

Moreover, the progressive implementation of new financial regulations (MiFID II / MiFIR, CRD4, Bank Restructuring Resolution Directive, etc.) will have an impact on the business model of banks (for example, the split between investment banking and commercial banking activities) and on the capital structure and cost of such banks' activities in relation to over-the-counter derivatives, and therefore on the funding consequences

of central clearing and collateralisation of over-the-counter derivatives for corporations like the Company. This may ultimately increase the cost and reduce the liquidity of the Company's long-term hedges, for example, as banks seek to either pass-on the additional costs to their corporate counterparties or withdraw from low-profit businesses altogether.

## Pension Commitments

The Company participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. As of 31 December 2019, the provision for retirement plans and similar obligations amounted to €8.353 billion. For information related to these plans, please refer to the "Notes to the IFRS Consolidated Financial Statements – Note 31: Post-Employment Benefits". Although the Company has recorded a provision in its balance sheet for its share of the underfunding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading the Company to record additional provisions in respect of such plans.

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

## 2. Business-Related Risks

### Commercial Aircraft Market Factors

Historically, the Company has experienced that order intake for commercial aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel and the air cargo share of freight activity, which are in turn driven by a range of economic variables, such as gross domestic product ("GDP") growth, private consumption levels or working age population size. Other factors, however, play an important role in determining the market for commercial aircraft, such as (i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken out of service and parked pending potential return into service, (iii) passenger and freight load factors, (iv) airline pricing policies and resultant yields, (v) airline financial health and the availability of third party financing for aircraft purchases, (vi) evolution of fuel price, (vii) regulatory environment, (viii) environmental constraints imposed upon aircraft operations, such as the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSA"), carbon standards and other environmental taxes; and (ix) market evolutionary factors such as the growth of low-cost passenger airline business models or the impact of e-commerce on air cargo volumes.

The factors described above may have a material impact on the commercial aircraft industry and, therefore, on the Company's financial condition and results of operations. In 2019, the commercial aircraft business segment of Airbus recorded total revenues of €54.77 billion – representing 77% of the Company's revenues. See "– 1.1.2 Airbus". The significant growth of our commercial aircraft business relative to our Defence, Space and Government activities has diluted the latter's ability to serve as an effective tool to counter commercial cycles.

The commercial helicopter market in which the Company operates has shown cyclical trends and could also be influenced by factors listed above. In addition, the civil & parapublic and in particular the oil & gas market softness has led to, and may in future lead to, a postponement of investments in the acquisition of new platforms and a reduction of flight hours. Structural changes in demand for helicopters in the oil & gas segment are not anticipated at current oil price levels. However, this may change as oil & gas prices fluctuate. The uncertainty on the lead time of the civil and parapublic market recovery may have an impact on Airbus Helicopters' financial results and could lead to cancellations or loss of bookings and services.

## COVID-19 Risks

The Company's business, results of operations and financial condition could be materially affected by the outbreak of the COVID-19 pandemic (also known as "**Coronavirus**").

In early February 2020, the Company stopped operations of the Tianjin Final Assembly Line for approximately one week but was later authorised by the Chinese authorities to restart operations and gradually increase production. On 17 March 2020, the Company decided to temporarily pause production and assembly activities at its French and Spanish sites across the Company for a period of four days. The Company expects production and assembly work to partially resume in France and Spain on 23 March 2020 following health and safety checks after the implementation of stringent measures. Work stations will only re-open if they comply with the new health and safety measures in terms of hygiene, cleaning and self-distancing while improving the efficiency of operations under new working conditions. The outbreak of the COVID-19 pandemic may lead to further disruptions to the Company's internal operations or its ability to deliver products and services.

Chinese domestic and worldwide travel limitations and restrictions have posed logistical challenges and may cause further disruptions to the Company's business, its operations and supply chain and its ability to deliver products and services.

The Company may be affected by weak market and economic conditions in China where it has production facilities and to which it sells its products as well as other markets around the world. Weaker market and economic conditions in China and their knock-on effects in other markets could result in requests by customers to postpone delivery or cancel existing orders for aircraft (including helicopters) or other products including services, or decisions by customers to review their order intake strategy, or weak levels of passenger demand for air travel and cargo activity more generally or travel restrictions, which could negatively impact the Company's results of operations.

