:

	SOP 2006
Date of shareholders' meeting	4 May 2006
Grant date	18 December 2006
Number of options granted	1,747,500
Number of options outstanding	0
Total number of eligible employees	221
Vesting conditions[1]	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules — see "Part 2/3.1.3 Governing Law — Dutch Regulations")
Expiry date	16 December 2016
Conversion right	One option for one share
Vested	100%
Exercise price	€ 25.65
Exercise price conditions	110% of fair market value of the shares at the date of grant
Number of exercised options	1,501,000

The following table summarises the development of the number of outstanding stock options:

	Number of options			
Tranches	Balance at 1 January	Exercised	Forfeited	Balance at 31 December
SOP 2006				
2015	511,750	(241,750)	(5,500)	264,500
2016	264,500	(224,500)	(40,000)	0

The weighted average share price at the date of exercise for share options exercised in 2016 was € 59.21 (2015: € 60.65).

The principal characteristics of the LTIPs as at 31 December 2016 are summarised below:

	LTIP 2011		**LTIP 2012**		**LTIP 2013**		**LTIP 2014**		**LTIP 2015**		**LTIP 2016**	
Grant date(1)	9 November 2011		13 December 2012		17 December 2013		13 November 2014		29 October 2015		25 October 2016	
	Performance and Restricted Unit plan										Performance plan	
Units	Performance	Restricted	Performance	Restricted	Performance	Restricted	Performance	Restricted	Performance	Restricted	Units	Shares
Number of units granted(2)	2,606,900	882,591	2,123,892	621,980	1,245,052	359,060	1,114,962	291,420	926,398	240,972	615,792	621,198
Number of units outstanding	0	0	880,095	283,320	1,159,814	346,100	1,068,502	287,442	916,246	239,674	615,792	621,198
Total number of eligible beneficiaries		1,771		1,797		1,709		1,621		1,564		1,671
Vesting conditions	The Performance and Restricted Units and Performance Shares will vest if the participant is still employed by an Airbus company at the respective vesting dates and, in the case of Performance Units and Shares, upon achievement of mid-term business performance. Vesting schedule is made up of four payments (from the LTIP 2014 onwards two payments) over two years.											
Share price per unit is limited at the vesting dates to(3)		-		€ 55.66		€ 92.34		€ 94.90		€ 112.62	€ 105.34	-
Vesting dates	25% each: in May 2015 in November 2015 in May 2016 in November 2016		25% each: in May 2016 in November 2016 25% each expected: in May 2017 in November 2017		25% each expected: in May 2017 in November 2017 in May 2018 in November 2018		50% each expected: in June 2018 in June 2019		50% each expected: in June 2019 in July 2020		50% each expected: in May 2020 in May 2021	100% expected in May 2020
Number of vested units	3,108,160	823,828	855,388	289,135	3,860	0	2,500	0	2,116	0	0	0

(1) Date, when the vesting conditions were determined.

(2) Based on 100% target performance achievement. A minimum of 50% of Performance Units will vest; 100% in case of on-target performance achievement; up to a maximum of 150% in case of overachievement of performance criteria. In case of absolute negative results (cumulative EBIT of Airbus) during the performance period, the Board of Directors can decide to review the vesting of the Performance Units including the 50% portion which is not subject to performance conditions (additional vesting condition).

(3) Corresponds to 200% of the respective reference share price. Overall, the pay-out for Performance Units is limited to a total amount of 250% of the units originally granted, each valued with the respective reference share price of € 27.83 (for LTIP 2012), € 46.17 (for LTIP 2013), € 47.45 (for LTIP 2014), € 56.31 (for LTIP 2015) and € 52.67 (for LTIP 2016).

30.2 ESOP

In 2016, the Board of Directors approved a new ESOP. Eligible employees were able to purchase a fixed number of previously unissued shares at fair market value (4, 6, 10, 19, 38 or 76 shares). Airbus matched each fixed number of shares with a number of the Company free shares based on a determined ratio (4, 5, 7, 11, 16 and 25 free shares, respectively). During a custody period of at least one year or, provided the purchase took place in the context of a mutual fund (regular savings plan), of five years, employees are restricted from selling the shares, but have the right to receive all dividends paid. Employees who directly purchased the Company shares have, in addition, the ability to vote at the annual shareholder meetings. The subscription price was equal to the closing price at the Paris stock exchange on 23 February 2016 and amounted to € 55.41. Investing through the mutual fund led to a price which corresponds to the average price at the Paris stock exchange during the 20 trading days immediately preceding 23 February 2016, resulting in a price of € 54.31. The Company issued and sold 485,048 ordinary shares with a nominal value of € 1.00 each. Compensation expense (excluding social security contributions) of € 27 million was recognised in connection with ESOP.

In 2015, the Board of Directors approved a new ESOP. Eligible employees were able to purchase a fixed number of previously unissued shares at fair value (4, 6, 9, 19, 37, 74 or 148 shares). Airbus matched each fixed number of shares with a number of the Company free shares based on a determined ratio (4, 5, 6, 11, 16, 25 and 39 free shares, respectively). During a lockup period of at least one year or, provided the purchase took place in the context of a mutual fund (regular savings plan), of five years, employees are restricted from selling the shares, but have the right to receive all dividends paid. Employees who directly purchased the Company shares have, in addition, the ability to vote at the annual shareholder meetings. The subscription price was equal to the closing price at the Paris stock exchange on 26 February 2015 and amounted to € 51.63. Investing through the mutual fund led to a price which corresponds to the average price at the Paris stock exchange during the 20 trading days immediately preceding 26 February 2015, resulting in a price of € 49.70. The Company issued and sold 477,985 ordinary shares with a nominal value of € 1.00 each. Compensation expense (excluding social security contributions) of € 25 million was recognised in connection with ESOP.

31. Remuneration

31.1 Remuneration – Executive Committee

Airbus' key management personnel consists of Members of the Executive Committee and Non-Executive Board Members. The **Chief Executive Officer ("CEO")**, who chairs the Executive Committee, is the sole Executive Board Member. The annual remuneration and related compensation costs of the key management personnel as expensed in the respective year can be summarised as follows:

(In € million)	**2016**	2015
Executive Committee, including Executive Board Member		
Salaries and other short-term benefits (including bonuses)	28.4	23.2
Post-employment benefit costs	6.1	7.5
Share-based remuneration ("LTIP award", including associated hedge result)	20.5	15.4
Termination benefits	0.0	3.5
Other benefits	0.7	0.8
Social charges	5.5	6.5
Non-Executive Board Members		
Short-term benefits (including social charges)	1.8	1.5
Total expense recognised	**63.0**	**58.4**

For additional information regarding the remuneration of Executive Committee Members (including the CEO), please also refer to the "Report of the Board of Directors – Chapter 4.4: Remuneration Report".

Salaries and Other Short-Term Benefits (Including Bonuses)

The amount of bonuses is based on estimated performance achievement as at the balance sheet date and difference between previous year estimation and actual pay-out in the current year. Outstanding short-term benefits (bonuses) at year-end 2016 for Executive Committee Members based on estimated performance achievement at year-end was € 13.4 million (2015: € 13.4 million).

In 2015, Airbus had to recognise high salary taxes for Executive Committee Members subject to French tax jurisdictions under the "*Taxe sur les hauts revenus*", requiring exceptional 50% charges on individual annual remuneration exceeding € 1 million (2015: € 1 million). For 2016, this surtax has been abolished.

Post-Employment Benefit Cost

The pension DBO of the Executive Committee, including the CEO, at 31 December 2016 amounted to € 68.3 million (2015: € 61.6 million). The disclosed DBO reflects the total outstanding balance for all Executive Committee Members subject to a defined benefit plan and in charge at the end of the respective balance sheet date.

Share-Based Remuneration ("LTIP Award")

The share-based payment expenses result from not yet forfeited units granted to the Executive Committee Members under the Airbus LTIP which are re-measured to fair value as far as they are cash settled.

In 2016, the members of the Executive Committee were granted 85,386 Performance Units and 91,082 Performance Shares for LTIP 2016 and 13,674 additional units for LTIP 2015 (2015: 184,652 units), the respective fair value of these Performance Units and Shares at the respective grant dates was € 8.76 million (2015: € 10.3 million). Fair value of outstanding LTIP balances at the end of 2016 for all Executive Committee Members was € 14.5 million (2015: € 21.6 million). The total number of outstanding Performance and Restricted Units amounted to 467,245 at 31 December 2016 (2015: 775,744), granted to the current members of the Executive Committee.

Until and including the plan 2015, based on the intention of the Board of Directors to increase the long-term commitment of Executive Committee Members to the success of Airbus, the Board has authorised the Executive Committee Members to opt for partial conversion of the otherwise cash settled LTIPs into share-settled plans at each grant date of any new LTIP, requiring a minimum conversion rate into equity settlement of 25% of total granted Performance Units. At the conversion date, each Executive Committee Member individually determined the split of equity and cash settlement for the formerly granted LTIP. After overall performance assessment of each of the plans, the vesting dates as determined at the initial grant date apply to all cash settled Performance Units, however, units converted into equity settlement only vest at the last of the vesting dates of the respective plan.

The number of Performance Units granted to Executive Committee Members 31 December 2016 are summarised below:

	LTIP 2011[1]	LTIP 2012[2]	LTIP 2013[3]	LTIP 2014	LTIP 2015[4]
Total number of units granted	337,280	245,551	203,000	199,310	189,476
Number of cash-settled units	227,949	177,933	138,300	147,269	143,217
Number of equity-settled units	109,331	67,718	64,700	52,041	46,259
Date of conversion	31 December 2012	28 February 2013	28 February 2014	28 February 2015	28 February 2016
Share price at date of conversion	€ 29.50	€ 39.70	€ 53.39	€ 55.33	€ 59.78

(1) Based on performance achievement of 128% for Performance Units under 2011 LTIP.

(2) Based on performance achievement of 89% for Performance Units under 2012 LTIP.

(3) Based on performance achievement of 75% for Performance Units under 2013 LTIP.

SOP

To the other current members of the Executive Committee and to Airbus' senior management, there were no outstanding stock options at 31 December 2016 (2015: 264,500). During the year 2016, the Executive Committee Members have exercised 10,000 options (2015: 241,085) granted under the remaining SOP 2006. 97,500 options (2015: 137,500) were exercised and 40,000 options (2015: 0 options) were forfeited by former Executive Committee Members. As all Airbus SOPs vested before 2012 no related personnel expense was recognised in 2016 or in 2015.

Other Benefits

Other benefits include expenses for Executive Committee Members' company cars and accident insurance. There were no outstanding liabilities at 31 December 2016 or 2015 respectively.

31.2 Remuneration – CEO

The total remuneration of the CEO and Executive Member of the Board of Directors, related to the reporting periods 2016 and 2015, can be summarised as follows:

(In €)	**2016**	2015
Base salary	1,500,000	1,400,004
Annual variable pay	2,062,000	1,659,000
Post-employment benefits costs	1,075,888	1,079,861
Share-based remuneration ("LTIP award")[1]	1,528,732	2,401,751
Other benefits	71,755	69,050
Social charges	11,668	11,368

(1) Expense related to share-based payment plans as recognised in the annual period (service period) including the result from the hedge of cash-settled share-based payment: see "– Note 30: Share-Based Payment" for details. The pay-out from vested cash settled LTIP in 2016 was € 2,279,689 (2015: € 3,148,629).

Annual Variable Pay

The annual variable pay is based on estimated performance achievement as at the balance sheet date and difference between the previous year's estimation and actual pay-out in the current year.

Post-Employment Benefit Costs

Post-employment benefit costs relate to the aggregated amount of current service and interest costs as well as interest costs on employee's contribution to the defined benefit plan.

For the CEO, the pension DBO including deferred compensation amounted to € 21,251,788 as of 31 December 2016 (€ 17,118,048 as of 31 December 2015), whilst the amount of current service and interest cost related to his pension promise accounted for in the fiscal year 2016 represented an expense of € 1,075,888 (2015: € 1,079,861). This amount has been accrued in the Consolidated Financial Statements.

Share-Based Remuneration

The table below gives an overview of the interests of the CEO, under the various LTIPs of Airbus:

	LTIP					
Granted date	2011	2012	2013	2014	2015	2016
Performance Units	51,400	50,300	30,300	29,500	24,862	28,480
Re-evaluation of PU[1]	128%	89%	75%	100%	100%	100%
PUs re-evaluated	65,792	44,767	22,726	29,500	24,862	28,480
Vested in 2016						
• in cash	24,672	16,787	0	0	0	0
• in shares	16,448	0	0	0	0	0
Outstanding 2016						
• in cash	0	16,788	11,363	22,125	18,647	14,240
• in shares	0	11,192	11,363	7,375	6,215	14,240
Vesting schedule						
Cash-settled units	For vesting dates, please see "– Note 30.1: SOP and LTIP"					
Equity-settled units	November 2016	November 2017	November 2018	June 2019	July 2020	May 2020

Vesting of all Performance Units granted to the CEO is subject to performance conditions.

Fair value of outstanding LTIP balances at the end of 2016 for the CEO was € 2,353,453 (2015: € 3,460,607).

Other Benefits

The CEO is entitled to accident insurance coverage and a company car. In 2016, the total amount expensed was € 71,755 (2015: € 69,050). Airbus has not provided any loans to / advances to / guarantees on behalf of the CEO.

31.3 Remuneration – Board of Directors

The remuneration of the Non-Executive Members of the Board of Directors was as follows:

	2016			2015		
(In €)	**Fixum[1]**	**Attendance fees[2]**	**Total**	**Fixum[1]**	**Attendance fees**	**Total**
Non-Executive Board Members						
Denis Ranque	180,000	60,000	240,000	180,000	70,000	250,000
Manfred Bischoff	26,154	20,000	46,154	80,000	25,000	105,000
Ralph D. Crosby	80,000	50,000	130,000	80,000	35,000	115,000
Catherine Guillouard[3]	67,582	40,000	107,582	0	0	0
Hans-Peter Keitel	100,000	60,000	160,000	100,000	35,000	135,000
Hermann-Josef Lamberti	110,000	55,000	165,000	110,000	30,000	140,000
Anne Lauvergeon	32,692	10,000	42,692	100,000	30,000	130,000
Lakshmi N. Mittal	100,000	50,000	150,000	100,000	35,000	135,000
María Amparo Moraleda Martínez	100,000	55,000	155,000	50,000	20,000	70,000
Claudia Nemat[3]	67,582	30,000	97,582	0	0	0
Sir John Parker	110,000	60,000	170,000	110,000	30,000	140,000
Michel Pébereau	32,692	20,000	52,692	100,000	25,000	125,000
Carlos Tavares[4]	54,066	20,000	74,066	0	0	0
Jean-Claude Trichet	100,000	60,000	160,000	100,000	35,000	135,000
Former Non-Executive Board Members						
Josep Piqué i Camps	0	0	0	41,668	0	41,668
Total	**1,160,768**	**590,000**	**1,750,768**	**1,151,668**	**370,000**	**1,521,668**

(1) The fixum related to 2016 was paid 50% in December 2016 and the other 50% will be paid in July 2017. The fixum related to 2015 was paid in 2016.
(2) The attendance fees are paid at the end of each semester.
(3) Member of the Company Board of Directors and Audit Committee as of 28 April 2016.
(4) Member of the Company Board of Directors as of 28 April 2016.

2.7 Capital Structure and Financial Instruments

32. Total Equity

32.1 Equity Attributable to Equity Owners of the Parent

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

(In number of shares)	**2016**	2015
Issued as at 1 January	**785,344,784**	**784,780,585**
Issued for ESOP	1,474,716	1,539,014
Issued for exercised options	224,500	1,910,428
Cancelled	(14,131,131)	(2,885,243)
Issued as at 31 December	**772,912,869**	**785,344,784**
Treasury shares as at 31 December	(184,170)	(1,474,057)
Outstanding as at 31 December	**772,728,699**	**783,870,727**
Authorised shares	**3,000,000,000**	**3,000,000,000**

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

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution for exercised options of € 224,500 (in 2015: € 1,910,428) in compliance with the implemented SOP and by employees of € 1,474,716 (in 2015: € 1,539,014) under the ESOPs.

Share premium mainly results from contributions in kind in the course of the creation of Airbus, cash contributions from the Company's initial public offering, capital increases and reductions due to the issuance and cancellation of shares.

Retained earnings include mainly the profit of the period and the changes in other comprehensive income from remeasurements of the defined benefit pension plans net of tax which amounts to € -1,383 million in 2016 (in 2015: € +491 million), and cash dividend payments to Airbus Group SE shareholders.

On 28 April 2016, the Shareholders' General Meeting decided to distribute a gross amount of € 1.30 per share, which was paid on 4 May 2016. For the fiscal year 2016, Airbus' Board of Directors proposes a cash distribution payment of € 1.35 per share.

Treasury shares represent the amount paid or payable for own shares held in treasury and relates to the share buyback which took place between 2 November 2015 and 30 June 2016. As of 31 December 2015, the Company bought back € 264 million of shares and recognised a financial liability of € 223 million for its irrevocable share buyback commitment at that date. Recognition of the financial liability led to a corresponding reduction of equity. In 2016, the Company bought back € 736 million of shares on which € 223 million were recognised in financial liability which led to a reduction of equity by € -513 million. The share buyback has been completed for a total amount of € 1 billion.

On 28 April 2016, the Annual General Meeting ("AGM") of the Company authorised the Board of Directors, for a period expiring at the AGM to be held in 2017, to issue shares and grant rights to subscribe for shares in the Company's share capital for the purpose of:

- ESOPs and share related LTIPs in the limit of 0.14% of the Company's authorised share capital (see "– Note 30: Share–Based Payment");
- funding the Company and its subsidiaries, provided that such powers shall be limited to an aggregate of 0.3% of the Company's authorised capital (see "– Note 34.3: Financing Liabilities").

For each operation, such powers shall not extend to issuing shares or granting rights to subscribe for shares if there is no preferential subscription right and for an aggregate issue price in excess of € 500 million per share issuance.

Also on 28 April 2016, the AGM authorised the Board of Directors for an 18-month period to repurchase up to 10% of the Company's issued and outstanding share capital (*i.e.* issued share capital excluding shares held by the Company or its subsidiaries) at a price not exceeding the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out.

Furthermore, the AGM authorised both the Board of Directors and the CEO, with powers of substitution, that the number of shares repurchased by the Company pursuant to the share buyback programme are cancelled.

32.2 Non-Controlling Interests

The non-controlling interests ("NCI") from non-wholly owned subsidiaries amount to € -5 million as of 31 December 2016 (in 2015: € 7 million). These NCI do not have a material interest in Airbus' activities and cash flows.

Subsidiaries with NCI that are material to their stand-alone financial information are:

	GEW Technologies (Pty) Ltd.		Airbus DS Optronics (Pty) Ltd		Alestis Aerospace S.L.		PFW Aerospace GmbH	
Principal place of business	Pretoria (South Africa)		Irene (South Africa)		La Rinconada (Spain)		Speyer (Germany)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Ownership interest held by NCI	25%	25%	30%	30%	38.09%	38.09%	25.10%	25.10%
NCI *(in € million)*	13	9	10	7	(34)	(25)	(28)	(28)
Profit (loss) allocated to NCI *(in € million)*	1	2	1	1	(5)	(7)	0	0

33. Capital Management

Airbus seeks to maintain a strong financial profile to safeguard its going concern, financial flexibility as well as shareholders', credit investors' and other stakeholders' confidence in Airbus. Consequently, operating liquidity is of great importance.

As part of its capital management, it is one of Airbus' objectives to maintain a strong credit rating by institutional rating agencies. This enables Airbus to contain its cost of capital which positively impacts its stakeholder value (entity value). Next to other non-financial parameters, the credit rating is based on factors such as, cash flow ratios, profitability and liquidity ratios. Airbus monitors these ratios to keep them in a range compatible with a strong rating.

Rating agency	Long-term rating	Outlook	Short-term rating
Standard and Poor's (1)	A+	Stable	A-1+
Moody's Investors Services	A2	Stable	P-1
Fitch Ratings (unsolicited)	A-	Stable	F-2

(1) The long-term rating with Standard and Poor's has been upgraded to A+ from A in September 2016.

Airbus' stand-alone ratings reflect the strong backlog providing revenue visibility and Airbus Commercial Aircraft leading market position, Airbus' strong liquidity and improving credit metrics as well as management's focus on programmes execution, profitability and cash generation improvement. The rating is constrained by Airbus' exposure to structural currency risk.

In accordance with Airbus' conservative financial policy, a strong rating is key to maintain a wide array of funding sources at attractive conditions, to have broad access to long-term hedging and to strengthen Airbus Commercial Aircraft's position as a solid counterparty for its customers and suppliers.

Among other indicators, Airbus uses a Value Based Management approach in order to guide the Company towards sustainable value creation by generating financial returns above the cost of capital.

The key elements of the Value Based Management concept are:

- the definition of financial returns;
- the definition of the Company's capital base; and
- the measurement of value creation derived from the two above.

Airbus uses Return on Capital Employed ("RoCE") to measure the value created by financial returns relative to its capital base. RoCE, as defined by Airbus, uses EBIT for the numerator and Average Capital Employed for the denominator. The Average Capital Employed for Airbus is defined as the average of the annual opening and closing positions of Fixed Assets plus Net Operating Working Capital plus operating cash less Other Provisions.

Financial value is created if profits relative to Airbus' Capital Employed exceed the Company's cost of capital. Value can be measured by comparing RoCE to the WACC. A five year plan for a value creation ambition is constructed annually, and is composed of (i) RoCE, (ii) EBIT, and (iii) Free Cash Flow, which is defined as Cash provided by operating activities and Cash used for investing activities less Change of securities, Contribution to plan assets for pensions and realised Treasury swaps. The Company's long–term aspiration is to reach the first quartile of RoCE performance among our aerospace and defence peers.

Airbus also monitors the level of dividends paid to its shareholders.

The Company generally satisfies its obligations arising from share-based payment plans by issuing new shares. In order to avoid any dilution of its current shareholders out of these share-based payment plans, the Company performs share buybacks and cancels its own shares following the decisions of the Board of Directors and approval of the AGM. Apart from this purpose, the Company generally does not trade with treasury shares.

The Company complies with the capital requirements under applicable law and its Articles of Association.

34. Net Cash

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

	31 December	
(In € million)	**2016**	2015
Cash and cash equivalents(1)	10,143	6,590
Current securities	1,551	1,788
Non-current securities	9,897	9,851
Short-term financing liabilities	(1,687)	(2,790)
Long-term financing liabilities	(8,791)	(6,335)
Total(1)	**11,113**	**9,104**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

Derivative instruments recognised on Airbus' Statement of Financial Position consist of (i) instruments that are entered into as hedges of Airbus' operating activities or interest result, and (ii) embedded foreign currency derivatives that arise from separating the foreign currency component from certain operating contracts. Cash flows resulting from the settlement of these derivatives are therefore recorded as part of cash flow from operations. Similarly, financial assets and liabilities arising from customer financing activities and refundable advances from European governments are considered part of operating activities and related cash flows are hence recognised as cash flows from operating activities.

