# FIRST-HALF 2018 EARNINGS

# Disclaimer

> **FORWARD-LOOKING STATEMENTS**

**This document contains forward-looking statements relating to Safran, Zodiac Aerospace and their combined businesses, which do not refer to historical facts but refer to expectations based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those included in such statements. These statements or disclosures may discuss goals, intentions and expectations as to future trends, synergies, value accretions, plans, events, results of operations or financial condition, or state other information relating to Safran, Zodiac Aerospace and their combined businesses, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "plan," "could," "would," "estimate," "expect," "forecast," "guidance," "intend," "may," "possible," "potential," "predict," "project" or other similar words, phrases or expressions. Many of these risks and uncertainties relate to factors that are beyond Safran's or Zodiac Aerospace's control. Therefore, investors and shareholders should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: uncertainties related in particular to the economic, financial, competitive, tax or regulatory environment; the risks that the new businesses will not be integrated successfully or that the combined company will not realize estimated cost savings and synergies; Safran's or Zodiac Aerospace's ability to successfully implement and complete its plans and strategies and to meet its targets; the benefits from Safran's or Zodiac Aerospace's (and their combined businesses) plans and strategies being less than anticipated; and the risks described in the registration document (document de référence). The foregoing list of factors is not exhaustive. Forward-looking statements speak only as of the date they are made. Safran and Zodiac Aerospace do not assume any obligation to update any public information or forward-looking statement in this document to reflect events or circumstances after the date of this document, except as may be required by applicable laws.**

> **USE OF NON-GAAP FINANCIAL INFORMATION**

**This document contains supplemental non-GAAP financial information. Readers are cautioned that these measures are unaudited and not directly reflected in the Group's financial statements as prepared under International Financial Reporting Standards and should not be considered as a substitute for GAAP financial measures. In addition, such non-GAAP financial measures may not be comparable to similarly titled information from other companies.**


# 1

## H1 2018 HIGHLIGHTS

Philippe PETITCOLIN - CEO

# H1 2018 Wrap up

**Excellent financial performance**

- Organic growth of adjusted revenue[1] at 10.1%
- Adjusted recurring operating income[1] up 20.3% (excluding Zodiac Aerospace)
- Free cash flow representing 63% of recurring operating income (excluding Zodiac Aerospace)

**2018 guidance raised for revenue, recurring operating income and free cash flow thanks to strong organic momentum**

**CFM56-LEAP transition on track**

- Record level of CFM engines deliveries (CFM56 and LEAP) to support airframers
- LEAP production ramp up is proceeding; confirmation of 2018 production targets

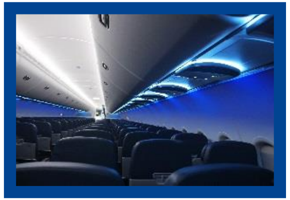
**Integration of Zodiac Aerospace making progress**

- Zodiac Aerospace financial performance in line with roadmap
- Recovery of Zodiac Aerospace's aircraft interiors operations on track
- Confirmation of financial targets for synergies and accretion as per Q1 2018 revenue announcement

**Creation of a 50/50 JV with Boeing to design, build and service Auxiliary Power Units**

**New collaboration with Bell for on demand mobility**

LEAP engines



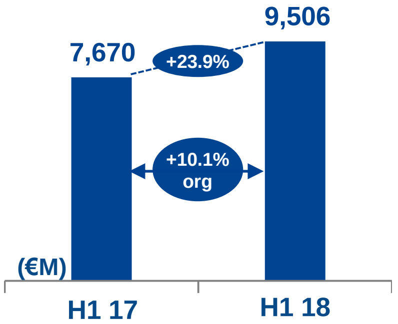
Zodiac Aerospace retrofit cabin & structures

**Safran, a global Aerospace leader: #3 in Aerospace[2] and #2 in Aerospace Equipment**

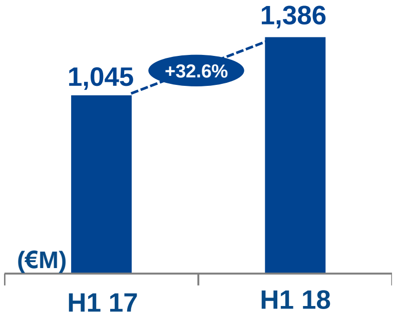
*[1] See slide 15 for bridge with consolidated figures. (2) excluding airframers*

# H1 2018 financial highlights (H1 2017 restated for the application of IFRS 15)

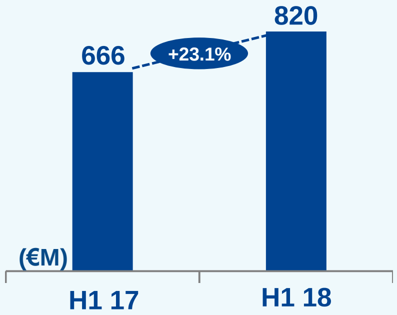
Adjusted revenue[1] growth of 23.9% (including €1.5Bn from Zodiac Aerospace)
Strong organic growth of 10.1%



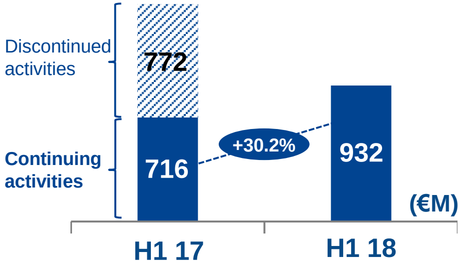

Adjusted recurring operating income[1] growth of 32.6% (including €129M from Zodiac Aerospace)



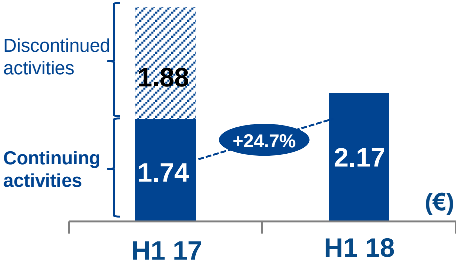

Strong free cash flow generation at €820M (including €25M from Zodiac Aerospace)



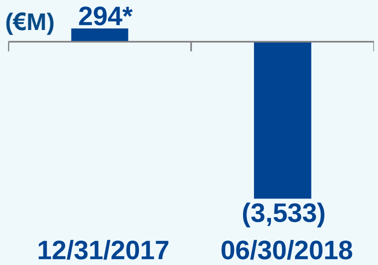

Adjusted net profit[1] (group share)




Basic earnings per share (group share)




Net debt position




*Excluding €2Bn of securities pledged during the period of the tender offer for the acquisition of Zodiac Aerospace



(1) *See slide 15 for bridge with consolidated figures*

SAFRAN

# Update on the CFM56-LEAP transition

## 20% increase in CFM deliveries (CFM56 and LEAP) over H1 2018

- 1,029 deliveries compared with 857 units in H1 2017

## Executing on LEAP production ramp-up

- 438 LEAP delivered in H1 2018 compared to 147 engines in H1 2017
  - 100% dual-source capability on line
  - Challenging ramp-up: deliveries still behind customers' requests
- Production cost reduction program on track

## CFM56 production rate down, as expected

- 591 units delivered in H1 2018 compared with 710 units in H1 2017

## Confirmation of 2018 delivery targets

- LEAP: around 1,100 deliveries
  - Recovery plan in place to catch up with customers' requests by year-end
- CFM56: around 1,000 deliveries

LEAP engine


CFM56 assembly line

**Adressing the challenges of an unprecedented ramp-up**

# Update on LEAP program

## LEAP-1A

- In operations at 27 airlines which represents 240 aircraft
- More than 1.2 million flight hours accumulated to date
- 58% market share on A320neo at June 30, 2018

## LEAP-1B

- In operations at 41 airlines which represents 183 aircraft
- More than 550,000 flight hours accumulated to date

## LEAP-1C

- Approximately 80 flight hours logged to date

LEAP rolling line

LEAP delivery

**LEAP: best-in-class utilization thanks to stable, robust design and industry leading support team**

# H1 2018 business highlights (1/2)

## CFM commercial success

- Excellent 2018 Farnborough International Airshow
  - 858 LEAP and CFM56 orders and commitments, and long-term services agreements, for a total value of $15.7bn list price
- Backlog LEAP (orders and commitments): 15,450 engines at July 31, 2018
- Backlog CFM56: 434 engines at July 31, 2018

## Helicopter turbines: two engines type certification granted by EASA

- For Arriel 2H engine (powering the Avicopter AC312E)
- For Ardiden 3C (powering the Avicopter AC352)

## Silvercrest

- Safran and Dassault Aviation reached an agreement regarding the indemnity to be paid to Dassault Aviation related to the termination of the Silvercrest engine for the Falcon 5X
- Amount covered by the provisions previously booked and payment spread over 3 years starting 2018
- The agreement will not change the profitability and cash flow generation outlook of Safran

## Signature of several carbon brakes contracts including:

- Turkish Airline for 25 A350 and 25 787; Sun Express for 32 737 MAX; Indigo for 100 A320neo

## Safran Electronics & Defense

- Introducing of Geonyx™, a new family of inertial navigation and pointing systems for land vehicles
- MoU between Raytheon and Safran on next-gen sighting systems for combat vehicles

Carbon brake

Ardiden 3C





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# H1 2018 business highlights (2/2)

## Zodiac Aerosystems

- Selected by ANA to retrofit its 16 Boeing 777-300 with the inflight connectivity system RAVE™ Broadband as well as its 8 Boeing 777-200, 11 Boeing 787-8 and 2 Boeing 787-9 with the inflight entertainment system RAVE Centric.

