



# SAFRAN IN 2013



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**Safran employs 66,289 people worldwide. It is a leading international high-technology group with three core businesses: Aerospace (propulsion and equipment), Defence and Security. It is a leading global player on markets in which the technological and financial barriers to entry are high, with sustainable and profitable service activities and long-lasting partnerships and customer relations built on trust.**

**Revenue**  
**€14.7 billion**

**R&D spending**  
**€1.8 billion**

**Headcount**  
**66,289**

**Footprint**  
**53 countries**

The Group differentiates itself from the competition through its technological expertise. Its complementary businesses give it a genuine advantage, driving growth and enabling the Group to withstand economic cycles. From both a technological and managerial point of view, the Group's various businesses are highly integrated and complementary.

Safran has a strong positioning in Aerospace. Its installed fleet of engines, especially the CFM56, offers significant new vistas for value creation thanks to associated maintenance and overhaul activities. Its engines and equipment are present in most current and future aircraft programs, with the successful LEAP engine set to pick up where the CFM56 leaves off. The Group is organized so as to offer comprehensive offerings to aircraft manufacturers and airlines, including propulsion and landing systems. Safran is confident that the move towards more electric aircraft systems represents new opportunities and is therefore reinforcing its expertise in the whole electrical energy chain (through its own growth and through targeted acquisitions) to offer comprehensive, world-class electrical systems. In Defence, the Group is renowned for its avionics and optronics expertise, which contributes significantly to the competence of armed forces around the world. In the Security segment, Safran develops multi-biometric technology for personal identification and secure documents such as passports and identity cards, and for the detection of dangerous and illicit substances in order to respond to growing needs in terms of security and authentication.

Safran enjoys particularly sound fundamentals with front-ranking technical and commercial positions, profitable and sustainable recurring service activities, truly innovative research and development, a healthy financial situation and strong operating cash flow, which allow it to leverage opportunities for organic growth and acquisition-led development across all of its businesses.

Safran must also integrate corporate social responsibility into its strategy to meet the expectations of all stakeholders: employees, partners, customers, shareholders, suppliers and all the communities affected by its business. It is based on ethical standards that are espoused by all of its employees. Responsibility, people development and recognition, meeting commitments and teamwork are the core values of Safran's corporate culture.

Firm in the belief that sustainably successful businesses are those able to manage the present in complete harmony with their vision of the future, Safran is as poised as it has always been to meet all of the challenges it encounters both today and going forward.



The French version of this Registration Document (document de référence) was filed with the French financial markets authority (Autorité des marchés financiers – AMF) on March 28, 2014 pursuant to article 212-13 of the AMF's General Regulations. It may only be used in connection with a financial transaction if it is accompanied by a memorandum approved by the AMF. This document has been established by the issuer and is binding upon its signatories.

The English language version of this report is a free translation from the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

This Registration Document contains the Annual Financial Report in accordance with Article 222-3 of the AMF's General Regulations. The cross-reference table referring to information required in an annual financial report is provided in section 9.4.3.

# Key figures (adjusted data)



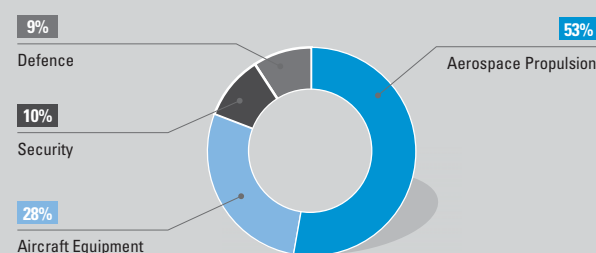
## REVENUE (ADJUSTED DATA)<sup>(1)</sup>

(in € millions)



Adjusted revenue climbed 8.4%, driven primarily by the performance of the Aerospace Propulsion and Aircraft Equipment businesses which generated growth of 11.2% and 11.6%, respectively.

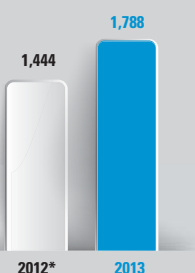
## BREAKDOWN OF REVENUE BY BUSINESS



Safran is a leading international high-technology Group in Aerospace. These activities – Propulsion and Equipment – generate 81% of its revenue.

## RECURRING OPERATING INCOME (ADJUSTED DATA)<sup>(1)</sup>

(in € millions)

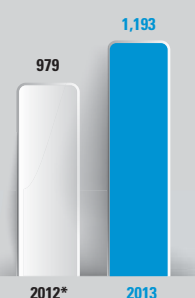


\* Adjusted for the impact of the application of IAS 19R.

Adjusted recurring operating income represented 12.2% of adjusted revenue, up 23.8% year on year. This improvement was primarily driven by the Aerospace business, which benefited from a sharp rise in civil original equipment deliveries and strong growth in the civil aftermarket.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT (ADJUSTED DATA)<sup>(1)</sup>

(in € millions)



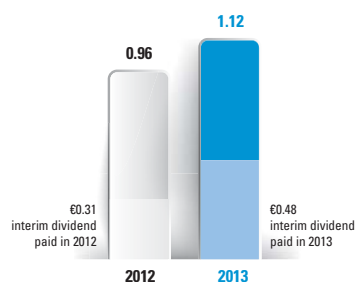
\* Adjusted for the impact of the application of IAS 19R.

Adjusted profit attributable to owners of the parent rose 21.9% in 2013, representing €2.87 per share, up from €2.36 in 2012.

(1) The table reconciling the consolidated income statement and the adjusted consolidated income statement, including a description of the adjustments made, is presented in section 2.1.1.

## DIVIDEND

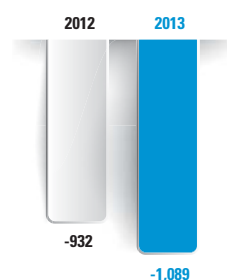
(in € per share)



At the Ordinary and Extraordinary Shareholders' Meeting of May 27, 2014, the Board of Directors will recommend a dividend of €1.12 per share, a 17% increase from the previous year. An interim dividend (€0.48 per share) was paid in December 2013 and the final dividend (€0.64 per share) will be paid in 2014.