34.1 Cash and Cash Equivalents

Cash and cash equivalents are composed of the following elements:

	31 December	
(In € million)	**2016**	2015
Bank account and petty cash	3,100	1,504
Short-term securities (at fair value through profit and loss)	5,513	3,220
Short-term securities (available-for-sale)(1)	1,535	1,952
Others	12	1
Total cash and cash equivalents(1)	**10,160**	**6,677**
Recognised in disposal groups classified as held for sale	17	87
Recognised in cash and cash equivalents(1)	**10,143**	**6,590**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

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

34.2 Securities

The majority of Airbus' securities consists of debt securities and are classified as available-for-sale financial assets and carried at their fair values (see "– Note 35.2: Carrying Amounts and Fair Values of Financial Instruments" for more details on how available-for-sale assets are accounted for).

Airbus' security portfolio amounts to € 11,448 million and € 11,639 million as of 31 December 2016 and 2015, respectively. The security portfolio contains a **non-current portion** of available-for-sale-securities of € 9,897 million (in 2015: € 9,848 million), no amount of securities designated at fair value through profit and loss (in 2015: € 3 million), and a **current portion** of available-for-sale-securities of € 1,551 million (in 2015: € 1,788 million).

Included in the securities portfolio as of 31 December 2016 and 2015, respectively, are corporate and government bonds bearing either fixed rate coupons (€ 10,736 million nominal value; comparably in 2015: € 10,956 million) or floating rate coupons (€ 360 million nominal value; comparably in 2015: € 397 million) and foreign currency funds of hedge funds (€ 6 million nominal value; 2015: € 8 million).

When Airbus enters into securities lending activities, the securities pledged as collateral continue to be recognised on the balance sheet. There were no such securities pledged as of 31 December 2016 and 2015.

34.3 Financing Liabilities

Financing liabilities comprise obligations towards financial institutions, issued corporate bonds, deposits made by customers of Airbus Group Bank, borrowings received from joint ventures and other parties as well as finance lease liabilities. Financing liabilities are recorded initially at the fair value of the proceeds received, net of transaction costs incurred. Subsequently, financing liabilities are measured at amortised cost, using the effective interest rate method with any difference between proceeds (net of transaction costs) and redemption amount being recognised in total finance income (cost) over the period of the financing liability.

Financing liabilities to financial institutions include liabilities from securities lending transactions. In securities lending transactions, Airbus receives cash from its counterparty and transfers the securities subject to the lending transaction as collateral. The amount of cash received is recognised as a financing liability. The securities lent are not derecognised, but remain on Airbus' Statement of Financial Position.

The Company has issued several euro-denominated bonds under its Euro Medium Term Note programme ("EMTN") and a stand-alone US dollar-denominated bond on the US institutional market under Rule 144A. It has also issued an euro-denominated convertible bond and euro-denominated exchangeable bonds into Dassault Aviation shares. Furthermore, the Company has long-term US dollar-denominated loans outstanding with the European Investment Bank ("EIB") and the Development Bank of Japan ("DBJ").

The terms and repayment schedules of these bonds and loans are as follows:

	Principal amount *(In million)*	Carrying amount *(In € million)* 31 December 2016	2015	Issuance date	Coupon or interest rate	Effective interest rate	Maturity date	Additional features
EMTN 15 years	€ 500	533	550	Sep 2003	5.50%	5.58%	Sep 2018	Interest rate swapped into 3M Euribor +1.72%
EMTN 7 years	€ 1,000	0	1,018	Aug 2009	4.625%	4.68%	Aug 2016	Interest rate swapped into 3M Euribor +1.57%
US$ Bond 10 years	US$ 1,000	940	917	Apr 2013	2.70%	2.73%	Apr 2023	Interest rate swapped into 3M Libor +0.68%
EMTN 10 years	€ 1,000	1,052	1,021	Apr 2014	2.375%	2.394%	Apr 2024	Interest rate swapped into 3M Euribor +1.40%
EMTN 15 years	€ 500	526	497	Oct 2014	2.125%	2.194%	Oct 2029	Interest rate swapped into 3M Euribor +0.84%
US$ Commercial paper programme	US$ 3,000	0	505	Apr 2015				
Convertible bond 7 years	€ 500	464	458	Jul 2015	0.00%	1.386%	Jul 2022	Convertible into Airbus Group SE shares at € 99.54 per share
EMTN 10 years	€ 600	589	0	May 2016	0.875%	0.951%	May 2026	Interest rate swapped into 3M Euribor
EMTN 15 years	€ 900	861	0	May 2016	1.375%	1.49%	May 2031	Interest rate swapped into 3M Euribor
Exchangeable bonds 5 years	€ 1,078	1,048	0	Jun 2016	0.00%	0.333%	Jun 2021	Exchangeable into Dassault Aviation shares
Bonds		**6,013**	**4,966**					
DBJ 10 years	US$ 300	285	276	Jan 2011	3M US-Libor +1.15%		Jan 2021	Interest rate swapped into 4.76% fixed
EIB 10 years	US$ 721	488	567	Aug 2011	3M US-Libor +0.85%		Aug 2021	Interest rate swapped into 3.2% fixed
EIB 7 years	US$ 406	385	373	Feb 2013	3M US-Libor +0.93%		Feb 2020	
EIB 10 years	US$ 627	591	576	Dec 2014	2.52%	2.52%	Dec 2024	Interest rate swapped into 3M Libor +0.61%
EIB 10 years	US$ 320	304	294	Dec 2015	6M US-Libor +0.559%		Dec 2025	
Share buyback commitment		0	223					
Others		370	153					
Liabilities to financial institutions		**2,423**	**2,462**					

The Company can issue commercial paper under the so called "billet de trésorerie" programme at floating or fixed interest rates corresponding to the individual maturities ranging from 1 day to 12 months. The programme has been set up in 2003 with a maximum volume of € 2 billion, increased in 2013 to a maximum volume of € 3 billion. As of 31 December 2016, there was no outstanding amount under the programme. The Company established in April 2015 a US$ 2 billion commercial paper programme which has been increased to US$ 3 billion in April 2016.

Financing liabilities include outstanding debt of € 85 million (2015: € 129 million) relating to a loan Airbus Commercial Aircraft received from Air 2 US in 1999 by way of a reinvestment note amounting to US$ 800 million, bearing a fixed interest rate of 9.88%, and other liabilities related to sales financing (see "– Note 25: Sales Financing Transactions").

In June 2016, the Company issued € 1,078 million exchangeable bonds into Dassault Aviation shares, with a 5-year maturity. The exchangeable bonds were issued at 103.75% of par with a coupon of 0%. Their effective interest rate, after separation of the equity conversion option related to Dassault Aviation shares, is 0.333%.

(In € million)	Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	**Total**
Bonds	0	1,581	4,432	6,013
Liabilities to financial institutions	351	1,573	499	2,423
Loans	332	213	118	663
Liabilities from finance leases	15	154	220	389
Others(1)	989	1	0	990
31 December 2016	**1,687**	**3,522**	**5,269**	**10,478**
Bonds	1,523	550	2,893	4,966
Liabilities to financial institutions	349	1,112	1,001	2,462
Loans	255	163	240	658
Liabilities from finance leases	13	145	230	388
Others(1)	650	1	0	651
31 December 2015	**2,790**	**1,971**	**4,364**	**9,125**

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

The aggregate amounts of financing liabilities maturing during the next five years and thereafter as of 31 December 2016 and as of 31 December 2015, are as follows:

	31 December	
(In € million)	**2016**	2015
1 year	1,687	2,790
2 years	829	228
3 years	271	835
4 years	703	252
5 years	1,719	656
Thereafter	5,269	4,364
Total	**10,478**	**9,125**

35. Information about Financial Instruments

35.1 Financial Risk Management

By the nature of its activities, Airbus is exposed to a variety of financial risks: (i) market risks, in particular foreign exchange risk, but also interest rate risk, equity price risk and commodity price risk, (ii) liquidity risk and (iii) credit risk. Airbus’ overall financial risk management activities focus on mitigating unpredictable financial market risks and their potential adverse effects on Airbus’ operational and financial performance.

The financial risk management of Airbus is generally carried out by the Corporate Finance department at Airbus under policies approved by the Board of Directors or by the Chief Financial Officer. The identification, evaluation and hedging of the financial risks is in the joint responsibility of established treasury committees and Airbus’ Divisions.

Airbus uses financial derivatives solely for risk mitigating purposes (“hedging”) and applies hedge accounting for a significant portion of its hedging portfolio.

Market Risk

Foreign exchange risk — Foreign exchange risk arises when future commercial transactions or firm commitments, recognised monetary assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity’s functional currency.

Airbus manages a long-term hedge portfolio with maturities of several years covering its net exposure to US dollar sales, mainly from the activities of Airbus Commercial Aircraft. This hedge portfolio covers a large portion of Airbus’ firm commitments and highly probable forecast transactions.

Most of Airbus' revenue is denominated in US dollars, while a major portion of its costs is incurred in euro and to some extent in other foreign currencies. Consequently, to the extent that Airbus does not use financial instruments to hedge its exposure resulting from this currency mismatch, its profits will be affected by changes in the €/US$ exchange rate. As Airbus intends to generate profits primarily from its operations rather than through speculation on exchange rate movements, it uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits.

With respect to its commercial aircraft products, Airbus typically hedges firmly committed sales in US dollars using a "first flow approach". Under that approach, the foreign currency derivatives Airbus enters into are designated as a hedge of the first US dollar inflows received from the customer at aircraft delivery in a given month. The strategy implies that only a portion of the expected monthly customer payments made at aircraft delivery are hedged. For this reason, a reduction of monthly cash inflows as a result of postponements or order cancellations have no impact on the effectiveness of the hedge as long as the actual gross US dollar cash inflows received at aircraft delivery in a particular month exceed the portion designated as being hedged in that month.

Similarly, though to a much lesser extent, Airbus hedges its expected foreign currency exposure arising from US dollar or pound sterling cash outflows in the commercial aircraft business on a first outflow basis.

In military aircraft and non-aircraft businesses, Airbus hedges in and outflows in foreign currencies from firmly committed or highly probable forecast sales and purchase contracts. Here, foreign currency derivatives are typically contracted in lower volumes; they may be accounted for using a first flow approach or are designated as hedges of specific agreed milestone payments. The amount of the expected flows to be hedged can cover up to 100% of the equivalent of the net US dollar exposure at inception. The coverage ratio considers the variability in the range of potential outcomes taking into account macroeconomic movements affecting spot rates and interest rates as well as the robustness of the commercial cycle.

In situations where the payment dates for hedged firmly committed cash flows are not fixed and subject to potentially significant delays, Airbus may use rollover strategies, usually involving F/X swaps.

For all foreign currency hedges of future cash flows which qualify for hedge accounting under IAS 39, Airbus uses the cash flow hedge model, which requires (i) recognising the effective portion of the fair value changes of the hedging derivatives in equity (within other comprehensive income) and (ii) recognising the effect of the hedge in profit or loss when the hedged cash flows affect profit or loss.

In addition, Airbus hedges currency risk arising from financial assets or liabilities denominated in currencies other than the euro, including foreign currency receivable and payable accounts, as well as foreign currency denominated funding transactions or securities. Airbus applies hedge accounting if a mismatch in terms of profit or loss recognition of the hedging instrument and hedged item would otherwise occur. Frequently, however, the currency-induced gains or losses of the hedging instrument and the hedged item match in terms of profit or loss recognition ("natural hedge"), so no hedge accounting is required. Sometimes such gains or losses may end up in different sections of the income statement (such as operating profit for the hedged item and financial result for the hedging instrument). If so, Airbus may choose to present the gains or losses of both the hedging instrument and the hedged item in the same income statement line item if certain formal requirements are met.

As hedging instruments, Airbus primarily uses foreign currency forwards, foreign currency options and to a minor extent non-derivative financial instruments.

Airbus also has foreign currency derivative instruments which are embedded in certain purchase contracts denominated in a currency other than the functional currency of any substantial party to the contract, principally in US dollar and pound sterling. If such embedded derivatives are required to be accounted for separately from the host purchase contract, related gains or losses are generally recognised in other financial result. However, if the embedded derivatives qualify for hedge accounting, Airbus might choose to designate them as a hedging instrument in a hedge of foreign currency risk, in which case they are accounted for under the cash flow hedge model as described above.

Interest rate risk — Airbus uses an asset-liability management approach with the objective to limit its interest rate risk. Airbus undertakes to match the risk profile of its interest-bearing assets with those of its interest-bearing liabilities. The remaining net interest rate exposure is managed through several types of interest rate derivatives, such as interest rate swaps and interest rate futures contracts, in order to minimise risks and financial impacts.

The vast majority of related interest rate hedges qualify for hedge accounting, and most of them are accounted for under the fair value hedge model. As a result, both the fair value changes of these derivatives and the portion of the hedged items' fair value change that is attributable to the hedged interest rate risk are recognised in profit and loss, where they offset to the extent the hedge is effective.

A few interest rate swaps that have been entered into as a hedge of certain of Airbus' variable rate debt (see "– Note 34.3: Financing Liabilities") are accounted for under the cash flow hedge model, and related fair value gains are recognised in OCI and reclassified to profit or loss when the hedged interest payments affect profit or loss.

Airbus invests in financial instruments such as overnight deposits, certificates of deposits, commercial papers, other money market instruments and short-term as well as medium–term bonds. For its financial instruments portfolio, Airbus has an Asset Management Committee in place that meets regularly and aims to limit the interest rate risk on a fair value basis through a value-at-risk approach.

Commodity price risk — Airbus is exposed to risk relating to fluctuations in the prices of commodities used in the supply chain. Airbus manages these risks in the procurement process and to a certain extent uses derivative instruments in order to mitigate the risks associated with the purchase of raw materials. To the extent that the gains or losses of the derivative and those of the hedged item or transaction do not match in terms of profit or loss, Airbus applies cash flow hedge accounting to the derivative instruments.

Equity price risk — Airbus is to a small extent invested in equity securities mainly for operational reasons. Airbus' exposure to equity price risk is hence limited. Furthermore, Airbus is exposed under its LTIP to the risk of the Company share price increases. Airbus limits these risks through the use of equity derivatives that qualify for hedge accounting and have been designated as hedging instruments in a cash flow hedge.

Sensitivities of market risks — The approach used to measure and control market risk exposure within Airbus' financial instrument portfolio is, amongst other key indicators, the value-at-risk ("VaR"). The VaR of a portfolio is the estimated potential loss that will not be exceeded over a specified period of time (holding period) from an adverse market movement with a specified confidence level. The VaR used by Airbus is based upon a 95% confidence level and assumes a five–day holding period. The VaR model used is mainly based on the so called "Monte-Carlo-Simulation" method. Deriving the statistical behaviour of the markets relevant for the portfolio out of market data from the previous two years and observed interdependencies between different markets and prices, the model generates a wide range of potential future scenarios for market price movements.

Airbus' VaR computation includes Airbus' financial debt, short-term and long-term investments, foreign currency forwards, swaps and options, commodity contracts, finance lease receivables and liabilities, foreign currency trade payables and receivables, including intra- Airbus payables and receivables affecting Airbus profit and loss.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 5-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 95% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 5% statistical probability that losses could exceed the calculated VaR.
- The use of historical data as a basis for estimating the statistical behaviour of the relevant markets and finally determining the possible range of future outcomes out of this statistical behaviour may not always cover all possible scenarios, especially those of an exceptional nature.

Airbus uses VaR amongst other key figures in order to determine the riskiness of its financial instrument portfolio and in order to optimise the risk-return ratio of its financial asset portfolio. Further, Airbus' investment policy defines a VaR limit for the total portfolio of cash, cash equivalents and securities. The total VaR as well as the different risk-factor specific VaR figures of this portfolio are measured and serve amongst other measures as a basis for the decisions of Airbus' Asset Management Committee.

A summary of the VaR position of Airbus' financial instruments portfolio at 31 December 2016 and 2015 is as follows:

(In € million)	Total VaR	Equity price VaR	Currency VaR	Commodity price VaR	Interest rate VaR
31 December 2016					
Foreign exchange hedges for forecast transactions or firm commitments	1,778	0	1,873	0	180
Financing liabilities, financial assets (including cash, cash equivalents securities and related hedges)	80	57	58	0	19
Finance lease receivables and liabilities, foreign currency trade payables and receivables	81	0	15	0	86
Commodity contracts	4	0	1	4	0
Equity swaps	4	4	0	0	0
Diversification effect	(276)	(1)	(127)	0	(70)
All financial instruments	**1,671**	**60**	**1,820**	**4**	**215**
31 December 2015					
Foreign exchange hedges for forecast transactions or firm commitments	1,814	0	1,870	0	181
Financing liabilities, financial assets (including cash, cash equivalents securities and related hedges)(1)	196	162	61	0	14
Finance lease receivables and liabilities, foreign currency trade payables and receivables(1)	87	0	22	0	83
Commodity contracts	7	0	3	6	0
Equity swaps	11	11	0	0	0
Diversification effect(1)	(403)	(8)	(148)	0	(91)
All financial instruments	**1,712**	**165**	**1,808**	**6**	**187**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified.

The total VaR as of 31 December 2016 is stable compared to year-end 2015. The market environment, in particular foreign exchange volatility, as well as the size of the net foreign exchange portfolio, is comparable to year-end 2015. As a result, the respective market risks of these hedging instruments are – depending on the hedges' actual effectiveness – offset by corresponding opposite market risks of the underlying forecast transactions, assets or liabilities. Under IFRS 7, the underlying forecast transactions do not qualify as financial instruments and are therefore not included in the tables shown above. Accordingly, the VaR of the foreign exchange hedging portfolio in the amount of € 1,778 million (2015: € 1,814 million) cannot be considered as a risk indicator for Airbus in the economic sense. When looking at the financial instrument types the noticeable change is within the financial assets coming from the lower equity price VaR related to the decrease of the Dassault Aviation equity portfolio.

Liquidity Risk

Airbus' policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments as they fall due. Airbus manages its liquidity by holding adequate volumes of liquid assets and maintains a committed credit facility (€ 3.0 billion as of 31 December 2016 and 2015) in addition to the cash inflow generated by its operating business. Airbus continues to keep within the asset portfolio the focus on low counterparty risk. In addition, Airbus maintains a set of other funding sources, and accordingly may issue bonds, notes and commercial papers or enter into security lending agreements. Adverse changes in the capital markets could increase Airbus' funding costs and limit its financial flexibility.

Further, the management of the vast majority of Airbus' liquidity exposure is centralised by a daily cash concentration process. This process enables Airbus to manage its liquidity surplus as well as its liquidity requirements according to the actual needs of its subsidiaries. In addition, management monitors Airbus' liquidity reserve as well as the expected cash flows from its operations.

The contractual maturities of Airbus' financial liabilities, based on undiscounted cash flows and including interest payments, if applicable, are as follows:

(In € million)	Carrying amount[(1)]	Contractual cash flows[(1)]	< 1 year[(1)]	1 year-2 years	2 years-3 years	3 years-4 years	4 years-5 years	> 5 years
31 December 2016								
Non-derivative financial liabilities	(23,994)	(25,293)	(14,903)	(1,268)	(458)	(886)	(1,923)	(5,856)
Derivative financial liabilities	(11,020)	(13,891)	(4,568)	(3,772)	(2,897)	(1,511)	(831)	(312)
Total	**(35,014)**	**(39,184)**	**(19,471)**	**(5,040)**	**(3,355)**	**(2,397)**	**(2,754)**	**(6,168)**
31 December 2015								
Non-derivative financial liabilities	(21,175)	(22,456)	(14,412)	(832)	(1,113)	(408)	(762)	(4,929)
Derivative financial liabilities	(10,587)	(12,690)	(3,973)	(2,747)	(3,518)	(1,898)	(506)	(48)
Total	**(31,762)**	**(35,146)**	**(18,385)**	**(3,579)**	**(4,631)**	**(2,306)**	**(1,268)**	**(4,977)**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €899 million.

Non-derivative financial liabilities included in the table above comprise financing liabilities and finance lease liabilities as presented in the tables of "– Note 35.2: Carrying Amounts and Fair Values of Financial Instruments". Due to their specific nature, namely their risk-sharing features and uncertainty about the repayment dates, the European Governments refundable advances, which amount to € 7,070 million at 31 December 2016 (€ 7,286 million at 31 December 2015) are not included.

Credit Risk

Airbus is exposed to credit risk to the extent of non–performance by either its customers (*e.g.* airlines) or its counterparts with regard to financial instruments or issuers of financial instruments for gross cash investments. However, Airbus has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

As far as central treasury activities are concerned, credit risk resulting from financial instruments is managed on Airbus level. In order to ensure sufficient diversification, a credit limit system is used.

Airbus monitors the performance of the individual financial instruments and the impact of the market developments on their performance and takes appropriate action on foreseeable adverse development based on pre-defined procedures and escalation levels.

Sales of products and services are made to customers after having conducted appropriate internal credit risk assessment. In order to support sales, primarily at Airbus Commercial Aircraft and ATR, Airbus may agree to participate in the financing of customers, on a case–by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus Commercial Aircraft and ATR take into account the airline's credit rating and economic factors reflecting the relevant financial market conditions, together with appropriate assumptions as to the anticipated future value of the financed asset.

The booked amount of financial assets represents the maximum credit exposure. The credit quality of financial assets can be assessed by reference to external credit rating (if available) or internal assessment of customers' (such as airlines') creditworthiness by way of internal risk pricing methods.

The following table breaks down the carrying amounts of non-cash loans and receivables including finance leases, separately showing those that are impaired, renegotiated or past due:

(In € million)	Not past due	Renegociated / not past due / not impaired	Impaired	Past due ≤ 3 months	Past due >3 and ≤ 6 months	Past due >6 and ≤ 9 months	Past due >9 and ≤ 12 months	Past due > 12 months	Total
31 December 2016									
Customer financing	846	0	0	4	3	86	0	0	939
Trade receivables	5,976	27	42	1,035	232	281	77	431	8,101
Others	1,313	9	78	111	48	182	22	466	2,229
Total	**8,135**	**36**	**120**	**1,150**	**283**	**549**	**99**	**897**	**11,269**
31 December 2015									
Customer financing	721	0	0	0	0	0	0	0	721
Trade receivables	5,823	115	162	866	402	112	96	301	7,877
Others	1,251	24	8	196	30	45	198	183	1,935
Total	**7,795**	**139**	**170**	**1,062**	**432**	**157**	**294**	**484**	**10,533**

The management believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings if they are available.

At year-end there was no indication that any financial assets carried at fair value were impaired.

35.2 Carrying Amounts and Fair Values of Financial Instruments

Financial instruments — Airbus' financial assets mainly consist in cash, short to medium-term deposits and securities. Airbus' financial liabilities include trade liabilities, obligations towards financial institutions, issued bonds and refundable advances from European governments. All purchases and sales of financial assets are recognised on the settlement date according to market conventions. Airbus classifies its financial assets in the following three categories: (i) at fair value through profit or loss, (ii) loans and receivables and (iii) available–for-sale financial assets. Their classification is determined by management when first recognised and depends on the purpose for their acquisition.

Within Airbus, all investments in entities which do not qualify for consolidation or equity-method accounting are classified as non-current available-for-sale financial assets. They are included in the line other investments and other long-term financial assets in the Consolidated Statement of Financial Position.