## Zodiac Aircraft Interiors

- Selected by a major Middle East airline to provide business class and economy class seats for a large wide-bodies linefit order
- Selected by one major Asian airline to provide first class seats for a future wide-bodies linefit order

## Signing of an agreement for the acquisition of the Rockwell Collins' Actuators, Pilot controls and Special products business

- Expand the electrical actuation and flight control business lines of Safran Electronic & Defense and Zodiac Aerospace
- Subject to regulatory approval and expected to be finalized in H1-19

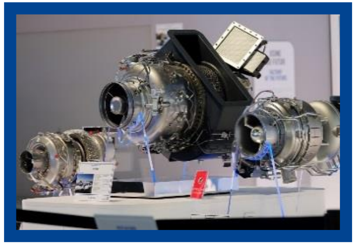
## New 50/50 JV with Boeing to design, build and service Auxiliary Power Units (APUs)

- Deal excepted to close in H2-18 (subject to regulatory and antitrust clearance)
- JV to be accounted for by using the equity method and progressively capitalized once the regulatory authorizations are obtained

## New collaboration between Bell and Safran in the field of on demand mobility

- Development of innovative hybrid electric power system solutions to support Bell's future air taxi and vertical take-off and landing (VTOL) systems
- Bell will lead the design, development and production of VTOL systems, and Safran will bring its technical expertise to bear in the development of a disruptive propulsion system

Business class seats



Auxiliary Power Units

# Continuing momentum in Aerospace services in H1 2018

## Propulsion: civil aftermarket up 12.5% (in $)

- 2018 yoy change: Q1 +16.4%; Q2 +8.8%
- Growth supported by continuing momentum in spare parts sales
- As expected, progressive slow down in revenue recognition for service contracts in Q2 2018 after a sharp seasonal increase in Q1 2018

Maintenance CFM56

## Aircraft Equipment: services up of 12.6% organically

- Growth driven by carbon brakes, nacelles and landing gear support activities

**Civil aftermarket growth assumption raised for FY 2018 thanks to strong spare parts sales momentum**
**Civil aftermarket now expected to grow in the 10% to 12% range (previously “in the high single digits”)**

# Update on Zodiac Aerospace

## Integration work on track with 3 priorities

- Organizational with the objective notably of streamlining and reducing overheads and improving operational responsiveness
  - > Envisaged merger by absorption of Zodiac Aerospace SA by Safran SA expected to be completed before the end of 2018
- Functional with the implementation of methodologies and Group processes to recover critical programs
  - > Safran financial reporting & consolidation process deployed and effective
  - > Lean-Sigma Program launched: ~150 Green Belts / Black Belts / Master Black Belts trainings initiated
  - > Implementation of Safran operational standards (One Safran) started on key sites and programs
- Operational performance with reinforced management of recovery plans for sites experiencing difficulties
  - > 30+ Safran coaches on site in Zodiac to support recovery plans and accelerate deployment
  - > 25+ on-site operational projects launched

Business class seat mount

## Zodiac Aerospace financial outlook

- 4-month performance and 10-month expected contribution in line with financial roadmap
- Next step: integrating Zodiac Aerospace financial outlook into Safran's Medium Term Plan

ECOS cabin

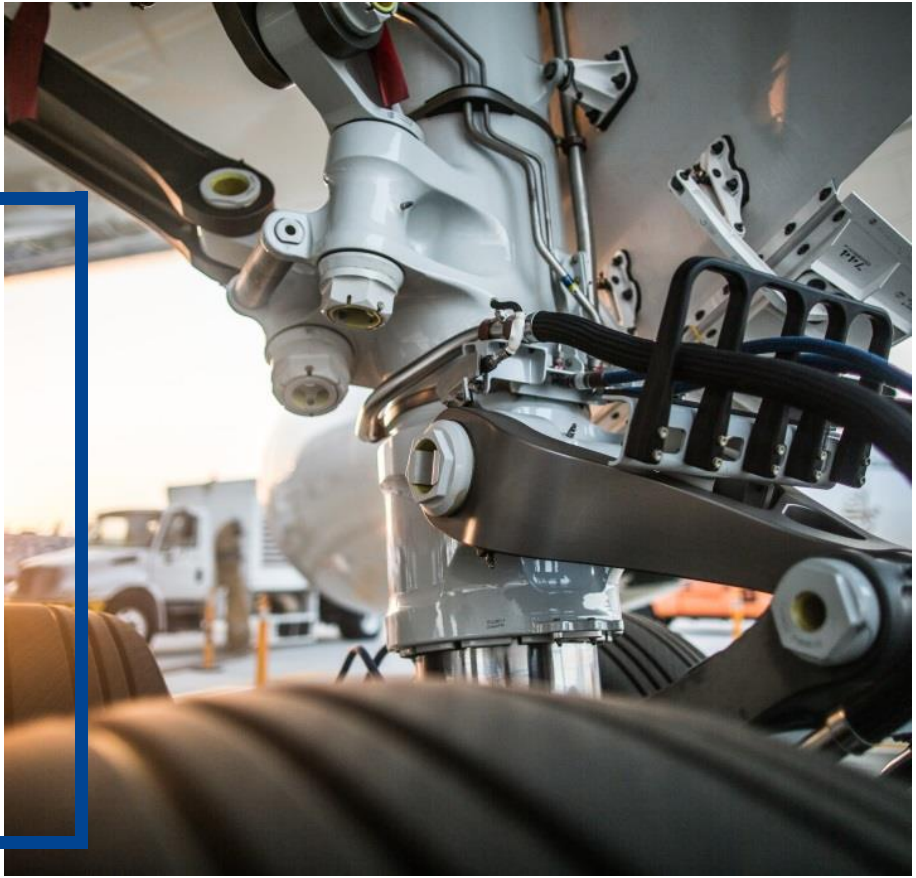
**Safran confirms its target of €200m annual pre-tax run rate cost synergies of which around 90% should be achieved by 2020**

**Based on the strong upgrade of Safran FY 2018 outlook, the acquisition of Zodiac Aerospace should improve its 2018 earnings per share at the lower end of the previously indicated range**

2

# H1 2018 RESULTS

Bernard DELPIT – Group CFO



# Foreword

## Adjusted data

All revenue figures in this presentation represent adjusted data[(1)] and continuing operations[(2)] (except where noted). Safran's consolidated income statement has been adjusted for the impact of:

- purchase price allocations with respect to business combinations. Since 2005, this restatement concerns the amortization charged against intangible assets relating to aircraft programs revalued at the time of the Sagem-Snecma merger. With effect from the first half 2010 interim financial statements, the Group decided to restate:
  - the impact of purchase price allocations for business combinations, particularly amortization charged against intangible assets recognized at the time of the transaction and amortized over extended periods due to the length of the Group's business cycles and the impact of remeasuring inventories, as well as
  - gains on remeasuring any previously held equity interests in the event of step acquisitions or asset contributions to joint ventures;

Safran has also applied these restatements to the acquisition of Zodiac Aerospace with effect from 2018

- the mark-to-market of foreign currency derivatives, in order to better reflect the economic substance of the Group's overall foreign currency risk hedging strategy:
  - revenue net of purchases denominated in foreign currencies is measured using the effective hedged rate, i.e., including the costs of the hedging strategy
  - all mark-to-market changes on instruments hedging future cash flows are neutralized
- The resulting changes in deferred tax have also been adjusted.

