

Airbus Operations Limited

Annual report and financial statements

Registered number 3468788

31 December 2014

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Strategic report

The performance of Airbus Operations Limited should be taken in context with the performance of the Airbus group as a whole, the key results of which are detailed below:

Orders and deliveries

Airbus exceeded commercial targets in 2014, achieving a new record of 629 aircraft deliveries (490 A320 Family aircraft, 108 A330, 30 A380, 1 A350 XWB) to 89 customers (8 new). Airbus also achieved 1,456 net orders from 67 customers (of which 14 are new) comprising 1,321 single aisle aircraft and 135 widebodies. As a result, by year end, the backlog had climbed to a new industry record of 6,386 aircraft valued at US\$ 919.3 billion at list prices.

At 2014 year end, Airbus commanded more than 50 per cent gross market share (aircraft above 100 seats). Among the numerous sales achievements was the A330neo's success in attracting 120 firm endorsements within just six months of its launch. Another commercial highlight was Delta's decision to select the A330neo for its transatlantic services and the A350 for its transpacific routes. A third highlight of 2014 was the enduring popularity of our A320neo and neo aircraft which together attracted numerous orders especially from the leasing companies.

Industrially, the clear milestone of the year was the completion of A350 XWB testing and certification culminating in the on-time delivery of the first aircraft for Qatar Airways. We also reached our target of delivering 30 A380s while welcoming Asiana, Qatar Airways and Etihad as new operators of this flagship aircraft. As the A330neo development programme gains momentum, the highly popular A330ceo continues to benefit from our commitment to incremental innovation. Meanwhile, the A320neo programme is proceeding on track following its first flight September 2014, paving the way for certification in Q3 and first deliveries in Q4.

Airbus Group has recognised a €551m one-off charge in 2014 for delays on the A400M aircraft due to production problems.

Research and development (R&D)

The main areas of research and development undertaken by the group are outlined below:

A350XWB

On 13 August 2014, in the A350XWB programme, MSN005 test aircraft took off on a three-week test programme, during which 26 flights to 14 important airports throughout the world had to be carried out within 20 days. The Route Proving, also known as the Function and Reliability Testing, serves as evidence for the aviation authorities and customers that the A350 XWB satisfies the performance criteria under the normal operating conditions promised by Airbus. Thereby the criteria tested included landing at and take-off from a high altitude airport, operation in hot and dry conditions, operating in hot and humid conditions, flying a polar route, and crossing the Atlantic, Pacific and Indian Oceans.

The aircraft flew 150,000 km in 180 flight hours over 6 continents, and no delays due to mechanical problems were incurred.

This completed the 14 month test programme, during which the five A350 XWB test aircraft carried out over 2,600 flight hours and more than 600 flights.

A350-900

The A350-900 obtained the Type Certificate from the European Aviation Safety Agency (EASA) on 29 September 2014, and the US Federal Aviation Administration (FAA) issued the corresponding Type Certificate on 12 November 2014.

On 22 October 2014, Common Type Rating was approved for the joint A350 XWB and A330 pilot training. This offers the airlines considerable cost savings because no full-flight-simulator has to be used and the pilot training time is reduced to only eight days.

A350-1000

The A350-1000 aircraft is progressing well with the first deliveries planned for 2017.

Strategic report *(continued)*

Research and development (R&D) (continued)

A400M

In the A400M programme, the flight tests of the modern military functionalities of the A400M continued in 2014.

Testing of parachute airdrops took place in several steps, using both the ramp aerial-delivery system (RAS-wedge) and also the doors for parachute jumps. The A400M can transport up to 116 fully equipped paratroopers.

Finally, containers were stowed in the cargo hold using the container delivery system and released by gravity. This test demonstrated the maximum capacity of the A400M for this container type, which is a significant contractual requirement for the A400M.

Air-to-air refuelling tests on the Hornet F/A-18 fighter aircraft were also successful. The A400M has a normal fuel capacity of 50.8 tonnes, which can be increased by additional tanks in the cargo hold, making it potentially the most efficient tanker in the market. Every series A400M is capable ex-factory of being deployed as a tanker and only needs an external tank probe to carry out this task.

A380

In the A380 programme, costs incurred in 2014 are linked to modifications to ensure a continuous improvement of the programme.