Available-for-sale financial assets — Financial assets classified as available-for-sale are accounted for at fair value. Changes in their fair value other than impairment losses and foreign exchange gains and losses on monetary items are recognised directly within AOCI. As soon as such financial assets are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is recorded as part of other income (other expense) from investments in the Consolidated Income Statement for the period. Interest earned on the investment is presented as interest income in the Consolidated Income Statement using the effective interest method. Dividends earned on investment are recognised as other income (other expense) from investments in the Consolidated Income Statement when the right to the payment has been established.

In case of the impairment of debt instruments classified as available-for-sale, interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in financial result. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

Financial assets at fair value through profit or loss — Within Airbus, only derivatives not designated as hedges are categorised as held for trading. Furthermore, Airbus designates certain financial assets (such as investments in accumulated money market funds) at fair value through profit or loss at initial recognition if they are part of a group of financial assets that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Airbus assigns its financial instruments into classes based on their balance sheet category.

The following table presents the carrying amounts and fair values of financial instruments by class and by IAS 39 measurement category as of 31 December 2016:

31 December 2016	Fair value through profit or loss		Fair value for hedge relations	Available-for-sale	Loans and receivables and financial liabilities at amortised cost		Other	**Financial instruments total**	
(In € million)	Held for trading	Designated	Fair value	Fair value	Amortised cost	Fair value		**Book value**	**Fair value**
Assets									
Other investments and other long-term financial assets									
• Equity investments[(1)(2)]	0	0	0	2,091	0	0	0	2,091	2,091
• Customer financing[(3)]	0	0	0	0	732	735	207	939	942
• Other loans	0	0	0	0	1,147	1,147	0	1,147	1,147
Trade receivables	0	0	0	0	8,101	8,101	0	8,101	8,101
Other financial assets									0
• Derivative instruments[(6)]	66	0	1,085	0	0	0	0	1,151	1,151
• Non-derivative instruments	0	0	0	0	1,082	1,082	0	1,082	1,082
Securities	0	0	0	11,448	0	0	0	11,448	11,448
Cash and cash equivalents	0	5,513	0	1,535	3,095	3,095	0	10,143	10,143
Total	**66**	**5,513**	**1,085**	**15,074**	**14,157**	**14,160**	**207**	**36,102**	**36,105**
Liabilities									
Financing liabilities									
• Issued bonds and commercial papers	0	0	0	0	(6,013)	(6,217)	0	(6,013)	(6,217)
• Liabilities to banks and other financing liabilities	0	0	0	0	(4,076)	(4,086)	0	(4,076)	(4,086)
• Finance lease liabilities[(4)]	0	0	0	0	0	0	(389)	(389)	(389)
Other financial liabilities									
• Derivative instruments[(7)]	(349)	0	(10,671)	0	0	0	0	(11,020)	(11,020)
• European Governments refundable advances[(5)]	0	0	0	0	(7,070)	(7,070)	0	(7,070)	(7,070)
• Other	(38)	0	0	0	(946)	(946)	0	(984)	(984)
Trade liabilities	0	0	0	0	(12,532)	(12,532)	0	(12,532)	(12,532)
Total	**(387)**	**0**	**(10,671)**	**0**	**(30,637)**	**(30,851)**	**(389)**	**(42,084)**	**(42,298)**

(1) Other than those accounted for under the equity method.

(2) For certain unlisted equity investments price quotes are not available and fair values may not be reliably measurable using valuation techniques because the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. These equity investments are accounted for at cost, and their fair values as reported in the table above equal their carrying amounts. As of 31 December 2016, the aggregate carrying amount of these investments was € 494 million.

(3) This includes finance lease receivables, which are not assigned to an IAS 39 measurement category, but reported as "other".

(4) Finance lease liabilities are accounted for in accordance with IAS 17 in a manner that is similar, though not identical in all respects, to amortised-cost accounting under IAS 39. They are therefore assigned to the category "other".

(5) The European Governments refundable advances of € 7,070 million are measured at amortised cost. Fair values cannot be reliably measured because their risk sharing nature and the uncertainty of the repayment dates give rise to a broad range of reasonable fair value estimates and make it impossible to reasonably assess the probabilities of the various estimates within the range. This may change and reliable fair value measures become available as the related programmes approach the end of production.

(6) This includes credit value adjustments of € -44 million, of which € -42 million is recognised in OCI.

(7) This includes debit value adjustments of € 87 million, of which € 82 million is recognised in OCI.

The following table presents the carrying amounts and fair values of financial instruments by class and by IAS 39 measurement category as of 31 December 2015:

31 December 2015	Fair value through profit or loss		Fair value for hedge relations	Available-for-sale	Loans and receivables and financial liabilities at amortised cost		Other	Financial instruments total	
(In € million)	Held for trading	Designated	Fair value	Fair value	Amortised cost	Fair value		Book value	Fair value
Assets									
Other investments and other long-term financial assets									
• Equity investments(1)(2)	0	0	0	1,232	0	0	0	1,232	1,232
• Customer financing(3)	0	0	0	0	553	553	168	721	721
• Other loans	0	0	0	0	717	717	0	717	717
Trade receivables	0	0	0	0	7,877	7,877	0	7,877	7,877
Other financial assets									
• Derivative instruments(6)	317	0	963	0	0	0	0	1,280	1,280
• Non-derivative instruments	0	0	0	0	1,218	1,218	0	1,218	1,218
Securities	0	3	0	11,636	0	0	0	11,639	11,639
Cash and cash equivalents(8)	0	3,220	0	1,952	1,418	1,418	0	6,590	6,590
Total(8)	**317**	**3,223**	**963**	**14,820**	**11,783**	**11,783**	**168**	**31,274**	**31,274**
Liabilities									
Financing liabilities									
• Issued bonds and commercial papers	0	0	0	0	(4,966)	(5,091)	0	(4,966)	(5,091)
• Liabilities to banks and other financing liabilities	0	0	0	0	(3,771)	(3,822)	0	(3,771)	(3,822)
• Finance lease liabilities(4)	0	0	0	0	0	0	(388)	(388)	(388)
Other financial liabilities									
• Derivative instruments(7)	(427)	0	(10,160)	0	0	0	0	(10,587)	(10,587)
• European Governments refundable advances(5)	0	0	0	0	(7,286)	(7,286)	0	(7,286)	(7,286)
• Other	(74)	0	0	0	(1,112)	(1,112)	0	(1,186)	(1,186)
Trade liabilities(8)	0	0	0	0	(10,864)	(10,864)	0	(10,864)	(10,864)
Total(8)	**(501)**	**0**	**(10,160)**	**0**	**(27,999)**	**(28,175)**	**(388)**	**(39,048)**	**(39,224)**

(1) Other than those accounted for under the equity method.

(2) For certain unlisted equity investments price quotes are not available and fair values may not be reliably measurable using valuation techniques because the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. These equity investments are accounted for at cost, and their fair values as reported in the table above equal their carrying amounts. As of 31 December 2015, the aggregate carrying amount of these investments was € 404 million.

(3) This includes finance lease receivables, which are not assigned to an IAS 39 measurement category, but reported as “other”.

(4) Finance lease liabilities are accounted for in accordance with IAS 17 in a manner that is similar, though not identical in all respects, to amortised-cost accounting under IAS 39. They are therefore assigned to the category “other”.

(5) The European Governments refundable advances of € 7,286 million are measured at amortised cost. Fair values cannot be reliably measured because their risk sharing nature and the uncertainty of the repayment dates give rise to a broad range of reasonable fair value estimates and make it impossible to reasonably assess the probabilities of the various estimates within the range. This may change and reliable fair value measures become available as the related programmes approach the end of production.

(6) This includes credit value adjustments of € -47 million, of which € -28 million is recognised in OCI.

(7) This includes debit value adjustments of € 117 million, of which € 95 million is recognised in OCI.

(8) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

Fair Value Hierarchy

Fair value of financial instruments — The fair value of quoted investments is based on current market prices. If the market for financial assets is not active, or in the case of unlisted financial instruments, Airbus determines fair values by using generally accepted valuation techniques on the basis of market information available at the end of the reporting period. Derivative instruments are generally managed on the basis of Airbus' net exposure to the credit risk of each particular counterparty and fair value information is provided to Airbus' key management personnel on that basis. For these derivative instruments, the fair value is measured based on the price that would be received to sell a net long position, or transfer a net short position, for a particular credit risk exposure as further described below.

Depending on the extent the inputs used to measure fair values rely on observable market data, fair value measurements may be hierarchised according to the following levels of input:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability – fair values measured based on Level 2 input typically rely on observable market data such as interest rates, foreign exchange rates, credit spreads or volatilities.
- Level 3: inputs for the asset or liability that are not based on observable market data – fair values measured based on Level 3 input rely to a significant extent on estimates derived from Airbus' own data and may require the use of assumptions that are inherently judgemental and involve various limitations.

The fair values disclosed for financial instruments accounted for at amortised cost reflect Level 2 input. Otherwise, fair values are determined mostly based on Level 1 and Level 2 input and to a minor extent on Level 3 input.

The following table presents the carrying amounts of the financial instruments held at fair value across the three levels of the **fair value hierarchy** as of 31 December 2016 and 2015, respectively:

	31 December 2016				31 December 2015			
(In € million)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Equity instruments	1,597	0	0	1,597	828	0	0	828
Derivative instruments	0	1,148	3	1,151	0	1,234	46	1,280
Securities	11,446	2	0	11,448	11,474	165	0	11,639
Cash equivalents[(1)]	5,513	1,535	0	7,048	3,042	2,130	0	5,172
Total[(1)]	**18,556**	**2,685**	**3**	**21,244**	**15,344**	**3,529**	**46**	**18,919**
Financial liabilities measured at fair value								
Derivative instruments	0	(11,009)	(11)	(11,020)	0	(10,587)	0	(10,587)
Other liabilities	0	0	(38)	(38)	0	0	(74)	(74)
Total	**0**	**(11,009)**	**(49)**	**(11,058)**	**0**	**(10,587)**	**(74)**	**(10,661)**

(1) Investments made by Airbus Group SE in certain securities and trade liabilities have been reassessed and reclassified. Previous year figures are adjusted by €-899 million.

The development of financial instruments of Level 3 is as follows:

	Financial assets		Financial liabilities			
(In € million)	Commodity swap agreements	Total	Written put options on NCI interests	Commodity swap agreements	Earn-out agreements	Total
1 January 2015	**2**	**2**	**(127)**	**0**	**(10)**	**(137)**
Total gains or losses in profit or loss	59	59	0	0	0	0
OCI	0	0	60	0	0	60
Settlements	(15)	(15)	3	0	0	3
31 December 2015	**46**	**46**	**(64)**	**0**	**(10)**	**(74)**
Total gains or losses in profit or loss	(10)	(10)	(2)	(11)	0	(13)
OCI	0	0	0	0	0	0
Settlements	(33)	(33)	38	0	0	38
31 December 2016	**3**	**3**	**(28)**	**(11)**	**(10)**	**(49)**

The profit of the period impact attributable to Level 3 financial assets and liabilities which are still held by Airbus as of 31 December 2016 was a loss of € -16 million (2015: gain of € 46 million).

Financial Assets Classified as Level 3

The financial assets measured at fair value that are classified as Level 3 mainly consist of short-term commodity contracts whose notional amounts vary with the actual volumes of certain commodity purchases made by Airbus in specific months. For fair value measurement purposes, the notional amounts, being the unobservable input, are set with reference to monthly commodity volumes that management expects to purchase based on planning forecasts. The fair values are otherwise determined using observable market data including quoted interest rates and pricing information obtained from recognised vendors of market data.

A deviation of 10% of actual monthly volumes purchased from expected monthly volumes purchased would increase or decrease (depending on whether actual volumes are 10% more or 10% less than expected volumes) the total Level 3 fair value of these short-term commodity contracts by less than € 1 million.

Financial Liabilities Classified as Level 3

The financial liabilities measured at fair value that are classified as Level 3 consist of several written put options on non-controlling interest of Airbus subsidiaries. The fair values of these NCI puts (*i.e.* the net present value of their redemption amount on exercise) are derived from a discounted cash flow analysis of the latest operating planning figures of the respective entities.

The fair value measurements are performed on an annual basis in line with the operative planning cycle. Apart from the detailed 5-year operating planning figures, there are two unobservable inputs that significantly affect the values of the NCI puts: the WACC used to discount the forecasted cash flows and the growth rate used to determine the terminal value. WACC and growth rates as well as operating planning figures that were used for the determination of the Level 3 fair values are derived from the input perimeters as applied for the impairment test as disclosed in "– Note 17: Intangible Assets – Goodwill Impairment Tests". An increase (decrease) of the discount rates by 50 basis points results in a decrease (increase) of the NCI put values by € 1 million (€ 5 million). An increase (decrease) in the growth rates by 50 basis points increases (decreases) the NCI put values by € 1 million (€ 5 million) respectively.

Another element of financial liabilities measured at fair value classified as Level 3 are earn-out payments that have been agreed with former shareholders of entities acquired by Airbus in business combinations. Fair value measurement is based on the expectation regarding the achievement of defined target figures by the acquired entity or its ability to close identified customer contracts.

Financial Assets Designated at Fair Value through Profit or Loss

The following types of **financial assets** held at 31 December 2016 and 2015, respectively, are designated at fair value through profit or loss:

(In € million)	**Nominal amount at initial recognition as of 31 December 2016**	**Fair value as of 31 December 2016**	Nominal amount at initial recognition as of 31 December 2015	Fair value as of 31 December 2015
Designated at fair value through profit or loss at recognition:				
• Money market funds (accumulating)	5,513	5,513	3,220	3,220
• Foreign currency funds of hedge funds	6	0	8	3
Total	**5,519**	**5,513**	**3,228**	**3,223**

Airbus manages these assets and measures their performance on a fair value basis.

In addition, Airbus invests in non-accumulating money market funds, which pay interest on a monthly basis. The fair value of those funds corresponds to their nominal amount at initial recognition date amounting to € 705 million (2015: € 720 million).

Fair Value Measurement Method

The methods Airbus uses to measure fair values are as follows:

Equity instruments — The fair values of listed equity instruments reflect quoted market prices. The fair values of unlisted equity instruments may not be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. Those instruments are measured at cost, and their carrying amounts used as a proxy for fair value.

Customer financing assets and other loans — The carrying amounts reflected in the annual accounts are used as a proxy for fair value.

Trade receivables and other receivables — The carrying amounts reflected in the annual accounts are used as reasonable estimates of fair value because of the relatively short period between the receivables' origination and their maturity.

Securities — The fair values of securities reflect their quoted market price at the end of the reporting period.

Cash and cash equivalents include cash in hand, cash in banks, checks, fixed deposits as well as commercial papers and money market funds. The carrying amounts reflected in the annual accounts are used as reasonable estimates of fair value because of the relatively short period between the origination of the instrument and its maturity or due date. The fair value of commercial papers is determined based on Level 2 input by discounting future cash flows using appropriate interest rates. The fair values of money market funds are determined by reference to their quoted market price.

Derivatives — The fair values of derivative instruments reflect quoted market prices, where available, but in most cases are determined using recognised valuation techniques such as option-pricing models and discounted cash flow models. The valuation is based on observable market data such as currency rates, currency forward rates, interest rates and yield curves, commodity forward prices as well as price and rate volatilities obtained from recognised vendors of market data. Furthermore, to the extent that these instruments are subject to master netting arrangements and similar agreements and managed on the basis of net credit exposure, their fair values reflect credit and debit value adjustments based on the net long or net short position that Airbus has with each counterparty. Except for certain short-term commodity contracts discussed in the Level 3 section above, derivative fair values are measured based on Level 2 input.

Financing liabilities — The fair values disclosed for financing liabilities, other than those of issued bonds and issued commercial papers, are determined based on Level 2 input by discounting scheduled or expected cash flows using appropriate market interest rates. The fair values disclosed for the issued EMTN and US dollar bonds reflect public price quotations that qualify as Level 1 input. For issued commercial papers, the carrying amounts reflected in the annual accounts are used as reasonable estimates of fair value because of the relatively short period between the origination of these instruments and their maturity.

Trade liabilities and current other financial liabilities — For the same reason, carrying amounts are used as reasonable fair value approximations for trade liabilities and current other financial liabilities.

The following interest rate curves are used in the determination of the fair value in respect of the derivative financial instruments as of 31 December 2016 and 2015:

	31 December					
	€		*US$*		*£*	
(Interest rate in %)	**2016**	2015	**2016**	2015	**2016**	2015
6 months	(0.26)	(0.08)	1.31	0.94	0.60	0.85
1 year	(0.11)	0.14	1.62	1.12	0.81	1.13
5 years	(0.06)	0.21	1.97	1.72	0.87	1.59
10 years	0.54	0.89	2.35	2.18	1.23	1.99

35.3 Potential Effect of Set-Off Rights on Recognised Financial Assets and Liabilities

Airbus reports all its financial assets and financial liabilities on a gross basis. With each derivative counterparty there are master netting agreements in place providing for the immediate close-out of all outstanding derivative transactions and payment of the net termination amount in the event a party to the agreement defaults or another defined termination event occurs. Furthermore, securities lending transactions are accounted for as collateralised borrowings. As a result, the securities pledged as collateral continue to be recognised on the balance sheet and the amount of cash received at the outset of the transaction is separately recognised as a financial liability. The following tables set out, on a counterparty specific basis, the potential effect of master netting agreements and collateralised borrowings on Airbus' financial position, separately for financial assets and financial liabilities that were subject to such agreements as of 31 December 2016 and 31 December 2015, respectively:

				Related amounts not set off in the statement of financial position		
Derivative instruments *(In € million)*	Gross amounts recognised	Gross amounts recognised set off in the financial statements	Net amounts presented in the financial statements	Financial instruments	Cash collateral received	Net amount
31 December 2016						
Financial assets	1,363	0	1,363	(1,358)	0	5
Financial liabilities	10,879	0	10,879	(1,358)	0	9,521
31 December 2015						
Financial assets	1,280	0	1,280	(1,280)	0	0
Financial liabilities	10,587	0	10,587	(1,280)	0	9,307

35.4 Notional Amounts of Derivative Financial Instruments

The contract or notional amounts of derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of Airbus through its use of derivatives.

The notional amounts of **foreign exchange derivative financial instruments** are as follows, specified by year of expected maturity:

	Remaining period								**Total**
(In € million)	1 year	2 years	3 years	4 years	5 years	6 years	7 years	> 7 years	
31 December 2016									
Net forward sales contracts	22,482	22,163	18,416	11,839	5,496	1,291	(11)	0	**81,676**
Foreign exchange options									
Purchased US-dollar put options	0	0	4,079	4,198	740	0	0	0	**9,017**
Written US-dollar put options	0	0	4,079	4,198	740	0	0	0	**9,017**
Foreign exchange swap contracts	(104)	0	0	0	0	0	0	0	**(104)**
31 December 2015									
Net forward sales contracts	20,395	21,234	20,041	14,655	4,086	(367)	(445)	2	79,601
Foreign exchange options									
Purchased US-dollar put options	0	0	0	3,536	3,399	441	0	0	7,376
Written US-dollar put options	0	0	0	3,536	3,399	441	0	0	7,376
Foreign exchange swap contracts	906	0	0	0	0	0	0	0	906

The notional amounts of **interest rate contracts** are as follows:

	Remaining period								**Total**
(In € million)	1 year	2 years	3 years	4 years	5 years	6 years	7 years	> 7 years	
31 December 2016									
Interest rate contracts	36	1,096	989	7	988	4	949	3,771	**7,840**
Interest rate future contracts	130	0	0	0	0	0	0	0	**130**
31 December 2015									
Interest rate contracts	1,382	36	1,194	1,152	7	864	4	3,232	7,871
Interest rate future contracts	1,032	0	0	0	0	0	0	0	1,032

Please also see "– Note 34.3: Financing Liabilities".

The notional amounts of **commodity contracts** are as follows:

					Remaining period	
(In € million)	1 year	2 years	3 years	4 years	> 4 years	**Total**
31 December 2016	270	41	16	6	0	**333**
31 December 2015	336	129	23	11	1	500

The notional amounts of **equity swaps** are as follows:

					Remaining period	
(In € million)	1 year	2 years	3 years	4 years	> 4 years	**Total**
31 December 2016	76	52	49	19	0	**196**
31 December 2015	153	76	52	49	19	349

35.5 Derivative Financial Instruments and Hedge Accounting Disclosure

The development of the foreign exchange rate hedging instruments recognised in AOCI as of 31 December 2016 and 2015 is as follows:

(In € million)	Equity attributable to equity owners of the parent	Non-controlling interests	**Total**
1 January 2015	**(3,310)**	**(22)**	**(3,332)**
Unrealised gains and losses from valuations, gross[1]	(8,421)	(111)	(8,532)
Transferred to profit or loss for the period, gross[1]	3,762	71	3,833
Changes in fair values of hedging instruments recorded in AOCI, gross	(4,659)	(40)	(4,699)
Changes in fair values of hedging instruments recorded in AOCI, tax	1,134	13	1,147
Share of changes in fair values of hedging instruments from investments accounted for under the equity method, net	(29)	0	(29)
Changes in fair values of hedging instruments recorded in AOCI, net	(3,554)	(27)	(3,581)
31 December 2015	**(6,864)**	**(49)**	**(6,913)**
Unrealised gains and losses from valuations, gross	(3,462)	(50)	(3,512)
Transferred to profit or loss for the period, gross	3,199	66	3,265
Changes in fair values of hedging instruments recorded in AOCI, gross	(263)	16	(247)
Changes in fair values of hedging instruments recorded in AOCI, tax	12	(8)	4
Share of changes in fair values of hedging instruments from investments accounted for under the equity method, net	(38)	0	(38)
Changes in fair values of hedging instruments recorded in AOCI, net	(289)	8	(281)
31 December 2016	**(7,153)**	**(41)**	**(7,194)**

(1) Previous year figures are adjusted to correct a sign error.

In the year 2016, an amount of € -3,265 million (2015 adjusted: € -3,833 million) was reclassified from equity mainly to revenues resulting from matured cash flow hedges. No material ineffectiveness arising from hedging relationship has been determined.

In addition, a loss of € -27 million was recognised in the profit of the period in 2016 (2015: gain of € 20 million) on derivatives that were designated as hedging instruments in a fair value hedge, and a gain of € 12 million (2015: € loss of -18 million) attributable to the hedged risk was recognised in the profit of the period on the corresponding hedged items. Corresponding with its carrying amounts, the fair values of each type of derivative financial instruments as of 31 December 2016 and 2015, respectively, are as follows:

	31 December			
	2016		2015	
(In € million)	Assets	Liabilities	Assets	Liabilities
Foreign currency contracts – cash flow hedges	946	(10,398)	832	(10,017)
Foreign currency contracts – not designated in a hedge relationship	4	(25)	182	(82)
Interest rate contracts – cash flow hedges	0	(26)	0	(40)
Interest rate contracts – fair value hedges	122	(38)	101	(8)
Interest rate contracts – not designated in a hedge relationship	59	(71)	80	(87)
Commodity contracts – cash flow hedges	2	(27)	0	(57)
Commodity contracts – not designated in a hedge relationship	3	(34)	46	(73)
Equity swaps – cash flow hedges	15	(3)	30	(7)
Embedded bonds conversion option – not designated in a hedge relationship	0	(122)	0	0
Embedded foreign currency derivatives – cash flow hedges	0	(179)	0	(31)
Embedded foreign currency derivatives – not designated in a hedge relationship	0	(97)	9	(185)
Total	**1,151**	**(11,020)**	**1,280**	**(10,587)**

35.6 Net Gains or Net Losses

Airbus' net gains or net losses recognised in profit or loss in 2016 and 2015, respectively, are as follows:

(In € million)	**2016**	2015
Financial assets or financial liabilities at fair value through profit or loss:		
Held for trading	(451)	(178)
Designated on initial recognition	50	166
Available-for-sale financial assets	15	183
Loans and receivables[1]	(160)	(182)
Financial liabilities measured at amortised cost	(249)	(192)

(1) Contain among others impairment losses.