## Application of IFRS 15

All figures are presented in application of IFRS 15 and comparisons are established against 2017 figures restated for the application of IFRS 15. The restatements for 2017 are detailed in Appendix.

## Consolidation of Zodiac Aerospace

Zodiac Aerospace is fully consolidated in Safran's financial statements starting March 1, 2018. Safran H1 2018 revenue includes four months of revenue from Zodiac Aerospace

## Organic growth

Organic variations were determined by excluding the effect of changes in scope of consolidation (notably the four-months contribution of Zodiac Aerospace) and the impact of foreign currency variations.

## Recurring operating income

Operating income before capital gains or losses on disposals /impact of changes of control, impairment charges, transaction and integration costs and other items.

*[(1)] See slide 15 for bridge with consolidated and adjusted income statements*
*[(2)] Continuing operations: Aerospace Propulsion, Aircraft Equipment, Defense, Zodiac Aerospace, Holding and others / Discontinued operations: Safran Identity & Security*



SAFRAN

# FX

## Translation effect: foreign currencies translated into €

- Negative impact mainly from USD
- Impact on Revenues and Return on Sales

**Average spot rate**

| H1 2017 | H1 2018 |
|---|---|
| $1.08 | $1.21 |

## Transaction effect: mismatch between $ sales and € costs is hedged

- Positive impact from hedged $ as planned
- Impact on Profits

**Hedge rate**

| H1 2017 | H1 2018 |
|---|---|
| $1.21 | $1.18 |

## Mark-to-Market effect

- €189M loss on fair value of financial instruments
- Impact on consolidated “statutory” accounts

**Spot rate at close**

| 06/30/2017 | 12/31/2017 | 06/30/2018 |
|---|---|---|
| $1.14 | $1.20 | $1.17 |

# Consolidated and adjusted income statements

| H1 2018 reconciliation *(In €M)* | Consolidated data | Currency hedging | | Business combinations | | Adjusted data |
|---|---|---|---|---|---|---|
| | | Re-measurement of revenue (1) | Deferred hedging loss/gain (2) | Amortization of intangible assets - Sagem/Snecma merger (3) | PPA impacts - other business combinations (4) | |
| **Revenue** | **9,393** | 113 | | | | **9,506** |
| Other operating income and expenses | (8,544) | (1) | | 30 | 313 | (8,202) |
| Share in profit from joint ventures | 63 | | | | 19 | 82 |
| **Recurring operating income** | **912** | 112 | | 30 | 332 | **1,386** |
| Other non-recurring operating income and expenses | (26) | | | | | (26) |
| **Profit (loss) from operations** | **886** | 112 | | 30 | 332 | **1,360** |
| Cost of debt | (34) | | | | | (34) |
| Foreign exchange gains (losses) | (175) | (83) | 189 | | | (69) |
| Other financial income and expense | (11) | | | | | (11) |
| **Financial income (loss)** | **(220)** | (83) | 189 | | | **(114)** |
| Income tax expense | (100) | (10) | (65) | (10) | (87) | (272) |
| **Profit (loss) from continuing operations** | **566** | 19 | 124 | 20 | 245 | **974** |
| **Attributable to non-controlling interests** | (31) | (1) | | (1) | (9) | (42) |
| **Attributable to owners of the parent** | **535** | 18 | 124 | 19 | 236 | **932** |

(1) *Remeasurement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options) through the reclassification of changes in the fair value of instruments hedging cash flows recognized in profit or loss for the period. However, the use of the outstanding portfolio of currency derivatives held by Zodiac Aerospace at the acquisition date gave rise to the partial reclassification of changes in the fair value of currency hedges to financial income (loss) for a six-month transition period.*

(2) *Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (€189 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (zero at June 30, 2018).*

(3) *Cancelation of amortization/impairment of intangible assets relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger.*

(4) *Cancelation of the impact of remeasuring inventories at the time of the acquisition of Zodiac Aerospace for a negative €294 million (see Note 4, "Scope of consolidation" of the H1 2018 financial statements) and cancelation of amortization/impairment of assets identified during business combinations.*

# H1 2018 profit from operations

| *(In €M)* | **H1 2017** *Restated for IFRS 15* | **H1 2018** |
|---|---|---|
| **Revenue** | **7,670** | **9,506** |
| **Adjusted recurring operating income**<br>***% of revenue*** | **1,045**<br>***13.6%*** | **1,386**<br>***14.6%*** |
| Total one-off items | (16) | (26) |
| *Capital gain (loss) on disposals* | *-* | *5* |
| *Impairment reversal (charge)* | *-* | *1* |
| *Other infrequent & material non operational items* | *(16)* | *(32)* |
| **Profit from operations**<br>***% of revenue*** | **1,029**<br>***13.4%*** | **1,360**<br>***14.3%*** |

***Transaction costs***

# H1 2018 income statement

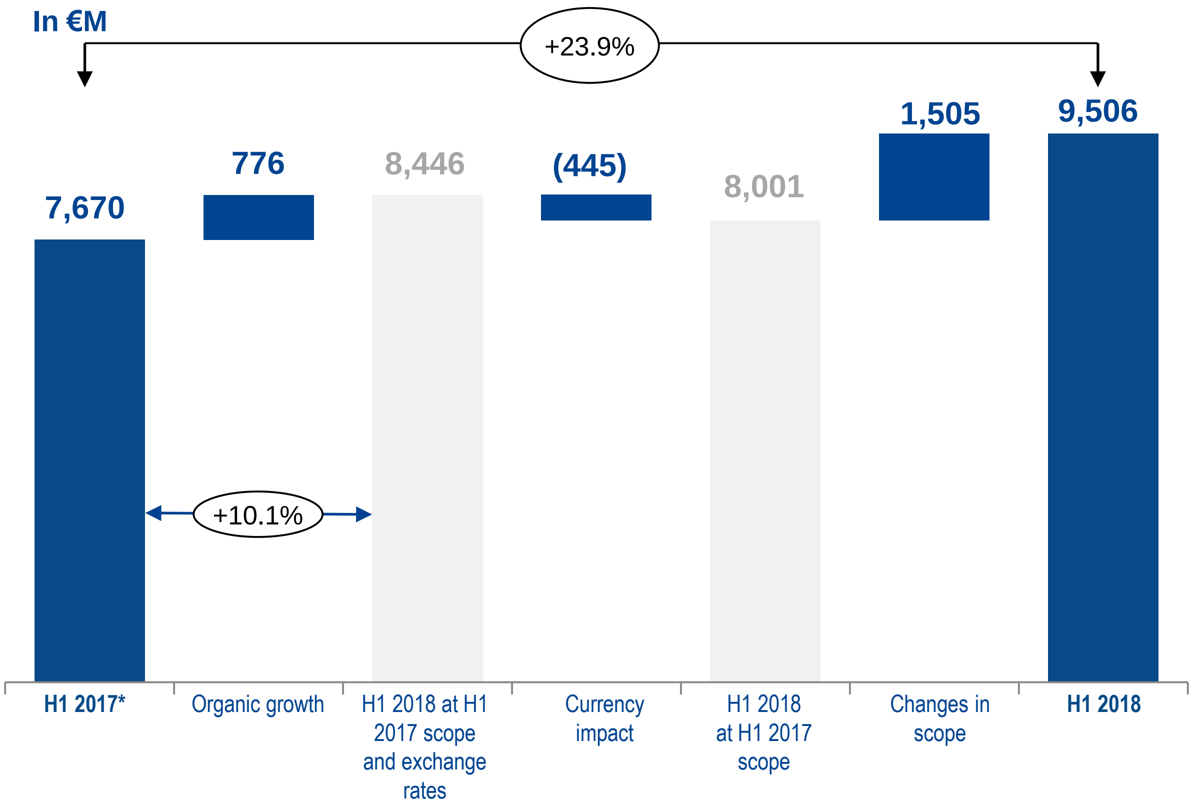
| (In €M) | H1 2017<br>*Restated for IFRS 15* | H1 2018 |
|---|---|---|
| **Revenue** | **7,670** | **9,506** |
| Other recurring operating income and expenses | (6,707) | (8,202) |
| Share in profit from joint ventures | 82 | 82 |
| **Recurring operating income** | **1,045** | **1,386** |
| ***% of revenue*** | ***13.6%*** | ***14.6%*** |
| Total one-off items | (16) | (26) |
| **Profit from operations** | **1,029** | ***1,360*** |
| ***% of revenue*** | ***13.4%*** | ***14.3%*** |
| Net financial income (expense) | (36) | (114) |
| Income tax expense | (248) | (272) |
| **Profit from continuing operations** | **745** | **974** |
| Profit from discontinued operations | 773 | 0 |
| **Profit for the period** | **1,518** | **974** |
| Profit for the period attributable to non-controlling interests | (30) | (42) |
| **Profit attributable to owners of the parent** | **1,488** | **932** |
| From continuing operations | 716 | 932 |
| From discontinued operations | 772 | - |
| **EPS (basic in €)** | **3.62*** | **2.17**** |
| *From continuing operations* | *1.74* | *2.17* |
| *From discontinued operations* | *1.88* | - |
| **EPS (diluted in €)** | **3.56***** | ***2.11******* |
| *From continuing operations* | *1.71* | *2.11* |
| *From discontinued operations* | *1.85* | - |