A320neo

Airbus created a new industry standard with A320neo, which has attracted an extraordinarily positive response from customers. Neo stands for new engine option and aims for a 15% saving in fuel consumption.

The successful first flight took place on 25 September 2014. Assembly of the second test aircraft in the Final Assembly Line in Hamburg is on schedule.

A330neo

The A330neo was launched in July 2014. Compared with its predecessor, the A330neo will present, in addition to new latest generation engines, aerodynamic improvements, new cabin amenities and a 14 percent reduction in fuel consumption per seat. Furthermore, its range has been increased by up to 400 nautical miles. Airbus plans that deliveries of the first A330neo will start in Q4 2017. The monthly delivery rate in the long-range programme is about 10 aircraft.

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 our 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.

Strategic report *(continued)*

Risks and uncertainties

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. The main guidelines, objectives and procedures, which define the ERM system, are made known throughout the group with the ERM policy manual. 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 Airbus Group. The ERM system provides the basis for all sub-processes at the various levels of the organisation.

Airbus operates an Advanced Pricing Agreement which eliminates the majority of risk factors for Airbus Operations Limited (see Turnover and profit accounting policy in note 1). Although the majority of exchange rate risk is mitigated, the Company's annual share of the total Airbus result is denominated in Euros and therefore Airbus Operations Limited's profitability is impacted by Euro exchange fluctuations. The only significant remaining risk relates to interest rates on the outstanding Airbus Group funding balance and repayable Government advances

Full disclosure of the risks and uncertainties faced by Airbus is included in the Airbus Group financial statements which are available from the address in note 1. Any provisions required in relation to the operational risks on key programmes faced by the group are recognised at group level.

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 5);
- Employee engagement (see employee section on page 4);
- Ethics and compliance;
- Community engagement.

Recognising aviation's 2% contribution to manmade CO₂¹, 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's 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 double every 15 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.

¹ Intergovernmental Panel on Climate Change.

² Airbus Global Market Forecast 2014 - 2033

³ <http://www.atag.org/facts-and-figures.html>

Strategic report *(continued)*

Corporate Social Responsibility (continued)

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 110,000 people in the UK and supports an additional workforce of around 130,000⁴. It is estimated that in the UK, Airbus secures 100,000 jobs through an extended supply chain of more than 1,000 UK companies. 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 14 per cent growth in the UK aerospace sector since 2011. We are a major partner in the £2 billion Aerospace Technology Institute (ATI), which is already positively promoting research and development into new technology for the aircraft of the future.

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 4,000 apprentices over the last three decades. More than 450 apprentices are currently in the scheme. We take on new apprentices every year across a range of schemes including the unique Undergraduate Apprenticeship programme in which apprentices study for a Bachelor of Engineering degree while working in a salaried role over three years. The first Undergraduate Apprentices graduated from the scheme in late 2014.

During 2014, we continued to integrate eco-efficiency across our business. We retained our ISO 14001 environmental management certification for all our sites and products throughout their lifecycle.

Airbus is committed to the highest ethical standards of integrity, transparency and professionalism. The Airbus Code, which is shared with all employees, 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 for managers.

Airbus recognises the importance of its local communities to its business. Every year we support many community activities focused on youth, education and the environment through the Airbus Corporate Foundation as well as encouraging our employees involvement in the Airbus Charity Challenge employee fundraising initiative. Responsible behaviour is an integral part of everyday business decisions at Airbus.

Key Performance Indicators

Key performance indicators against which Airbus Operations Limited measures the success of its strategy are turnover per employee £449,995 (2013: £421,754), research and development expenditure (net of research and development expenditure tax credit) per employee £38,662 (2013: £33,894) and capital expenditure per employee £18,697 (2013: £22,420).

Employees

The company has a programme in place to assist employees to achieve their full potential and to develop the skills necessary to meet the current and future expectations of our customers. The programme focuses on both personal and technological development within the company.

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.

Airbus continues to focus its energy and resources in the area of employee engagement at work. As commented in previous reports, it regularly asks its employees to express their expectations and concerns. The responses that we receive from our employees in relation to their relative feeling of engagement helps us address the key question of what to do in response. The 2014 survey saw participation increase slightly to 84.8% across the UK comparing favourably with the overall Airbus figure of 87%.