Net losses of € -50 million (2015: net gain of € 366 million) are recognised directly in equity relating to available-for-sale financial assets.

Interest income from financial assets or financial liabilities through profit or loss is included in net gains or losses.

35.7 Impairment Losses

The following impairment losses on financial assets are recognised in profit or loss in 2016 and 2015, respectively:

(In € million)	**2016**	2015
Other investments and other long-term financial assets:		
Equity instruments	(12)	(49)
Customer financing	(123)	(25)
Other loans	(10)	(12)
Trade receivables	(34)	(25)
Total	**(179)**	**(111)**

2.8 Other Notes

36. Litigation and Claims

Litigation and claims — Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with certainty. The Company believes that it has made adequate provisions to cover current or contemplated litigation risks. It is reasonably possible that the final resolution of some of these matters may require the Company to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term "reasonably possible" is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely.

Airbus is involved from time to time in various legal and arbitration proceedings in the ordinary course of its business, the most significant of which are described below. Other than as described below, Airbus is not aware of any material governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), during a period covering at least the previous twelve months which may have, or have had in the recent past significant effects on Airbus Group SE's or Airbus' financial position or profitability.

If the Company concludes that the disclosures relative to contingent liabilities can be expected to prejudice seriously its position in a dispute with other parties, the Company limits its disclosures to the nature of the dispute.

WTO

Although Airbus is not a party, Airbus is supporting the European Commission in litigation before the WTO. Following its unilateral withdrawal from the 1992 EU-US Agreement on Trade in Large Civil Aircraft, the US lodged a request on 6 October 2004 to initiate proceedings before the WTO. On the same day, the EU launched a parallel WTO case against the US in relation to its subsidies to Boeing. On 19 December 2014, the European Union requested WTO consultations on the extension until the end of 2040 of subsidies originally granted by the State of Washington to Boeing and other US aerospace firms until 2024.

On 1 June 2011, the WTO adopted the Appellate Body's final report in the case brought by the US assessing funding to Airbus Commercial Aircraft from European governments. On 1 December 2011, the EU informed the WTO that it had taken appropriate steps to bring its measures fully into conformity with its WTO obligations, and to comply with the WTO's recommendations and rulings. Because the US did not agree, the matter is now under WTO review pursuant to WTO rules.

On 23 March 2012, the WTO adopted the Appellate Body's final report in the case brought by the EU assessing funding to Boeing from the US. On 23 September 2012, the US informed the WTO that it had taken appropriate steps to bring its measures fully into conformity with its WTO obligations, and to comply with the WTO's recommendations and rulings. Because the EU did not agree, the matter is now under WTO review pursuant to WTO rules.

Exact timing of further steps in the WTO litigation process is subject to further rulings and to negotiations between the US and the EU. Unless a settlement, which is currently not under discussion, is reached between the parties, the litigation is expected to continue for several years.

GPT

Prompted by a whistleblower's allegations, Airbus conducted internal audits and retained PricewaterhouseCoopers ("PwC") to conduct an independent review relating to GPT Special Project Management Ltd. ("GPT"), a subsidiary that Airbus acquired in 2007. The allegations called into question a service contract entered into by GPT prior to its acquisition by Airbus, relating to activities conducted by GPT in Saudi Arabia. PwC's report was provided by Airbus to the UK Serious Fraud Office (the "SFO") in March 2012. In the period under review and based on the work it undertook, nothing came to PwC's attention to suggest that improper payments were made by GPT. In August 2012, the SFO announced that it had opened a formal criminal investigation into the matter. Airbus is in continuing engagement with the authorities.

Eurofighter Austria

In March 2012, the German public prosecutor, following a request for assistance by the Austrian public prosecutor, launched a criminal investigation into alleged bribery, tax evasion and breach of trust by current and former employees of EADS Deutschland GmbH (renamed on 1 July 2014 Airbus Defence and Space GmbH) and Eurofighter Jagdflugzeug GmbH as well as by third parties relating to the sale of Eurofighter aircraft to Austria in 2003. After having been informed of the investigation in 2012, Airbus retained the law firm Clifford Chance to conduct a fact finding independent review. Upon concluding its review, Clifford Chance presented its fact finding report to Airbus in December 2013. Airbus provided the report to the public prosecutors in Germany. Airbus' request for access to the prosecutor's file is pending. Airbus Defence and Space GmbH settled with the tax authorities in August 2016 on the question of deductibility of payments made in connection with the Eurofighter Austria campaign. In February 2017, the Austrian Federal Ministry of Defence has raised criminal allegations against Airbus Defence and Space GmbH for wilful deception and fraud in the context of the sale of the Eurofighter aircraft to Austria and respective damage claims. Airbus is cooperating fully with the authorities.

Investigation by the UK SFO into Civil Aviation Business

In the context of review and enhancement of its internal compliance improvement programme, Airbus discovered misstatements and omissions relating to information provided in respect of third party consultants in certain applications for export credit financing for Airbus customers. In early 2016, Airbus informed the UK, German and French Export Credit Agencies ("ECAs") of the irregularities discovered. Airbus made a similar disclosure to the UK Serious Fraud Office ("SFO"). In August 2016, the SFO informed Airbus that it had opened an investigation into allegations of fraud, bribery and corruption in the civil aviation business of Airbus relating to irregularities concerning third party consultants (business partners). Airbus is cooperating fully with the SFO. The SFO investigation and any enforcement action potentially arising as a result could have negative consequences for Airbus. The potential imposition of any monetary penalty (and the amount thereof) arising from the SFO investigation would depend on factual findings, and could have a material impact on the financial statements, however at this stage it is too early to determine the likelihood or extent of any liability. Investigations of this nature could also result in (i) civil claims or claims by shareholders against Airbus (ii) adverse consequences on Airbus' ability to obtain or continue financing for current or future projects (iii) limitations on the eligibility of group companies for certain public sector contracts and/or (iv) damage to Airbus' business or reputation via negative publicity adversely affecting Airbus' prospects in the commercial market place.

ECA Financing

ECA financing continues to be suspended. Airbus is working with the relevant ECAs to re-establish ECA financing.

Other Investigations

In October 2014, the Romanian authorities announced an investigation relating to a border surveillance project in Romania. Airbus confirms that Airbus Defence and Space GmbH had been informed that the German prosecution office is also investigating potential irregularities in relation to this project, a project in Saudi Arabia and a project of Tesat-Spacecom GmbH & Co. KG. The public prosecutor in Germany has launched administrative proceedings in the context of those investigations against Airbus Defence and Space GmbH and Tesat-Spacecom GmbH & Co. KG. Airbus has cooperated fully with the authorities. In October 2016, the German authorities announced that they were dropping their investigations into the Romanian and Saudi projects. The tax authorities may challenge the tax treatment of business expenses in connection with the Romanian and Saudi projects.

In 2013, public prosecutors in Greece and Germany launched investigations into a current employee and former managing directors and employees of Atlas Elektronik GmbH ("Atlas"), a joint company of ThyssenKrupp and Airbus, on suspicion of bribing foreign officials and tax evasion in connection with projects in Greece. The public prosecutor in Germany has launched an administrative proceeding for alleged organisational and supervisory shortfalls against Atlas. The authorities in Greece have launched civil claims against Atlas. In 2015, the public prosecutor in Germany launched another investigation into current and former employees and managing directors of Atlas on suspicion of bribery and tax evasion in connection with projects in Turkey and extended the investigation in 2016 to five current and former employees of Atlas' shareholders. A further investigation was also launched against two former Atlas employees on suspicion of bribery in connection with projects in Pakistan. In 2016 two further investigations were started by the Bremen public prosecutor with regard to operations in Indonesia and Thailand. With the support of its shareholders, Atlas is cooperating fully with the authorities and is conducting its own internal investigation. Settlement talks with the Bremen public prosecutor started in November 2016.

Airbus is cooperating with a judicial investigation against unknown persons in France related to Kazakhstan. Airbus is cooperating with French judicial authorities pursuant to a request for mutual legal assistance made by the government of Tunisia in connection with historical aircraft sales.

Review of Business Partner Relationships

In light of regulatory investigations and commercial disputes, including those discussed above, Airbus has determined to enhance certain of its policies, procedures and practices, including ethics and compliance. Airbus 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 to inform decisions on corresponding payments. Airbus has therefore engaged legal, investigative, and forensic accounting expertise of the highest calibre to undertake a comprehensive review of all relevant third party business consultant relationships and related subject matters. Airbus believes that these enhancements to its controls and practices will best position it for the future, particularly in light of advancements in regulatory standards. Certain consultants and other third parties have initiated commercial litigation and arbitration against Airbus seeking relief. The comprehensive review and these enhancements of its controls and practices may lead to additional commercial disputes or other civil law or criminal law consequences in the future, which could have a material impact on the financial statements, however at this stage it is too early to determine the likelihood or extent of any liability.

Commercial Disputes

In May 2013, Airbus has been notified of a commercial dispute following the decision taken by Airbus to cease a partnership for sales support activities in some local markets abroad. Airbus believes it has solid grounds to legally object to the alleged breach of a commercial agreement. However, the consequences of this dispute and the outcome of the proceedings cannot be fully assessed at this stage. The arbitration will not be completed until 2018 at the earliest.

In the course of another commercial dispute, Airbus received a statement of claim alleging liability for refunding part of the purchase price of a large contract which the customer claims it was not obliged to pay. The dispute is currently the subject of arbitration.

37. Auditor Fees

With reference to Section 2:382a (1) and (2) of the Netherlands Civil Code, the following fees for the financial year 2016 have been charged by EY to the Company (2015: by KPMG), its subsidiaries and other consolidated entities:

(In € thousand)	**2016 - EY**	2015 - KPMG
Audit of the financial statements	6,578	6,008
Other audit engagements	1,226	2,396
Tax services	362	608
Other non-audit services	6,870	3,764
Total	**15,036**	**12,776**

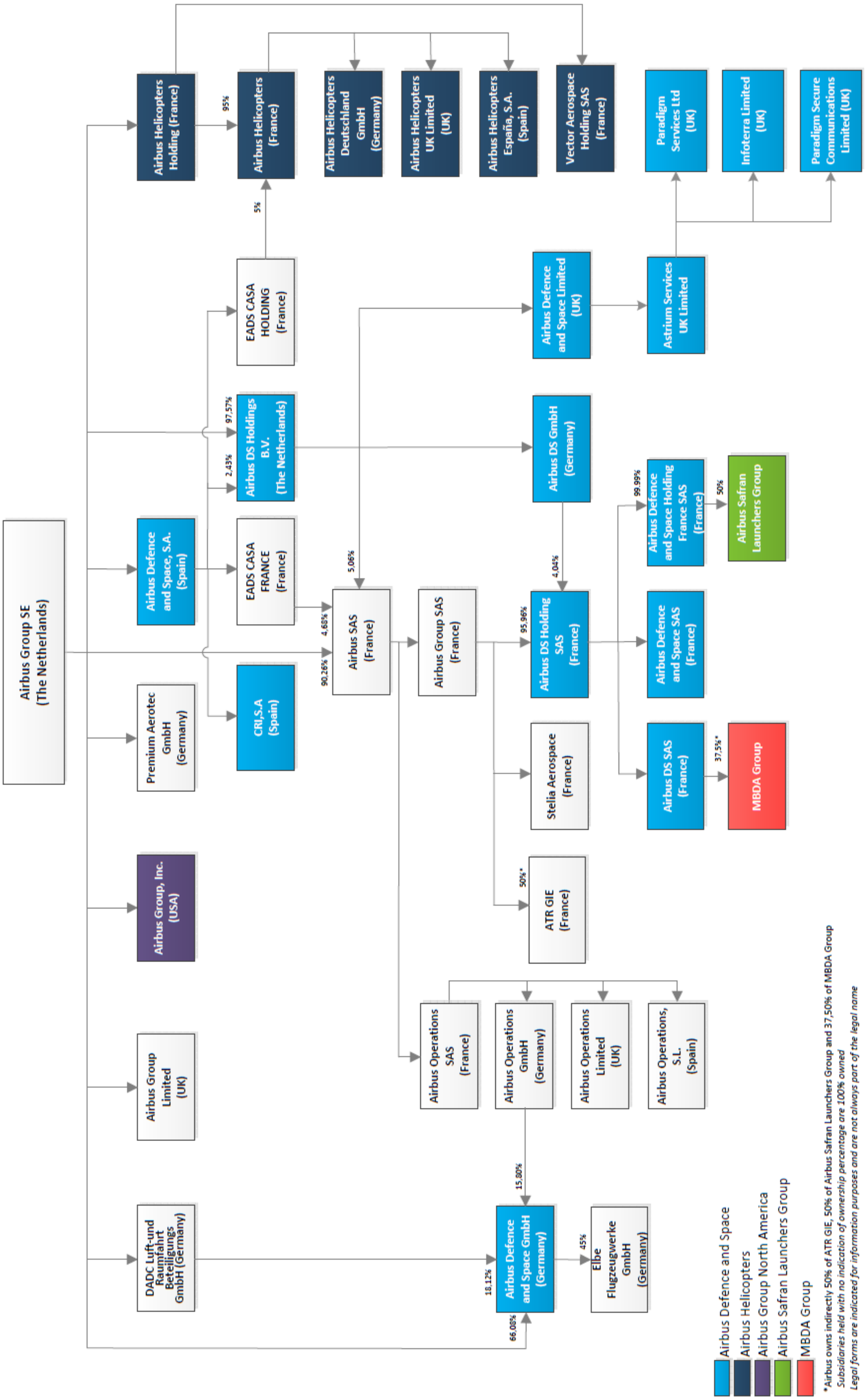
In 2016, Airbus was audited by EY only (2015: by KPMG only). Other audit firms have audit fees related to audit process, certification and examination of individual and consolidated accounts of € 4 million in 2016 (2015: € 6 million).

38. Events after the Reporting Date

On 1 January 2017, Airbus Group has been further integrated by merging its Group structure with the commercial aircraft activities of Airbus, with associated restructuring measures. In this new set-up, the company will retain Airbus Defence and Space and Airbus Helicopters as divisions.

These Consolidated Financial Statements have been authorised for issuance by the Board of Directors on 21 February 2017.

2.9 Appendix “Simplified Airbus Structure Chart”



Financial **Statements**

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Airbus Group SE
IFRS Company Financial Statements

IFRS Company Income Statements for the years ended 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Operating income		531	476
Operating expenses		(652)	(634)
Income from investments		4,021	9
Loss on disposal of investments		0	(5)
Total operating result	4	**3,900**	**(154)**
Interest income		204	225
Interest expense		(120)	(133)
Other financial result		(101)	127
Total financial result	5	**(17)**	**219**
Profit before income taxes		**3,883**	**65**
Tax income (expense)	6	17	(11)
Profit for the period		**3,900**	**54**

IFRS Company Statements of Comprehensive Income for the years ended 31 December 2016 and 2015

(In € million)	**2016**	2015
Profit for the period	**3,900**	**54**
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Net change in fair value of available-for-sale financial assets	138	26
Net change in fair value of cash flow hedges	4	0
Other comprehensive income, net of tax	**142**	**26**
Total comprehensive income of the period	**4,042**	**80**

IFRS Company Statements of Financial Position
at 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Assets			
Non-current assets			
Investments in subsidiaries and associates	7	15,545	14,521
Long-term financial assets	8	3,296	3,594
Non-current other financial assets	8	7,602	7,979
Non-current other assets		4	5
Deferred tax assets	6	9	15
Non-current securities	12	9,670	9,593
		36,126	**35,707**
Current assets			
Trade receivables		102	11
Current other financial assets	8	4,656	4,431
Current accounts Group companies	8	9,409	8,353
Current other assets		160	149
Current securities	12	1,489	1,683
Cash and cash equivalents	12	8,758	6,515
		24,574	**21,142**
Total assets		**60,700**	**56,849**

Equity and liabilities			
Stockholders' equity	11		
Issued and paid up capital		773	785
Share premium		2,745	3,484
Retained earnings		4,014	4,939
Legal reserves		353	211
Treasury shares		(3)	(303)
Result of the year		3,900	54
		11,782	**9,170**
Non-current liabilities			
Long-term financing liabilities	12	7,934	5,394
Non-current financial liabilities	8	7,698	7,960
		15,632	**13,354**
Current liabilities			
Short-term financing liabilities	12	98	1,823
Current accounts Group companies	8	28,557	28,415
Current financial liabilities	8	4,543	3,991
Current other liabilities		88	96
		33,286	**34,325**
Total equity and liabilities		**60,700**	**56,849**

IFRS Company Statements of Cash Flows for the years ended 31 December 2016 and 2015

(In € million)	Note	**2016**	2015
Profit for the period (Net income)		**3,900**	**54**
Adjustments to reconcile profit for the period to cash provided by operating activities:			
Interest income		(204)	(225)
Interest expense		120	133
Interest received		231	206
Interest paid		(104)	(117)
Income tax received		0	3
Depreciation and amortisation		0	5
Valuation adjustments		(102)	(240)
Deferred tax (income) expense		(17)	11
Change in current and non-current provisions		12	2
Change in other operating assets and liabilities:		**(136)**	**(3)**
• Trade receivables		(126)	(2)
• Trade liabilities		(9)	0
• Other assets and liabilities		(1)	(1)
Cash provided by (used for) operating activities		**3,700**	**(171)**
Investments:			
• Acquisitions of subsidiaries, joint ventures, businesses and non-controlling interests	7	(921)	(546)
• Payments for long-term financial assets		(642)	(670)
• Proceeds from disposals of associates, joint ventures, other investments and other long-term financial assets		11	44
• Repayments of other long-term financial assets		1,340	127
Payments for investments in securities		(2,037)	(6,877)
Proceeds from disposals of securities		2,300	4,592
Cash provided by (used for) investing activities		**51**	**(3,330)**
Draw-down in financing liabilities		2,580	788
Repayment of financing liabilities		(1,607)	(136)
Change in current accounts Group companies		(797)	4,056
Cash distribution to Airbus Group SE shareholders		(1,008)	(945)
Changes in capital		60	171
Share buyback		(736)	(264)
Cash (used for) provided by financing activities		**(1,508)**	**3,670**
Effect of foreign exchange rate changes on cash and cash equivalents		0	146
Net increase in cash and cash equivalents		**2,243**	**315**
Cash and cash equivalents at beginning of period		**6,515**	**6,200**
Cash and cash equivalents at end of period	**12**	**8,758**	**6,515**

IFRS Company Statements of Changes in Equity for the years ended 31 December 2016 and 2015

				Accumulated other comprehensive income			
	Capital stock	Share premium	Retained earnings	Available-for-sale financial assets	Cash flow hedges	Treasury shares	**Total equity**
Balance at 1 January 2015	**785**	**4,500**	**4,860**	**195**	**(10)**	**(8)**	**10,322**
Profit for the period	0	0	54	0	0	0	54
Other comprehensive income	0	0	0	26	0	0	26
Total comprehensive income of the period	*0*	*0*	*54*	*26*	*0*	*0*	*80*
Capital increase	3	115	0	0	0	0	118
Share-based payments (IFRS 2)	0	0	29	0	0	0	29
Cash distribution to Airbus Group SE shareholders	0	(945)	0	0	0	0	(945)
Equity component convertible bond	0	0	53	0	0	0	53
Change in treasury shares	0	0	(3)	0	0	(484)	(487)
Cancellation of treasury shares	(3)	(186)	0	0	0	189	0
Balance at 31 December 2015	**785**	**3,484**	**4,993**	**221**	**(10)**	**(303)**	**9,170**
Profit for the period	0	0	3,900	0	0	0	3,900
Other comprehensive income	0	0	0	138	4	0	142
Total comprehensive income of the period	*0*	*0*	*3,900*	*138*	*4*	*0*	*4,042*
Capital increase	2	58	0	0	0	0	60
Share-based payments (IFRS 2)	0	0	31	0	0	0	31
Cash distribution to Airbus Group SE shareholders	0	0	(1,008)	0	0	0	(1,008)
Change in treasury shares	0	0	(2)	0	0	(511)	(513)
Cancellation of treasury shares	(14)	(797)	0	0	0	811	0
Balance at 31 December 2016	**773**	**2,745**	**7,914**	**359**	**(6)**	**(3)**	**11,782**

4.

Notes to the
IFRS Company Financial Statements

4.1 Basis of Presentation

1. The Company

The Company's principal activity is acting as a holding and management company for the subsidiaries of **Airbus Group SE**, the "Company", a listed company in the form of a European Company (Societas Europaea), legally seated in Amsterdam (current registered office at Mendelweg 30, 2333 CS Leiden, The Netherlands) and registered at the Chamber of Commerce in The Hague under number 24288945. The Company has its listings at the European Stock Exchanges in Paris, Frankfurt am Main, Madrid, Barcelona, Valencia and Bilbao. The IFRS Financial Statements were authorised for issue by the Company's Board of Directors on 21 February 2017. They are prepared and reported in euro ("€") and all values are rounded to the nearest million appropriately.

2. Significant Accounting Policies

Basis of preparation — The Company's Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") as endorsed by the European Union ("EU") and with Part 9 of Book 2 of the Dutch Civil Code.

In the Company Financial Statements of Airbus Group SE, unless otherwise disclosed, the same accounting principles have been applied as set out in the Notes to the Consolidated Financial Statements, except for the valuation of the investments as presented under investments in subsidiaries and associates in the Company Financial Statements. These policies have been consistently applied to all years presented.

In the Company Financial Statements, the investments in subsidiaries and associates are recorded at acquisition cost less impairments, whereas in prior years, investments in Group companies were stated at net asset value. As a consequence, the determination of the results in the Company Financial Statements changed compared to previous years. In the Company Statement of Income, dividend received from investments is recorded as dividend income.

Due to this application, the Company equity and net result are not equal to the consolidated equity and net result. A reconciliation of the total shareholders' equity and profit for the period is presented in Note 11 "Total Equity" to the Company Financial Statements.

The Company Financial Statements have been prepared on a historical cost basis, unless otherwise indicated.

Regarding the application of new, revised or amended IFRS standards issued but not yet applied please refer to Note 2 "Significant accounting policies" of the Group's Consolidated Financial Statements. Further information about Share-Based Payments and Employee Stock Ownership Plans (ESOP) is presented in Note 30 and information about Remuneration is presented in Note 31 of the Consolidated Financial Statements.

The information with regard to Capital Management is disclosed in Note 33, further information about Litigation and Claims refers to Note 36 and Events after the Reporting Date are disclosed in Note 38 of the Group's Consolidated Financial Statements.

Unless reference is made to the accounting policies described in the Consolidated Financial Statements, the main accounting policies applied in the preparation of these Company Financial Statements are described in each accounting area. These accounting policies have been consistently applied to all financial years presented, unless otherwise stated.