***Of which cost of debt of €(34)M***

***Apparent tax rate of 22%***

** Based on the weighted average number of shares of 411,224,858 as of June 30, 2017*
*** Based on the weighted average number of shares of 428,935,570 as of June 30, 2018*
**** Based on the weighted average number of shares after dilution of 418,502,063 as of June 30, 2017*
***** Based on the weighted average number of shares after dilution of 441,222,853 as of June 30, 2018*

# H1 2018 revenue




## Organic growth: +10.1%

- Propulsion: +12.9%
- Aircraft Equipment: +5.6%
- Defense: +9.2%

## Currency impact: (5.8)%

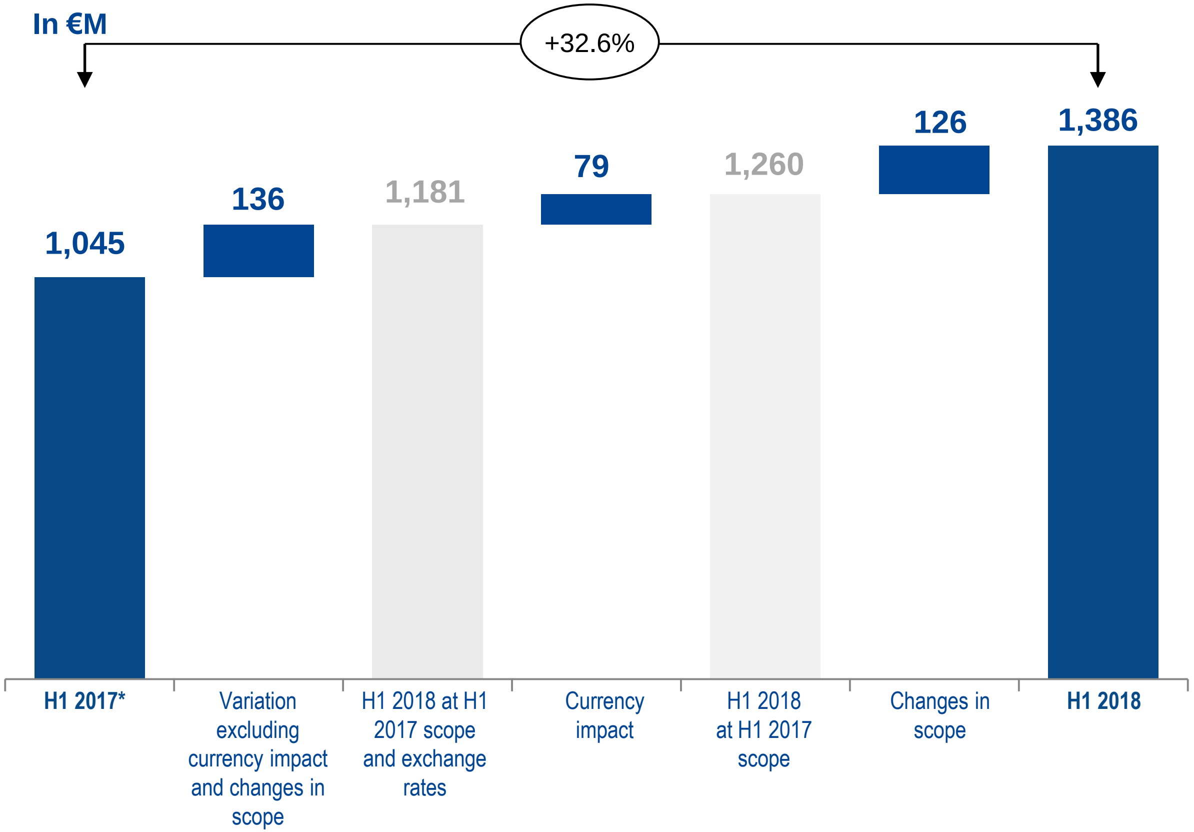
- Negative translation impact mainly from the weakening of the USD versus the Euro compared with H1-17

## Changes in scope: +19.6%

- Consolidation of Zodiac Aerospace activities starting March 1, 2018: €1,516M (4 months)

**Restated for the application of IFRS 15*

# H1 2018 recurring operating income




## Main organic drivers

- Positive volume effect in Aerospace services, particularly in civil aftermarket activities, and in Defense
- Positive impact of the CFM56-LEAP transition on profitability in H1 2018 vs H1 2017
- Productivity gains and cost reductions
- Lower expensed R&D
- Negative impact of lower M88 deliveries

## FX

- Positive effect of the €/$ hedge rate

## Scope

- Contribution of €129M from Zodiac Aerospace activities (4 months)

**Restated for the application of IFRS 15*

# Research & Development

| *(In €M)* | **H1 2017(1)** | **H1 2018** | *Change* |
|---|---|---|---|
| **Total R&D** | **(756)** | **(726)** | *30* |
| Customer funded R&D | 217 | 161 | *(56)* |
| **Total self-funded R&D** | **(539)** | **(565)** | *(26)* |
| *as a % of revenue* | *7.0%* | *5.9%* | *(1.1)pt* |
| Tax credit | 74 | 72 | (2) |
| **Total self-funded R&D after tax credit** | **(465)** | **(493)** | *(28)* |
| Gross capitalized R&D | 167 | 139 | (28) |
| Amortised R&D | (76) | (104) | *(28)* |
| **P&L R&D in recurring EBIT** | **(374)** | **(458)** | *(84)* |
| *as a % of revenue* | *4.9%* | *4.8%* | *(0.1)pt* |

## Self-funded R&D

- €565M in H1 2018 including €126M related to Zodiac Aerospace (4 months)
- Excluding Zodiac Aerospace, decrease in self funded R&D of €100M compared with H1 2017, in line with FY 2018 assumption

## Gross capitalized R&D

- €139M in H1 2018 including €27M related to Zodiac Aerospace
- Excluding Zodiac Aerospace, decrease in capitalized R&D of €55M

## P&L R&D in recurring EBIT

- €458M in H1 2018 including €112M related to Zodiac Aerospace
- Excluding Zodiac Aerospace, decrease in R&D charged to the P&L of €28M, in line with FY 2018 assumption

(1) *Restated for the application of IFRS 15*

# H1 2018 results by activity

| *(In €M)* | H1 2018 | Propulsion | Equipment | Defense | Aerosystems | Aircraft Interiors | Holding & others |
|---|---|---|---|---|---|---|---|
| **Revenue** | **9,506** | **4,744** | **2,585** | **651** | **742** | **774** | **10** |
| *Year-over-year growth in %* | *23.9%* | *7.5%* | *(1.9)%* | *6.4%* | *na* | *na* | *na* |
| *Year-over-year organic growth in %* | *10.1%* | *12.9%* | *5.6%* | *9.2%* | *na* | *na* | *na* |
| **Recurring operating income** | **1,386** | **868** | **347** | **45** | **129** | **0** | **(3)** |
| *as a % of revenue* | *14.6%* | *18.3%* | *13.4%* | *6.9%* | *17.4%* | *na* | *na* |
| *Recurring operating margin variation (vs H1 2017)* | *+1.0pt* | *+2.0pts* | *+2.5pts* | *+1.2pt* | *na* | *na* | *na* |

# Aerospace Propulsion

| *(In €M)* | H1 2017* | **H1 2018** | *Change* | *Organic Change* |
|---|---|---|---|---|
| **Revenue** | **4,414** | **4,744** | *7.5%* | *12.9%* |
| **Recurring operating income** | **721** | **868** | *20.4%* | |
| *% of revenue* | *16.3%* | *18.3%* | *+2.0pts* | |
| *One-off items* | - | *(1)* | | |
| **Profit (loss) from operations** | **721** | **867** | | |
| *% of revenue* | *16.3%* | *18.3%* | | |