⁴ ADS Aerospace Industry Outlook Report, <https://www.adsgroup.org.uk/pages/83524721.asp>

Strategic report *(continued)*

Health and safety

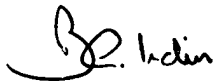
Within Airbus our employee's health and safety remains a top priority. Our Environment, Health and Safety (EHS) management system enables employees to work safely, by providing relevant skills, training, information and ensuring risks are identified and controlled appropriately. Regular performance reports are provided to senior management. Our safety performance continues to improve year on year and we are confident that all injuries are reported and investigated thoroughly.

Our in-house Occupational Health team ensures appropriate health surveillance is carried out and any work related health issues are followed up and reported appropriately. Occupational Health continues to offer employees significant health support which includes Physiotherapy treatments and a comprehensive mental health assessment and support. Health promotion is carried out throughout the year and in 2014 over 1,000 employees had their cholesterol and blood pressure checked. Airbus won the UK Manufacturing Organisation of the year award at the 2014 Heart Safe awards for the third year running recognising the work it has done in the local communities regarding health.

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.

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
Aerospace Avenue
Filton
Bristol
BS34 7PA

8 April 2015

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2014.

Principal activities

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

Airbus's product range comprises four aircraft families with passenger and freighter versions, ranging from A318 single-aisle aircraft with 100 seats to the largest passenger aircraft offered to date to the market, the A380, with two passenger decks. It also includes military aviation products. This product range represents the Company's core business

Proposed dividend

The directors do not recommend the payment of a dividend (2013: £Nil).

Directors and directors' interests

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

Charles Champion
Thomas Williams
Thierry Baril
Klaus Richter
Jean-Pierre Chassagne
Christophe Bardin

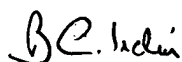
Disclosure of information to auditor

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.

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

Pegasus House
Aerospace Avenue
Filton
Bristol
BS34 7PA
8 April 2015

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, the 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).

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 its 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 2014 set out on pages 9 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 7 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 website 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 2014 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.



Philip Cotton (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

23 APRIL 2015

Profit and loss account
for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Turnover			
Continuing operations	2	3,932	3,800
Change in stocks of finished goods and work in progress		18	(66)
Raw materials and consumables		2,603	2,559
Other external charges		63	120
Staff costs	6	504	504
Depreciation and other amounts written off tangible and intangible fixed assets	3	151	137
Other operating charges		333	433
		<u>(3,672)</u>	<u>(3,687)</u>
Operating profit	2-3	260	113
Interest payable and similar charges	4	(76)	(106)
Profit on ordinary activities before taxation	3-6	184	7
Tax on profit on ordinary activities	7	(30)	185
Profit for the financial year	17	154	192

There is no difference between the results as reported above and those which would be reported on an unmodified historical cost basis. Accordingly no separate note of historical cost profit has been presented.

There are no recognised gains or losses other than those reported above.

The results for the current and preceding financial year all arise from continuing operations.

The notes on pages 13 to 25 form an integral part of the financial statements.

Balance sheet
at 31 December 2014

	<i>Note</i>	2014 £m	£m	2013 £m	£m
Fixed assets					
Intangible assets	8		481		500
Tangible assets	9		1,287		1,236
Investments	10		-		1
			<hr/>		<hr/>
			1,768		1,737
Current assets					
Stocks	11	512		535	
Debtors (including £37m (2013: £42m) due after more than one year)	12	1,278		1,120	
		<hr/>		<hr/>	
		1,790		1,655	
Creditors: amounts falling due within one year	13	(1,538)		(2,750)	
		<hr/>		<hr/>	
Net current assets/(liabilities)			252		(1,095)
			<hr/>		<hr/>
Total assets less current assets			2,020		642
Creditors: amounts falling due after more than one year	14		(964)		(1,000)
Provisions for liabilities	15		(36)		(18)
			<hr/>		<hr/>
Net assets/(liabilities)			1,020		(376)
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	16		1,467		225
Share premium account	17		534		534
Capital contribution reserve	17		572		572
Profit and loss account	17		(1,553)		(1,707)
			<hr/>		<hr/>
Shareholders' funds/(deficit)			1,020		(376)
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 8 April 2015 and were signed on its behalf by:



C Bardin
Director

The notes on pages 13 to 25 form part of these financial statements.