Use of Estimates and Judgements

The preparation of the Company Financial Statements in conformity with EU-IFRS requires the use of estimates and assumptions. In preparing those financial statements, the management exercises its best judgement based upon its experience and the circumstances prevailing at that time. The estimates and assumptions are based on available information and conditions at the end of the financial period presented and are reviewed on an ongoing basis. Actual results could differ from these estimates.

Key accounting estimates and judgements affecting the assessment and measurement of impairment are included in Note 7 "Investments in Subsidiaries, Associates and Participations" of the Company Financial Statements.

3. Related Party Transactions

Key Management Personnel

The details regarding the compensation of key management personnel are described in Note 8 "Related Party Transactions" of the Consolidated Financial Statements.

Intercompany Transactions

A comprehensive exchange of internal services between the subsidiaries of a multinational corporation like Airbus Group SE is common practice. In its responsibility as holding company to manage its subsidiaries and to assist the business activities conducted by companies of the Airbus Group and its subsidiaries, Airbus Group SE applies transfer prices for its business activities in conformity with market levels and in accordance with national and international tax requirements (arm's length principle).

The following table discloses the related party intercompany transactions in 2016 and 2015:

(In € million)	**Transactions with subsidiaries 2016**	**Transactions with associates 2016**	Transactions with subsidiaries 2015	Transactions with associates 2015
Rendering of services, dividend income and interest income	4.634	33	560	62
Purchases of services, investment charge and interest expenses	(736)	(2)	(724)	(4)
Intercompany receivables due as of 31 December	12.886	83	12,400	18
Intercompany payables due as of 31 December	(32.403)	(666)	(32,414)	(503)
Hedge relationships receivable as of 31 December	10.730	0	10,482	0
Hedge relationships payable as of 31 December	(1.344)	0	(1,383)	0

For further information about granted guarantees to subsidiaries please refer to Note 9 "Commitments and Contingencies" of the Company Financial Statements.

4.2 Company Performance

4. Total Operating Result

(In € million)	**2016**	2015
Operating income		
Corporate services rendered to Group companies	**531**	**476**
Operating expenses	**(652)**	**(634)**
Service fees charged by Group companies	(596)	(581)
Administrative expenses	(56)	(53)
Income from investments	**4,021**	**9**
Dividends received from Group companies	4,021	9
Expense from investments	**0**	**(5)**
Loss on disposal of investments	0	(5)
Total operating result	**3,900**	**(154)**

5. Total Financial Result

(In € million)	**2016**	2015
Interest result(1)	**84**	**92**
Interest income from available-for-sale securities	89	93
Others	(5)	(1)
Other financial result	**(101)**	**127**
Option liability exchangeable bond	(64)	0
Equity instruments	5	159
Interest rate hedging	(16)	(11)
Financing income (expense)	3	(9)
FX revaluation	(29)	(12)
Total financial result	**(17)**	**219**

(1) In 2016, the total interest income amounts to € 204 million (in 2015: € 225 million) for financial assets which are not measured at fair value through profit or loss. For financial liabilities which are not measured at fair value through profit or loss € -120 million (in 2015: € -133 million) are recognised as total interest expenses. Both amounts are calculated by using the effective interest method.

The Company is acting as a financial market agent on behalf of its subsidiaries, therefore the fair value changes of derivatives are reported on a net basis.

6. Income Tax

The Company is tax registered in the Netherlands. The Company is heading a fiscal unity, which also includes Airbus Group Finance B.V., Airbus DS Holdings B.V. and Airbus Defence and Space Netherlands B.V. and therefore the Company is severally and jointly liable for income tax liabilities of the fiscal unity as a whole.

Income taxes — The tax expense for the year comprises deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in Other Comprehensive Income.

The amount of income tax included in the Income Statement is determined in accordance with the rules established by the tax authorities in the Netherlands, based on which income taxes are payable or recoverable.

Deferred tax assets and/or liabilities, arising from temporary differences between the carrying amounts of assets and liabilities and the tax base of assets and liabilities, are calculated using the substantively enacted tax rates expected to apply when they are realised or settled. Deferred tax assets are recognised if it is probable that they will be realised.

The expense for income taxes is comprised of the following:

(In € million)	**2016**	2015
Current tax expense	0	0
Deferred tax income (expense)	17	(11)
Total	**17**	**(11)**

The following table shows reconciliation from the theoretical income tax expense using the Dutch corporate tax rate to the reported tax (expense) income:

(In € million)	**2016**	2015
Profit before income taxes	3,883	65
* Corporate income tax rate	25.0%	25.0%
Expected expense for income taxes	(971)	(16)
Non-taxable income from investments	1,005	1
Option liability exchangeable bond	(16)	0
Income from other companies within the fiscal unity	(6)	5
Other	5	(1)
Reported tax income (expense)	**17**	**(11)**

The first tranche of tax loss carry forwards (€ 20 million) will expire by the end of 2023.

Deferred income taxes as of 31 December 2016 are related to the following assets and liabilities:

	1 January 2016		Other movements		Movement through income statement	**31 December 2016**	
(In € million)	Deferred tax assets	Deferred tax liabilities	OCI	Others	Deferred tax benefit (expense)	**Deferred tax assets**	**Deferred tax liabilities**
Securities	0	(21)	(22)	0	0	0	(43)
Financial instruments	0	(3)	(1)	0	3	0	(1)
Net operating loss and tax loss carry forwards	39	0	0	0	14	53	0
Deferred tax assets (liabilities) before offsetting	**39**	**(24)**	**(23)**	**0**	**17**	**53**	**(44)**
Set-off	(24)	24	0	0	0	(44)	44
Net deferred tax assets (liabilities)	**15**	**0**	**(23)**	**0**	**17**	**9**	**0**

Deferred income taxes as of 31 December 2015 are related to the following assets and liabilities:

	1 January 2015		Other movements		Movement through income statement	**31 December 2015**	
(In € million)	Deferred tax assets	Deferred tax liabilities	OCI	Others	Deferred tax benefit (expense)	**Deferred tax assets**	**Deferred tax liabilities**
Securities	0	(31)	10	0	0	0	(21)
Financial instruments	27	0	0	0	(30)	0	(3)
Net operating loss and tax loss carry forwards	23	0	0	(3)	19	39	0
Deferred tax assets (liabilities) before offsetting	**50**	**(31)**	**10**	**(3)**	**(11)**	**39**	**(24)**
Set-off	(31)	31	0	0	0	(24)	24
Net deferred tax assets (liabilities)	**19**	**0**	**10**	**(3)**	**(11)**	**15**	**0**

Details of deferred taxes recognised cumulatively in equity are as follows:

(In € million)	**2016**	2015
Available-for-sale investments	(43)	(21)
Cash flow hedges	2	3
Total	**(41)**	**(18)**

4.3 Operational Assets and Liabilities

7. Investments in Subsidiaries, Associates and Participations

(In € million)	Subsidiaries	Associates	Participations	**Total**
Balance at 1 January 2015	**14,048**	**21**	**174**	**14,243**
Additions	196	0	0	196
Loss on disposal of investments	(5)	0	0	(5)
Share-based payments (IFRS 2)	29	0	0	29
Fair value changes through AOCI	0	0	58	58
Balance at 31 December 2015	**14,268**	**21**	**232**	**14,521**
Additions	136	0	785	921
Share-based payments (IFRS 2)	31	0	0	31
Fair value changes through AOCI	0	0	72	72
Balance at 31 December 2016	**14,435**	**21**	**1,089**	**15,545**

Investments in Subsidiaries, Associated Companies and Participations

Investments in subsidiaries and associated companies are stated at cost, less impairment. Dividend income from the Company's subsidiaries and associated companies is recognised when the right to receive payment is established.

Available-for-sale participations are stated at fair value with changes in fair value recognised in Other Comprehensive Income.

For the purpose of impairment testing all consolidated subsidiaries are allocated to Cash Generating Units ("CGU") in a way they are monitored for internal management purposes. At each balance sheet date, the Company reviews whether there is an indication that a CGU to which its investments in subsidiaries and associated companies belong to are impaired.

An indication for impairment of the investments in subsidiaries and associated companies may include, respectively, management's downward adjustment of the strategic plan or a significant decrease in the share price of a publicly listed company. Further indications for impairment of its investments may include other areas where observable data indicates that there is a measurable decrease in the estimated future cash flows. These determinations require significant judgement. In making this judgement, management evaluates, among other factors, the financial performance of and business outlook for its investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If any indication for impairment exists, the recoverable amount of the investments is estimated in order to determine the extent, if any, of the impairment loss. An investment is impaired if the recoverable amount is lower than the carrying value. The recoverable amount is defined as the higher of an investment's fair value less costs to sell and its value in use.

The determination of the investment's value in use is based on calculations using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The discounted cash flow method is used to determine the recoverable amount of a CGU to which its investments in subsidiaries and associated companies belongs to. The discounted cash flow method is particularly sensitive to the selected discount rates and estimates of future cash flows by management. Key assumptions used to determine the recoverable value of the CGU are the expected future labour expenses, future interest rates, future exchange rates to convert in euro the portion of future US dollar and pound sterling which are not hedged and the estimated growth rate of terminal values.

If the recoverable amount of an investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. Any impairment loss is recognised immediately in the Income Statement.

Impairment losses recognised in prior periods shall be reversed only if there has been a change in the estimates or external market information used to determine the investment's recoverable amount since the last impairment loss was recognised.

The recoverable amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Change of Investments in Subsidiaries

On 26 January 2016, Airbus Group SE made a further capital contribution of € 100 million into Airbus Group Bank GmbH.

On 26 September 2016, Airbus Group SE made a further capital contribution of € 22 million into Airbus Group Proj B.V., a 100% subsidiary, in the frame of the industrial partnership with OneWeb Ltd. for the design and manufacturing of microsatellites.

On 23 December, 2016, Airbus Group SE contributed its 100% subsidiary Airbus Group SAS to its subsidiary Airbus SAS for a total amount of € 1,118 million. In return for this contribution Airbus Group SE received additional shares in Airbus SAS for an equivalent amount.

During the year 2016, Airbus Group SE made further capital contributions into Airbus Group Ventures Fund for a total amount of € 14 million.

With effect of 1 January 2015, Airbus Operations GmbH contributed its A400M "IFA and Cargo Hold System", Bremen business into Airbus Defence and Space GmbH in turn to become a new shareholder. As a consequence Airbus Group SE's participation in Airbus Defence and Space GmbH was diluted from 78.48% to 66.08%.

Change of Investments in Associated Companies and Participations

On 13 September 2016, Airbus Group SE internally acquired 9.05 % of the shares in Dassault Aviation SA for a total amount of € 785 million. The acquisition of these shares in Dassault Aviation SA is related to the issuance by the company of an exchangeable bond in June 2016 (see Note 12 "Cash, Securities and Financing Liabilities"). After a share cancellation by Dassault Aviation SA on 23 December 2016, reducing its capital by 9.6%, the Company's stake in Dassault Aviation SA increased to 10.00% of the total shares.

INFORMATION ON PRINCIPAL INVESTMENTS OF THE COMPANY

2016	2015	Company	Head office
%			
50.90	50.90	Aero Ré S.A.	Bertrange (Luxembourg)
66.08	66.08	Airbus Defence and Space GmbH	Taufkirchen (Germany)
100.00	100.00	Airbus Defence and Space S.A.	Madrid (Spain)
97.57	97.57	Airbus DS Holdings B.V.	Leiden (Netherlands)
100.00	100.00	Airbus Group Bank GmbH	Munich (Germany)
100.00	100.00	Airbus Group Finance B.V.	Leiden (Netherlands)
100.00	100.00	Airbus Group Inc.	Herndon, VA (USA)
100.00	100.00	Airbus Group Ltd.	London (UK)
100.00	100.00	Airbus Group Proj B.V.	Leiden (Netherlands)
0.00	100.00	Airbus Group S.A.S.	Toulouse (France)
99.00	99.00	Airbus Group Ventures Fund I, L.P.	Mountain View, CA (USA)
100.00	100.00	Airbus Helicopters Holding S.A.S.	Marignane (France)
90.26	94.42	Airbus S.A.S.	Toulouse (France)
100.00	100.00	DADC Luft-und Raumfahrt Beteiligungs GmbH	Taufkirchen (Germany)
10.00	0.00	Dassault Aviation S.A.	Paris (France)
100.00	100.00	Premium Aerotec GmbH	Augsburg (Germany)

Percentages represent share held directly by Airbus Group SE.

8. Financial Assets and Liabilities

Financial assets and liabilities at 31 December 2016 and 2015 consist of the following:

	31 December	
(In € million)	**2016**	2015
Long-term financial assets	**3,296**	**3,594**
Long-term loans Group companies	3,296	3,583
Long-term loans external	0	11
Non-current other financial assets	**7,602**	**7,979**
Positive fair values of derivative financial instruments	7,602	7,979
Current other financial assets	**4,656**	**4,431**
Positive fair values of derivative financial instruments	4,551	3,982
Current portion long-term loans Group companies	105	449
Current accounts Group companies(1)	**(19,148)**	**(20,062)**
Receivables from subsidiaries	9,409	8,353
Liabilities to subsidiaries	(28,557)	(28,415)
Non-current financial liabilities	**(7,698)**	**(7,960)**
Negative fair values of derivative financial instruments	(7,698)	(7,960)
Current financial liabilities	**(4,543)**	**(3,991)**
Negative fair values of derivative financial instruments	(4,543)	(3,991)

(1) The receivables from and liabilities to subsidiaries include mainly transactions in connection with the cash pooling in Airbus Group SE. Terms and conditions are in agreement with the prevailing market environment.

9. Commitments and Contingencies

Off-Balance Sheet Commitments

Airbus Group SE issued guarantees on behalf of Group companies in the amount of € 5,849 million (2015: € 6,347 million). The commitments of these companies to third parties mainly relate to their operating business as described in Note 18 “Property, Plant and Equipment”, Note 25 “Sales Financing Transactions” and Note 35 “Information about Financial Instruments” of the Consolidated Financial Statements. In addition, the Company has entered into capital contribution commitments with Group companies in the amount of € 54 million (2015: € 54 million).

On 8 December 2015, Airbus Group SE entered into a partnership agreement to establish a corporate venture capital fund, dubbed Airbus Group Ventures, as well as a technology and business innovation center in Silicon Valley with a total commitment amount of US$ 150 million. On 25 November 2015, a first investment of US$ 5 million has been made into this fund. During the year 2016, Airbus Group SE made further capital contributions into Airbus Group Ventures Fund for a total amount of US$ 15 million.

4.4 Employees

10. Number of Employees

The average number of the persons employed by the Company in 2016 was 2 (2015: 3).

4.5 Capital Structure and Financial Instruments

11. Total Equity

Airbus Group's shares are ordinary shares with a par value of € 1.00. The following table shows the development of the number of shares outstanding:

(In number of shares)	**2016**	2015
Issued as at 1 January	**785,344,784**	**784,780,585**
Issued for ESOP	1,474,716	1,539,014
Issued for exercised options	224,500	1,910,428
Cancelled	(14,131,131)	(2,885,243)
Issued as at 31 December	**772,912,869**	**785,344,784**
Treasury shares as at 31 December	(184,170)	(1,474,057)
Outstanding as at 31 December	**772,728,699**	783,870,727
Authorised shares	**3,000,000,000**	**3,000,000,000**

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

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution for exercised options of € 224,500 (in 2015: € 1,910,428) in compliance with the implemented stock option plans and by employees of € 1.474.716 (in 2015: € 1,539,014) under the Employee Stock Ownership Plans ("ESOP").

Share premium mainly results from contributions in kind in the course of the creation of Airbus Group, cash contributions from the Initial Public Offering, capital increases and reductions due to the issuance and cancellation of shares as well as cash distributions to Airbus Group SE shareholders.

Retained earnings include mainly the profit of the period and and cash dividend payments to Airbus Group SE shareholders.

On 28 April 2016, the Shareholders' General Meeting decided to distribute a gross amount of € 1.30 per share, which was paid on 3 May 2016. For the fiscal year 2016, the Group's Board of Directors proposes a cash distribution payment of € 1.35 per share.

Accumulated Other Comprehensive Income ("AOCI") includes:

- change from ***available-for-sale financial assets*** (see Note 13.2 "Carrying Amounts and Fair Values of Financial Instruments");
- change in fair value of derivatives designated as ***cash flow hedges*** (see Note 13.2 "Carrying Amounts and Fair Values of Financial Instruments").

According to Dutch law, the AOCI is considered to be a Legal Reserve and therefore distribution is restricted.

Treasury shares represent the amount paid or payable for own shares held in treasury and relates to the share buyback which took place between 2 November 2015 and 30 June 2016. As of 31 December 2015, the Group bought back € 264 million of shares and recognised a financial liability of € 223 million for its irrevocable share buyback commitment at that date. Recognition of the financial liability led to a corresponding reduction of equity. In 2016, the Group bought back € 736 million of shares on which € 223 million were recognised in financial liability which led to a reduction of equity by € -513 million. The share buyback has been completed for a total of € 1 billion.

Authorisations Granted by the Shareholders' General Meeting of Airbus Group SE Held on 28 April 2016

On 28 April 2016, the Annual General Meeting ("AGM") of the Company authorised the Board of Directors, for a period expiring at the AGM to be held in 2017, to issue shares and grant rights to subscribe for shares in the Company's share capital for the purpose of:

- ESOPs and share related LTIPs in the limit of 0.14% of the Company's authorised share capital (see "- Note 30: Share-Based Payments" of the Group's Consolidated Financial Statements);

- funding the Company and its Group companies, provided that such powers shall be limited to an aggregate of 0.3% of the Company's authorised capital (see "– Note 34.3: Financing Liabilities" of the Group's Consolidated Financial Statements).

For each operation, such powers shall not extend to issuing shares or granting rights to subscribe for shares if there is no preferential subscription right and for an aggregate issue price in excess of € 500 million per share issuance.

Also on 28 April 2016, the AGM authorised the Board of Directors for an 18-month period to repurchase up to 10% of the Company's issued and outstanding share capital (*i.e.* issued share capital excluding shares held by the Company or its subsidiaries) at a price not exceeding the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out.

Furthermore, the AGM authorised both the Board of Directors and the CEO, with powers of substitution, that the number of shares repurchased by the Company pursuant to the share buyback programme are cancelled.

Reconciliation Consolidated to Company Equity and Net Income

The difference between the total shareholders' equity according to the Consolidated Financial Statements and Company's Financial Statements as at 31 December 2016 and 2015 is as follows:

	31 December	
(In € million)	**2016**	2015
Consolidated equity	**3,657**	**5,966**
AOCI - Restatement of investments from Consolidated to Company Financial Statements	5,198	4,527
Retained Earnings - Restatement of investments from Consolidated to Company Financial Statements	2,713	(1,537)
Retained Earnings - Valuation investments at historical cost	1,487	1,487
Retained Earnings - Impairment of financial assets	(1,273)	(1,273)
Company's equity	**11,782**	**9,170**

The difference between the net income according to the Consolidated Financial Statements and Company's Financial Statements for the year ended 31 December 2016 and 2015 is as follows:

(In € million)	**2016**	2015
Consolidated net income	**995**	**2,696**
Income from investments according to Consolidated Financial Statements	(1.118)	(2,694)
Income from investments according to Company Financial Statements	4,021	9
Loss on / Impairment of financial assets	0	(5)
Other valuation differences	2	48
Company's net income (Profit for the period)	**3,900**	**54**

12. Cash, Securities and Financing Liabilities

12.1 Cash and Cash Equivalents

Cash and cash equivalents are composed of the following elements:

	31 December	
(In € million)	**2016**	2015
Bank accounts	1,710	444
Short-term securities (at fair value through profit or loss)	5,513	3,220
Short-term securities (available-for-sale)	1,535	2,851
Total cash and cash equivalents	**8,758**	**6,515**

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

12.2 Securities

(In € million)	31 December 2016	2015
Current securities (available-for-sale)	1,489	1,683
Non-current securities (available-for-sale)	9,670	9,590
Non-current securities (at fair value through profit or loss)	0	3
Total securities	**11,159**	**11,276**

Included in the securities portfolio as of 31 December 2016 and 2015, respectively, are corporate and government bonds bearing either fixed rate coupons (€ 10,458 million nominal value; comparably in 2015: € 10,604 million) or floating rate coupons (€ 359 million nominal value; comparably in 2015: € 397 million) and foreign currency funds of hedge funds (€ 6 million nominal value; 2015: € 8 million).

12.3 Financing Liabilities

Current and non-current classification – A financial asset or liability is classified as current if it is settled within 12 months after the reporting date, and as non-current otherwise.

Financing liabilities comprise obligations towards financial institutions, issued corporate bonds, and payables due to related parties.

The Company has received several euro-denominated loans and one US dollar-denominated loan from Airbus Group Finance B.V. ("AGFBV"). It has also issued a convertible bond in euro. Furthermore, the Company has long-term US dollar-denominated loans outstanding with the European Investment Bank ("EIB") and the Development Bank of Japan ("DBJ"). The terms and repayment schedules of these bonds and loans are as follows:

		Principal amount *(in million)*	Carrying amount 31 December 2016	2015	Coupon or interest rate	Effective interest rate	Maturity	Additional features
Loans from Airbus Group Finance B.V.								
AGFBV (EMTN)	15 years	€ 500	€ 499	€ 499	3M Euribor +1.85%	at variable rate	Sept. 2018	
AGFBV (EMTN)	7 years	€ 1,000	€ 0	€ 999	3M Euribor +1.59%	at variable rate	Aug. 2016	
AGFBV (EMTN)	10 years	€ 1,000	€ 1,052	€ 1,021	2.40%	2.45%	Apr. 2024	Interest rate swapped into 3M Euribor +1.40%
AGFBV (EMTN)	15 years	€ 500	€ 526	€ 497	2.15%	2.24%	Oct. 2029	Interest rate swapped into 3M Euribor +0.84%
AGFBV (EMTN)	10 years	€ 600	€ 589	€ 0	0.91%	0.95%	May 2026	Interest rate swapped into 3M Euribor
AGFBV (EMTN)	15 years	€ 900	€ 861	€ 0	1.41%	1.49%	May 2031	Interest rate swapped into 3M Euribor
AGFBV USD Loan 10 years		US$ 1,000	€ 940	€ 919	2.72%	2.80%	Apr. 2023	Interest rate swapped into 3M US-Libor +0.68%
Billet de trésorerie programme		US$ 0	€ 0	€ 505				
Loans from financial institutions								
DBJ 10 years		US$ 300	€ 285	€ 276	3M US-Libor +1.15%	4.84%	Jan. 2021	Interest rate swapped into 4.76% fixed
EIB 10 years		US$ 721	€ 488	€ 567	3M US-Libor +0.85%	3.20%	Aug. 2021	Interest rate swapped into 3.2% fixed
EIB 7 years		US$ 406	€ 385	€ 373	3M US-Libor +0.93%	at variable rate	Feb. 2020	
EIB 10 years		US$ 627	€ 591	€ 576	2.52%	2.52%	Dec. 2024	Interest rate swapped into 3M Euribor +0.61%
EIB 10 years		US$ 320	€ 304	€ 294	6M US-Libor +0.56%	at variable rate	Dec. 2025	

	Principal amount *(in million)*	Carrying amount 31 December **2016**	2015	Coupon or interest rate	Effective interest rate	Maturity	Additional features
Share buyback commitment		€ 0	€ 223				
Others		€ 0	€ 11				
Bond							
Convertible bond 7 years	€ 500	€ 464	€ 457	0.00%	1.39%	July 2022	Convertible into Airbus Group SE shares at € 99.54 per share
Exchangeable bond 5 years	€ 1,078	€ 1,048	€ 0	0.00%	0.33%	June 2021	Exchangeable into Dassault Aviation SA shares at € 1,306.25 per share
Total		**€ 8,032**	**€ 7,217**				
Thereof non-current financing liabilities		**€ 7,934**	**€ 5,394**				
Thereof current financing liabilities		**€ 98**	**€ 1,823**				

The increase in **long-term financing liabilities** is mainly due to the issuance in May 2016 of two bonds under the company's EMTN-Program for a total amount of € 1.5 billion, maturing in 2026 and 2031, as well as the issuance in June 2016 of an exchangeable bond for an amount of € 1.1 billion, maturing in 2021.