## NET DEBT

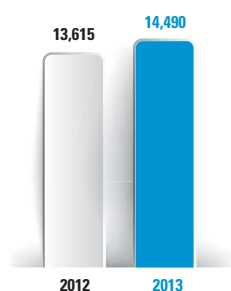
(in € millions)



The Group's capacity to increase its free cash flow in 2013 enabled it to maintain a low level of debt while financing strategic acquisitions mainly in the Propulsion and Equipment segments for €741 million and the dividend payment of €471 million. The Group also disposed of assets in an amount of €353 million.

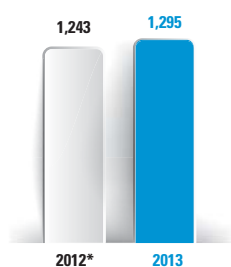
## REVENUE (CONSOLIDATED DATA)

(in € millions)



## RECURRING OPERATING INCOME (CONSOLIDATED DATA)

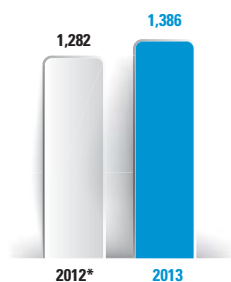
(in € millions)



\* Adjusted for the impact of the application of IAS 19R.

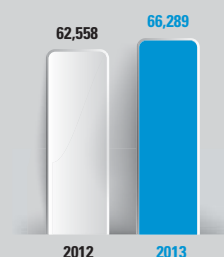
## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT (CONSOLIDATED DATA)

(in € millions)



\* Adjusted for the impact of the application of IAS 19R.

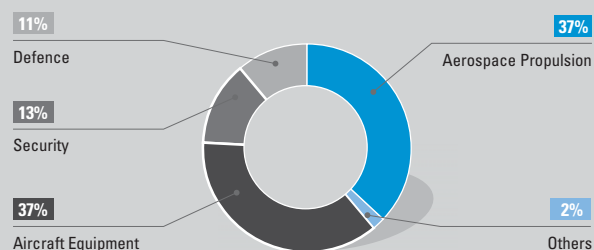
## HEADCOUNT AS OF DECEMBER 31, 2013



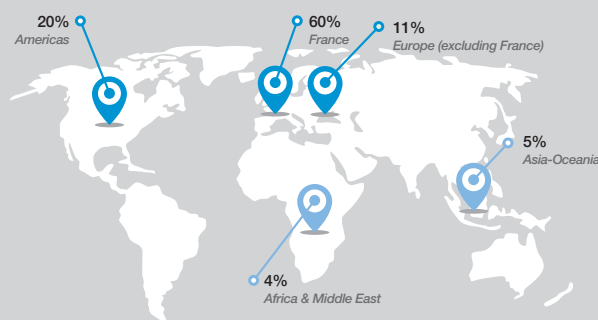
The Group's workforce grew by more than 3,700 compared to end-2012, in response to business growth.

R&D resources are also being bolstered.

## BREAKDOWN OF HEADCOUNT BY BUSINESS



## BREAKDOWN OF HEADCOUNT BY GEOGRAPHIC AREA



The Group's expansion continued apace both in France and abroad. Outside France, the headcount comes to 26,722 across 52 countries.

## KEY FIGURES BY BUSINESS (ADJUSTED DATA)

	Revenue <i>(in € millions)</i>	Recurring operating income <i>(in € millions)</i>	Headcount
Aerospace Propulsion	7,791	1,359	24,511
Aircraft Equipment	4,121	380	24,495
Defence	1,278	87	7,195
Security	1,502	120	8,403

## ■ Corporate governance

### MEMBERSHIP STRUCTURE OF THE BOARD OF DIRECTORS



**Jean-Paul Herteman**

Chairman and Chief Executive Officer



**Christian Streiff**

Independent Vice-Chairman of the Board of Directors



**Marc Aubry**

Director representing employee shareholders



**Giovanni Bisignani**

Independent Director



**Jean-Lou Chameau**

Independent Director



**Monique Cohen**

Independent Director



**Odile Desforges**

Independent Director



**Jean-Marc Forneri**

Independent Director



**Patrick Gandil**

Director representing the French State



**Christian Halary**

Director representing employee shareholders



**Xavier Lagarde**

Director



**Elisabeth Lulin**

Independent Director

## GROUP PROFILE

### CORPORATE GOVERNANCE



***Astrid Milsan***

**Director representing the French State**



***Thierry Pérard***

**Director representing the French State**



***Laure Reinhart***

**Director representing the French State**

## BOARD ADVISOR



***Caroline Grégoire-Sainte Marie***

## BOARD COMMITTEES

### **The Audit and Risk Committee**

Five members – Chairman: Odile Desforges

The Audit and Risk Committee's main duties involve examining the financial statements and addressing issues related to the preparation and auditing of accounting and financial information.

### **The Appointments and Compensation Committee**

Five members – Chairman: Jean-Marc Forneri

The Appointments and Compensation Committee assists the Board of Directors in its choice of members and Corporate Officers, and makes recommendations and proposals concerning the compensation of Corporate Officers.

### **The Strategy and Major Projects Committee**

Eight members – Chairman: Christian Streiff

The Strategy and Major Projects Committee expresses its opinion on the Group's major strategic orientations, development policy and major industrial product development projects or programs as presented to the Board of Directors by Executive Management.

It also examines proposals for strategic agreements and partnerships, acquisitions and all other transactions that impact Group structure.