Reconciliation of movements in shareholders' funds/(deficit)
for the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the financial year and net increase in shareholders' funds/(deficit)	154	192
Opening shareholders' deficit	(376)	(568)
Issue of shares	1,242	-
Closing shareholders' funds/(deficit)	1,020	(376)

The notes on pages 13 to 25 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

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

The company has taken advantage of the exemption within FRS 1 not to prepare a cash flow statement as a parent undertaking includes the company in its own published consolidated financial statements.

Related Party Transactions

As 100% of the company's voting rights are controlled within the group headed by Airbus Group, the company has taken advantage of the exemption in Financial Reporting Standards 8, from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent undertaking.

Turnover and profit

Airbus has an intercompany trading process (the "Advanced Pricing Agreement" or "APA") which involves the company invoicing, and being paid for, its Airbus costs each month and receiving an annual share of the total Airbus result.

The APA concluded between the four participating nations - France, Germany, the UK and Spain - is applied for the commercial aviation business. This agreement ensures that the economic results of the commercial aircraft business are determined by consolidating the "Airbus Common Business" (mainly comprising the development, production and assembly of commercial passenger aircraft and freighters as well as support services for the in-service Airbus fleet) of the four national production companies and of Airbus S.A.S. and allocating them to the companies concerned in accordance with their contributions to the industrial cost basis using an "Industrial Key".

The A400M APA follows the same principle as the APA described above and covers the financial years 2014 to 2016. It regulates the billing of each A400M aircraft between Airbus S.A.S., Airbus Operations Limited, Airbus Operations GmbH, Airbus Operations S.A.S. and Airbus Defence & Space SA.

A Spanish company, UTE (Union Temporal de Empresas), has been established for the determination of the overall A400M earnings and their allocation to the partners.

Turnover for activities covered by the two APAs is recognised based on incurred costs, adjusted for the annual result share.

Turnover for activities outside the intercompany process are derived from the net value of deliveries made, work completed or services rendered during the period. These amounts are recognised on an accruals basis.

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation

Depreciation is provided on a straight-line basis to write off the cost of tangible fixed assets over their estimated useful economic lives using the following rates:

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 (including jigs and tools)	- 10 to 15 years, or the project life if shorter

A full year's depreciation has been charged in the year relevant to when the jigs and tools are brought into use.

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 aircraft
Single Aisle NEO jigs and tools	- over 2,400 aircraft

No depreciation is provided on assets in the course of construction.

Cost includes directly attributable finance costs.

Investments

Investments in subsidiary undertakings and associates are stated at cost, less amounts written off.

Research and development expenditure

Expenditure on research is written off to the profit and loss account in the year in which it is incurred. Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are expected to exceed related future sales and adequate resources exist to enable the project to be completed. The amounts capitalised are held as intangible assets and are amortised with reference to wing set deliveries. Amortisation of A380 development costs has commenced and will be completed over 400 production wing sets.

The cost of wing sets that are used on test aircraft in the A380 and A350 XWB testing programmes that will be retained by Airbus for the life of the aircraft are included in fixed assets as plant and machinery and depreciated over 10 years.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or where forward cover contracts have been arranged (generally with or via Airbus Group) at the contracted rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account. No hedge accounting is applied.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Assets obtained under finance leases are capitalised and included in tangible fixed assets at cost and are depreciated over their useful economic lives or the term of their lease whichever is shorter. Future instalments under such leases net of finance charges are included within creditors. Rental payments are apportioned between the finance element which is charged as interest to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments so as to give a constant rate of charge on the outstanding obligation.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

Stocks are stated at lower of cost and net realisable value. In determining the cost of raw materials and consumables, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overhead.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Post-retirement benefits

Employees of the company are members of several pension schemes operated by BAE SYSTEMS plc and Airbus Group. These schemes provide benefits based on final pensionable pay. The company is unable to identify its share of the underlying assets and liabilities of these schemes on a reasonable and consistent basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for these schemes as if they were defined contribution schemes. As a result, the amounts charged to the profit and loss account represent the contributions payable to the schemes in respect of the accounting period.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19.

Repayable Government advances

Repayable advances from the UK Government are provided to the Company to finance research and development activities for certain projects on a risk-sharing basis, 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.

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.