The decrease in **short-term financing liabilities** is mainly due to the repayment of a bond under the company's EMTN-Program that matured in August 2016 for an amount of € 1 billion as well as repayment of the debts related to commercial papers and share buyback commitment for a total amount of € 728 million.

The Company can issue commercial paper under the so called "billet de trésorerie" programme at floating or fixed interest rates corresponding to the individual maturities ranging from 1 day to 12 months. The programme has been set up in 2003 with a maximum volume of € 2 billion, increased in 2013 to a maximum volume of € 3 billion. As of 31 December 2016, there was no outstanding amount under the programme. The Company established in April 2015 a US$ 2 billion commercial paper programme which has been increased to US$ 3 billion in April 2016.

In June 2016, the Company issued € 1,078 million exchangeable bonds into Dassault Aviation shares, with a 5-year maturity. The exchangeable bonds were issued at 103.75% of par with a coupon of 0%. Their effective interest rate, after separation of the equity conversion option related to Dassault Aviation shares, is 0.333%.

13. Information about Financial Instruments

13.1 Financial Risk Management

The Company acts as an intermediary for its subsidiaries when they wish to enter into derivative contracts to hedge against foreign exchange risk or other market risks such as interest rate risk, commodity price risk or equity price risk. The Company's practice is to set up a derivative contract with a subsidiary and at the same time enter into a back-to-back derivative transaction with a bank. Contracts with subsidiaries being thus mirrored (on a one-to-one basis) by contracts with banks, the Company's net exposure is virtually zero. There are, however, a few derivative contracts the Company holds in order to hedge its own market risk exposure.

As the Company's back-to-back hedge contracts are entered into with different counterparties, their fair values are reflected separately in the statement of Financial Position and recognised as other financial assets and financial liabilities as disclosed in Note 8 "Financial assets and liabilities" of the Company Financial Statements.

In the Statement of Income the results of the back-to-back hedge transactions, both realised and unrealised, are presented on a net basis as the Company acts as an agent for its subsidiaries.

The Company's overall financial risk management activities and their objectives are described in detail in section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

Market Risk

Foreign exchange risk — The Company manages a long−term hedge portfolio with maturities of several years for its subsidiaries, mainly Airbus, and to a small extent for its joint ventures or associates. This hedge portfolio covers a large portion of Airbus Group's firm commitments and highly probable forecast transactions. As explained above, owing to the Company's back-to-back approach, its own exposure to foreign exchange risk is very limited.

Interest rate risk — The Company uses an asset-liability management approach with the objective to limit its interest rate risk. The Company undertakes to match the risk profile of its interest-bearing assets with those of its interest-bearing liabilities, the remaining net interest rate exposure being managed through several types of interest rate derivatives. If the derivative instruments qualify for hedge accounting in the Company Financial Statements the Company applies cash flow hedge accounting or fair value hedge accounting. For more information on the risk management and hedging strategies used by the Group please refer to section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

Equity price risk — The Company is to a small extent invested in quoted equity securities mainly for strategic reasons. The Company's exposure to equity price risk is hence limited. Furthermore, Airbus Group is exposed under its long-term incentive plan (LTIP) to the risk of Airbus Group share price movements. In order to limit these risks for the Group, the Company enters into equity derivatives that reference the Airbus Group SE share price.

Sensitivities of market risks — The approach used to measure and control market risk exposure within the Group's financial instrument portfolio is amongst other key indicators the value−at−risk ("VaR"). For information about VaR and the approach used by the Company to assess and monitor sensitivities of market risks please refer to section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

The Company is part of the Group risk management process, which is more fully described in section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

A summary of the VaR position of the Company's financial instruments portfolio at 31 December 2016 and 2015 is as follows:

(In € million)	Total VaR	Equity price VaR	Currency VaR	Interest rate VaR
31 December 2016				
FX hedges	8	0	7	1
Financing liabilities, financial assets (incl. cash, cash equivalents, securities and related hedges)	36	23	6	23
Equity swaps	4	4	0	0
Diversification effect	(14)	(2)	(11)	(1)
All financial instruments	**34**	**25**	**2**	**23**
31 December 2015				
FX hedges	19	0	19	0
Financing liabilities, financial assets (incl. cash, cash equivalents, securities and related hedges)	50	22	29	28
Equity swaps	11	11	0	0
Diversification effect	(39)	(8)	(39)	0
All financial instruments	**41**	**25**	**9**	**28**

The decrease in the total VaR compared to 31 December 2015 is mainly triggered by an improved asset liability match in foreign currencies.The Company enters into derivative instruments mainly for hedging purposes of the Group. The derivative instruments entered into with Group-external counterparties are passed on a 1:1 basis to Airbus Group entities. As a result, the respective market risks of the Group-external derivative instruments are offset by corresponding opposite market risks of intragroup transactions.

Liquidity Risk

The Company's policy is to maintain sufficient cash and cash equivalents at any time to meet its own and the Group's present and future commitments as they fall due. For information on how the Group monitors and manages liquidity risk, please refer to section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

The contractual maturities of the Company financial liabilities, based on undiscounted cash flows and including interest payments, if applicable, are as follows:

(In € million)	Carrying amount	Contractual cash flows	< 1 year	1 year-2 years	2 years-3 years	3 years-4 years	4 years-5 years	More than 5 years
31 December 2016								
Non-derivative financial liabilities	(8.032)	(9.042)	(226)	(809)	(298)	(730)	(1.695)	(5.284)
Derivative financial liabilities	(12.241)	(15.147)	(4.762)	(4.104)	(3.106)	(1.630)	(1.127)	(418)
Total	**(20.273)**	**(24,189)**	**(4,988)**	**(4,913)**	**(3,404)**	**(2,360)**	**(2,822)**	**(5,702)**
31 December 2015								
Non-derivative financial liabilities	(7,217)	(8,064)	(1,946)	(211)	(781)	(269)	(687)	(4,170)
Derivative financial liabilities	(11,951)	(13,698)	(4,100)	(3,635)	(2,992)	(1,976)	(560)	(435)
Total	**(19,168)**	**(21,762)**	**(6,046)**	**(3,846)**	**(3,773)**	**(2,245)**	**(1,247)**	**(4,605)**

Credit Risk

The Company is exposed to credit risk to the extent of non−performance by either the related parties to which it provides financing or its counterparts with regard to financial instruments or issuers of financial instruments for gross cash investments. Although the Company provides loans to Group companies its credit risk is limited to its direct subsidiaries. For the policies the Company has put in place to avoid concentrations of credit risk and to ensure that credit risk is limited please refer to section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements.

In 2016, the total receivables, neither past due nor impaired amount to € 4,759 million (in 2015: € 4,946 million).

13.2 Carrying Amounts and Fair Values of Financial Instruments

Financial instruments – The Company's financial assets mainly consist of cash, short to medium-term deposits and securities. The Company's financial liabilities include intragroup liabilities, obligations towards financial institutions and issued bonds. The Company has the same classification and accounting policies as the Group. Please refer to section 35.1 "Financial Risk Management" of the Notes to the Consolidated Financial Statements for more information.

The Company assigns its financial instruments (excluding its at-cost investments, which are outside the scope of IAS 39 "Financial instruments: recognition and measurement") into classes based on their category in the statement of financial position.

The following tables present the carrying amounts and fair values of financial instruments by class and by IAS 39 measurement category as of 31 December 2016 and 2015:

31 December 2016	Fair value through profit or loss		Fair value for hedge relations	Available-for-sale		Loans and receivables and financial liabilities at amortised cost		**Financial instruments total**	
(In € million)	Held for trading	Designated	Fair value	Book value	Fair value	Amortised cost	Fair value	**Book value**	**Fair value**
Assets									
Other investments and long-term financial assets									
• Equity instruments	0	0	0	1,056	1,056	0	0	**1,056**	**1,056**
• Loans	0	0	0	0	0	3,401	3,502	**3,401**	**3,502**
Trade receivables	0	0	0	0	0	102	102	**102**	**102**
Other financial assets									
• Derivative instruments	12,031	0	122	0	0	0	0	**12,153**	**12,153**
• Current account Group companies	0	0	0	0	0	9,409	9,409	**9,409**	**9,409**
Securities	0	0	0	11,159	11,159	0	0	**11,159**	**11,159**
Cash and cash equivalents	0	5,513	0	1,535	1,535	1,710	1,710	**8,758**	**8,758**
Total	**12,031**	**5,513**	**122**	**13,750**	**13,750**	**14,622**	**14,723**	**46,038**	**46,038**
Liabilities									
Financing liabilities									
• Issued bonds and commercial papers	0	0	0	0	0	1,512	1,557	**1,512**	**1,557**
• Liabilities to banks and other financing liabilities	0	0	0	0	0	2,053	2,053	**2,053**	**2,053**
• Internal loans payable	0	0	0	0	0	4,467	4,660	**4,467**	**4,660**
Other financial liabilities									
• Derivative instruments	12,196	0	45	0	0	0	0	**12,241**	**12,241**
• Current accounts Group companies	0	0	0	0	0	28,557	28,557	**28,557**	**28,557**
Total	**12,196**	**0**	**45**	**0**	**0**	**36,588**	**36,827**	**48,830**	**49,068**

31 December 2015	Fair value through profit or loss		Fair value for hedge relations	Available-for-sale		Loans and receivables and financial liabilities at amortised cost		**Financial instruments total**	
(In € million)	Held for trading	Designated	Fair value	Book value	Fair value	Amortised cost	Fair value	**Book value**	**Fair value**
Assets									
Other investments and long−term financial assets									
• Equity instruments	0	0	0	199	199	0	0	**199**	**199**
• Loans	0	0	0	0	0	4,043	4,147	**4,043**	**4,147**
Trade receivables	0	0	0	0	0	11	11	**11**	**11**
Other financial assets								**0**	**0**
• Derivative instruments	11,899	0	61	0	0	0	0	**11,960**	**11,960**
• Current account Group companies	0	0	0	0	0	8,353	8,353	**8,353**	**8,353**
Securities	0	3	0	11,273	11,273	0	0	**11,276**	**11,276**
Cash and cash equivalents	0	3,220	0	2,851	2,851	444	444	**6,515**	**6,515**
Total	**11,899**	**3,223**	**61**	**14,323**	**14,323**	**12,851**	**12,955**	**42,357**	**42,461**
Liabilities									
Financing liabilities									
• Issued bonds and commercial papers	0	0	0	0	0	962	992	**962**	**992**
• Liabilities to banks and other financing liabilities	0	0	0	0	0	2,309	2,338	**2,309**	**2,338**
• Internal loans payable	0	0	0	0	0	3,945	4,070	**3,945**	**4,070**
Other financial liabilities									
• Derivative instruments	11,901	0	50	0	0	0	0	**11,951**	**11,951**
• Current accounts Group companies	0	0	0	0	0	28,415	28,415	**28,415**	**28,415**
Total	**11,901**	**0**	**50**	**0**	**0**	**35,631**	**35,815**	**47,582**	**47,766**

Fair Value Hierarchy

For further details please refer to Note 35.2 "Carrying Amounts and Fair Values of Financial Instruments" in the Consolidated Financial Statements.

The fair values disclosed for financial instruments accounted for at amortised cost reflect Level 2 input.

The following table presents the carrying amounts of the financial instruments held at fair value across the three levels of the **fair value hierarchy** as of 31 December 2016 and 2015, respectively:

	31 December 2016			31 December 2015		
(In € million)	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Financial assets measured at fair value						
Equity instruments	1,056	0	1,056	199	0	199
Derivative instruments	0	12,153	12,153	0	11,961	11,961
Securities	11,139	20	11,159	11,112	164	11,276
Cash equivalents	6,218	830	7,048	3,941	2,130	6,071
Total	**18,413**	**13,003**	**31,416**	**15,252**	**14,255**	**29,507**
Financial liabilities measured at fair value						
Derivative instruments	0	12,241	12,241	0	11,951	11,951
Other liabilities	0	0	0	0	0	0
Total	**0**	**12,241**	**12,241**	**0**	**11,951**	**11,951**

13.3 Potential Effect of Set-Off Rights on Recognised Financial Assets and Liabilities

The Company reports all its financial assets and financial liabilities on a gross basis. With each derivative counterparty there are master netting agreements in place providing for the immediate close-out of all outstanding derivative transactions and payment of the net termination amount in the event a party to the agreement defaults or another defined termination event occurs. The following tables set out, on a counterparty specific basis, the potential effect of master netting agreements on the Company's financial position, separately for financial assets and financial liabilities that were subject to such agreements as of 31 December 2016 and 31 December 2015, respectively:

Derivative instruments (In € million)	Gross amounts recognised	Gross amounts recognised set off in the financial statements	Net amounts presented in the financial statements	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral received	Net amount
31 December 2016						
Financial assets	12,153	0	12,153	(2,561)	0	9,592
Financial liabilities	12,241	0	12,241	(2,561)	0	9.680
31 December 2015						
Financial assets	11,961	0	11,961	(2,754)	0	9,207
Financial liabilities	11,951	0	11,951	(2,754)	0	9,197

13.4 Notional Amounts of Derivative Financial Instruments

The **maturity of hedged interest cash flows** are as follows, specified by year of expected maturity:

	Remaining period								**Total**
(In € million)	1 year	2 years	3 years	4 years	5 years	6 years	7 years	> 7 years	
31 December 2016									
Interest rate contracts	30	0	0	0	488	0	949	3,595	5,062
Interest rate future contracts	130	0	0	0	0	0	0	0	130
31 December 2015									
Interest rate contracts	2,549	41	1,021	18	14	1,134	8	3,469	8,254
Interest rate future contracts	1,032	0	0	0	0	0	0	0	1,032

The notional amounts of **equity swaps** are as follows:

	Remaining period					**Total**
(In € million)	1 year	2 years	3 years	4 years	> 4 years	
31 December 2016	77	52	49	19	0	197
31 December 2015	153	76	52	49	20	350

13.5 Derivative Financial Instruments and Hedge Accounting Disclosure

In addition, a loss of € -27 million was recognised in the profit for the period in 2016 (€ 20 million in 2015) on derivatives that were designated as hedging instruments in a fair value hedge, and a gain of € 12 million (in 2015: € -18 million) attributable to the hedged risk was recognised in the profit for the period on the corresponding hedged items. Corresponding with its carrying amounts, the fair values of each type of derivative financial instruments are as follows:

	31 December			
	2016		2015	
(In € million)	Assets	Liabilities	Assets	Liabilities
Foreign currency contracts – cash flow hedges	0	0	0	26
Foreign currency contracts – not designated in a hedge relationship	11,941	11,962	11,669	11,671
Interest rate contracts – cash flow hedges	0	7	0	13
Interest rate contracts – fair value hedges	122	38	30	4
Interest rate contracts – not designated in a hedge relationship	23	57	100	100
Commodity contracts - not designated in a hedge relationship	52	52	130	130
Equity swaps – not designated in a hedge relationship	15	3	31	7
Option component of Exchangeable Bond	0	122		
Total	**12,153**	**12,241**	**11,960**	**11,951**

13.6 Net Gains or Net Losses

The Company’s net gains or net losses recognised in profit or loss in 2016 and 2015, respectively are as follows:

(In € million)	**2016**	2015
Financial assets or financial liabilities at fair value through profit or loss:		
Held for trading	(168)	70
Designated on initial recognition	49	165
Available-for-sale financial assets	15	183
Loans and receivables[(1)]	(93)	375
Financial liabilities measured at amortised cost	123	(631)
Total	**(74)**	**162**

(1) Contain among others impairment losses.

14. Events after the Reporting Date

There are no significant events after the reporting date.

5.

Other Supplementary Information Including the **Independent Auditor's Report**

Other Supplementary Information

1. Appropriation of Result

Articles 30 and 31 of the Articles of Association provide that the Board of Directors shall determine which part of the result shall be attributed to the reserves. The General Meeting of Shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the Company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

It will be proposed at the Annual General Meeting of Shareholders that the Profit for the period of € 3,900 million as shown in the income statements for the financial year 2016 is to be added to retained earnings and that a payment of a gross amount of € 1.35 per share shall be made to the shareholders out of retained earnings.

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Independent auditor's report

To: the shareholders and board of directors of Airbus Group SE

Report on the audit of the Annual Financial Statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Airbus Group SE (the Company), based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Airbus Group SE as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and company statement of financial position as at 31 December 2016;
- The following statements for 2016: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Airbus Group SE in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€ 198 million
Benchmark applied	5 % of the EBIT adjusted
Explanation	We consider EBIT adjusted as the most appropriate benchmark given the nature of the business.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.
We agreed with the Board of Directors that misstatements in excess of € 10 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Airbus Group SE is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Airbus Group SE. The Company is structured along the divisions: Airbus, Airbus Helicopters and Airbus Defence and Space, each comprising of multiple entities in various countries.

We are responsible for directing, supervising and performing the group audit. In this context, we have determined the nature and extent of the audit procedures to be carried out for the Group entities, based on their size and/or risk profile.

We scope entities into the group audit where they are of significant size, have significant risks to the Company associated with them or are considered for other reasons. This resulted in coverage of 86% of total consolidated revenue and 99% of total consolidated assets. The remaining 14% of revenues, and 1% of total assets results from entities, none of which individually represents more than 1% of revenues. For remaining entities, we performed, amongst others, analytical procedures or specific audit procedures on certain account balances to corroborate our assessment that there are no significant risks of material misstatements.

We executed a program that includes participation in risk assessment and planning discussions, setting the direction of the group audit work (including instructions to the divisional and entity auditors), review and discussion of the planned audit approach, obtaining an understanding of the financial reporting process and performing procedures on the group consolidation, participating in the evaluation of key accounting topics, reviewing the financial statements and participating in meetings with the management of the Company and its divisions. As part of our audit instructions, we also included questions on key programmes (A380, A350 XWB and A400M) and the risk of non-compliance with laws and regulations. We involved several EY specialists to assist the audit team, including specialists from our tax, valuations, actuarial, treasury and compliance departments.

The audit of the three Airbus Divisions is performed jointly by EY network firms and other non-EY audit firms. Meetings were held with the divisional auditors and divisional management to discuss the findings reported to the group audit team, as well as file reviews.

By performing the procedures mentioned above at group entities, together with additional procedures at consolidation level, we have been able to obtain sufficient and appropriate audit evidence about the Company's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach
Litigation and claims and risk of non-compliance with laws and regulation	
Description A part of the Company's business is characterised by competition for individual significant contracts with customers which are often directly or indirectly associated with governments. The process associated with these activities is susceptible to the risk of non-compliance with laws and regulations. In addition the Company operates in a number of territories where the use of commercial intermediaries is normal practice. Subsidiaries of Airbus Group SE remain under investigation by various law enforcement agencies in Germany, Greece, UK, Romania and Australia. In August 2016, the Company announced that it had been informed by the Serious Fraud Office in the UK that it had commenced a formal investigation into allegations of fraud, bribery and corruption in the civil aviation business of the Company. These	**Our audit approach** We evaluated and tested the Company's policies, procedures and controls over the selection of intermediaries, contracting arrangements, ongoing management, payments and responses to suspected breaches of policy. We sought to identify and tested payments made to intermediaries during the year, made enquiries of appropriate personnel and evaluated the tone set by management and the Board of Directors and the Company's approach to managing this risk. Having enquired of management, the Audit Committee and the Board of Directors as to whether the Company is in compliance with laws and regulations relating to bribery and corruption, we made written enquiries of and met with the Company's legal advisers to cross check the results of those enquiries

Risk	Our audit approach
allegations relate to irregularities concerning third party consultants. Breaches of laws and regulations in this area can lead to fines, penalties, criminal prosecution, commercial litigation and restrictions on future business. Litigation and claims involve amounts that are potentially significant and the estimate of the amount to be provided as a liability, if any, is inherently subjective. The outcome of these matters may have a material effect on the Company's result and financial position. Reference is made to disclosure on Note 3 'Key estimates and judgements', and Note 36 'Litigations and claims' of the financial statements.	with third parties and maintained a high level of vigilance to possible indications of significant non-compliance with laws and regulations relating to bribery and corruption whilst carrying out our other audit procedures. We discussed the areas of potential or suspected breaches of law, including the ongoing investigations, with the Audit Committee and the Board of Directors as well as the Company's legal advisers and assessed related documentation. We assessed whether the disclosure in note 36 to the financial statements of the Company's exposure to the financial effects of potential or suspected breaches of law or regulation complies with accounting standards and in particular whether it is the case that the investigations remain at too early a stage to assess the consequences (if any), including in particular the size of any possible fines.
Accounting for construction contracts, including revenue recognition and loss provision	
Description The amount of revenue and profit recognised in a year is dependent on the assessment of the stage of completion of construction contracts as well as estimated total revenues and estimated total cost. Significant estimates are made to assess the stage of completion based on milestones, estimated revenue and costs for key programmes such as A400M and A350 XWB (contracts with launch customers only). Depending on these assessments, the stage of completion is determined, revenue is recognised and loss provisions are recorded when the contract margin is negative. Provisions for contract losses relate mainly to the A400M and A350 XWB launch customers and are recorded when it becomes probable that estimated total contract costs will exceed estimated total contract revenues. Updates to these provisions can have a significant impact on the Company's result and financial position. The determination of these provisions is based on best available estimates and requires significant management's judgement and assumptions associated with the technical development achievement and certification schedules, production plan (including assumptions on ramp up), performance guarantees as well as expected outcome from ongoing negotiations with customers. A key risk is the A400M programme which remains in a critical phase. Negotiations with OCCAR/Nations on military capabilities, price revision formula and commercial compensation remain ongoing. Reference is made to the disclosure on Note 3 'Key estimates and judgements', Note 10 'Revenues, cost of sales and gross margin' and Note 22 'Provisions, contingent assets and contingent liabilities' of the financial statements.	**Our audit approach** We evaluated the design and implementation of internal controls for accounting for construction contracts. We also performed detailed procedures on individually significant programmes, including discussions with the individual Head of Programme, and evaluated management's assumptions in the determination of amongst others the stage of completion of a project, estimates to complete for both revenue and costs, and any provisions for loss making contracts. We focused on management's assessment of key contract risks and opportunities to determine whether these are appropriately reflected in the cost to complete forecasts, and paid specific attention for example to technical development, delivery plan and certification schedules. We challenged management's assumptions by discussing and reviewing correspondence with customers, considered the accuracy and consistency of similar estimates made in previous years and corroborated the assumptions with the latest contractual information. We paid particular attention to the loss provision for the A400M programme, including the € (2,210) million additional net charge in 2016, as well as related disclosures.