**Restated for the application of IFRS 15*

## Revenue

- Higher volumes of narrowbody engines (CFM56 and LEAP): +20% to 1,029 units driven by LEAP ramp up (+291 deliveries) partially offset by CFM56 progressive ramp down (-119 deliveries)
- Resumption of OE organic growth for helicopter turbines
- Lower shipments of high thrust engines modules and military engines
- Growth in services sales thanks to civil aftermarket (+12.5% in $) and helicopter turbines maintenance activities, partially offset by lower military support activities

## Recurring operating income

- Positive drivers: civil aftermarket; tailwind of €35M on profitability from the CFM56-LEAP transition in H1 2018 vs H1 2017; helicopter turbines activity; lower expensed R&D and improved €/$ hedge rate
- Offsetting factor: lower military sales

# Aircraft Equipment

| *(In €M)* | H1 2017* | **H1 2018** | *Change* | *Organic Change* |
|---|---|---|---|---|
| **Revenue** | **2,636** | **2,585** | *(1.9)%* | *5.6%* |
| **Recurring operating income** | **287** | **347** | *20.9%* | |
| *% of revenue* | *10.9%* | *13.4%* | *+2.5pts* | |
| *One-off items* | - | - | | |
| **Profit (loss) from operations** | **287** | **347** | | |
| *% of revenue* | *10.9%* | *13.4%* | | |

**Restated for the application of IFRS 15*

## Revenue

- OE: higher shipments of nacelles for A320neo (+67 units vs H1 2017) and of equipment (landing gear and wiring) for 787 and A320 family
- Service (+12.6% org.): growing contribution of carbon brakes as well as nacelle and landing gear support activities

## Recurring operating income

- Higher volumes (mainly in services)
- Cost reduction and productivity actions
- Improved hedge rate
- Increase in R&D charged to the P&L

# Defense

| *(In €M)* | H1 2017* | **H1 2018** | *Change* | *Organic Change* |
|---|---|---|---|---|
| **Revenue** | **612** | **651** | *9.2%* | *6.4%* |
| **Recurring operating income** | **35** | **45** | *28.6%* | |
| *% of revenue* | *5.7%* | *6.9%* | *+1.2pt* | |
| *One-off items* | - | *6* | | |
| **Profit (loss) from operations** | **35** | **51** | | |
| *% of revenue* | *5.7%* | *7.8%* | | |

**Revenue**

- Military sales: growth driven by increases in guidance and sighting systems as well as by portable optronics for the US army (LTLM II)
- Avionics: up thanks to electronics (FADEC for LEAP), optics equipment for telescopes and support activities

**Recurring operating income**

- Positive impact of increased volumes
- Benefits of production costs reduction
- Sustained self funded R&D spending (10.6% of sales) to maintain technological edge

*Restated for the application of IFRS 15*

# Zodiac Aerospace: Aerosystems & Aircraft Interiors

| *4-month contribution (in €M)* | Aerosystems | Aircraft Interiors |
|---|---|---|
| **Revenue** | **742** | **774** |
| **Recurring operating income** | **129** | **0** |
| *% of revenue* | *17.4%* | *na* |
| *One-off items* | *(1)* | *(2)* |
| **Profit (loss) from operations** | **128** | **(2)** |
| *% of revenue* | *17.4%* | *na* |

**Revenue**

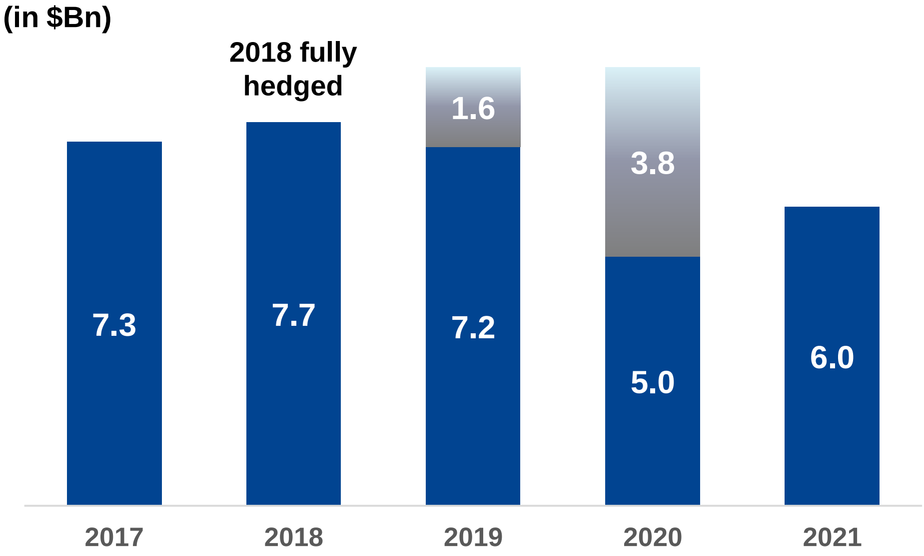
- Aerosystems: sales impacted by a slow-down in Safety Systems as well as in Fluid and Water & Waste Systems, partially offset by the contribution of Control Systems and the good momentum of Connected Cabin
- Aircraft Interiors: performance still impacted by lower volumes, including the commercial impacts of previous design and execution issues

**Recurring operating income**

- Aerosystems: impact of R&D and industrialization spending; contribution of Control Systems and Connected Cabin
- Aircraft Interiors: first benefits of operational performance improvement plans and cost reduction programs

# FX Hedging: $25.9bn hedge portfolio* (August 31, 2018)

**Annual average exposure should increase from $7.7bn to $8.8bn starting 2019 reflecting the growth of $-exposed businesses and the inclusion of former Zodiac Aerospace activities**




| €/$ hedge rate target | 1.21 | 1.18 | 1.16-1.18 | 1.16-1.18 | 1.16-1.20 |
|---|---|---|---|---|---|

*Approx. 45% of Safran US$ revenue are naturally hedged by US$ procurement*

**2019**

- **$7.2bn achieved through forward sales and knock out options to rise to $8.8bn at a target rate between $1.16 and $1.18**
  - Knock out options barriers set at various levels between $1.26 and $1.32 with maturities up to end 2019

**2020**

- **$5.0bn achieved through forward sales and knock out options to rise to $8.8bn at a target rate between $1.16 and $1.18**
  - Knock out options barriers set at various levels between $1.27 and $1.32 with maturities up to mid 2020

**2021**

- **Portfolio increased from $2.5bn to $6.0bn through the set-up of new $3.5bn knock out options**
  - Knock out options barriers set at various levels between $1.28 and $1.33 with maturities up to mid-2020

*Note : the current portfolio structure and hedging strategy allow to include the net exposure from Zodiac activities while maintaining the targeted hedge rates*

# H1 2018 Free Cash Flow

| *(in €M)* | H1 2017<br>*Restated for IFRS 15* | **H1 2018** |
|---|---|---|
| **Adjusted attributable net profit** | **1,488** | **932** |
| Of which post-tax capital gain on Security activities | (774) | - |
| Depreciation, amortization, provisions and others | 380 | 787 |
| **Cash from operating activities before change in WC** | **1,094** | **1,719** |
| Change in WC | 183 | (299) |
| **Cash from operating activities after change in WC** | **1,277** | **1,420** |
| Capex (tangible assets) | (345) | (387) |
| Capex (intangible assets)* | (266) | (213) |
| **Free cash flow** | **666** | **820** |