The Company has established a crisis management organisation in response to the COVID-19 outbreak and is monitoring the situation and evaluating any potential impacts to production and deliveries.

Although the full impact of the COVID-19 outbreak cannot reasonably be assessed at the time of this report, the Company's business, its operations and supply chain may be disrupted and materially affected by the outbreak and the uncertainty it creates.

For additional information, see "— Information on the Company's Activities — 1.3 Recent Developments".

## Cyber Security Risks

The Company's extensive information and communications systems, industrial environment and products are exposed to cyber security risks. Cyber security threats are rapidly changing and scenarios of attacks are becoming more sophisticated.

The Company is exposed to a number of different cyber security risks, directly or through its supply chain, arising from actions that may be intentional and hostile, accidental or negligent. Intrusion in systems, leakage of information or theft including industrial espionage, sabotage, corruption and availability of data and destabilisation are the main cyber security risks that the Company faces.

All of the above mentioned risks are heightened in the context of the Company's digital transformation, including greater use of cloud services, increasingly capable adversaries, integration with the extended enterprise, increasing use of the "internet of things" and the growing prevalence of mobile devices. Risks related to the Company's industrial control systems, manufacturing processes and products are growing with the increase of

interconnectivity and digitalisation. The growing gap developing between the defences of legacy industrial systems and the capabilities of potential attackers as well as an increasingly competitive landscape of the Company is also at stake.

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

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

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

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

Past terrorist attacks and the spread of disease (such as the Coronavirus or the H1N1 flu pandemic or the Ebola epidemic in 2013-2016) have demonstrated that such events may negatively affect public perception of air travel safety, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest or uncertainties may also affect the willingness of the public to travel by air.

Furthermore, major aircraft accidents may have a negative effect on the public's or regulators' perception of the safety of a given class of aircraft, a given airline, form of design or air traffic management. As a result of such factors, the aeronautic industry may be confronted with sudden reduced demand for air transportation and be compelled to take costly security and safety measures. The Company may, therefore, suffer from a

decline in demand for all or certain types of its aircraft or other products, and the Company's customers may postpone delivery or cancel orders.

In addition to affecting demand for its products, catastrophic events could disrupt the Company's internal operations or its ability to deliver products and services. Disruptions may be related to threats to infrastructure, personnel security

and physical security and may arise from terrorism, natural disasters, fire, damaging weather, and other types of incidents such as drone air traffic disruption. Any resulting impact on the Company's production, services or information systems could have a significant adverse effect on the Company's operations, financial condition and results of operations as well as on its reputation and on its products and services.

## Dependence on Key Suppliers and Subcontractors

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

The Company relies upon the good performance and financial health of its suppliers and subcontractors to meet the obligations defined under their contracts. A supplier's performance and health may be negatively impacted by a variety of topics including a concentrated customer base.

The Company cannot fully protect itself from non-performance of a supplier which could disrupt production and in turn may have a negative effect on its financial condition and results of operations.

Changes to the Company's production or development schedules may impact suppliers so that they initiate claims under their respective contracts for financial compensation. This may have a negative effect on the financial condition and results of operations of the Company.

As the Company's global sourcing footprint extends, some suppliers (or their sub-tier suppliers) may have production facilities located in countries that are exposed to socio-political unrest or natural disasters which could interrupt deliveries. This may have a negative effect on the financial condition and results of operations of the Company. See "— Risk Factors – Financial Market Risks – The Company's business, results of operations and financial condition could be materially affected by Brexit".

## Industrial Ramp-Up

As a result of the large number of new orders for aircraft recorded in recent years, the Company continues the process of sustainable production increase in order to meet the agreed upon delivery schedules for such new aircraft. The Company's ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given the high demand by the Company and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of engines and buyer-furnished equipment) who may experience resource

or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, across Airbus and the two Divisions, which carry their own resource demands. Therefore, failures relating to any or all of these factors could lead to missed or delayed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders. The associated risks may increase as the Company and its competitors announce further production rate increases. For more details on specific programme ramp-up risks, see "— Programme-Specific Risks" below.