Risk	Our audit approach
Valuation of inventories for contracts accounted for under IAS 18 and completeness of provision for contract losses and customer service obligations	
Description Inventories amount in total to € 30 billion, including work in progress of € 21 billion. Key programmes (which are accounted for under IAS 18 Revenue recognition, for which revenue and cost of sales are recognised as each aircraft is delivered) in light of the risks mentioned below are the A380 and the A350 XWB contracts with non-launch customers. With respect to the A380, a key challenge is securing the order flow. Estimates of total contract costs and selling price per aircraft are necessary to determine if the net realisable value impairment or provision for contract losses is required. In addition to the risk of contract cancellations, significant costs or loss of revenue may be incurred in connection with remedial action required to correct any performance issues detected. Due to the inherent uncertainty involved in forecasting future costs and interpreting contractual and commercial positions in determining impairments and provisions, this is a key audit area. Updates to these provisions can have a significant impact on the Company's result and financial position. Reference is made to the disclosures on Note 3 'Key estimates and judgements', and notes 20 'Inventories' and 22 'Provisions, contingent assets and contingent liabilities' of the financial statements.	**Our audit approach** We evaluated the design and implementation of internal controls for identifying and recording impairments and provisions and performed detailed procedures including inquiry of the Head of Programmes and corroboration with other audit evidence. We evaluated management's assumptions in the determination of the forecast revenue to be received, cost to be incurred (including any contractual penalties) and gross margin. Our evaluation was based on our assessment of the historical accuracy of the Company's estimates in previous periods and included an analysis of contingencies and impact of known technical issues on cost forecasts and provisions. Particular attention was paid to the commercial status of the A380 programme, including discussions with Airbus management on the status and their ongoing commitment to the A380 programme.
Goodwill impairment	
Description Goodwill amounts to € 9.4 billion (2015: € 9.9 billion) and represents 8% (2015: 9%) of the balance sheet total and 255% (2015: 166%) of total equity. There is a risk of irrecoverability of the Company's significant goodwill balance due to weak demand in certain markets and aircraft market cyclicality. In its impairment calculations the company uses assumptions such as growth rates, weighted average costs of capital and underlying foreign exchange rates. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas. Reference is made to the disclosure on Note 17 'Intangible assets' of the financial statements.	**Our audit approach** In this area our audit procedures included, amongst others, testing of the Company's budgeting procedures upon which the forecasts are based and the principles and integrity of the Company's discounted cash flow model. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Company, in particular relating to the discount rate used. We also evaluated management's sensitivity analyses on the assumptions for each cash generating unit. We compared the sum of the discounted cash flows to the Company's market capitalisation to assess the reasonableness of those cash flows.
Derivative financial instruments, including impact on capitalization of Airbus Group SE	
Description The Company operates in a business environment that is exposed to currency and interest rate volatility. A significant portion of the Company's revenue is dominated in US dollars, while a major part of its	**Our audit approach** For the audit of financial instruments we used specialists who tested the controls around the Company's central treasury system, independently calculated the valuation of the treasury portfolio and tested the

Risk	Our audit approach
costs is incurred in Euro and, to a lesser extent, in pounds Sterling. In response to these risks the Company uses financial instruments (mainly currency forwards) to mitigate the exposure to changes in market rates. There is a high inherent risk of error in the Company financial statements, both in valuation of the financial instruments and in the presentation and disclosure in the financial statements. The magnitude of the Company's hedge portfolio and potential significant changes in the exchange rate of the US dollar versus the Euro could have a negative impact on the equity of the Company via the 'mark to market' valuation of the hedge portfolio. It therefore also has a major impact on the capitalisation of Airbus Group SE, with net equity (as percentage of total assets) amounting to 3.1% per 31 December 2016 (2015: 5.6%). Reference is made to Note 35 'Information about financial instruments' of the financial statements.	application of the hedge accounting rules and the resulting accounting treatment. We also obtained counterparty confirmation of the outstanding financial instruments to verify the existence and ownership. Finally we evaluated whether appropriate disclosures relating to financial instruments were made in the financial statements.
Independence matter	
Description In 2016, few EY staff from The Netherlands were seconded for non-audit services contracted and allowed outside the Netherlands. This secondment abroad caused a formal breach of independence under Dutch law.	**Our audit response** After this breach was discovered by EY it was, together with the mitigating and corrective measures taken, reported to the Airbus Audit Committee and the Dutch regulator. Our independence has not been compromised and thus does not affect our opinion as an independent auditor.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The Report of the Board of Directors;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board is responsible for the preparation of the other information, including the Report of the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed by the Annual General Meeting of Shareholders as auditor of Airbus Group SE on 28 April 2016, as of the audit for the year 2016.

Description of responsibilities for the financial statements

Responsibilities of the Board of Directors and Audit Committee for the financial statements
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:
- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the Company's entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 21 February 2017

Ernst & Young Accountants LLP

Signed by: A.A. van Eimeren

Report of the Board of Directors

(Issued as of 21 February 2017)

Dear Shareholders,

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

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

1. General Overview

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

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

2. Summary 2016

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

Deliver Must Achieve-Programmes:

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

Secure Finance Objectives

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

Continue Digital Transformation and Innovation

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

Engage and Develop People

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

Strengthen Ethics, Compliance and CSR

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

Implement Reorganisation, Integration and Improvement Plans

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

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

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

- Airbus deliveries in 2016 were up for the 14th year in a row, reaching a new company record of 688 aircraft to 82 customers. Deliveries were more than eight percent higher than the previous record of 635 set in 2015.
- Airbus delivered its 10,000th aircraft in October 2016 - an A350-900 for Singapore Airlines.
- The world's best-selling single-aisle aircraft, the A320neo Family, received type certification from the European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA) on schedule for the second engine option – CFM International's LEAP-1A.
- The first A350-1000, Airbus' largest and most powerful twin-engine airliner ever and the world's most fuel efficient large wide-body, completed its maiden flight.
- The first aircraft – an A321 – was delivered from the Airbus U.S. Manufacturing Facility in Mobile (Alabama).
- The light-twin helicopter H135 received type certification from the European Aviation Safety Agency for its new Helionix cockpit. The avionics system designed by Airbus Helicopters offers operators increased mission flexibility and safety.
- The flight-testing activities of the next-generation H160 continued at a steady pace throughout the year.
- Airbus Helicopters delivered the first H175 to be operated in the Americas.
- The new AS565 MBe Panther naval helicopter has been delivered to Mexico and Indonesia, and the first flight of the NH90 Sea Lion for the German Navy took place.
- For its 7th and last launch of the year, Ariane 5 successfully completed its mission from the European space port of Kourou (French Guiana), its 76th consecutive success, placing two telecommunications satellites in geostationary transfer orbit (GTO).
- Airbus Defence and Space and OneWeb, which is building a new global satellite communications system, formed OneWeb Satellites
- Airbus Group SE and Safran completed the second phase of their 50:50 joint venture, Airbus Safran Lauchers, with both companies contributing assets dealing with civil space launchers and military launchers.
- Divestment of last tranche of Dassault Aviation shares and substantial progress in Defence electronics divestment.
- The Silicon Valley-based venture fund and A^3 ("A-Cubed") innovation centre became fully operational. The fund's mission is to identify and invest in the most visionary entrepreneurs in the global aerospace ecosystem.
- Airbus and Siemens signed a collaboration agreement in the field of hybrid electric propulsion with the goal of demonstrating the technical feasibility of various hybrid/electric propulsion systems.
- In 2016, Airbus Foundation supported the humanitarian community with the Company's products and services in Fiji, Ecuador, Canada and Haiti, and also reached 1,000 students around the world through its employee volunteering programs involving 400 Airbus employees contributing over 9,000 hours.

3. Share Capital and Stock Price Evolution

3.1 Shareholding and voting rights

Issued share capital

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

Modification of share capital or rights attached to shares

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

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

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

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

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

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

2. Funding the Company and its Airbus companies, provided that such powers shall be limited to 0.3% of the Company's authorised share capital.

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

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1 Except for the shares held by the Company itself.

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

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

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

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

Securities granting access to the Company's capital

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

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

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

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

Changes in the issued share capital in 2016

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

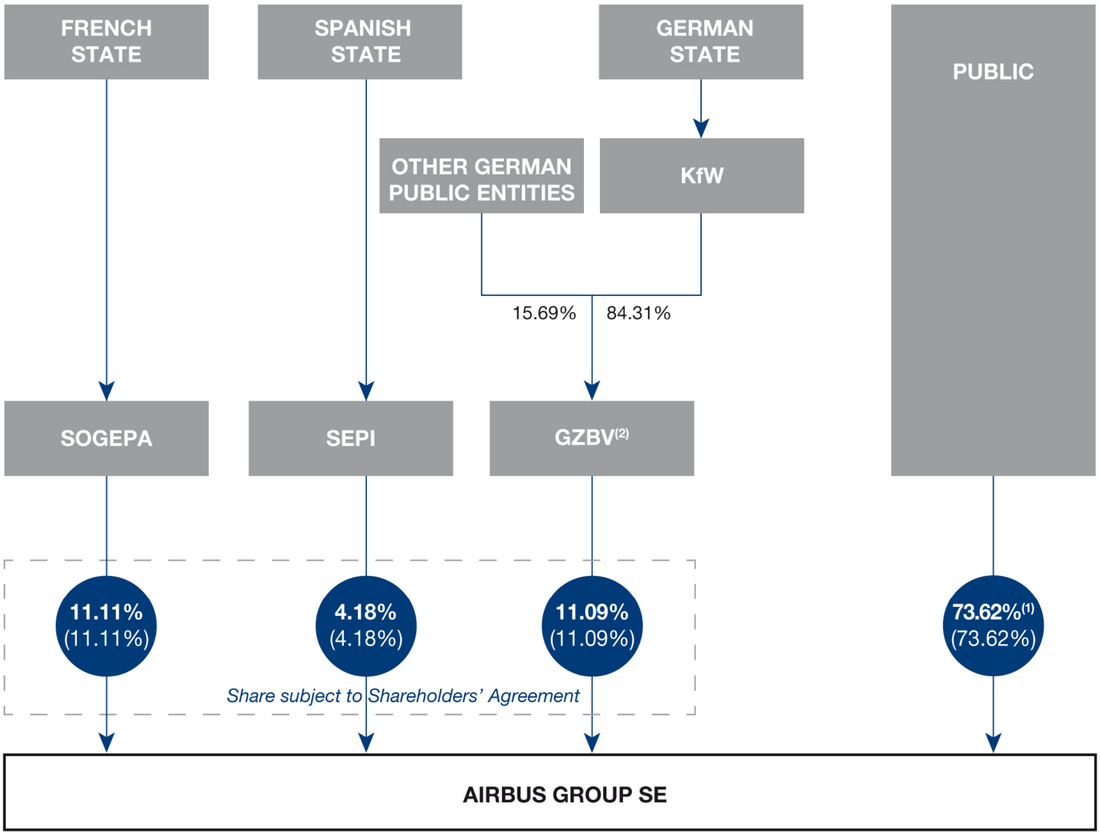
Repurchases and cancellations of shares in 2016

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

Shareholding structure at the end of 2016

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

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



(1) Including shares held by the Company itself (0.02%).
(2) KfW & other German public entities.

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

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

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

Right to attend shareholders' meetings

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

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

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

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

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

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

Mandatory Disposal Threshold Restricting Ownership to 15%

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

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

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

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

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

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

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

Exemptions from Mandatory Disposal Threshold

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

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

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

Mandatory public offer under Dutch law

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

Amendments to the Articles of Association

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

3.2 Relationship with Principal Shareholders

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

3.2.1 CORPORATE GOVERNANCE ARRANGEMENTS

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

3.2.2 SHAREHOLDER ARRANGEMENTS

Grandfathering Agreement

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

Individual Grandfathering Rights

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

Loss of Individual Grandfathering Rights

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

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

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

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

Notification to the Company

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

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

Various provisions

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

Governing law. Laws of the Netherlands.

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

Governance of the Company

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

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

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

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

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

Balance of interests

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

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

Mandatory Takeover Threshold

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

Transfer of Securities

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

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

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

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

Various provisions

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

Governing law. Laws of the Netherlands.

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

3.2.3 UNDERTAKINGS WITH RESPECT TO CERTAIN INTERESTS OF CERTAIN STAKEHOLDERS

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

State Security Agreements and Related Undertakings

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

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

Dassault Aviation

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

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

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

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

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

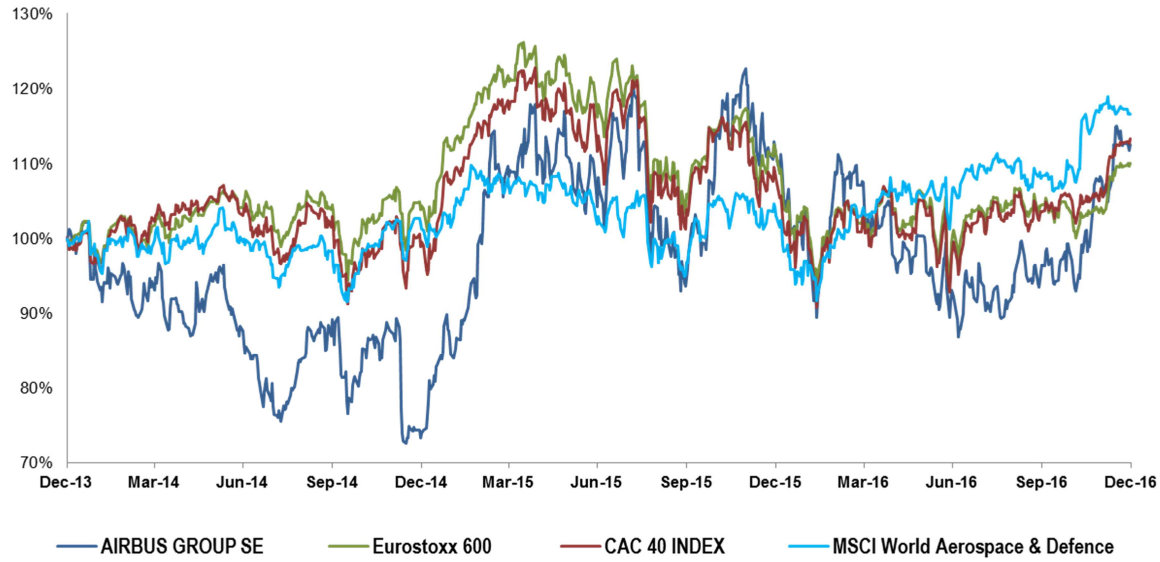
Stock Exchange Listings

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

Specific Rights of the French State

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

3.3 Share price performance 2016



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

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

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

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

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

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

3.4 Dividend policy

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

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

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

4. Corporate Governance

4.1 Management and Control

4.1.1 COMPOSITION, POWERS AND RULES

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

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

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

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

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

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

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

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

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

Voting and rules

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

Powers of the Members of the Board of Directors

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

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

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

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

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

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

AIRBUS BOARD OF DIRECTORS FOR YEAR 2016

Name	Age		Since	Current term expires	Director expertise	Status	Primary occupation & Other mandates	Board attendance	Committee attendance: Audit	Committee attendance: Remuneration Nomination and Governance
Denis RANQUE	65		*2013, re-election in 2016*	2017	Global Business, Engineering & Technology, Manufacturing & Production, Aerospace Industry, Defence Industry, Information & Data Management	Independent	Chairman of the Board of Directors of Airbus Group SE	6/6		
Thomas ENDERS	58		*2012, last re-election in 2016*	2019	Global Business, Manufacturing & Production, Aerospace Industry, Geopolitical Economics, Defence Industry	Executive	Chief Executive Officer of Airbus Group SE	6/6		
Ralph D. CROSBY, Jr.	69		*2013, re-election in 2016*	2017	Global Business, Engineering & Technology, Manufacturing & Production, Aerospace Industry, Defence Industry	Independent	Member of the Board of Directors of Serco Group plc and former Member of the Corporate Policy Council of Northrop Grumman Corporation	6/6		
Catherine GUILLOUARD	52		*2016*	2019	Global Business, Engineering & Technology, Aerospace Industry, Finance & Audit, Geopolitical Economics	Independent	Deputy Chief Executive Officer of Rexel* and Member of the Board of Directors of ENGIE	4/4 *(from AGM 2016)*	Member 2/2 *(from AGM 2016)*	
Hans-Peter KEITEL	69		*2013, re-election in 2016*	2018	Global Business, Engineering & Technology, Manufacturing & Production, Geopolitical Economics	Independent	Vice President of the Federation of German Industry (BDI) and Member of the Supervisory Board of Thyssenkrupp AG	6/6		Member 3/3
Hermann-Josef LAMBERTI	61		*2007, last re-election in 2016*	2017	Global Business, Finance & Audit, Geopolitical Economics, Information & Data Management	Independent	Member of the Supervisory Board of ING Groep N.V. and former Member of the Management Board of Deutsche Bank AG	6/6	Chairman 5/5	
Lakshmi N. MITTAL	66		*2007, last re-election in 2016*	2017	Global Business, Engineering & Technology, Manufacturing & Production, Aerospace Industry, Finance & Audit, Asia	Independent	Chairman and Chief Executive Officer of ArcelorMittal	6/6		Member 3/3
Amparo MORALEDA	52		*2015*	2018	Global Business, Engineering & Technology, Finance & Audit, Information & Data Management	Independent	Member of the Board of Directors of Solvay and former General Manager of IBM South Region	6/6	Member 5/5	
Claudia NEMAT	48		*2016*	2019	Global Business, Engineering & Technology, Finance & Audit, Geopolitical Economics, Information & Data Management	Independent	Member of the Board of Management of Deutsche Telekom AG	3/4 *(from AGM 2016)*	Member 2/2 *(from AGM 2016)*	
Sir John PARKER	74		*2007, last re-election in 2016*	2018	Global Business, Engineering & Technology, Manufacturing & Production, Aerospace Industry, Defence Industry	Independent	Chairman of the Board of Anglo American plc	6/6		Chairman 3/3
Carlos TAVARES	58		*2016*	2019	Global Business, Engineering & Technology, Manufacturing & Production, Asia	Independent	Chairman of the Managing Board of Peugeot SA	3/4 *(from AGM 2016)*		
Jean-Claude TRICHET	74		*2012, last re-election in 2016*	2018	Global Business, Engineering & Technology, Manufacturing & Production, Aerospace Industry, Finance & Audit, Geopolitical Economics	Independent	Honorary Governor of Banque de France and former President of the European Central Bank	6/6		Member 3/3
									5 meetings – 95% average attendance rate	3 meetings – 100% average attendance rate

Status as of the date of this Board Report. * *Until 20 February 2017.*

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

Chairman *Member*

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

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

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

4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2016

Board of Directors meetings

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

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

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

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

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

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

Board evaluation 2016

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

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

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

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

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

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

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

4.1.3 BOARD COMMITTEES

The Audit Committee

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

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

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

The Remuneration, Nomination and Governance Committee

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

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

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

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

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

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

4.1.4 GROUP EXECUTIVE COMMITTEE NOMINATION AND COMPOSITION

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

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

Role of CEO and Group Executive Committee

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

4.2 Conflict of interest

Conflict of interest

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

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

4.3 Dutch Corporate Governance Code

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

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

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

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

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

1. Vice-Chairmanship

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

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

2. Termination indemnity

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

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

3. Securities in the Company as long-term investment

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

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

4. Dealings with analysts

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

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

5. Gender diversity

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

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

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

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

4.4 Remuneration Report

4.4.1 INTRODUCTION

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

The Report comprises the following sections:

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

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

4.4.2 REMUNERATION POLICY

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

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

A — Executive Remuneration – Applicable to the CEO

a) Remuneration Philosophy

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

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

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

b) Total Direct Compensation and Peer Group

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

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

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

The elements of the Total Direct Compensation are described below:

Remuneration Element	Main Drivers	Performance Measures	Target and Maximum
Base Salary	Reflects market value of position.	Not applicable	1/3 of Total Direct Compensation (when performance achievement is 100% of target).
VR	Rewards annual performance based on achievement of company performance measures and individual objectives.	Collective (50% of VR): divided between EBIT[3] (45%); Free Cash Flow[4] (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.
LTIP	Rewards long-term commitment and company performance, and engagement on financial targets subject to cumulative performance over a 3-year period.	Vesting ranges from 0% to 150% of initial grant, subject to performance over a three-year period. In principle, no vesting if cumulative negative EBIT. If cumulative EBIT is positive, vesting from 50% to 150% of grant based on EPS (75%) and Free Cash Flow (25%).	The original allocation to the CEO is capped at 100% of Base Salary at the time of grant. Since 2012, the following caps apply to Performance Units only: overall pay-out is capped at a maximum of 250% of the original value at the date of grant. The value that could result from share price increases is capped at 200% of the reference share price at the date of grant.

