Airbus Operations Limited

Annual report and financial statements

Registered number 3468788

31 December 2016

Contents

Strategic Report

In accordance with applicable law and regulations, the directors of Airbus Operations Limited ("the Company") present the results of the financial year ended 31 December 2016.

Business Model

Since 2014, Airbus Group operates in three reportable segments: Airbus Commercial Aircraft (previously Airbus), Airbus Helicopters and Airbus Defence and Space.

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

An Executive Committee, chaired by Fabrice Brégier as Chief Executive Officer, with the heads of all important company functions, is responsible for the management of all Airbus Commercial Aircraft activities, including the sales activities and the product policies. The chairman of the Board of Directors of Airbus Operations Limited reports to the Airbus CEO.

Programme overview

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

Deliveries and backlog (commercial aircraft)

In 2016, Airbus delivered 688 Aircraft compared to 635 deliveries in 2015, including 49 A350 XWBs.

Airbus Commercial Aircraft's backlog increased by €57.8 billion from 2015, to €1,010.2 billion, primarily reflecting a book-to-bill ratio of more than one (calculated using units of new net orders). Order intake consisted of 731 net orders in 2016 (as compared to 1,080 in 2015), driven mainly by the A320 family, which received 607 net firm orders (561 A320neo (new engine option) and 46 A320ceo (current engine option)).

Total order backlog at Airbus Commercial Aircraft amounted to 6,874 aircraft at the end of 2016 (as compared to 6,831 aircraft at the end of 2015).

A320 Family

With more than 13,000 aircraft sold (of which 5,069 A320neo) and more than 7,400 delivered, Airbus's family of single-aisle aircraft, based on the A320, includes the A319 and A321 derivatives, as well as the corporate jets family (ACJ318, ACJ319, ACJ320 and ACJ321). Each aircraft in the A320 Family shares the same systems, cockpit, operating procedures and cross-section.

At 3.95 metres in diameter, the A320 Family has the widest fuselage cross-section of any competing single-aisle aircraft. This provides a roomy passenger cabin, a high comfort level and a spacious under floor cargo volume. The A320 Family incorporates digital fly-by-wire controls, an ergonomic cockpit and a lightweight carbon fibre composite horizontal stabiliser. The use of composite material has also been extended to the vertical stabiliser. The A320 Family's competitor is the Boeing 737 series.

To ensure this market leader keeps its competitive edge, Airbus Commercial Aircraft continues to invest in improvements across the product line, including development of the A320neo Family. The A320neo incorporates many innovations including latest generation engines, Sharklet wing-tip devices and cabin improvements, which together will deliver up to 20% in fuel savings by 2020.

The A320neo received joint Type Certification from the European Aviation Safety Agency (EASA) and the Federal Aviation Administration (FAA) in November 2015. The A320neo with Pratt & Whitney engines was the first variant in the Neo Family to receive Type Certification. The A320neo with CFM engines was certified in May 2016. The A321neo with Pratt & Whitney engines received Joint Type Certification in December 2016. Type Certifications for the A321neo with CFM engines and the A319neo in both engine variants will follow.

Strategic report *(continued)*

Programme overview (continued)

A320 Family (continued)

In 2016, 68 A320neo were delivered, including both engine variants. This new engine option will be available for the A321 and A319 aircraft models. With 5,069 firm orders received from 92 customers since its launch in December 2010, the A320neo Family has captured 58.4% of the market. In October 2015, Airbus Commercial Aircraft announced the decision to further increase the production rate of the Single Aisle Family to 60 aircraft a month in mid-2019 in response to strong customer demand and following thorough studies on production ramp-up readiness in the supply chain and in Airbus Commercial Aircraft's facilities.

To enable the ramp-up, an additional production line is being built in Hamburg and will be operational in 2017. In parallel Airbus Commercial Aircraft integrated cabin furnishing activities for A320 aircraft produced in Toulouse into the final assembly line in Toulouse, thereby harmonising the production process across all A320 Family production sites worldwide. The first A320 with a cabin installed in Toulouse was delivered to Volaris on 24 October 2016.

In April 2016, Airbus Commercial Aircraft delivered the first US-assembled aircraft from Mobile, Alabama, an A321, to JetBlue.

In 2016, Airbus received 790 gross orders for the A320 Family of aircraft (607 net), and delivered 545 aircraft *(2015: 491 aircraft)*.

A330 Family

With 1,686 aircraft sold (of which 214 A330neo (new engine option)) and 1,257 delivered, the A330 Family covers all market segments with one twin-engine aircraft type and is designed to carry between 247 and 277 passengers. The A330 Family offers high levels of passenger comfort as well as large under-floor cargo areas. The competitors of the A330 Family are the Boeing 767, 777 and 787 aircraft series.

The newest evolution to the A330 Family is Airbus' A330neo (new engine option), comprising the A330-800neo and A330-900neo versions. These aircraft incorporate latest generation Rolls-Royce Trent 7000 engines.

Airbus Commercial Aircraft commenced final assembly for the first A330neo, an A330-900, in 2016. The first flight is scheduled for the first half of 2017 and both Type Certification and first delivery is planned for 2018.

Airbus is also adapting the A330-300 to rapidly growing markets, where the aviation infrastructure is struggling to keep up with surging demand. The A330 Regional, the lower-weight variant will carry up to 400 passengers on shorter haul flights resulting in significant cost savings. Saudi Arabian Airlines became the A330-300 Regional launch customer with an order announced in June 2015 and the first delivery in August 2016.

Airbus Commercial Aircraft is continuously developing the A330 Family to keep the aircraft at the leading edge of innovations.