## Technologically Advanced Products and Services

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

Certain of the Company's contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, to provide cancellation rights, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should the Company fail to meet delivery schedules or other measures of contract performance — in particular with respect to new development programmes such as the A220, A350-900 and -1000 XWB, A400M, H175, H160 or Ariane 6 and to modernisation programmes such as the A320neo and the A330neo. See "— Programme-Specific Risks" below.

In addition to the risk of contract cancellations, the Company may also incur significant costs or loss of revenues in connection with remedial action required to correct any performance issues detected in its products or services. See “— Management’s Discussion and Analysis of Financial Condition and Results of Operations — 2.1.1.3 Significant programme developments, restructuring and related financial consequences in 2017, 2018 and 2019”. Moreover, to the extent that a performance issue is considered to have a possible

impact on safety, regulators could suspend the authorisation for the affected product or service.

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

## Dependence on Public Spending and on Certain Markets

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

economic, political or budgetary constraints in any one of these countries may have a negative effect on the ability of the Company to enter into or perform such contracts.

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

## Availability of Government and Other Sources of Financing

From 1992 to 2004, the European Union and the US operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US unilaterally withdrew from this agreement, which eventually led to the US and the European Union making formal claims against each other before the World Trade Organization (“WTO”). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues.

Separately, Brazil has initiated WTO proceedings citing Canadian support to the C Series aircraft, the aircraft that the Company manufactures, markets and supports as the A220 aircraft under the Airbus Canada Limited Partnership (prior to 1 June 2019 known as the C Series Aircraft Limited Partnership (“CSALP”)) agreement, finalised in 2018. Here too, a negotiated outcome would be preferable. Domestic proceedings in the US based on alleged subsidies to the C Series were dismissed. The terms and conditions of any new agreement, or the final outcome of the formal WTO or other trade law proceedings, may limit access by the Company to risk-sharing funds for large projects, may establish an unfavourable balance of access to government funds by the Company as compared to its US competitors or may in an extreme scenario cause the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to the Company.

On 18 October 2019, the US imposed, among other targeted goods, a tariff of 10% on new aircraft exported from the European Union to the US. On 14 February 2020, the USTR announced the US is increasing the additional duty rate imposed on aircraft imported from the EU to 15%, effective 18 March 2020. Airbus deliveries to the US from the final assembly line (“FAL”) in Mobile are exempted from tariffs. The tariffs could have a material

impact on the Financial Statements, business and operations of the Company. At this stage it is too early to determine the full extent of any financial impact on the Company. Duties on the importation of Airbus products into the US could result in (i) increased costs for the aerospace and airline industries as well as other industries that rely on air transport, (ii) weakening demand for new aircraft and negatively affecting the financial condition of air carriers and lessors, (iii) decisions to defer, reject or reschedule the delivery of new aircraft or limit the routes upon which new aircraft will be used, (iv) increased costs to consumers, (v) retaliation by the EU with its own import duties to be applied to US products, and/or (vi) damage to the Company’s business or reputation *via* negative publicity adversely affecting the Company’s prospects in the commercial market place. See WTO in “— Risk Factors – Legal Risks – Legal and Regulatory Proceedings” and “— Information on the Company’s Activities — 1.1.7 Legal and Arbitration Proceedings”.

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

## Competition and Market Access

The markets in which the Company operates are highly competitive. With regard to the Company's commercial aircraft business for aircraft with more than 150 seats, the Company today operates in a competitive duopoly. The design, development and production of commercial aircraft involves high barriers to entry (including certification requirements, large investment needs, skilled competencies and access to technology) and the two main market participants have secured significant order backlogs.

In some areas, competitors may have more extensive or more specialised engineering, manufacturing and marketing capabilities. In addition, some of the Company's largest customers and/or suppliers may develop the capability to manufacture products or provide services similar to those of the Company. This would result in these customers/suppliers marketing their own products or services and competing directly with the Company for sales of these products or services, all of which could significantly reduce the Company's revenues. Further, new players are operating or seeking to operate in the

Company's existing markets, which may impact the structure and profitability of these markets. In addition, enterprises with different business models and alternative technologies could substitute some of the Company's products and services. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that the competitive pressures it faces in all business areas will not result in reduced revenues, market share or profit.