Policy from 2016 (approved by 2016 AGM)

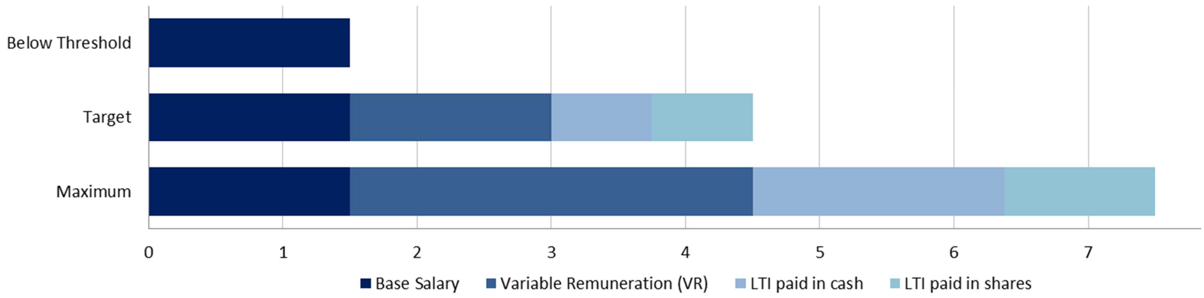
The RNGC regularly benchmarks the CEO's Total Direct Compensation (Base Salary, Annual Variable Remuneration and LTIP) against an extensive peer group. The relevant peer group was composed with the assistance of an independent consultant, Willis Towers Watson, and comprised 31 companies having comparable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

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

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

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

SCENARIOS CEO TOTAL DIRECT COMPENSATION



Indications are in million euros.
"Below Threshold" includes annual base Salary; VR at 0%; LTIP not vesting.
"Target" includes Base Salary, VR at target and LTIP grant face value in cash and in shares.
"Maximum" includes Base Salary; maximum VR value (200% of VR at target); maximum LTIP cash grant projected at vesting date (250% of grant value); maximum performance applicable to the number of shares granted (150%). The share price development is unpredictable. The final value of performance shares cannot be capped.

c) Base Salary

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

d) Annual Variable Remuneration

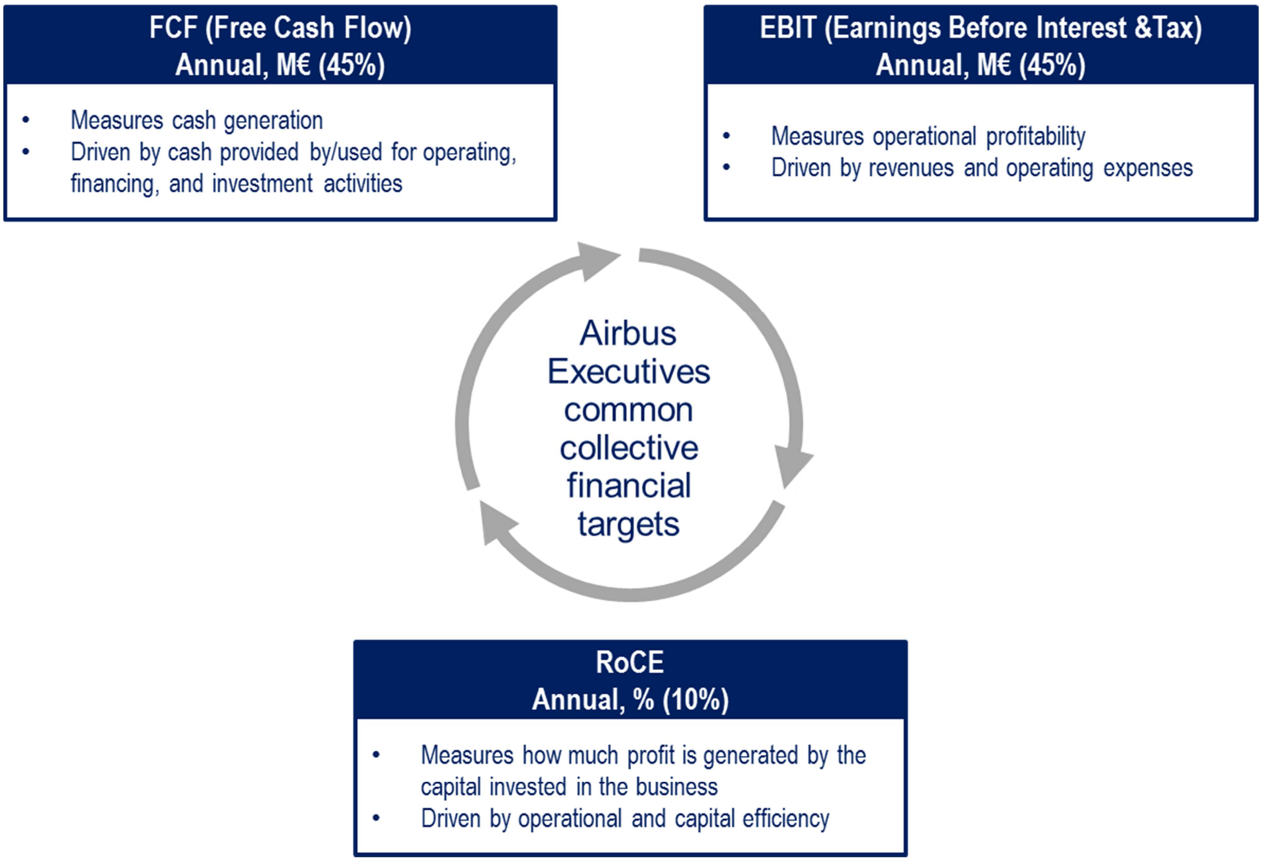
The variable remuneration is a cash payment that is paid each year, depending on the achievement of specific and challenging performance targets. The level of the variable remuneration for the CEO is targeted at 100% of Base Salary; it is capped at a maximum level of 200% of Base Salary. The entire variable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

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

Common Collective Component

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

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



Individual

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

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

e) Long-Term Incentive Plan

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

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

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

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

- 0-50% of the allocation: The Board of Directors has the discretion to decide that this element of the Performance Unit / Share award will not vest if the Company reports negative cumulated **EBIT** results;

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

Earnings per Share Average over 3 years	Free Cash Flow Cumulated over 3 years, M€
• Measures profitability • Driven by net income and number of shares	• Measures cash generation • Driven by cash provided by/used for operating, financing, and investment activities

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

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

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

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

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

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

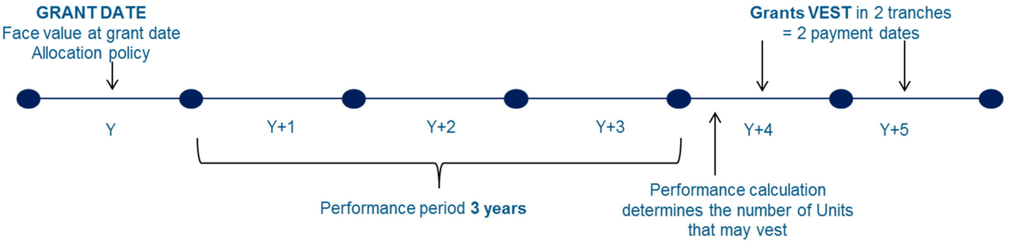
Performance Units plan characteristics (until and including 2015 plan)

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

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

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

LTIP-SCHEME FROM 2014 TO 2015



Performance Units & Performance Shares characteristics (since 2016)

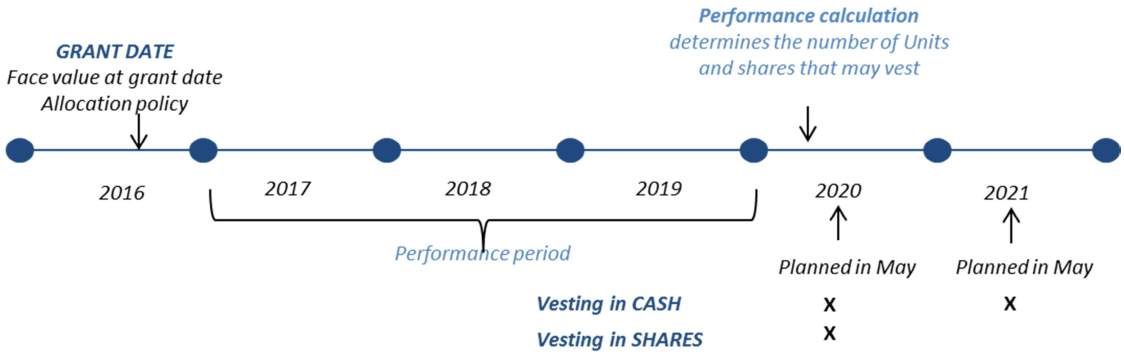
For the CEO and since the 2016 plan, the Company's current LTIP is comprised of a mix of Performance Units and Performance Shares.

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

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

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

LTIP-SCHEME SINCE 2016



f) Share Ownership Guideline

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

g) Benefits

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

h) Retirement

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

i) Contracts and Severance

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

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

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

j) Clawback

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

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

k) Loans

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

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

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

Fees and Entitlements

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

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

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

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

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

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

Chairman of the Board: 210,000

Member of the Board: 80,000

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

Chairman of a Committee: 30,000

Member of a Committee: 20,000

Attendance fees (EUR / Board meeting):

Chairman: 15,000

Member: 10,000

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

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

For personal reasons, Denis Ranque decided in 2016 and onwards, to waive the portion of his remuneration as Chairman of the Board of Directors which exceeds € 240,000 (his total target remuneration for 2015) until further notice. The Board recommended that the remuneration exceeding € 240,000 would be converted into an annual contribution to the Airbus Foundation as long as Denis Ranque waives this part of his remuneration; which would correspond to € 60,000 based on six meetings per year.

C – Employee Share ownership plan (ESOP)

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

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

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

4.4.3 IMPLEMENTATION OF THE REMUNERATION POLICY IN 2016: CEO

a) Benchmarking

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

b) Base Salary

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

c) Annual Variable Remuneration

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

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

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

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

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

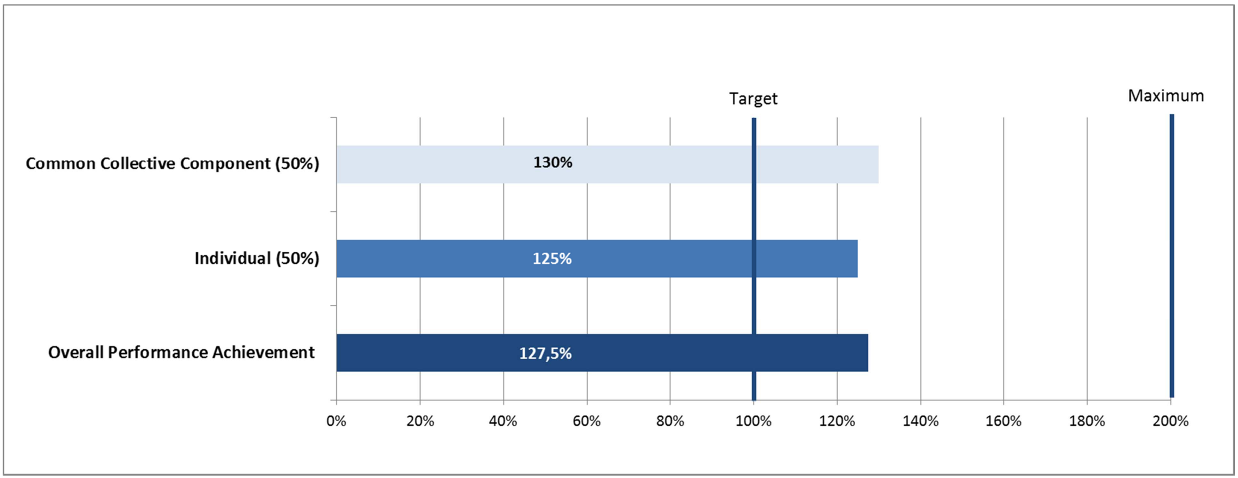
Normalisation adjustments of EBIT and RoCE were made to exclude currency exchange differences or those arising from phasing mismatches.

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

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

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

Performance against Target



d) Long-Term Incentive Plan

Granting 2016

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

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

	Unit plan: number of Performance Units	
	Granted in 2016	**Vesting dates**
Thomas Enders	14,240	Vesting schedule is made up of 2 tranches over 2 years: (i) 50% expected in May 2020; (ii) 50% expected in May 2021.
There is no obligation under the Dutch Financial Supervision Act to notify the cash units under the LTIP to the AFM. The CEO's cash units are therefore no longer reflected in the AFM register.		

Share plan: number of Performance Shares

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

Vesting values in 2016

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

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

LTIP overview: granting and vesting

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

Calculations may involve rounding to the nearest unit.

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

Performance Conditions of 2012 LTIP:

The performance conditions were determined as follows:

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

Review of Achievement of Performance Conditions:

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

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

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

* Average EPS of 2010, 2009 and 2008
** Average EPS of 2011, 2010 and 2009
*** Average EPS of 2012, 2011 and 2010

e) Share Ownership

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

f) Employee Share Ownership Plan (ESOP)

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

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

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

g) Benefits

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

h) Retirement

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

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

i) Clawback

The Board has not applied any clawback in 2016.

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

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

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

Non-Executive Directors' remuneration FY2016

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

*The Fixum related to 2015 was paid 50% in July 2015 and 50% in January 2016; the Fixum related to 2016 was paid 50% in December 2015 and 50% in July 2016.
**The Attendance Fees are paid at the end of each semester.
***Member of the Company Board of Directors and Audit Committee as of 28 April 2016.
****Member of the Company Board of Directors as of 28 April 2016.

4.4.5 MISCELLANEOUS

Policy for Loans and Guarantees Granted

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

4.5 Ethics and Compliance Organisation

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

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

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

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

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

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

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

The E&C organisation is made of four pillars:

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

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

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

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

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

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

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

4.6 Enterprise Risk Management System

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

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

Required key activities in Risk and Opportunity Management are:

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

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

The aim of the ERM process is to:

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

Through ERM, Airbus Management enables the:

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

The Company's Board of Directors supervises the:

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

ERM Process

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

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

The ERM process consists of four elements:

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

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

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

ERM Governance and Responsibility

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

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

ERM Effectiveness

The ERM effectiveness is analysed by:

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

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

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

Board Declaration

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

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

4.7 Risk Factors

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

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

4.7.1 FINANCIAL MARKET RISKS

Global Economic Concerns

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

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

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

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

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

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

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

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

- further reductions in public spending for defence, homeland security and space activities, which go beyond those budget consolidation measures already proposed by governments around the world;

- financial instability, inability to obtain credit or insolvency of key suppliers and subcontractors, thereby impacting the Company's ability to meet its customer obligations in a satisfactory and timely manner;

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

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

- decreased performance of Airbus' cash investments due to low and partly negative interest rates.

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

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

Foreign Currency Exposure

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

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

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

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

Sales Financing Arrangements

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

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

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

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

Counterparty Credit

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

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

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

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

Equity Investment Portfolio

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

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

Pension Commitments

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

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

Tax Exposure

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

4.7.2 BUSINESS-RELATED RISKS

Commercial Aircraft Market Factors

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

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

Physical Security, Terrorism, Pandemics and Other Catastrophic Events

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

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

Cyber Security Risks

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

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

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

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

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

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

Dependence on Key Suppliers and Subcontractors

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

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

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

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

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

Industrial Ramp-Up

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

Technologically Advanced Products and Services

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

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

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

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

Dependence on Public Spending and on Certain Markets

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

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

Availability of Government and Other Sources of Financing

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

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

Competition and Market Access

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

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

Major Research and Development Programmes

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

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

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

Digital Transformation, Integration, Continuous Improvement and Competitiveness Programmes

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

Integration

The merger of the Group structure with its largest division, Airbus Commercial Aircraft, to form one single entity to be called, simply, Airbus, is contemplated to be completed in mid-2017. This next level of integration aims to improve performance and efficiency across the group, ensuring clear focus on operational business imperatives. The new organisation with leaner functions should ease collaboration, reduce bureaucracy and allow for faster decision making at all levels and across divisions thus laying solid foundations for digital transformation and catalysing all group transformation initiatives already underway in support functions. The streamlined set-up also brings consolidation and cost reduction opportunities at the top of the organization, which should benefit Helicopters and Defence & Space. Some 1,100 positions will be reduced in the functions concerned, while around 230 new positions are to be created mainly in the DTO and new CTO organisations. The net impact would lead to an overall headcount reduction of around 9%.

Digital transformation

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

Traditional cost-saving and competitiveness programmes in each division

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

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

Acquisitions, Divestments, Joint Ventures and Strategic Alliances

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

Public-Private Partnerships and Private Finance Initiatives

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

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

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

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

Programme-Specific Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

4.7.3 LEGAL RISKS

Dependence on Joint Ventures and Minority Holdings

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

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

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

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

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

Product Liability and Warranty Claims

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

Intellectual Property

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

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

Export Controls Laws and Regulations

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

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

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

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

Anti-Corruption Laws and Regulations

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

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

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

Legal and Regulatory Proceedings

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

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

4.7.4 INDUSTRIAL AND ENVIRONMENTAL RISKS

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

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

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

5. Financial Performances and other Corporate Activities

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

5.1 Consolidated Financial Statements ("IFRS")

5.1.1 CONSOLIDATED INCOME STATEMENT ("IFRS")

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

5.1.2 REVENUES

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

5.1.3 EBIT AND FINANCIAL RESULT

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

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

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

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

The ambitious ramp-up target was met for the A350 XWB, with 49 aircraft delivered during 2016. Good progress was made during the year in terms of risk management and reduction of the outstanding work in the A350 Final Assembly Line. The focus remains on recurring cost convergence as the ramp-up progresses and the situation remains challenging. The supply chain has improved, although some bottlenecks remain, but the Company is on track to manage the 2017 ramp-up on the way towards the production target of 10 aircraft a month by the end of 2018. Flight testing of the A350-1000 is underway.

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

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

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

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

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

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

Table 1 – EBIT and Revenues by Division

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

5.1.4 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (“IFRS”)

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

Non-current assets

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

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

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

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

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

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

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

The fair values of derivative financial instruments are included in non-current other financial assets (€ 893 million, prior year-end: € 931million), in current other financial assets (€ 258 million, prior year-end: € 349 million), in non-current other financial liabilities (€ -6,544 million, prior year-end: € -6,703 million) and in current other financial liabilities (€ -4,476 million, prior year-end: € -3,884 million), which corresponds to a total net fair value of € -9,869 million (prior year-end: € -9,307 million). The volume of hedged US dollar-contracts is stable at US dollar 102 billion as at 31 December 2016 and at 31 December 2015, respectively. The US dollar spot rate is USD/€ 1.05 and USD/€ 1.09 at 31 December 2016 and at 31 December 2015, respectively. The average US dollar hedge rate for the hedge portfolio of Airbus improves from USD/€ 1.28 as at 31 December 2015 to USD/€ 1.25 as at 31 December 2016. The 2016 figures exclude USD 1.5 billion of new hedges entered into to address intra-year shifts in Net Exposure linked to delivery phasing.

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

Current assets

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

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

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

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

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

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

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

Total equity

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

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

Non-current liabilities

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

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

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

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

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

Current liabilities

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

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

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

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

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

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

5.1.5 NET CASH

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

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

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

5.1.6 ORDER INTAKE AND ORDER BOOK

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

Table 2 – Order Intake and Order Book by Division

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

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

5.2 Information on Airbus Group SE auditors

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

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

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

5.3 Human Resources

5.3.1 WORKFORCE INFORMATION

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

5.3.2 ORGANISATION OF HUMAN RESOURCES MANAGEMENT

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

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

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

The main principles of this set up are:

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

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

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

5.3.3 2016 KEY ACHIEVEMENTS IN HUMAN RESOURCES

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

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

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

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

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

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

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

5.4 Environmental matters

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

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

5.4.1 SHAPING OUR FUTURE THROUGH ECO-EFFICIENCY

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

5.4.2 MAKING A DIFFERENCE IN OUR INDUSTRIAL FACILITIES

The Company's Environmental Policy directs the way to improve environmental performance in the areas of energy efficiency, GHG emissions, air pollutant emissions, waste generation, water consumption, noise, substances of concern and local eco-systems. Our environmental footprint is reduced year after year through continuous efforts and progress. Airbus manufacturing locations around the world employ a mixture of construction and appropriate solutions for saving both emissions and costs. For example, the Nantes Water Recycling plant directly treats and purifies 100% of surface treatment water to render it reusable. This closed-loop system will enable a reduction of 20,000 m^3 in surface treatment water consumption each year. In Illescas, Spain, the installation of an osmosis plant for cooling towers improves the quality of the water and allows it to be reused in the refrigeration system. Thanks to this project, 12 000 m^3 of industrial water discharges will be saved every year with a regular equivalent € 44,000 cost saving. The new A350 XWB paint booths in St-Nazaire have been designed and built to reduce environmental impacts and give a 67% saving in energy use and 86% reduction in CO_2 emissions. The optimisation of the A380 paint shop filtering in Hamburg allows VOCs to be captured through four wet washers, leading to maintenance cost savings, reduced energy and chemicals consumption and decreased waste water.

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

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

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

Airbus Helicopters: The H160 brings significantly improved performance, less fuel consumption and less CO_2 emissions, and the new canted Fenestron and Blue Edge blades result in lower sound levels. With the Bluecopter demonstrator, eco-efficiency objectives are met: decreasing of fuel consumption by as much as 40%, significantly reducing CO_2 emissions, and lowering noise to approximately ten decibel effective perceived noise below ICAO noise certification limits.

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

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

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

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

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

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

5.4.4 2016 HIGHLIGHTS

Developments at the International Civil Aviation Organization (ICAO): Airbus has fully supported and welcomes two historic agreements made in International Civil Aviation Organization ("**ICAO**") during 2016. The first is an Aircraft CO_2 emissions certification standard which encourages the integration of fuel efficient technologies into aircraft design and development. The second is a global offsetting scheme for aviation, CORSIA ("**Carbon Offsetting and Reduction Scheme for International Aviation**"). This is an important pillar for the aviation industry in achieving its goal of Carbon Neutral Growth ("**CNG**") from 2020 and is the world's first carbon offsetting scheme for any global sector. Airbus also remains fully committed to supporting all pillars of the industry's climate action plan, through delivering the world's most fuel-efficient aircraft thanks to technology improvements, supporting improved air traffic management and enhanced aircraft operations around the world, and facilitating the wider adoption of sustainable alternative fuels.

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

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

5.5 Research and Technology, Quality and Systems Engineering

Research and Technology

Significant restructuring of Airbus' Corporate Technology Office ("**CTO**") was undertaken in 2016 and will continue into 2017. The CTO is undergoing a transformation programme to become more agile, innovative and aligned with the needs of Airbus. The new CTO organisation is responsible for guiding all R&T of the Company and ensures Airbus-wide integration of technology. The CTO is also in charge of developing the Airbus-wide R&T Roadmaps and executing Demonstrator projects together with the divisions. This organisation applies a lean, project-based approach, will encourage collaboration with external research communities and develop partnerships, especially through open innovation with technical and scientific experts. Airbus Demonstrators are a means to develop new products, services and design and manufacturing methods that encompass and represent radical technological breakthroughs, rather than incremental development. Airbus Demonstrators also provide a maturation mechanism and maturity gates for the group R&T portfolio. The Demonstrators will employ a CTO-established development methodology, including phasing and key gates, lightweight project management and earned-value management processes, and budgeting, HR and contracting mechanisms tailored for speed of execution. Airbus Group Innovations ("**AGI**") will become a Central R&T organisation to provide expertise in breakthrough technologies in support of the group demonstrators. The CTO nursery and Airbus BizLab will be merged into a single entity responsible for incubation and acceleration of internal and start-up ideas that can be turned into viable business ventures. The CTO organisation will serve as a pilot for the construct of an Exponential Organisation ("**ExO**") and if successful, a proof point for the ability to create such an organisation internally, close to the core of the business.

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

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

Key progress in 2016

A^3

Vahana

Project Vahana started in early 2016 as one of the first projects at A^3 (pronounced "A-cubed"), the advanced projects and partnerships outpost of Airbus in Silicon Valley. Designed to carry a single passenger or cargo, A^3 are aiming to make it the first certified passenger aircraft without a pilot. The aim is to fly a full-size prototype before the end of 2017, and to have a product-ready demonstrator by 2020.

Transpose

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

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

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

BizLab

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

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

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

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

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

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

Airbus Helicopters

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

Airbus Defence and Space and Airbus Helicopters

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

Quality

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

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

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

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

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

6. Financial Targets for 2017

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

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

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

7. Airbus Strategy

7.1 Commercial leadership, defence and space optimisation and value creation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Strengthen the value chain position

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

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

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

7.2 Key divisional priorities 2017

Airbus Commercial Aircraft

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

Airbus Helicopters

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

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

Airbus Defence and Space

For 2017, Airbus Defence and Space key priorities are:

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

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

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

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

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

The Board of Directors

Denis Ranque, Chairman

Tom Enders, Chief Executive Officer

Ralph Dozier Crosby, Jr., Director

Catherine Guillouard, Director

Hans-Peter Keitel, Director

Hermann-Josef Lamberti, Director

Lakshmi N. Mittal, Director

María Amparo Moraleda Martínez, Director

Claudia Nemat, Director

Sir John Parker, Director

Carlos Tavares, Director

Jean-Claude Trichet, Director

Leiden, 21 February 2017