In 2016, Airbus received 106 gross orders (83 net) for the A330 Family of aircraft including 42 for the A330neo, and delivered 66 aircraft to customers *(2015: 103 aircraft)*.

A380 Family

The double-deck A380 is the world's largest commercial aircraft flying today. Its cross-section provides flexible and innovative cabin space, allowing passengers to benefit from wider seats, wider aisles and more floor space, tailored to the needs of each airline. Carrying 544 passengers in a comfortable four-class configuration and with a range of 8,200 nm / 15,200 km, the A380 offers superior economic performance, lower fuel consumption, less noise and reduced emissions. The A380's competitor is the Boeing 747-8.

In 2016, Airbus Commercial Aircraft delivered 28 A380 aircraft *(2015: 27 aircraft)*.

Strategic report *(continued)*

***Programme overview** (continued)*

A380 Family (continued)

In 2016, Airbus Commercial Aircraft reached an agreement with Emirates and Rolls Royce to shift 6 deliveries from 2017 into 2018 and from 2018 into 2019, which secures the delivery profile into 2019. 12 aircraft remains the 2018 target for deliveries. Fixed cost reduction measures will be accelerated to minimize the impact on breakeven at a lower level of deliveries.

A350XWB Family

The A350 XWB is an all-new family of wide-body aircraft, designed to accommodate between 280 and 366 passengers. The A350 XWB features A380 technology, a wider fuselage than that of competing new generation aircraft, and a greater use of composite material. The A350 XWB's main competitors are the Boeing 787 and 777 aircraft series.

With the Ultra-Long Range version of the A350-900 launched in 2016, the A350 XWB demonstrates its versatility by offering the capability to perform flights of up to 19 hours.

Airbus Commercial Aircraft also continues to develop the A350-1000, with an entry-into-service scheduled for the second half of 2017 following the final assembly line start in February 2016 and a successful first flight in November 2016. The flight test campaign is underway.

In 2016, Airbus Commercial Aircraft received 51 gross orders for the A350 XWB Family (41 net), and delivered 49 aircraft, including seven new customers *(2015: 14 aircraft).*

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 customers' commitment. Despite the progress made, challenges remain with the ramp-up acceleration and recurring costs convergence.

A400M (military aircraft)

The A400M is designed to be the most capable new generation airlifter on the market today. It is designed to meet the needs of the world's Armed Forces and other potential operators for military, humanitarian and peacekeeping missions in the 21st century. The A400M is designed to do the job of three different types of military transport and tanker aircraft, conceived for different types of missions: tactical (short to medium range airlifter capability with short, soft and austere field operating performance), strategic (longer range missions for outsized loads), as well as tanker.

A total of 174 aircraft have been ordered so far by the seven launch customer nations: Belgium, France, Germany, Luxemburg, Spain, Turkey, the UK (referred to as the "OCCAR" contract) and one export customer, Malaysia. Type Certificate and Initial Operating Clearance were achieved in 2013. Since then, 38 units have been delivered to five nations by the end of 2016. The A400M has been deployed operationally since 2014 and military capability is expected to grow over time.

17 A400M aircraft were delivered during 2016 *(2015: 11 aircraft).* Acceptance activities of one additional aircraft were finalized at the end of December 2016, but transfer of title only took place on 1 January 2017 (corresponding revenues are recognized in 2017).

Industrial efficiency and military capability 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 "MSN33", the ninth aircraft for the French customer, however achievement of contractual technical capabilities remains challenging.

Strategic report *(continued)*

***Programme overview** (continued)*

A400M (continued)

The A400M SOC (Special Operations Command) 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.

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, Airbus Board of Directors has mandated the management to re-engage with customers to cap remaining exposure.

Financial performance

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

	2016 (£m)	2015 (£m)
Turnover	4,590	3,937
Research and development costs	284	360
Profit for the financial year	45	70
Net assets	74	370

As a consequence of the revenue recognition mechanism (refer to note 1.14), the performance of the Company should be taken in context with the performance of the Airbus Commercial Aircraft division as a whole. There is a positive earnings allocation for the Common Business (activity relating to Airbus Commercial Aircraft). Allocation based on the Industrial Key (mechanism by which costs are collated , analysed and results are shared) resulted in the Company having a proportionate profit of £152m (2015: proportionate profit of £161m) of the allocable total results of the Airbus Common Business, which is reported in turnover. The evolution of the Common Business earnings allocation between 2015 and 2016 is mainly driven by the A330 programme which has a lower contribution margin driven by a reduction of volume and a deteriorated price mix.

The proportionate result of the UTE established for the A400M series business for the Company (refer to notc 1.14), which is similarly reported in turnover, amounts to £-103m (2015: £-63m). The deterioration of UTE loss share is mainly driven by the increasing number of Aircrafts delivered (17 in 2016 vs 11 in 2015). Offsetting this is a profit on each aircraft sale arising from a recovery of previously incurred, and previously expensed in the statutory accounts, development costs.

Overall, turnover has increased, in part because of an increase in production rates on the A320 and A350XWB Families, and in part because of the weakness of Sterling post referendum which results in a comparative increase in the cost of US Dollar and Euro denominated purchases, which are recharged.

On the balance sheet, there has been a significant increase in the pension deficit from £665m to £1,007m. This is mainly attributable to a fall in bond yields which, in turn, resulted in a lower discount rate (refer to note 21 for further information).