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

## Major Research and Development Programmes

The business environment in many of the Company's principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. For the year 2019, research and development expenses were € 3.4 billion. For the year 2018, research and development expenses were € 3.2 billion, mainly reflecting development cost on the A320neo.

Due to the technologically advanced complex nature of the products that the Company produces and the long period, including ramp up time, it takes to produce them, the business plans underlying such investments often contemplate a long payback period before these investments are recouped, and assume a certain level of return over the course of this period in order to justify the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

Successful development of new programmes also depends on the Company's ability to attract and retain aerospace engineers and other professionals with the technical skills and experience required to meet its specific needs. Demand for such engineers may often exceed supply depending on the market, resulting in intense competition for qualified professionals. The Company's attrition rate in 2019 was 4.4% overall (including subsidiaries) and 8.43% in subsidiaries only (compared to 4.9% overall and 8.51% in subsidiaries only in 2018). There can be no assurances that the Company will attract and retain the personnel it requires to conduct

its operations successfully and in particular to attract and retain aerospace engineers and other professionals with the technical skills and experience required for its research and development programmes. Failure to attract and retain such personnel or an increase in the Company's employee turnover rate could negatively affect the Company's financial condition and results of operations more generally and particularly its ability to successfully execute its research and development programmes.

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

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

## Acquisitions, Divestments, Joint Ventures and Strategic Alliances

As part of its business strategy, the Company may acquire or divest businesses and/or form joint ventures or strategic alliances. Executing acquisitions and divestments can be difficult and costly due to the complexities inherent in integrating or carving out people, operations, technologies and products. There can be no assurance that any of the businesses that the Company intends to acquire or divest can be integrated or carved out successfully, as timely as originally planned or that

they will perform well and deliver the expected synergies or cost savings once integrated or separated. In addition, regulatory, administrative or other contractual conditions can prevent transactions from being finalised. The Company's business, results of operations and financial condition may be materially affected if these transactions will not be successfully completed or do not produce the expected benefits.

## Public-Private Partnerships and Private Finance Initiatives

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

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

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

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

## Programme-Specific Risks

In addition to the risk factors mentioned above, the Company also faces the following programme-specific risks that could have a material impact on the Company's financial condition and results of operations:

**A320neo programme.** In connection with the A320neo programme, the Company faces the following main challenges: A320neo (new engine option) ramp up including the A321neo ACF (Airbus Cabin Flex) with its new airframe and cabin design; management of the internal and external supply chain pressure as a result of the industrial ramp-up; ensuring maturity and high quality service support for a growing number of operators of A320neo. The main focus will be with the further ramp-up for the Company and both engine suppliers. For both engine suppliers, challenges are to (i) meet the delivery commitments in line with agreed schedule and ensure sufficient engine availability; (ii) fix in-service maturity issues in line with the Company and customer expectations and mitigate the associated consequences; (iii) manage engine upgrades and performance. Two new versions will be launched for the A320 family: the Airspace Cabin and the A321 XLR, respectively in early 2021 and in 2023.

**A400M programme.** The Company signed a contract amendment to restructure the contract. Risks remain on development of technical capabilities and the associated costs, on securing sufficient export orders in time, on aircraft operational reliability in particular with regards to engines and on cost reductions as per the revised baseline.

For further information, please refer to the "Notes to the IFRS Consolidated Financial Statements — Note 11: Revenue and Gross Margin".

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

**A380 programme.** In connection with the A380 programme, the Company faces the following main challenges: programme wind-down and manage in service issues.

**A330 programme.** In connection with the A330 programme, the main challenge the Company faces is to manage the new production plan of the A330neo. Given the current overall customer demand for widebody aircraft, the Company will retain a 3.5 rate. The A330neo development progresses. For the engine supplier, the main challenges relate to meeting the delivery commitments and ensuring engine maturity.