** Of which €144M capitalised R&D in H1 2018 vs €170M capitalised in H1 2017*

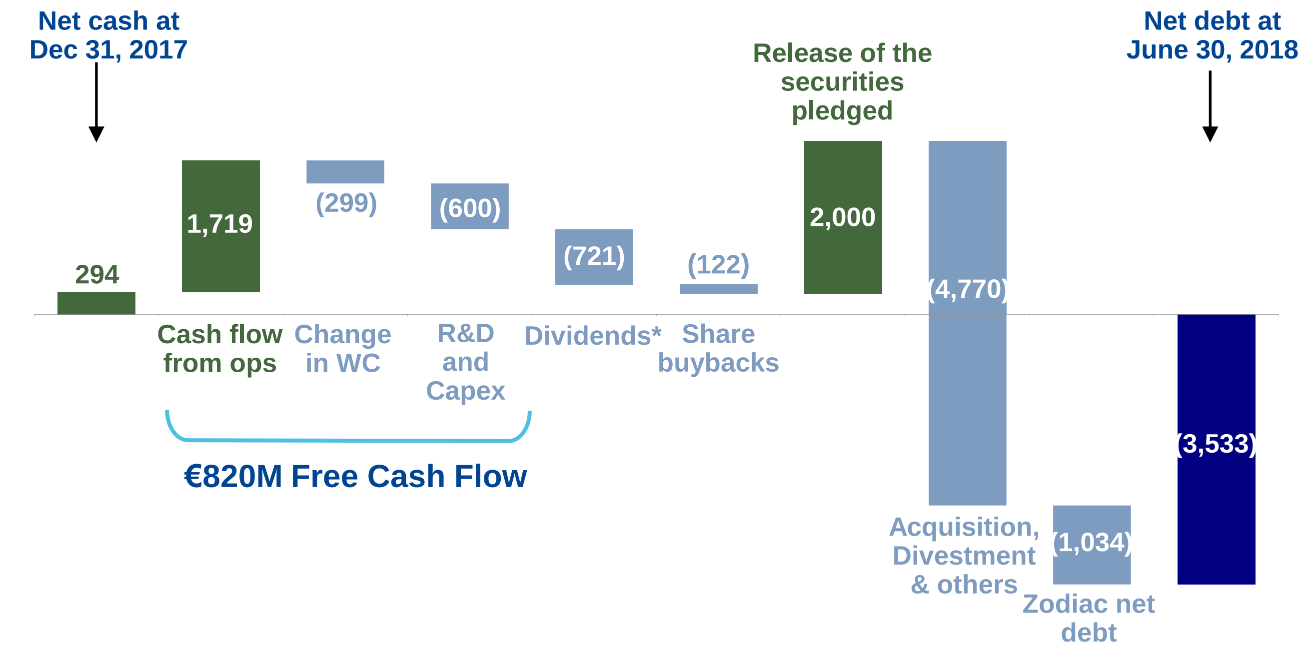
***Of which***
- ***Depreciation €21M***
- ***Amortization of tangibles and intangibles €400M***
- ***Provisions (net) €53M***

***Higher working capital requirements due to the CFM56-LEAP transition and the integration of Zodiac Aerospace***

***Drop in CAPEX reflecting lower development spending partially offset by the integration of Zodiac Aerospace activities***

# Net debt position

*(in €M)*




**2017 final dividend of €1.60 per share to parent holders**

- Entirely paid in May 2018

**Share buybacks**

- First tranche (March to June): repurchased €122M of shares
- Since July 1, 2018, follow-on repurchase tranche to acquire up to Euro 400 million worth of shares no later than October 31, 2018
- The unit price may not exceed the maximum of Euro 118 per share

**Acquisitions, divestments & others**

- €4,474M related to the cash outflow for the acquisition of Zodiac Aerospace

**Consolidation of Zodiac Aerospace net debt: €1,034M**

* *Includes €(26)M of dividends to minority interests*

# Balance sheet highlights as of June 30, 2018

| (In €M) | Dec 31, 2017* | June 30, 2018 |
|---|---|---|
| Goodwill | 1,831 | 7,346 |
| Tangible & Intangible assets | 9,114 | 10,401 |
| Investments in joint ventures and associates | 2,127 | 2,144 |
| Other non current assets | 575 | 862 |
| Operating Working Capital | (3,112) | (1,875) |
| Net cash (debt) | 294 | (3,533) |
| Shareholders' equity - Group share | 9,347 | 10,487 |
| Minority interests | 301 | 309 |
| Non current liabilities (excl. net cash (debt)) | 1,251 | 1,981 |
| Provisions | 2,188 | 2,632 |
| Other current liabilities / (assets) net | (2,258) | (64) |

*Of which €5.5Bn after the preliminary allocation of Zodiac PPA*

*Higher operating working capital including Zodiac Aerospace and within the context of the CFM56-LEAP transition*

*Net debt position at June 30, 2018 reflecting the impact of the acquisition of Zodiac Aerospace*

*Lifting of pledge on €2Bn of marketable securities at the end of the offer on Zodiac Aerospace*

**Restated for the application of IFRS 15*


3

# FY 2018 OUTLOOK

Philippe PETITCOLIN - CEO

# 2018 key assumptions changed

2018 assumptions are established considering the full application of the new IFRS15 revenue recognition standard and is based on continuing operations (Aerospace Propulsion, Aircraft Equipment, Defense, Holding & Others) at the group's scope as of January 1, 2018.

## Assumptions changed:

- **Civil aftermarket growth in the range 10% to 12% (previously "in the high-single digits")**
- **Transition CFM56 – LEAP: overall negative impact on Propulsion adjusted recurring operating income variation in the range €100 to 150 million (previously "€150 to 200 million") thanks to an improvement of CFM56 gross margin**

  **This negative impact from the transition represents a significant reduction compared to 2017 and includes:**
  - Lower CFM56 OE volumes
  - Negative margin on LEAP deliveries

## Assumptions unchanged:

- **Increase in aerospace OE deliveries despite a fall in high thrust engines modules**
- **Reduction of self-funded R&D of around €150M**
  - Positive impact on recurring operating income after activation and amortisation of capitalized R&D
- **Capex outflows of a similar level to 2017**
- **Continued benefits from productivity improvements**

# Full-year 2018 outlook raised and 10-month 2018 outlook for Zodiac Aerospace

2018 outlook is established considering the full application of the new IFRS15 revenue recognition standard.

**Safran (excluding Zodiac Aerospace) raises its expectations for 2018. Compared to its 2017 estimated restated key metrics for the application of IFRS 15, Safran expects :**

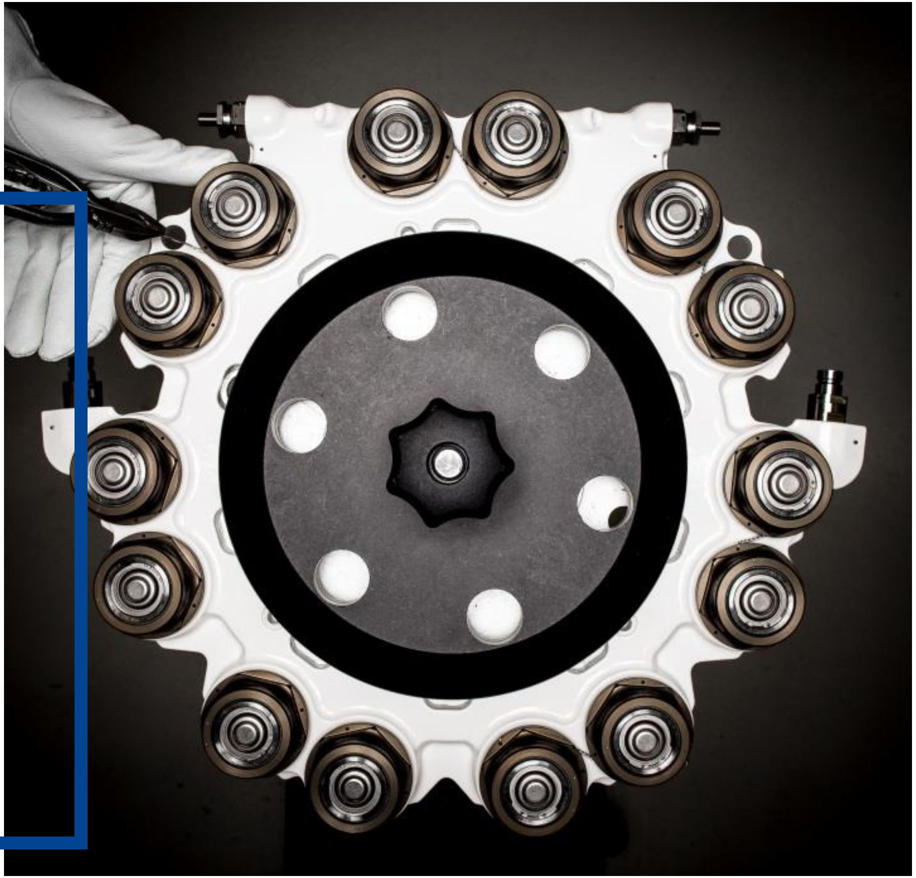
- **Adjusted revenue to grow on an organic basis in the range 7% to 9%** *(previously "at the top end of the 2% to 4% range")*. **At an estimated average spot rate of USD 1.21 to the Euro in 2018, adjusted revenue is expected to grow in the mid-single digits (previously "to grow slightly at an estimated average spot rate of USD 1.23 to the Euro in 2018").**
- **Adjusted recurring operating income to grow around 20%** *(previously "at the upper end of the 7% to 10% range")* **at a hedged rate of USD 1.18 to the Euro.**
- **Free cash flow to be comfortably above 50% of adjusted recurring operating income, an element of uncertainty being the rhythm of payments by state-clients**