Key Performance Indicators

Key performance indicators against which Airbus Operations Limited measures the success of its strategy are turnover per employee £595,485 *(2015: £465,917),* research and development expenditure (net of research and development expenditure tax credit) per employee £36,845 *(2015: £42,604)* and capital expenditure per employee £16,995 *(2015: £17,278).*

Strategic report *(continued)*

Research and development (R&D)

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

Total R&D costs incurred amounted to £284m, compared to £360m in 2015. Costs incurred by programme in 2016 are as follows:

	£m
A380 Family	18
A350XWB Family	94
A330 Family	54
A320 Family	34
A400M	17
R&T / other (non-programme specific)	67
Total	**284**

Risks and uncertainties

Enterprise Risk Management

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

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

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

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

The Airbus Group's ERM system is augmented by:

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

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

Strategic report

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

Foreign exchange exposure

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

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

Dependence on key suppliers and subcontractors

Airbus Commercial Aircraft 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.

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

As Airbus Commercial Aircraft'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 Airbus Commercial Aircraft 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, Airbus Commercial Aircraft 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. However, financial health of suppliers is analysed prior to selection to minimise such exposure and then monitored during the contract period to enable Airbus Commercial Aircraft 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, Airbus Commercial Aircraft 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.

Strategic report

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

Industrial ramp up

As a result of the large number of new orders for aircraft recorded in recent years, Airbus Commercial Aircraft intends to accelerate its production in order to meet the agreed upon delivery schedules for such new aircraft. Airbus Commercial Aircraft's ability to further increase its production rate will be dependent upon a variety of factors including execution of internal performance plans; availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given high demand by Airbus Commercial Aircraft and its competitor; 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 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 Airbus Commercial Aircraft and its competitors announce even higher production rates. Good progress was 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.

Brexit

The result of the referendum in June 2016 has resulted in a weakening of Sterling and a reduction in bond yields, the impacts of which are outlined in the Financial Performance section above. Uncertainties are likely to continue as the negotiations between the UK and the EU progress, and the macro-economic impacts will continue to affect the Company.

Forecast information

Airbus Group expects the world economy and air traffic to grow in line with prevailing independent forecasts and assumes no major disruptions.

In 2017, Airbus Commercial Aircraft expects to deliver more than 700.

A350XWB

After 49 successful deliveries to 10 airlines in 2016, the programme 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.

A380

The programme 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.

Airbus Commercial Aircraft re-confirms the target to deliver around 12 A380s per year from 2018 as announced in July 2016.

Strategic report *(continued)*

Forecast information *(continued)*

A320

The programme faces the following main challenges: the transition from A320ceo to A320neo that 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. 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.

A330

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.

Research & Technology

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

The technology strategy and programme content in the UK is developed as part of a holistic approach consistent with Airbus Group, and currently covers metallics, composites, advanced wing engineering and systems. The work programme is developed to facilitate full co-operation with our research partners in government, industry, laboratories and universities.

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

Corporate Social Responsibility

Responsible behaviour is an integral part of everyday business decisions at Airbus. We do this by making safety our top priority and ensuring the highest standards of environmental performance at our sites and in our products. We value our employees, work closely with our suppliers and strive to ensure ethical conduct. We give back to our local communities and add significant value to the UK economy. We aim to be a trusted and responsible company and take pride in our reputation for excellence.

With that in mind, Airbus and our stakeholders believe that the central issues to address are:

- Climate change and sustainable aviation;
- Local and regional socio-economic impacts;
- The ability to inspire and attract talent;
- The impact of our local operations on the environment;
- Occupational health and safety (see health and safety section on page 9);
- Ethics and compliance;
- Employee engagement;
- Community engagement.

Strategic report *(continued)*

***Corporate Social Responsibility** (continued)*

Recognising aviation's 2% contribution to manmade CO2[1] we are working hard to further improve our environmental performance. Cutting emissions means cutting fuel burn - the airlines' biggest operating cost. So what is good for the planet is also good for business. That is why, in the last 40 years, aircraft fuel burn and emissions have been reduced by over 70%. Although demand for air travel is expected to more than double in the next 20 years[2], the industry is committed to achieving carbon-neutral growth from 2020 and to halving aircraft emissions by 2050, compared to 2005 performance levels[3]. New technologies are constantly in development at Airbus with R&D projects to improve the performance of our aircraft. Airbus is one of the UK's biggest inward investors in R&D.

Aviation continues to play a vital role in the UK economy. The UK aerospace sector is the second largest in the world. It directly employs nearly 128,000 people in the UK and has a turnover of £31 billion[4]. It is estimated that in the UK, Airbus secures 100,000 jobs through an extended supply chain of more than 1,000 UK companies.

Attracting a steady flow of talent into our business is crucial. Many Airbus employees and senior managers are involved in initiatives to inspire young people, influence education policies and champion the need to invest in and foster engineering talent in particular. Airbus in the UK has an award winning apprenticeship programme responsible for enrolling around 3,000 apprentices over the last three decades. More than 250 apprentices are currently in the scheme. We take on new apprentices every year across a range of schemes including the Undergraduate Apprenticeship programme in which apprentices study for a BA (Hons) in Aerospace Engineering (Manufacturing) while working in a salaried role over three years. The first Undergraduate Apprentices graduated from the scheme in late 2014. Airbus also attended and ran over 160 school events in 2016 to inspire young people in STEM (science, technology, engineering and maths) subjects and in particular, in aviation. In addition, to encourage more girls into engineering, through the Engineering Development Trust's Industrial Cadets initiative, Airbus has mentored over 460 girls (age 11 to 14) in the Go4Set environment programme since 2013. Airbus has also been involved in other Industrial Cadets accredited programmes including work experience and a summer school from which a total of 250 students (age 14 to 19) graduated in 2016. We have also trained 35 Airbus employee volunteer mentors to support our school activities.