## EXECUTIVE MANAGEMENT

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***Jean-Paul Herteman***

Chairman and Chief Executive Officer

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***Stéphane Abrial***

Deputy Chief Executive Officer,  
Corporate Office

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***Ross McInnes***

Deputy Chief Executive Officer, Finance

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***Marc Ventre***

Deputy Chief Executive Officer,  
Operations

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# 1 PRESENTATION OF THE GROUP

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2013 revenue  
(adjusted data)

**€14,695 million**

Recurring operating income, 2013  
(adjusted data)

**€1,788 million**

2013 profit (attributable to owners  
of the parent, adjusted data)

**€1,193 million**  
(€2.87  
per share)

Total R&D expenditure (including  
the portion funded by customers)

**€1,821 million**

Industrial investments

**€492 million**

Headcount as of December 31, 2013

**66,289**  
employees

## The Group's positioning

Safran is a leading international high-technology group with three core businesses: Aerospace (Propulsion and Equipment), Defence and Security. It is a prime player on all of its markets.

### AEROSPACE

Through its rocket and aerospace propulsion systems, Safran covers the entire life cycle of systems for the propulsion of planes, helicopters, missiles and launch vehicles, in the civil, military and space markets, from design through to production, marketing, maintenance and repair.

Through its aircraft equipment systems, Safran covers the full life cycle of systems and equipment for civil and military aircraft and helicopters.

Group companies provide both original equipment and services to leading global aircraft programs.

### DEFENCE

Safran holds a front-line international position in optronics, avionics, electronics and critical software for civil and defence markets.

### SECURITY

Safran's Security business offers solutions for enhancing the safety and security of transport systems, critical infrastructures and individuals. It operates in the areas of biometric systems, secure documents (passports, ID cards), and systems for detecting explosives and illicit substances.

## Research and development

Safran operates in a high-technology and high value-added arena. R&D is therefore essential to Group strategy. The total R&D effort, 71% of which is self-financed, amounted to €1.8 billion in 2013, representing 12% of revenue. This commitment reflects the importance given to preparing for the future and developing new products and programs.

## Safran+

The Safran+ program targets continuous performance enhancements. It stimulates initiative and innovation through intra-group synergies, the ultimate aim being ever-higher customer satisfaction.

## 1.1 OVERVIEW

### 1.1.1 HISTORY

Safran is a leading international high-technology group in the Aerospace (Propulsion and Equipment), Defence and Security industries, where it enjoys prime global or European market positions, either alone or in partnership with other companies. Safran is constantly seeking to adapt and reinvent itself to meet the critical technological and economic challenges of tomorrow.

Safran's roots and its technological and industrial hub are in France and Europe. From this base, it has extended its footprint to the American continent, Africa, Asia and Oceania. This presence enables the Group to develop and nurture industrial and commercial relations with the leading prime contractors and operators at national level, and to promptly deliver first-class local service to customers around the world.

#### Key dates in the Group's history

Safran Group was created on May 11, 2005 from the merger of Snecma and Sagem<sup>(1)</sup>, and is the world's oldest aircraft engine manufacturer. Comprising a number of companies with prestigious brand names, it has been at the forefront of Aerospace and Defence for more than a century and is now also a leading name in Security.

- 1905** Louis and Laurent Seguin found the Société des Moteurs Gnome in the Paris suburb of Gennevilliers. In just a few short years, their Gnome rotary engines become the standard for planes around the world.
- 1912** Louis Verdet creates Le Rhône, which becomes Gnome's main competitor within two years. Gnome quickly takes over its competitor, creating the Société des Moteurs Gnome & Rhône. After the First World War, Gnome & Rhône becomes one of the world's leading manufacturers of aircraft engines.
- 1924** Marcel Môme creates Société d'Applications Générale d'Électricité et de Mécanique (Sagem), whose main business is to supply power to telephone exchanges. A few years later, Sagem diversifies its business to include the manufacture of cameras, projectors and artillery equipment. It also sets up the first ever analogue telephone network. Sagem creates Société d'Application Téléphonique, which in 1960 becomes the Société Anonyme de Télécommunications (SAT). This company goes on to design the world's first infrared guidance system for air-to-air missiles.
- 1945** After the Second World War, Gnome & Rhône is nationalized and renamed Snecma. It groups together the majority of French aircraft engine manufacturers launched since the beginning of the century (Renault, Lorraine, Régnier, etc.).

- 1968** Hispano-Suiza, specializing in power transmission for the engines of civil and military aircraft and helicopters, joins Snecma. A few years later, it teams up with Messier to create Messier-Hispano-Bugatti (MHB) and consolidate all products relating to landing systems. Messier-Bugatti-Dowty is today the world's leading player on this market<sup>(2)</sup>.
- 1974** Snecma becomes a civil aircraft engine manufacturer through a cooperation agreement with General Electric Aircraft Engines for the manufacture of the CFM56 ("CF" for General Electric's commercial engine line and "M56" for Snecma's 56th project). This engine currently represents the world's largest civil aircraft engine fleet<sup>(3)</sup>: an aircraft powered by the CFM56 takes off every 2.5 seconds<sup>(2)</sup>.
- 1993** Sagem purchases Morpho, a specialist in fingerprint-based biometric recognition systems. Today, the business is the world leader in this sector.
- 1997** Snecma takes full control of Société Européenne de Propulsion (SEP) and enters the space propulsion market (Ariane launcher).
- 2000** Aircraft wiring specialist Labinal joins Snecma and becomes a leading world player in this market. Helicopter engine manufacturer Turbomeca joins Snecma to continue a technology success story that started in 1938 with company founder Joseph Szydlowski. Today, Turbomeca is the world's premier manufacturer of turbine engines for helicopters<sup>(2)</sup>.
- 2002** Hurel-Dubois merges with the aircraft engine nacelle business of Hispano-Suiza to become Hurel-Hispano. Three years later the company is renamed Aircelle. It is currently one of the key players on the aircraft engine nacelle market.
- 2005** Safran is formed from the merger of Snecma and Sagem. Safran strengthens its positions in the Security business with the acquisition of smartcard specialist Orga Kartensysteme GmbH.
- 2008** Safran extends its partnership with GE in the fields of aerospace propulsion and nacelles through to 2040. Safran's Security business acquires Sdu-I in Holland, renamed Morpho BV.
- 2009** Safran acquires 81% of GE's Homeland Protection business, as well as Motorola's biometrics business (under the Printak brand, now MorphoTrak). Then in 2012, Safran acquires the remaining 19% of GE Homeland Protection, renamed Morpho Detection Inc.