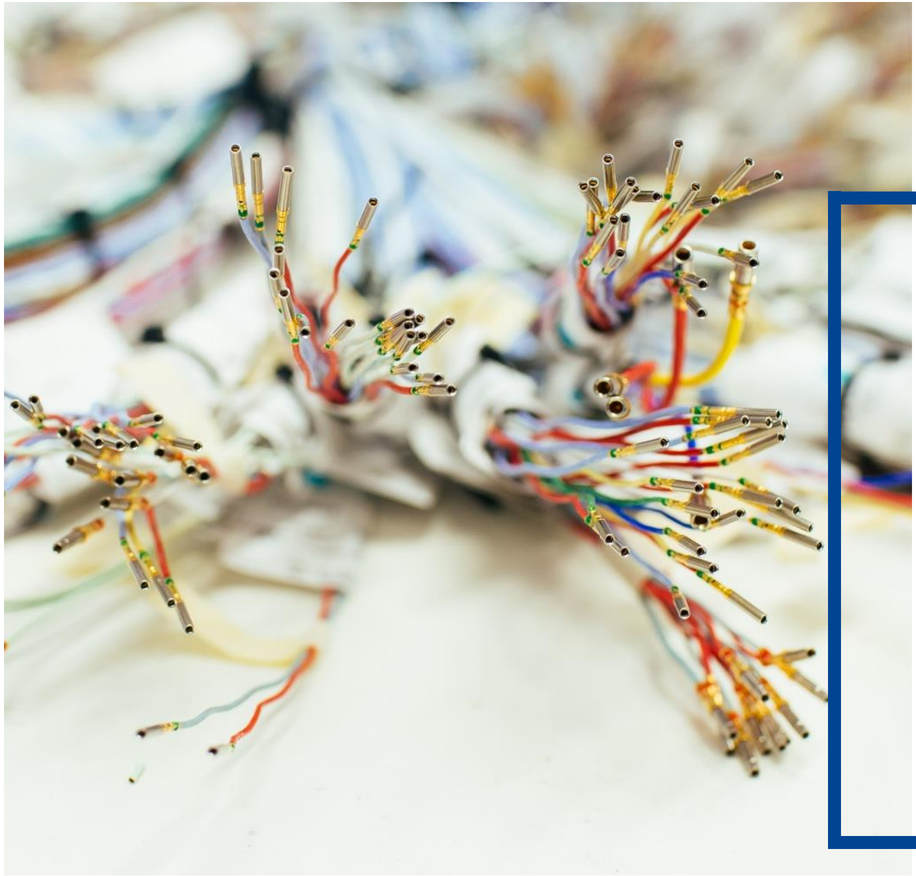
**Safran expects from Zodiac Aerospace's businesses (consolidated for 10 months in 2018) a contribution in the range:**

- **€3.6Bn to €4Bn (at an estimated average spot rate of USD 1.21 to the Euro in 2018) to its adjusted revenue**
- **€260M to €300M (at a hedged rate of USD 1.18 to the Euro from 09/01/2018) to its adjusted recurring operating income**
- **€80M to €120M to its free cash flow**

# 4

## Q&A





# 5

## ADDITIONAL INFORMATION

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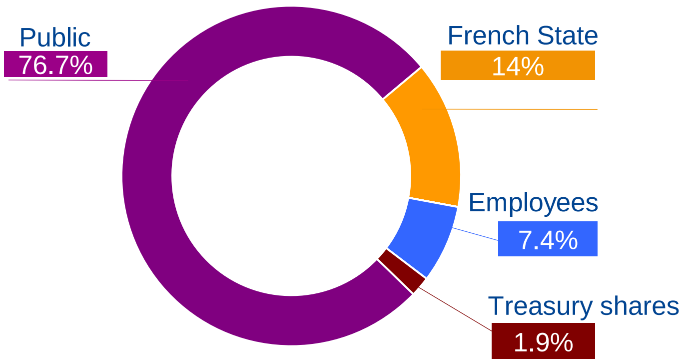
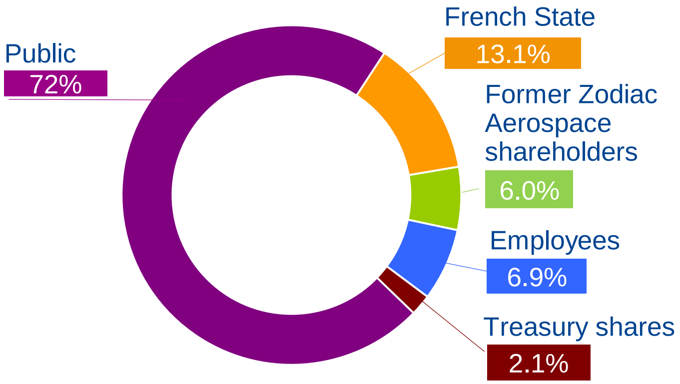
# Shareholding status 06/30/18 (versus 12/31/17)

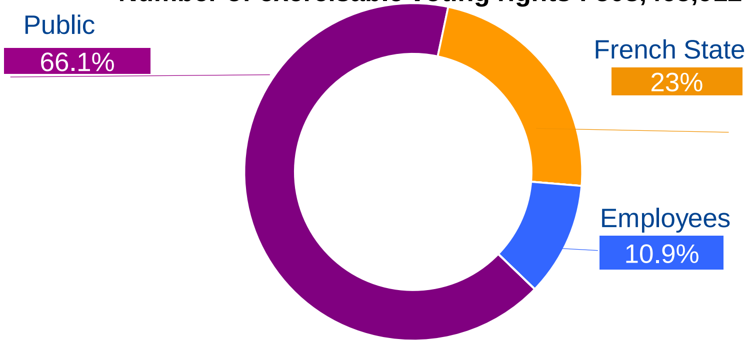
**Equity as of December 31, 2017**
**Number of shares : 417,029,585**



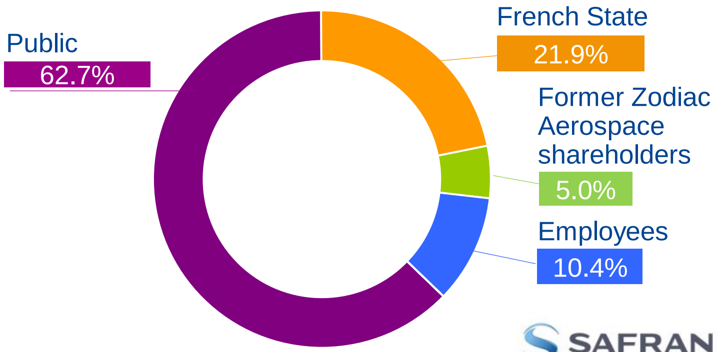

**Equity as of June 30, 2018**
**Number of shares (post issue of preference shares) : 443,680,643**




**Voting rights as of December 31, 2017**
**Number of exercisable voting rights : 508,465,912**




**Voting rights as of June 30, 2018**
**Number of exercisable voting rights : 532,916,990**



# H1 2018: R&D by activity

| *(In €M)* | H1 2018 | Propulsion | Equipment | Defense | Zodiac Aerospace |
|---|---|---|---|---|---|
| **Total self-funded cash R&D** | **(565)** | **(257)** | **(113)** | **(69)** | **(126)** |
| *as a % of revenue* | *5.9%* | *5.4%* | *4.4%* | *10.6%* | *8.3%* |
| Tax credit | 72 | 28 | 23 | 18 | 3 |
| **Total self-funded cash R&D after tax credit** | **(493)** | **(229)** | **(90)** | **(51)** | **(123)** |
| Gross capitalized R&D | 139 | 42 | 47 | 23 | 27 |
| Amortised R&D | (104) | (50) | (30) | (8) | (16) |
| **P&L R&D in recurring EBIT** | **(458)** | **(237)** | **(73)** | **(36)** | **(112)** |
| *as a % of revenue* | *4.8%* | *5.0%* | *2.8%* | *5.5%* | *7.4%* |

# H1 2017: R&D by activity

| *(In €M)* | H1 2017 | Propulsion | Equipment | Defense |
|---|---|---|---|---|
| **Total self-funded cash R&D** | **(539)** | **(360)** | **(113)** | **(66)** |
| *as a % of revenue* | *7.0%* | *8.2%* | *4.3%* | *10.8%* |
| Tax credit | 74 | 30 | 25 | 19 |
| **Total self-funded cash R&D after tax credit** | **(465)** | **(330)** | **(88)** | **(47)** |
| Gross capitalized R&D | 167 | 81 | 58 | 28 |
| Amortised R&D | (76) | (41) | (27) | (8) |
| **P&L R&D in recurring EBIT** | **(374)** | **(290)** | **(57)** | **(27)** |
| *as a % of revenue* | *4.9%* | *6.6%* | *2.2%* | *4.4%* |