Notes (continued)

2 Segmental analysis

	2014 £m	Europe 2013 £m	By geographical market		2014 £m	Total 2013 £m
			2014 United States of America £m	2013 £m		
Turnover	3,932	3,798	-	2	3,932	3,800
Operating profit	260	106	-	7	260	113
Net assets/liabilities	1,020	(367)	-	(9)	1,020	(376)

All turnover originated in the UK and relates to the company's one principal activity.

3 Profit on ordinary activities before taxation

	2014 £m	2013 £m
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation of tangible fixed assets	112	97
Hire of plant and machinery – rentals payable under operating leases	-	5
Hire of other assets – operating leases	19	21
Research and development expenditure	387	346
Amortisation of development costs	39	40
Royalties payable to UK Government	33	73
Research and development expenditure tax credit	(14)	(5)
Exchange loss/(gain)	25	(11)

Auditor remuneration

	2014 £000	2013 £000
Amounts receivable by the auditor and associates in respect of:		
The auditing of accounts of any associate of the company	160	161
Audit related assurance services	37	39
Taxation compliance services	36	44
Taxation advisory services	84	96
	317	340

Notes (continued)

4 Interest payable and similar charges

	2014 £m	2013 £m
On funding accounts with Airbus Group	7	15
Other interest payable	8	14
On repayable Government advances	61	77
	<u>76</u>	<u>106</u>

5 Directors' remuneration

	2014 £000	2013 £000
Directors' emoluments for services to the company	-	-
	<u>-</u>	<u>-</u>

As in prior years, the activities of the directors are not separable from the group and therefore the directors of the company are remunerated by the group.

6 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 2014	2013
Manufacturing	4,942	5,010
Engineering	1,859	1,935
Administration and support	1,936	2,065
	<u>8,737</u>	<u>9,010</u>

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	398	398
Social security costs	41	40
Other pension costs (see note 19)	65	66
	<u>504</u>	<u>504</u>

Notes (continued)

7 Tax on profit on ordinary activities

<i>Analysis of (charge)/credit in the year:</i>	2014 £m	2013 £m
UK corporation tax		
Current tax	-	-
Deferred tax		
Origination/reversal of timing differences	(41)	13
Adjustments in respect of previous years	11	(21)
Impact of change in tax rate	-	(25)
Reversal of previous impairment	-	218
	<hr/>	<hr/>
Tax (charge)/credit on profit on ordinary activities	(30)	185
	<hr/>	<hr/>

Factors affecting the tax (charge)/ credit for the current year

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

	2014 £m	2013 £m
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	184	7
	<hr/>	<hr/>
Current tax at 21.5% (2013: 23.25%)	40	2
<i>Effects of:</i>		
Capital allowances for period in excess of depreciation	(5)	(6)
Losses utilised in the period	(37)	-
Permanent and temporary differences arising from the share of Airbus result	1	2
Interest disallowed	1	3
Other differences	-	(1)
	<hr/>	<hr/>
Total current tax charge	-	-
	<hr/>	<hr/>

Finance Bill 2014 included reductions in the UK corporation tax rate to 20% by 1 April 2015.

The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

8 Intangible fixed assets

Development costs	2014 £m	2013 £m
Cost		
At beginning of year	620	581
Additions	20	39
	<hr/>	<hr/>
At end of year	640	620
	<hr/>	<hr/>
Amortisation		
At beginning of year	(120)	(80)
Charge for year	(39)	(40)
	<hr/>	<hr/>
At end of year	(159)	(120)
	<hr/>	<hr/>
Net book value		
At end of year	481	500
	<hr/>	<hr/>
At beginning of year	500	501
	<hr/>	<hr/>

Development costs relate to A380 and A350 XWB research and development expenditure. Amortisation of A380 development costs commenced on delivery of the 51st production wing set, which occurred in 2013. As at the end of 2014, 108 A380 production wing sets have been delivered.

Amortisation of A350XWB research and development expenditure commenced in 2014 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 2014, 17 A350XWB wing sets had reached Station 40.

Notes (continued)

9 Tangible fixed assets

	Buildings – short leasehold £m	Plant and machinery £m	Jigs and tools £m	Assets in course of Construction £m	Total £m
Cost					
At beginning of year	447	561	897	414	2,319
Additions	2	4	18	139	163
Transfers	29	40		(69)	-
Disposals		(3)			(3)
At end of year	478	602	915	484	2,479
Depreciation					
At beginning of year	135	387	561	-	1,083
Charge for year	18	48	46		112
Disposals		(3)			(3)
At end of year	153	432	607	-	1,192
Net book value					
At 31 December 2014	325	170	308	484	1,287
At 31 December 2013	312	174	336	414	1,236

Included in the total net book value of plant and machinery is £31m (2013: £37m) in respect of assets held under finance leases. The depreciation allocated for the year to these assets held under finance leases was £4m (2013: £4m). Accumulated depreciation on these assets was £30m (2013: £25m).