(1) Sagem is the trading name of Sagem Défense Sécurité.

(2) Source: Safran.

(3) Source: Ascend, [www.ascendworldwide.com](http://www.ascendworldwide.com).

**2010** Labinal completes its acquisition of Harvard Custom Manufacturing – renamed Labinal Salisbury – an American company based in Salisbury (Maryland).

**2011** Safran acquires L-1 Identity Solutions, now MorphoTrust USA, a leading American identity management provider, to become a front-line world player in identity solutions and electronic documents. It also acquires SME (formerly SNPE Matériaux Énergétiques), to be merged with Snecma Propulsion Solide in 2012 to form Herakles, world number two in solid propellants for rockets<sup>(1)</sup>.

**2012** In optronics, Safran and Thales form the 50-50 joint venture Optrolead. The two companies also buy out the Areva stake to obtain 50% each of Sofradir and transfer their infrared businesses to this company.

**2013** Safran acquires the electrical systems business of Goodrich (Goodrich Electrical Power Systems – GEPS), and starts to bring all its electrical systems operations together into a single unit to form a leading world player in aircraft electrical systems: Labinal Power Systems.

Safran also acquires Rolls-Royce's 50% interest in their joint RTM322 helicopter engine program, to strengthen its position on the strategic heavy-lift helicopters segment.

## 1.1.2 ORGANIZATION AND POSITION OF THE ISSUER IN THE GROUP

### Organization

Safran is an industrial group within which each subsidiary directly manages the operational side of its business activity and takes responsibility for the internal control system to be implemented in accordance with Group procedures and internal rules.

The organizational structure is based on:

- a parent company, Safran, the issuer, responsible for the Group's strategic management, organization and development;
- companies handling specific business lines, under strategies determined by the parent company's Board of Directors. Executive Management of the parent company ensures that the strategies defined for each business line are implemented at an operational level.

First-tier entities are responsible for overseeing the second-tier entities with which they have operational ties.

### Role of the issuer within the Group

Safran is listed in compartment A of the Euronext Paris Eurolist and is eligible for deferred settlement (see Euronext notice 2005-1865 of May 11, 2005).

As the Group's parent company, Safran performs the following functions for the Group companies:

- it holds and manages shares in the main Group subsidiaries;

- it steers and develops the Group, determining: Group strategy; research and technology (R&T) policy; sales policy; legal and financial policy; human resources policy; personnel training, retraining and skills matching by Safran University; communications; and oversight of operations;
- it provides support for Group companies, on legal, taxation and financial matters (such as finance, cash pooling, tax consolidation, etc.), along with services, through Shared Services Centres covering payroll management and administration, recruitment, non-production purchasing, IT, and some accounting functions.

The list of consolidated companies is presented in section 3.1, Note 33.

### Financial flows between the issuer and Group companies

Safran receives dividends paid by its subsidiaries, compliant with applicable regulations.

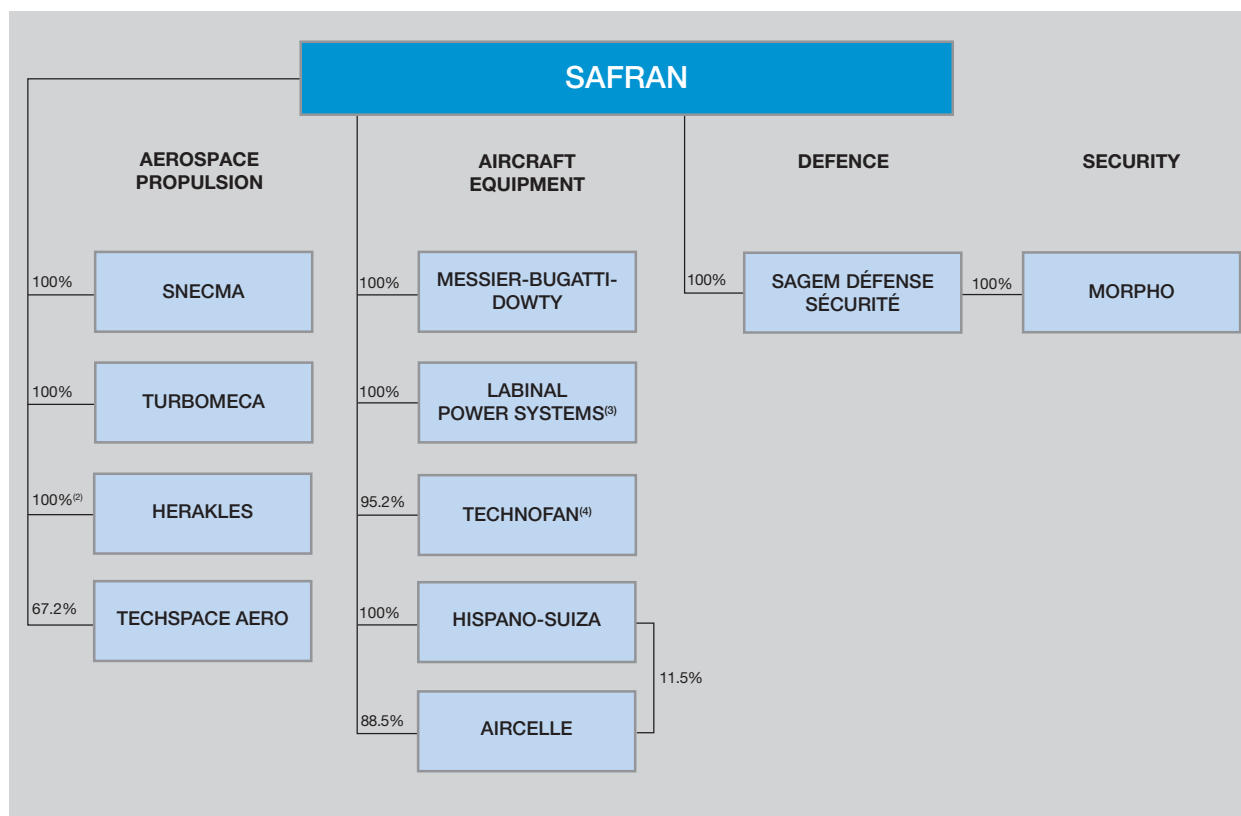
It receives payment for services provided to Group companies, and invoices the price of services provided through the Shared Services Centres.