# Aerospace OE / Services revenue split (excluding Zodiac Aerospace)

| **Revenue**<br>Adjusted data<br>*(in Euro million)* | **H1 2017** | | **H1 2018** | | **% change** | |
|---|---|---|---|---|---|---|
| | OE | Services | OE | Services | OE | Services |
| *Propulsion* | *1,773* | *2,641* | *2,023* | *2,721* | *14.1%* | *3.0%* |
| *% of revenue* | *40.2%* | *59.8%* | *42.6%* | *57.4%* | | |
| *Equipment* | *1,829* | *807* | *1,739* | *846* | *(4.9)%* | *4.8%* |
| *% of revenue* | *69.4%* | *30.6%* | *67.3%* | *32.7%* | | |

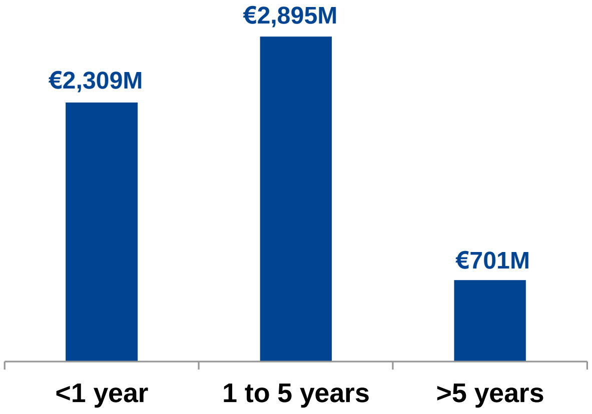
# Quantities of major aerospace programs

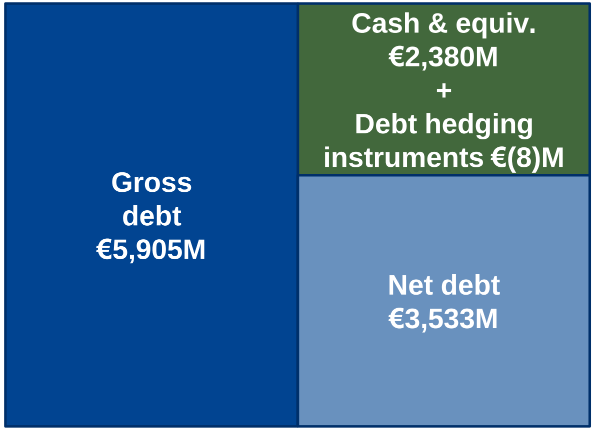
| **Safran**<br>***Number of units delivered*** | H1 2017 | **H1 2018** | *% change* |
|---|---|---|---|
| CFM56 engines | **710** | **591** | *(17)%* |
| LEAP engines | **147** | **438** | *x3* |
| High thrust engines | **256** | **201** | *(21)%* |
| Helicopter engines | **314** | **335** | *7%* |
| M88 engines | **12** | **4** | *(67)%* |
| A350 landing gear sets | **43** | **40** | *(7)%* |
| 787 landing gear sets | **66** | **74** | *12%* |
| A380 nacelles | **21** | **20** | *(5)%* |
| A330 thrust reversers | **52** | **50** | *(4)%* |
| A320neo nacelles | **105** | **172** | *64%* |
| A320 thrust reversers | **263** | **176** | *(33)%* |
| Small nacelles *(biz & regional jets)* | **234** | **309** | *32%* |

| **Zodiac Aerospace**<br>***Number of units delivered*** | **4 months (March to June)** |
|---|---|
| Lavatories A350 | **241** |
| Spaceflex V2 A320 (lavatories + Galleys) | **178** |
| Business class seats | **1,495** |
| Emergency slides A320 | **1,296** |
| Primary power distribution system 787 | **296** |

# Gross debt and liquidity

**Gross debt repayment schedule**
(June 30, 2018)




**OCEANE (issued on June 18, 2018) - €700M, zero coupon**

**Two-year floating rate notes (completed on July 5, 2018) - €500M, coupon of 3-month Euribor + 33bps per annum**

**Committed & undrawn financing resource:**

- Credit line - €2.52Bn, maturity Dec. 2020 – no covenant

# IFRS 15 balance sheet as of June 30, 2018

| *Assets (In €M)* | Jan 1, 2018(1) | Jan 1, 2018(2) | June 30, 2018 |
|---|---|---|---|
| Goodwill | 1.8 | 1,831 | 7,346 |
| Tangible & Intangible assets | 8.7 | 9,114 | 10,401 |
| Investments in JV and associates | 2.1 | 2,127 | 2,144 |
| Other non current assets | 0.5 | 591 | 874 |
| Inventories and WIP | 4.5 | 3,954 | 5,578 |
| Contracts costs | - | 261 | 473 |
| Trade and other receivables | 6.4 | 4,952 | 6,154 |
| Contracts assets | - | 1,366 | 1,485 |
| Cash and cash equivalents | 4.9 | 4,914 | 2,380 |
| Other current assets | 3.3 | 3,275 | 1,535 |
| Total Assets | 32.2 | 32,385 | 38,370 |

| *Liabilities (In €M)* | Jan 1, 2018(1) | Jan 1, 2018* | June 30, 2018 |
|---|---|---|---|
| Equity | 10.6 | 9,648 | 10,796 |
| Provisions | 3.4 | 2,188 | 2,632 |
| Interest bearing liabilities | 4.6 | 4,636 | 5,905 |
| Other non-current liabilities | 1.6 | 1,251 | 2,001 |
| Trade and other payables | 10.8 | 4,409 | 5,244 |
| Contracts liabilities | - | 9,090 | 10,103 |
| Other current liabilities | 1.2 | 1,163 | 1,689 |
| Total Liabilities | 32.2 | 32,385 | 38,370 |

*(1) As published in €Bn at the IFRS 15 workshop on March 12, 2018*
*(2) As published in €M in H1 2018 financial in application of IFRS 15*

**As previously indicated in our IFRS 15 workshop (March 2018), 3 main changes in Safran balance sheet :**

- **Contracts costs : costs not capitalized as intangible because related to one customer and very specific**
- **Contracts assets : the obligation was satisfied and revenue was recognized but Safran is not entitled to bill yet**
- **Contracts liabilities : significant amount that includes deferred revenue and advance payments from customers which used to be included in trade payables and others**



SAFRAN

# Customer financial guarantees

| *(In $M)* | **Dec. 31, 2017** | **June 30, 2018** |
|---|---|---|
| Total guarantees | 35 | **29** |
| Estimated value of pledges | 16 | **15** |
| Net exposure on these guarantees | 19 | **14** |

| | | |
|---|---|---|
| Provisions | 6 | **6** |

**Total guarantees remaining at a historically low level**

# Definition

## Civil aftermarket (expressed in USD)

- This non-accounting indicator (non-audited) comprises spares and MRO (Maintenance, Repair & Overhaul) revenue for all civil aircraft engines for Safran Aircraft Engines and its subsidiaries and reflects the Group's performance in civil aircraft engines aftermarket compared to the market.

## Discontinued operations

- Safran entered into exclusive negotiations with Advent International/Oberthur Technologies to sell Safran's identity and security activities (announced September 29, 2016). Following this decision, all the businesses comprising Safran's identity & security activities have been classified as "discontinued operations" at the end of September 2016, including detection activities which had been classified as assets and liabilities held for sale since the announcement on April 21, 2016 of the signing of an agreement for their sale to Smiths Group. The contribution of the I&S activities to Safran's financial statements is therefore presented separately from Safran's continuing operations: Propulsion, Aircraft Equipment, Defense and Holding & Others. Safran finalized the sale of its detection activities on April 7, 2017 and of its identity and security activities on May 31, 2017.

## Recurring operating income

- In order to better reflect the current economic performance, this subtotal named "recurring operating income" excludes income and expenses which are largely unpredictable because of their unusual, infrequent and/or material nature such as: impairment losses/reversals, capital gains/losses on disposals of operations and other unusual and/or material non-operational items.

## Free cash flow

- Free cash flow represents cash flow from operating activities less any disbursements relating to acquisitions of property, plant and equipment and intangible assets.