Airbus is committed to the highest ethical standards of integrity, transparency and professionalism. All Airbus employees (including all Divisions) are expected to uphold the Airbus Integrity Principles and adhere to the Airbus Standards of Business Conduct. Widely available to all employees in paper and online, this document outlines the guiding principles for daily business, including our relationships with business partners, fellow employees, shareholders and governmental authorities. This key aspect of working life is supported by regular training and awareness sessions for managers and staff.

During 2015, the UK Modern Slavery Act was enacted by Parliament. This Act requires UK organisations with a turnover of £36m and above to produce a Statement stating the actions they have taken to ensure modern slavery does not exist within their business or supply chain. During 2016, the Company formed a multi-functional working group to drive progress in this respect with a view to producing its first Statement in 2017. The Company also made progress to ensure it was in a good position to meet other relevant new UK legislation, including the payment practices regulations and gender pay gap reporting. Again, the Company will publish the required information during 2017.

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[1] Intergovernmental Panel on Climate Change.

[2] Airbus Global Market Forecast 2016 - 2035

[3] http://www.atag.org/facts-and-figures.html

[4] ADS Aerospace Industry Outlook Report, https://www.adsgroup.org.uk/uk-aerospace-outlook-report-2016/

Strategic report *(continued)*

***Corporate Social Responsibility** (continued)*

Airbus recognises the importance of its local communities to its business. Every year Airbus supports many community activities focused on youth, education and the environment as well as encouraging its employees to fundraise for charities through its employee driven Charity Challenge initiative. During 2016, the Company supported almost 100 local community projects and its employees raised more than £174,000 for local charities and its current partner charity, Hospice UK, through its employee fundraising and volunteering programme, Charity Challenge.

In 2016, through the Airbus Foundation, the Company commenced its first Flying Challenge programme at its Filton site. Based on similar Flying Challenge programmes in France, Spain and the USA, the programme focuses on young people who are at risk of dropping out of education and subsequently missing training and employment opportunities. During the Flying Challenge, they will be working with volunteer mentors from the Company and university students to support the design and build of a human powered aircraft. By the time they graduate in July 2017 participants will have undertaken a wide range of specialist experiences, worked with committed employee mentors, completed a skills portfolio and worked towards a nationally recognised qualification. The aim is for them to develop confidence, self-esteem and a belief in themselves that will motivate them to continue with, and succeed in their education.

Employees

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

Health and safety

Within Airbus, our employee's health and safety remains a top priority. Our Environment, Health and Safety management system enables employees to work safely, by providing relevant skills, training and information and ensuring risks are identified and controlled appropriately. Regular performance reports are provided to senior management. Our safety performance has improved significantly for the fifth consecutive year as a result of our consistent approach at all levels of the organization to identify and eliminate the causes of accidents and to manage risks appropriately. We are confident that all injuries are reported and investigated thoroughly. Our successful near-miss reporting continues to identify areas of improvement to drive down accidents at work and improve our overall safety performance.

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

Airbus takes its Environmental responsibilities seriously and our Environmental Management System is accredited to ISO 14001. We constantly strive to reduce emissions, waste, water and energy usage to minimise any adverse environmental impact our business may create.

Strategic report *(continued)*

***Health and safety** (continued)*

We are working in close partnership with our Trade Union colleagues on health and safety. Trade Union Safety Representatives attend health and safety review meetings and Senior operational and EHS managers attend Trade Union safety meetings.

By order of the board

C Bardin
Director

Pegasus House
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Filton
Bristol
BS34 7PA

19 May 2017

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2016.

Principal activities

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

Airbus Commercial Aircraft is one of the world's leading aircraft manufacturers of passenger airliners ranging in capacity from 100 to more than 600 seats.

Airbus Commercial Aircraft activities cover development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats; aircraft conversion and related services; development, manufacturing, marketing and sale of regional turboprop aircraft and aircraft components.

Airbus Commercial Aircraft's product range comprises four aircraft families, from the A320 single-aisle aircraft to the largest passenger aircraft offered to date to the market, the A380, with two passenger decks. This product range represents the Company's core business.

Proposed dividend

The directors do not recommend the payment of a dividend *(2015: £Nil).*

Directors and directors' interests

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

Charles Champion
Thomas Williams (Chairman)
Thierry Baril (resigned 31 May 2016)
Jean-Pierre Chassagne
Christophe Bardin
Mark Haisman (appointed 1 April 2016)
Mark Stewart (appointed 1 June 2016)
Klaus Richter (resigned 31 March 2016)

Disclosure of information to auditor

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

Other information

An indication of likely future developments in the business, particulars of significant events which have occurred since the end of the financial year and an indication of the activities in the field of research and development have been included in the Strategic Report.

Directors' report *(continued)*

Auditor

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

By order of the board

C Bardin

Director

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19 May 2017

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Airbus Operations Limited for the year ended 31 December 2016 set out on pages 17 to 45. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

25 May 2017

Profit and Loss Account
for year ended 31 December 2016

	Note	**2016 £m**	**£m**	2015 £m	£m
Turnover					
Continuing operations	*2*		**4,590**		3,937
Change in stocks of finished goods and work in progress		**(87)**		(37)	
Raw materials and consumables		**3,348**		2,731	
Other external expenses		**116**		58	
Staff costs	*4*	**506**		535	
Depreciation and other amounts written off tangible and intangible fixed assets	*3*	**192**		157	
Other operating charges		**351**		353	
			(4,426)		(3,797)
Operating profit	*3*		**164**		140
Income from other fixed asset investments	*6*		**-**		26
Other interest receivable and similar income	*7*		**7**		19
Interest payable and similar charges	*8*		**(105)**		(84)
Profit before taxation			**66**		101
Tax on profit	*9*		**(21)**		(31)
Profit for the financial year			**45**		70

The notes on pages 21 to 45 form an integral part of the financial statements.