10 Investments

	£m
Cost	
At beginning of the year	1
Disposal	(1)
At the end of the year	-

The companies in which the company's interest at the year-end is equal to or greater than 20% are as follows:

	Country of incorporation	Principal Activity	Class and percentage of shares held
Airbus Filton Limited	England and Wales	Dormant	100% of ordinary share capital
Airbus UK Limited	England and Wales	Dormant	100% of ordinary share capital
Airbus UK Toulouse SAS	France	Commercial aerospace activities	100% of ordinary share capital
Airbus UK Fairlawn Limited	England and Wales	Dormant	100% of ordinary share capital
Airbus UK Haycroft Limited	England and Wales	Dormant	100% of ordinary share capital
Airbus UK Pegasus Limited	England and Wales	Dormant	100% of ordinary share capital
Airbus UK Rodney Limited	England and Wales	Property investment and development	100% of ordinary share capital
Groupement Immobilier Aeronautique SA	France	Property investment and development	20% of ordinary share capital

Notes (continued)

11 Stocks

	2014	2013
	£m	£m
Raw materials and consumables	84	90
Work in progress	330	351
Finished goods	98	94
	<u>512</u>	<u>535</u>

12 Debtors

	2014	2013
	£m	£m
Trade debtors	36	20
Amounts owed by group undertakings	788	630
Other debtors including taxation and social security	91	71
Prepayments and accrued income	20	26
Deferred tax asset (note 15)	343	373
	<u>1,278</u>	<u>1,120</u>

The total amount due after more than one year is £37m. This includes £24m of amounts owed by group undertakings, £6m prepayments and £7m other. (2013: £42m)

13 Creditors: amounts falling due within one year

	2014	2013
	£m	£m
Trade creditors	641	555
Amounts owed to group undertakings	608	1,925
Finance lease creditor	1	2
Amounts owed to group undertakings – AFS finance lease	2	2
Repayable Government advances	17	11
Accruals and deferred income	222	230
Other creditors including social security	47	25
	<u>1,538</u>	<u>2,750</u>

Included in amounts owed to group undertakings is £593 m (2013: £1,911m) which relates to Airbus Group.

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2014 £m	2013 £m
Repayable Government advances	648	633
Finance lease creditor	4	5
Amounts owed to group undertakings – AFS finance lease	29	30
Accruals and deferred income	275	324
Other creditors	8	8
	<u>964</u>	<u>1,000</u>

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

Amounts repayable in more than five years:

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 92% (2013: 93%) of the aggregate amount outstanding at the year end.

The interest payable on the finance lease creditor is 6.0% and the debt is repayable over 15 years.

The interest payable on the finance leases with Airbus Financial Services (AFS) is GBP LIBOR and the debt is repayable over 20 years. AFS is a wholly owned subsidiary of Airbus S.A.S.

Analysis of debt (including finance lease obligations):	2014 £m	2013 £m
In one year or less, or on demand	596	1,915
Between one and two years	2	2
Between two and five years	9	9
More than five years	22	24
	<u>629</u>	<u>1,950</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2014 £m	2013 £m
Within one year	3	4
Between one and two years	2	2
Between two and five years	9	9
More than five years	22	24
	<u>36</u>	<u>39</u>

Notes (continued)

15 Provisions for liabilities

	Deferred Taxation £m	Other provisions £m	Total £m
At beginning of the year – debtors	(373)	-	(373)
At beginning of the year - provisions	-	18	18
Utilised during the year	30	(18)	12
Provision created during the year	-	36	36
Previous impairment reversed	-	-	-
At end of year – debtors (note 12)	(343)	-	(343)
At end of year - provisions	-	36	36

Other provisions include £29m (2013: £14m) in relation to supplier claims, £4m (2013: £4m) in relation to asset retirement obligations and £3m (2013: £Nil) Other provision. Supplier claims provision is expected to be utilised within one year.