<sup>(1)</sup> Source: Safran.



### 1.1.3 SIMPLIFIED ORGANIZATIONAL CHART<sup>(1)</sup>

Safran, the issuer, is the parent company of the Safran Group. The simplified organizational chart as of December 31, 2013 is as follows:



(1) First-tier operational companies and listed company.

(2) Less one share held by the French State.

(3) Labinal was renamed Labinal Power Systems on January 2, 2014.

(4) Company listed in compartment C of the Euronext Paris Eurolist.

The list of consolidated companies is presented in section 3.1, Note 33.

## 1.1.4 MAIN GROUP COMPANIES BY BUSINESS SECTOR

Safran currently operates in three main markets: Aerospace, Defence and Security. Safran's Aerospace business breaks down into Aerospace Propulsion and Aircraft Equipment.

### Aerospace Propulsion

Safran's Aerospace Propulsion business covers all activities (design, production, marketing, testing, maintenance and repair) relating to propulsion systems for planes, helicopters, missiles and launch vehicles, in the civil, military and space markets.

#### SNECMA

Jet engines for civil and military aircraft, support, maintenance, repair and related services. Liquid-propellant and electric propulsion systems for launch vehicles, satellites and space vehicles.

#### TURBOMECA

Turbine engines for civil, parapublic and military helicopters. Turbojet engines for training aircraft, missiles and drones. Maintenance, repair, support and related services.

#### HERAKLES

Solid propellant rocket engines for space launch vehicles and missiles. Energy raw materials, pyrotechnic equipment, thermostructural and organic composite materials for defence, aerospace, automotive safety and industrial applications.

#### TECHSPACE AERO

Low-pressure compressors for aircraft engines. Equipment for aerospace applications. Equipment and test cells for aerospace engines.

### Aircraft Equipment

Safran's Aircraft Equipment business covers equipment, systems and services for civil and military aircraft and helicopters.

#### MESSIER-BUGATTI-DOWTY

Aircraft landing gear and braking systems. Support and related services.

#### LABINAL POWER SYSTEMS<sup>(1)</sup>

Electrical and wiring systems for civil and military aircraft. Comprehensive engineering services for the aerospace, defence, automobile and rail industries. Support and related services.

#### TECHNOFAN

Ventilation systems and equipment for civil and military aircraft. Support and related services. Company listed in the C segment of the Euronext Paris Eurolist.

#### HISPANO-SUIZA

Engine power transmissions for civil and military aircraft and helicopters. Support and related services.

#### AIRCELLE

Complete nacelle systems for aircraft engines, support and related services, composite materials for aerostructures.

### Defence

#### SAGEM

Equipment and systems in optronics, avionics, navigation, electronics and critical software for civil and defence applications. Related customer support in all applications.

### Security

#### MORPHO

Multi-biometric identification technologies (fingerprint, iris and face recognition), and identity management solutions. Smartcards, identity document and secure transaction systems. Equipment for detecting explosives and illicit substances. Support and related services.

<sup>(1)</sup> Labinal Power Systems is the new name of Labinal. The name Labinal Power Systems also refers to a new unit, formed on January 2, 2014, that covers all the Safran Group's electrical power system businesses: the company Labinal Power Systems (world front-line player in wiring systems); Safran Power (specialists in onboard power systems), including the businesses acquired from Goodrich Electrical Power Systems and Aerosource, Inc.; Safran Engineering Services (specialists in engineering services, especially for electrical systems); and Technofan (ventilation systems and electric motors).

## 1.2 GROUP STRATEGY

Safran builds front-line positions on the Aerospace, Defence and Security markets. In all its business areas, it enjoys wide recognition for technological excellence serving customers' critical applications.

In Aerospace Propulsion, Safran is a leading manufacturer of aircraft engines, helicopter turbine engines and space engines. As well as proceeding with the renewal of its range of civil aircraft engines, Safran is also developing new engine solutions for the business jets, regional jets, short- to medium-haul aircraft and heavy-lift helicopter markets. Aerospace Propulsion milestones in 2013 include:

- the first test campaign for the LEAP engine, successor to the best-selling CFM56, designed for the single-aisle jets A320neo, Boeing 737 MAX and C919, was completed successfully and to schedule;
- to back its development strategy for turbine engines in the 3,000 shp<sup>(1)</sup> range for future heavy-lift helicopters, Safran acquired Rolls-Royce's share in the joint RTM322 helicopter engine program;
- after being selected by Cessna for its new Citation Longitude business jet, the Silvercrest engine was also selected by Dassault Aviation for its Falcon 5X, thus strengthening Safran's strategy on positioning in the business aviation market.

Safran is also a front-line player in Aircraft Equipment (landing systems, wheels and brakes, nacelles, power transmission systems, electrical systems and wiring systems), and in "more electric" aircraft architectures for aircraft manufacturers and airline companies. It is also preparing technological differentiation in equipment for the future generation (around 2030) of short- to medium-haul aircraft. In all its Aerospace business lines, Safran has developed a very strong customer and operator service capability, notability through rate per flight hour service contracts. Such contracts offer customers guaranteed aircraft availability while improving the visibility and the recurrence of aftermarket revenues for Safran.

On the Security market, Safran harnesses world-renowned experience to meet growing demand for multi-biometric identification systems, secure document systems (passports, identity cards, etc.), and tomographic systems for the detection of explosives and illicit substances. The Group pursues development in digital identity systems (bank applications, secure internet transactions, and cloud computing) using know-how and technologies derived from physical identity solutions.

In Defence, Safran harnesses its strong innovative capacity to assert its leadership in optronics, navigation and avionics, and to develop full onboard solutions with a view to seizing growth opportunities in the defence markets of emerging countries.