Other Comprehensive Income
for year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Profit for the year		**45**	70
Other comprehensive (loss) / income			
Remeasurement of the net defined benefit liability		**(402)**	264
Income tax on other comprehensive income		**61**	(66)
Other comprehensive (loss) / income for the year, net of income tax		**(341)**	198
Total comprehensive (loss) / income for the year		**(296)**	268

Balance Sheet
at 31 December 2016

	Note	**2016 £m**	**£m**	2015 £m	£m
Fixed assets					
Intangible assets	*10*		**582**		573
Tangible assets	*11*		**1,230**		1,234
Investments	*12*		**-**		-
			1,812		1,807
Current assets					
Stocks	*13*	**777**		702	
Debtors (including £498m *(2015: £477m)* due after more than one year)	*14*	**1,457**		1,358	
		2,234		2,060	
Creditors: amounts falling due within one year	*15*	**(2,250)**		(1,935)	
Net current (liabilities)/assets			**(16)**		125
Total assets less current liabilities			**1,796**		1,932
Creditors: amounts falling due after more than one year	*16*		**(661)**		(840)
Provisions for liabilities					
Other provisions	*20*	**(54)**		(57)	
Pensions and similar obligations	*21*	**(1,007)**		(665)	
			(1,061)		(722)
Net assets			**74**		370
Capital and reserves					
Called up share capital	*22*		**1,467**		1,467
Share premium account			**534**		534
Capital contribution reserve			**572**		572
Profit and loss account			**(2,499)**		(2,203)
Shareholders' funds			**74**		370

These financial statements were approved by the board of directors on 19 May 2017 and were signed on its behalf by:

C Bardin
Director

Company registered number: 3468788

The notes on pages 21 to 45 form an integral part of the financial statements.

Statement of Changes in Equity

	Called up Share capital £m	Share Premium account £m	Capital contribution reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2015	1,467	534	572	(2,471)	102
Total comprehensive income for the period					
Profit for the year	-	-	-	70	70
Other comprehensive income	-	-	-	198	198
Total comprehensive income for the period				268	268
Balance at 31 December 2015	**1,467**	**534**	**572**	**(2,203)**	**370**

	Called up Share capital £m	Share Premium account £m	Capital contribution reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2016	1,467	534	572	(2,203)	370
Total comprehensive (loss)/income for the period					
Profit for the year	-	-	-	45	45
Other comprehensive (loss)/income	-	-	-	(341)	(341)
Balance at 31 December 2016	**1,467**	**534**	**572**	**(2,499)**	**74**

Notes
(forming part of the financial statements)

1 Accounting policies

Airbus Operations Limited (the "Company") is a Company limited by shares and incorporated and domiciled in the UK.

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

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1million.

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

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

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

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

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

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

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 9.

As described further in 1.14 below, the Company is part of an inter-company process for the ultimate design and manufacture of commercial and military aircraft. The Company has a long-established expertise in relation to wings and associated equipment. This expertise and manufacturing capability is not available elsewhere in the Airbus Group or externally to the Group. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

At the balance sheet date the company is dependent on the ultimate parent company, Airbus SE (formerly Airbus Group SE), for ongoing funding. Accordingly due to net current liabilities of £16m *(2015: net current assets of £125m)* the directors have obtained a signed letter from Airbus SE (formerly Airbus Group SE) to acknowledge that they will not request repayment of the £996m *(2015: £806m)* loan to Airbus Operations Limited for 12 months from the date of the directors signing the company's accounts.

When considering the wider Airbus group performance and projections, together with Company-specific impacts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, which is a least 12 months from the approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Foreign currency

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

1.4 Non-derivative financial instruments

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

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

Trade and other receivables

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

Trade and other payables

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Non-derivative financial instruments (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Further details on repayable Government advances are provided at 1.9 below.

1.5 Derivative financial instruments and hedging

Derivative financial instruments

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

1.6 Tangible fixed assets

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

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

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

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

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

Buildings – short leasehold	-	33 years, or the remaining lease term if shorter
Computing equipment, motor vehicles and short life works equipment	-	3 to 5 years
Other equipment	-	10 to 15 years, or the project life if shorter
A380 jigs and tools	-	over 400 production wing sets
A400M jigs and tools	-	over 170 production wing sets
A350XWB jigs and tools	-	over 1,200 production wing sets
Single Aisle Neo jigs and tools	-	over 2,400 production wing sets
A330neo jigs and tools	-	over 600 production wing sets

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Intangible assets

Research and development

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

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

Amortisation

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

A380 development costs	-	over 400 production wing sets
A350 development costs	-	over 1,200 production wing sets
Single Aisle Neo development costs	-	over 2,400 production wing sets

A400M development costs are not capitalised.