The elements of deferred taxation are as follows.

	2014 £m	2013 £m
Accelerated capital allowances	53	48
Tax losses	(334)	(359)
Temporary differences within share of Airbus result	(61)	(61)
Other timing differences	(1)	(1)
Deferred tax asset	(343)	(373)

16 Called up share capital

	2014 £m	2013 £m
<i>Allotted, called up and fully paid</i>		
1,467,301,548 ordinary shares of £1 each	1,467	225

During 2014, 1,242,300,000 shares were issued to Airbus Operations SAS as part of the recapitalisation of Airbus Operations Limited and then used to repay the debt.

Notes (continued)

17 Share premium and reserves

	Capital contribution £m	Share premium account £m	Profit and loss account £m
At beginning of year	572	534	(1,707)
Retained loss for the year	-	-	154
At end of year	<u>572</u>	<u>534</u>	<u>(1,553)</u>

During 2008 £572m of intercompany debt was waived by Airbus Holding SA. This has been classified as a capital contribution in these accounts.

18 Commitments

a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2014 £m	2013 £m
Contracted	<u>40</u>	<u>87</u>

(b) Annual commitments under non-cancellable operating leases are as follows:

	2014		2013	
	Land and buildings £m	Other buildings £m	Land and Buildings £m	Other Buildings £m
Operating leases which expire:				
Within one year	-	1	-	-
In the second to fifth years inclusive	-	-	-	3
Over five years	23	-	23	1
	<u>23</u>	<u>1</u>	<u>23</u>	<u>4</u>

Notes (continued)

19 Pension scheme

Certain employees of the company are members of the BAE SYSTEMS Pension Schemes operated in the United Kingdom by BAE SYSTEMS plc. The BAE SYSTEMS Pension Schemes are funded defined benefit schemes and the assets are held in separate trustee administered funds.

The BAE SYSTEMS Pension Schemes provide benefits on final pensionable pay. In accordance with IAS 19 *Employee Benefits*, BAE SYSTEMS has disclosed for its UK defined pension schemes a net (pre tax) pension liability of £6,066m as at 31 December 2014 (2013: £4,272m).

In line with the definitions in FRS 17 *Retirement Benefits*, the company has been unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis for the years ended 31 December 2004 – 2014 and, as permitted under FRS 17, the scheme has been accounted for by the company as if the scheme were a defined contribution scheme.

Up until July 2011, the employer's contributions were capped at 12.5% for the main BAE SYSTEMS scheme. Subsequent to this date, the company is required to make employer's contributions in line with other participating members in the scheme, together with its share of any deficit recovery lump sum payments.

Additionally, certain employees of the company, in the United Kingdom and overseas are members of the Airbus Group UK Pension Scheme operated in the United Kingdom with Airbus Defence and Space Limited as the principal employer. The Airbus Group UK Pension Scheme is based on two types of pension provision: final salary and money purchase.

The assets and liabilities of the Airbus Group UK Pension Scheme are not segregated between the member companies. Consequently the company has taken the multi-employer exemption and has accounted for the scheme as if it were a defined contribution scheme.

Of the pension contributions disclosed in note 6, £10m (2013: £8m) out of £65m (2013: £66m) relate to contributions made in respect of the Airbus Group UK Pension Scheme.

20 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a wholly owned subsidiary of Airbus Operations SAS, which is a merged company of Airbus Holding SA and Airbus France SAS, which in turn is a wholly owned subsidiary of Airbus SAS ("Airbus"), an Airbus Group company, incorporated in France. Airbus Group owns 100 percent of the Airbus stock. The consolidated financial statements of Airbus Group, a company incorporated and registered in The Netherlands, within which this company is included, can be obtained from Mendelweg 30, 2333 CS Leiden, The Netherlands.

21 Financial instruments

The company holds two interest rate swaps, with Citibank and Barclays, in order to minimise the exposure to interest rate volatility on the repayment of £512m (2013: £525m) A380 repayable Government advances. The Citibank swap gives a fixed quarterly interest rate of 5.785% over a nominal value of £196m. The Barclays swap gives a fixed quarterly interest rate of 5.98% over a nominal value of £140m.

The market value of these swaps as at 31 December 2014 is £23m adverse (2013: £23m adverse), however this was not recognised in these financial statements since the company is not required to apply fair value accounting and it is not an onerous contract.