Safran's development is guided by four main focuses:

- technological innovation, driving long-term growth;
- front-line positions in its various businesses;
- strong positions on high-growth markets;
- consistently sound financial position.

To back its strategy, Safran continues to forge alliances and long-term partnerships, as with GE, on engines for short- to medium-haul aircraft (partnership dating back to 1974, then renewed in 2008 through to 2040), and more recently with Honeywell, on an ecology-friendly electric green taxiing system (egts) that does not require the use of the aircraft's engines.

Safran also proceeds with targeted external growth operations, chiefly to round out its coverage of key technologies and to access new markets. In 2013, Safran finalized the acquisition of the electrical power generation activities of Goodrich Electrical Power Systems and consolidated all the Group's on board electrical power system activities under Labinal Power Systems, thereby stepping up coverage of the aircraft electrical systems market. These levers strengthen and accelerate Safran's growth.

Safran is pushing ahead with its competitive performance improvement plan, through the constant improvement and international extension of its industrial facilities and the increasing dollarization of its purchasing operations, which helps to reduce its exposure to exchange rate fluctuations.

Safran takes up positions on long-term markets on which sustained demand ensures growth and profitability. Growth opportunities are found not only in the strong development potential of emerging countries (such as China), but also in mature US and European markets, where aircraft fleets are under renewal. Safran expects the worldwide fleet to double in size over the next 20 years. This is the global Aerospace market on which Safran asserts its sustainable growth and profitability strategy.

Safran's financial fundamentals are very sound. Robust operating cash flow underpins a strong long-term position at the technological frontline and sustained R&D investments, thus driving short- and medium-term growth.

Safran implements its development strategy in accordance with strong ethical principles, on job satisfaction, environmental protection, and the absolute need for infallible safety and security conditions. These principles are outlined in a charter that sets out Safran's values and ethical standards (see section 5.2.1).

(1) shp: shaft horsepower.

## 1.3 GROUP BUSINESSES

Safran operates in the high-tech Aerospace (Propulsion and Equipment), Defence and Security markets. In certain cases, it forges alliances and partnerships when participating in major programs in these markets, due to the technological challenges, cost and development times involved.

By joining forces, each party brings the best of its know-how to the project in hand and shares risks thanks to a diversified product portfolio.

### 1.3.1 AEROSPACE PROPULSION

The Aerospace Propulsion business operates in three fields:



#### Aircraft and liquid-propellant engines

<b>Civil aircraft engines</b>	Business jets Regional jets Short- to medium-haul aircraft Long-haul aircraft
<b>Military aircraft engines</b>	Fighters Training and support aircraft Patrol, tanker and transport aircraft
<b>Liquid-propellant and electric propulsion engines</b>	Launch vehicles and satellites

#### Helicopter turbine engines

<b>Turbine engines for helicopters</b>	Light helicopters Medium-weight helicopters Heavy-lift helicopters
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#### Solid-propellant engines

<b>Civil space industry</b>	Launch vehicles
<b>Military industry</b>	Ballistic missiles Tactical missiles and targets

#### 1.3.1.1 Aircraft and liquid-propellant engines

##### CIVIL AIRCRAFT ENGINES

##### Key characteristics of the business sector

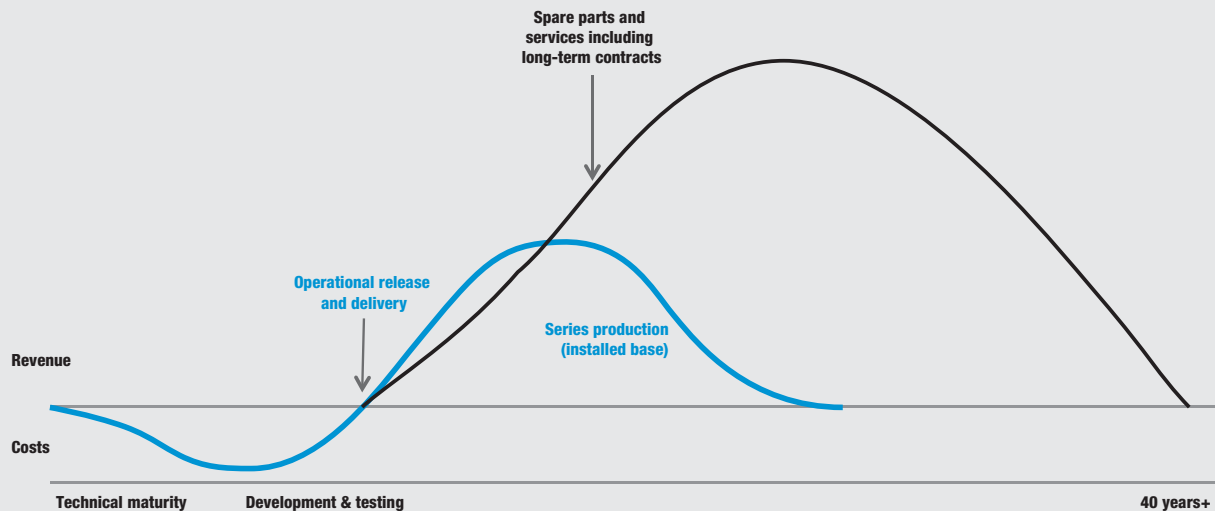
The civil aviation sector comprises four main segments:

- business jets powered with engines delivering between 5,000 and 18,000 pounds of thrust;
- regional jets (30 to 100 seats) powered by engines delivering between 8,000 and 18,000 pounds of thrust;
- short- to medium-haul aircraft with 100 to 200 seats, powered by engines delivering between 18,000 and 50,000 pounds of thrust;
- high capacity long-haul aircraft with a twin-aisle fuselage, powered by engines delivering over 50,000 pounds of thrust (currently up to 115,000 pounds).

In response to aircraft manufacturer requirements for specific engines for each of these business sectors, engine manufacturers invest in civil engine programs comprising two types of activity:

- original equipment activity, involving the sale of engines installed on new aircraft;
- service activity, comprising the sale of spare parts and service contracts entered into on a case-by-case or long-term basis with operators and approved maintenance centers.