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

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

1.8 Government grants

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

1.9 Repayable Government advances

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Stocks

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

1.11 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

1.12 Employee benefits

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

Defined contribution plans and other long term employee benefits

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

Defined benefit plans

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Employee benefits (continued)

Group Plans

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

Termination benefits

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

1.13 Provisions

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

1.14 Turnover

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.15 Expenses

Operating lease

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

Finance lease

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

Interest receivable and Interest payable

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

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

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

1.16 Taxation

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

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

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

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

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

Notes *(continued)*

2 Turnover

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

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 **£m**	2015 £m
Royalties payable to UK Government	**17**	14
Research and development expensed as incurred	**284**	360
Research and development expenditure tax credit	**(12)**	(16)

Auditor's remuneration:

	2016 **£000s**	2015 £000s
Audit of these financial statements	**218**	195
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit -related assurance services	**94**	72
Taxation compliance services	**38**	37
Other tax advisory services	**133**	53
	483	357

Notes *(continued)*

4 Staff numbers and costs

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

	Number of staff **2016**	2015
Manufacturing	**4,886**	4,863
Engineering	**1,670**	1,753
Administration and support	**1,627**	1,834
	8,183	8,450

The aggregate payroll costs of these persons were as follows:

	2016 **£m**	2015 £m
Wages and salaries	**380**	388
Social security costs	**36**	40
Contributions to defined contribution plans	**15**	16
Expenses related to defined benefit plans (see note 21)	**75**	91
	506	535

5 Directors' remuneration

	2016 **£000**	2015 £000
Directors' remuneration	**75**	-
Amounts receivable under long term incentive schemes	**28**	-
Company contributions to pension plans	**12**	-
	115	-

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

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

Notes *(continued)*

6 Income from other fixed asset investments

	2016 £m	2015 £m
Net gain on disposal of financial assets	-	26

On 1 October 2015, the Company sold to Airbus S.A.S. all its shares related to Airbus North Americas Incorporated (representing a 19.99% shareholding), generating a net gain of £26m.

7 Other interest receivable and similar income

	2016 £m	2015 £m
Net gain on financial liabilities measured at fair value through profit or loss (excluding derivatives used in hedging relationships)	7	19
Total interest receivable and similar income	7	19

8 Interest payable and similar charges

	2016 £m	2015 £m
On funding accounts with Airbus Group	7	5
Movement in repayable Government advances measured at amortised cost	-	33
Net foreign exchange loss	85	36
Net gain on financial liabilities measured at fair value through profit or loss (excluding derivatives used in hedging relationships)	4	-
Other interest payable	9	10
Total other interest payable and similar charges	105	84

9 Taxation

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

	2016 £m	£m	2015 £m	£m
Current tax				
Total current tax		-		-
Deferred tax (see note 19)				
Origination and reversal of timing differences	(55)		62	
Adjustments in respect of previous years	8		(8)	
Change in tax rate	7		43	
Total deferred tax		(40)		97
Total tax		(40)		97

Notes *(continued)*

9 Taxation *(continued)*

	2016			2015		
	£m	**£m**	**£m**	£m	£m	£m
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**-**	**21**	**21**	-	31	31
Recognised in other comprehensive income	**-**	**(61)**	**(61)**	-	66	66
Total tax	**-**	**(40)**	**(40)**	-	97	97

Reconciliation of effective tax rate

	2016	2015
	£m	£m
Profit for the year	**45**	70
Total tax expense	**(21)**	(31)
Profit excluding taxation	**66**	101
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	**13**	20
Reduction in tax rate on deferred tax balances	**(1)**	24
Non-deductible expenses	**2**	3
Tax exempt revenues	**-**	(5)
Income taxed at lower rate of tax (Patent Box)	**(1)**	(3)
Adjustments in respect of previous years	**8**	(8)
Total tax expense included in profit or loss	**21**	31

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

Notes *(continued)*

10 Intangible assets

	Development costs £m
Cost	
Balance at 1 January	873
Other acquisitions – internally developed	67
Balance at 31 December	940
Amortisation and impairment	
Balance at 1 January	300
Amortisation for the year	58
Balance at 31 December	358
Net book value	
At 1 January	573
At 31 December	**582**

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

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

Amortisation of A380 development costs commenced on delivery of the 51st production wing set, which occurred in 2013. As at the end of 2016, 223 A380 production wing sets have been delivered.

Amortisation of A350XWB research and development expenditure commenced in 2015 and it is straight line over 1,200 aircraft which reach station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2016, 104 A350XWB wing sets had reached Station 40.

Amortisation of SA Neo research and development expenditure commenced in 2016 and it is straight line over 2,400 aircraft which reach station 40 (the date when the aircraft starts the integration of the fuselage with the wing). As at the end of 2016, 114 SA Neo wing sets had reached Station 40.

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

Notes *(continued)*

11 Tangible fixed assets

	Land and buildings £m	Plant and Equipment £m	Jigs & tools £m	Under construction £m	Total £m
Cost					
Balance at 1 January	511	503	1,034	432	2,480
Additions	8	-	40	91	139
Transfers	7	53	1	(61)	-
Transfer to work in progress	-	-	-	(9)	(9)
Balance at 31 December	526	556	1,075	453	2,610
Depreciation and impairment					
Balance at 1 January	170	425	651	-	1,246
Depreciation charge for the year	18	36	80	-	134
Balance at 31 December	188	461	731	-	1,380
Net book value					
At 1 January	341	78	383	432	1,234
At 31 December	**338**	**95**	**344**	**453**	**1,230**

Leased plant and machinery

At year end the net carrying amount of plant and machinery leased under a finance lease was £25m *(2015: £27m)*. The leased equipment secures lease obligations (see note 17).

Tangible fixed assets under construction

The amount of borrowing costs capitalised during the period was £nil (2015: £nil).

Included in the cost of tangible fixed assets is £2m (2015: £2m) in respect of capitalised finance costs.

Land and Buildings

The net book value of land and buildings comprises:

	2016 £m	2015 £m
Freehold	**71**	73
Short leasehold	**267**	268
	338	341

Notes *(continued)*

12 Fixed asset investments

The Company has the following fixed asset investments, with a total carrying value of £28,000 (2015: £28,000)

	Aggregate of capital and reserves	Profit or loss for the year	Address of registered office	Class of shares held	Ownership 2016	Ownership 2015
	£m	£m			%	%
Subsidiary Undertakings						
Airbus Filton Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Toulouse SAS	2	-	35 avenue Jean Monnet 31770, Colomiers, France	Ordinary	100	100
Airbus UK Fairlawn Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Haycroft Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Pegasus Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100
Airbus UK Rodney Limited	-	-	Pegasus House, Aerospace Avenue, Filton, Bristol, BS34 7AR, England	Ordinary	100	100

13 Stocks

	2016	2015
	£m	£m
Raw materials and consumables	**27**	45
Work in progress	**446**	376
Finished goods	**106**	89
Payments on account	**198**	192
	777	702

Notes *(continued)*

14 Debtors

	2016 £m	2015 £m
Trade debtors	**36**	33
Amounts owed by group undertakings	**764**	711
Other debtors including taxation	**111**	120
Deferred tax assets (see note 19)	**514**	473
Prepayments and accrued income	**32**	21
	1,457	1,358
Due within one year	**959**	881
Due after more than one year	**498**	477
	1,457	1,358

15 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Obligations under finance leases - Airbus Financial Services (see note 17)	**2**	2
Obligations under finance leases – other (see note 17)	**1**	1
Trade creditors	**744**	619
Amounts owed to group undertakings	**1,065**	831
Other creditors including social security	**24**	24
Repayable Government advances (see note 18)	**51**	78
Accruals	**218**	223
Deferred income	**137**	154
Other financial liabilities (see note 18)	**8**	3
	2,250	1,935

Included in amounts owed to group undertakings is £996m *(2015: £806m)* which relates to Airbus Group.

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

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

16 Creditors: amounts falling after more than one year

	2016 £m	2015 £m
Obligations under finance leases - Airbus Financial Services (see note 17)	**25**	27
Obligations under finance leases – other (see note 17)	**2**	3
Repayable Government advances (see note 18)	**620**	791
Other creditors	**6**	5
Other financial liabilities (see note 18)	**8**	14
	661	840

Notes *(continued)*

17 Interest-bearing loans and borrowings

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

	2016	2015
	£m	£m
Creditors falling due more than one year		
Finance lease liabilities – Airbus Financial Services	**25**	27
Finance lease liabilities – other	**2**	3
	27	30
Creditors falling due within less than one year		
Finance lease liabilities – Airbus Financial Services	**2**	2
Finance lease liabilities – other	**1**	1
	3	3

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Repayment schedule**	**2016**	2015
					£m	£m
Finance lease liabilities - Airbus Financial Services	GBP	GBP LIBOR	2029	20 years	**27**	29
Finance lease liabilities - other	GBP	6.0%	2019	15 years	**3**	4
					30	33

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016	Minimum lease payments 2015
	£m	£m
Less than one year	**3**	3
Between one and five years	**9**	10
More than five years	**18**	20
	30	33

Notes *(continued)*

18 Other financial liabilities

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

	2016	2015
	£m	£m
Amounts falling due after more than one year		
Financial liabilities designated as fair value through profit or loss	**8**	14
Other financial liabilities measured at amortised cost – repayable Government advances	**620**	791
	628	805
Amounts falling due within one year		
Financial liabilities designated as fair value through profit or loss	**8**	3
Other financial liabilities measured at amortised cost – repayable Government advances	**51**	78
	59	81

Financial liabilities designated as fair value through profit or loss

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

Interest rate swaps – the Company holds two interest rate swaps under which a floating interest rate has been swapped for a fixed interest rate. The interest rate swaps are due to mature in 2018.

The basis for assessing fair value of the above derivatives is disclosed in note 23 (b).

Other financial liabilities measured at amortised cost – repayable Government advances

The repayment profile for repayable Government advances is based upon the most up to date sales forecasts available. Based on this repayment profile, the amount repayable in more than five years represents approximately 70% *(2015: 75%)* of the aggregate amount outstanding at the year end.

Notes *(continued)*

19 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £m	2015 £m	Liabilities 2016 £m	2015 £m	Net 2016 £m	2015 £m
Accelerated capital allowances	**-**	-	**46**	63	**46**	63
Employee benefits	**(172)**	(121)	**-**	-	**(172)**	(121)
Temporary differences on Airbus result	**(67)**	(61)	**-**	-	**(67)**	(61)
Unused tax losses	**(289)**	(316)	**-**	-	**(289)**	(316)
Other	**(32)**	(38)	**-**	-	**(32)**	(38)
Tax (assets) / liabilities	**(560)**	(536)	**46**	63	**(514)**	(473)

£41m of the net deferred tax asset is expected to be utilised within one year.

20 Provisions

	Supplier claims £m	Other provisions £m	Total £m
Balance at 1 January 2016	47	10	57
Provisions made during the year	43	5	48
Provisions used during the year	(47)	(4)	(51)
Balance at 31 December 2016	**43**	**11**	**54**

Supplier claims provision is expected to be utilised within one year. £5m of the other provisions is expected to be utilised within one year, the remainder is expected to be utilised in greater than five years.

Accounting estimates and judgements are discussed further in note 28.

Notes *(continued)*

21 Employee benefits

Group plans

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

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

Multi-employer plans (BAE Systems)

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

Based on the funding situation of the respective pension schemes, the pension plan trustees determine the contribution rates to be paid by the participating employers to adequately fund the schemes. The different UK pension plans in which the Company participates are currently underfunded. BAE Systems has 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.

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

The other schemes qualify as multi-employer defined benefit pension plans. Based on detailed information about the other pension schemes provided by BAE Systems, the Company 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 the Company 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.