### Economic life cycle of a civil aircraft engine



These programs may span more than 40 years and have several phases. A significant portion of revenue generated by these programs comes from support services.

On this market, there is a growing tendency to offer operators long-term service contracts. This improves visibility for customers and offers engine manufacturers a better guarantee of revenues and a smoother cash profile throughout the engine lifecycle.

There are four major engine manufacturers in the sector that can act as prime contractors: GE (US), Rolls-Royce (UK), Pratt & Whitney (US) and Safran (France).

In the industry, the US dollar is used almost exclusively as the transaction currency.

#### ■ Alliances and partnerships

Because of the very substantial investment involved in new engine programs, Safran often works in partnership with other engine manufacturers.

Partnerships may take the form of joint ventures, as with GE and NPO Saturn (Russia).

They can also be based on contractual risk-and-revenue-sharing agreements, under which Safran receives a share of sales revenue for the final delivered product, corresponding to its share in the program. The GE90 program is an example of this kind of arrangement.

#### Group products and programs

Safran's operations in the civil aircraft engines segment mainly involve Snecma and Techspace Aero.

#### ■ Low-thrust engines for civil aircraft

This engine family powers regional transport jets and business jets.

Safran is the prime contractor for the SaM146 program, in partnership with the Russian engine manufacturer, NPO Saturn. The SaM146 was selected as the sole engine for the Superjet 100, the 70- to 95-seater aircraft made by Russian manufacturer Sukhoi.

Safran also invests in engines for business jets through its Silvercrest program, in the category of engines delivering 10,000 pounds of thrust. This engine has already been selected by two aircraft manufacturers: Cessna (in May 2012), for its Citation Longitude; and Dassault (in October 2013), for its Falcon 5X.

The Group also operates in this engine range through participation in the following GE programs:

- CF34 10 (Embraer 190 and COMAC ARJ 21 regional jets);
- Passport (Bombardier Global 7000/8000 business jets).

Safran also makes a piston aircraft engine, the SR305-230E, from SMA (*Société de motorisations aéronautiques*). SMA was founded in 1997 to develop a diesel engine for light aviation, and joined the Safran Group in 2005. The SMA SR305-230E engine powers the latest arrival in the Cessna 182 Skylane line: the four-seater, single-engine, high-wing Turbo Skylane JT-A, released in 2013.

#### ■ Medium-thrust engines for civil aircraft

The CFM56 engine program generates the largest share of Safran's Aerospace Propulsion revenue (approximately 50%, including spare parts, maintenance and repair sales). This engine is developed under equitable joint cooperation agreements by CFM International (CFM), a 50-50 joint venture between Safran and GE.

The majority of short- to medium-haul aircraft with more than 100 seats delivered over the last 15 years are powered by CFM56 engines. These engines power more than 56%<sup>(1)</sup> of the Airbus A320ceo (current engine option) range. Competition

(1) Source: Safran.



to power the Airbus range comes from the IAE consortium's V2500 engine and Pratt & Whitney's PW6000, which currently powers only a small number of A318s. Following the purchase of Rolls-Royce's share by Pratt & Whitney in 2012, the IAE consortium now comprises three engine manufacturers (Pratt & Whitney, MTU Aero Engines and Japanese Aero Engines Corp.).

The new generation of the Boeing B737NG, like the previous version (Classic), is powered solely by CFM56 engines.

The CFM56 engine's share of the overall market for short-to medium-haul aircraft stands at around 80%<sup>(1)</sup>.

The success of this program with airlines has led to a steady rise in the fleet of CFM56 engines delivered over the past 30 years. This engine currently represents the world's largest engine fleet, totaling more than 25,700 units (only around 900 of which have been withdrawn from service).

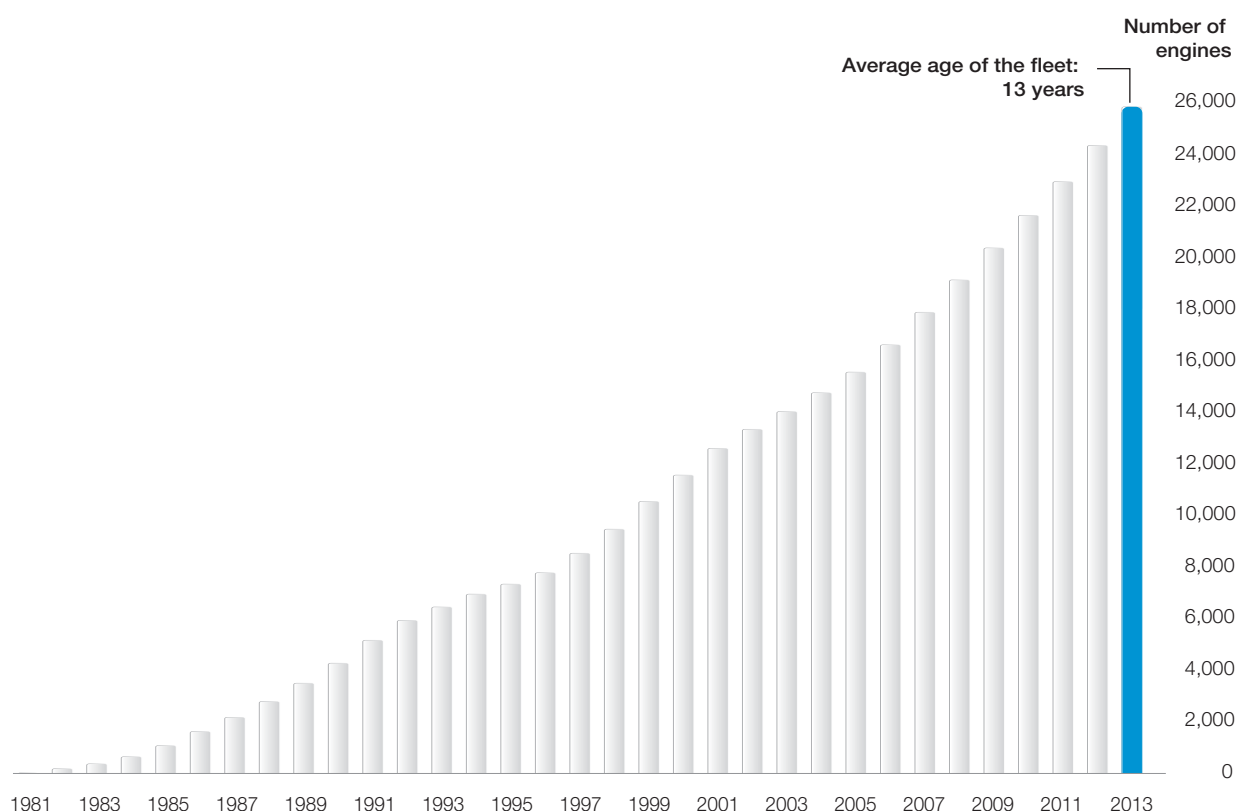
CFM International is also developing a new generation of engine called LEAP, which should achieve a 15% reduction in