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

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

Notes *(continued)*

21 Employee benefits *(continued)*

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

Net pension liability

	2016
	£m
Defined benefit obligation	**(3,261)**
Plan assets	**2,254**
Net pension liability	**(1,007)**

Movements in present value of defined benefit obligation

	2016
	£m
At 1 January 2016	**(2,530)**
Current service cost	**(51)**
Interest expense	**(98)**
Remeasurement: actuarial gains/(losses)	**(644)**
Contributions by members	**(2)**
Benefits paid	**64**
At 31 December 2016	**(3,261)**

Movements in fair value of plan assets

	2016
	£m
At 1 January 2016	**1,865**
Interest income	**74**
Remeasurement: return on plan assets less interest income	**242**
Contributions by employer	**136**
Contributions by members	**2**
Benefits paid	**(65)**
At 31 December 2016	**2,254**

Notes *(continued)*

21 Employee benefits *(continued)*

Expense recognised in the profit and loss account

	2016 £m	2015 £m
Current service cost	**51**	58
Net interest on net defined benefit liability	**24**	33
Total expense recognised in profit or loss (see note 4)	**75**	91

The fair value of the plan assets was as follows:

	2016 Fair value £m	2015 Fair value £m
Equities	**926**	784
Government debt	**390**	330
Corporate bonds	**549**	424
Property	**153**	149
Other	**236**	178
	2,254	1,865

Risks

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

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

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

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

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

Notes *(continued)*

21 Employee benefits *(continued)*

Principal actuarial assumptions at the year end were as follows:

	2016 %	2015 %
Discount rate	**2.6**	3.9
Future salary increases	**2.6**	3.2
Rate of pension payment increase	**3.1**	2.3-3.2
Inflation rate	**3.1**	3.2

The valuations used for the disclosures are based on the most recent actuarial valuation as of 31 March 2014 undertaken by independent qualified actuaries as updated to assess the obligation and plan asset at 31 December each year.

In valuing the liabilities of the pension fund at 31 December 2016, mortality assumptions have been made for the Main Scheme based on the mortality base table S2NA (scaled 101%).

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity.

The discount rate is determined with reference to the full yield curve of AA-rated sterling-denominated corporate bonds of varying maturities.

Membership data is based on the 2014 triennial valuation, updated for mortality and salary increase assumptions, as set out above.

Defined contribution plans

The Company participates in a number of defined contribution pension plans. The total expense relating to these plans in the current year was £4m *(2015: £6m).*

A further expense of £11m *(2015: £10m)* has been recognised in relation to Group defined benefit plans, accounted for as defined contribution plans.

22 Capital and reserves

	2016 £m	2015 £m
Allotted, called up and fully paid		
1,467,301,548 ordinary shares of £1 each	**1,467**	1,467

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

Notes *(continued)*

23 Financial instruments

23 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2016 **£m**	2015 £m
Trade debtors	**36**	33
Other debtors including taxation	**111**	120
Prepayments and accrued income	**32**	21
Trade creditors	**(744)**	(619)
Other creditors including social security	**(30)**	(29)
Accruals and deferred income	**(355)**	(377)
Liabilities measured at amortised cost – repayable Government advances	**(671)**	(869)
Liabilities measured at amortised cost – finance lease liabilities	**(30)**	(33)
Liabilities measured at fair value through profit or loss	**(16)**	(17)

23 (b) Financial instruments measured at fair value

Derivative financial instruments

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

The fair value of interest rate swaps is based on third party confirmations from the bank counter-parties as adjusted for own credit risk.

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 **£m**	2015 £m
Less than one year	**23**	24
Between one and five years	**90**	95
More than five years	**74**	105
	187	224

During the year £23m was recognised as an expense in the profit and loss account in respect of operating leases (*2015: £24m*).

Notes *(continued)*

25 Commitments

Capital commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £91m *(2015: £70m)*.

26 Related parties

Balances outstanding at period end are as follows:

	Receivables outstanding 2016 £m	2015 £m	Creditors outstanding 2016 £m	2015 £m
Entities with control, joint control or significant influence	**-**	-	**-**	-
Entities over which Company has control, joint control or significant influence (subject to wholly owned exemption)	**32**	29	**2**	-
	32	29	**2**	-

The balances stated above relate to transactions with a non-wholly owned subsidiary of Airbus Group. Transactions take place on an arm's length basis and relate to trading activities.

27 Ultimate parent Company and parent Company of larger group

The Company is a subsidiary undertaking of Airbus Operations SAS.

The largest group in which the results of the Company are consolidated is that headed by Airbus SE (formerly Airbus Group SE), incorporated in the Netherlands. The smallest group in which they are consolidated is that headed by Airbus SAS, incorporated in France. The consolidated financial statements of Airbus SE (formerly Airbus Group SE) are available to the public and may be obtained from Mendelweg 30, 2333 CS Leiden, The Netherlands.

Notes *(continued)*

28 Accounting estimates and judgements

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

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

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

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

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

Employee benefits — The Company 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. These factors include key actuarial assumptions including the discount rate, expected salary increases and mortality rates. 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 21 Employee Benefits for further information.

Provisions — The determination of provisions, for example for claims from suppliers for development activity, is based on best available estimates, past experience and legal input where appropriate.

Repayable Government advances – Adjustments to the carrying value of repayable Government advances are determined with reference to forward Government gilt rates and future delivery profile, the latter being based on management's best estimates.

Income taxes —At each year end, the Company assesses whether the realisation of future tax benefits is probable to recognise deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realised from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available tax strategies are lowered, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilise future tax benefits. The basis for the recoverability test of deferred tax assets is the same as the Company's latest 5 year operative planning 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.