fuel consumption and CO<sub>2</sub> emissions in comparison with the best CFM engines currently in service. The new engine will also significantly reduce nitrogen oxide emissions and noise levels, with no compromise on the reliability or competitive cost of ownership of CFM engines.

The engine has so far been selected:

- in an initial version, LEAP-1C, as the only Western source for the propulsion system (engine plus nacelle) on COMAC's C919 Chinese aircraft, in late 2009;
- in a second version, LEAP-1A, as one of the two new engine options for the new Airbus A320neo (new engine option), which was officially launched by the European aircraft maker in late 2010. (The other engine is the PurePower PW1000G, developed by Pratt & Whitney);
- in a third version, LEAP-1B, as the exclusive source for the new Boeing 737 MAX, officially launched by the US aircraft manufacturer in summer 2011.

## TOTAL DELIVERIES OF CFM56 ENGINES



### ■ High-thrust engines for civil aircraft

The Group operates in this engine range as a risk and revenue sharing partner of GE. Participation rates vary between 8% and 24% across several major engine programs in series production, including the CF6 powering the A330 (19.4%) and the 747 (10%),

the GE90 powering the 777 (23.5%), the GP7200 powering the A380 (17.5%). Safran is also a partner on the GenX engine program: 7.7% for the 1B version powering the Boeing 787 Dreamliner long-haul aircraft and 7.3% for the 2B version powering the Boeing 747-8.

(1) Source: Safran.

### ■ Spare parts and services for civil aircraft engines

After-sales operations primarily involve the sale of spare parts and the provision of maintenance, servicing and repair services. They hold very high growth and profitability potential for the Group, owing to the size and lifespan of the aircraft fleets concerned.

For the fleet of CFM56 engines, after-sales operations chiefly involve sales of new spare parts and provision of engine maintenance services. For several years the Group has been developing long-term service contracts with airlines and major maintenance workshops, to assert its position on this highly competitive market. All CFM56 engines are removed for inspection and servicing in a maintenance workshop from three to five times during an average service life. CFM Materials (CFMM), a business run jointly by GE and Snecma, also provides reconditioned CFM56 parts. CFM holds near-exclusive coverage of the market for CFM56 spare parts, which are critical to engine dependability. The growing number of CFM56 engines in service will generate a growing volume of highly profitable business in the future.

For new-generation LEAP engines, scheduled to come into service from 2016, all OEM purchase intention and firm order agreements (except for sales for aircraft rental companies), have been signed almost simultaneously with spare parts provision and/or service contracts running for seven to ten years. As this type of offering becomes increasingly systematic, it ensures long-term service revenue covering the supply of spare parts from the initial OEM sale.

On all other civil aircraft engine programs, including those for high-thrust engines, in which Safran holds a minority stake alongside GE, the Group benefits from revenues from spare parts and maintenance contract sales proportional to its stake in the program.

## MILITARY AIRCRAFT ENGINES

### Key characteristics of the business sector

The military aviation sector comprises three main segments:

- fighters;
- training and support aircraft;
- patrol, tanker and transport aircraft.

The military aircraft engine and related services market is dependent on the budgets of client air forces. The military market is also influenced by national independence and diplomatic considerations.

The nature and performance of engines varies considerably depending on the segment: jet engines with a high thrust-to-weight ratio for fighters, and jet engines or turboprops closer to those found in civil aircraft for training and patrol aircraft.

As in the civil aviation sector, military engine programs generally involve two types of activity, namely original equipment and after-sales service, the latter comprising the sale of spare parts, maintenance and repair activities, as well as other customer services.

Alliances and partnerships between engine manufacturers have been forged to bring together the best technological and commercial assets, pool risks, and meet the needs of pan-European programs.

The majority of civil engine manufacturers are active in military aircraft engines and benefit from the technical synergies that exist between the two activities.

The key Western players in the fighter jet engine sector, apart from Safran, are North American and British, namely Pratt & Whitney, GE and Rolls-Royce.

The main European players are: Safran, whose M53 engine powers the Mirage 2000 and whose M88 engine equips the Rafale; Rolls-Royce, whose RB199 engine powers the Tornado and whose Pegasus engine powers the Harrier; and the European Eurojet consortium comprising Rolls-Royce (UK), MTU Aero Engines (Germany), Avio (Italy) and Industria de Turbo Propulsores – ITP (Spain), which is developing the EJ200 engine for the Eurofighter Typhoon.

The choice of engines in the training aircraft sector consists mainly of those made by Safran (the Larzac, which powers the Alphajet, and the Adour in cooperation with Rolls-Royce, which powers BAe Systems' Hawk aircraft), Pratt & Whitney (PW500 and PW300) and Honeywell (TFE731 and F124 engine families).

In the engine segment for military transport and patrol aircraft, the fleet is primarily made up of the T56 and AE2100 turboprops developed by Rolls-Royce North America (formerly Allison) and the Tyne engines developed by Rolls-Royce and made under license par Tyne Consortium (Safran 52%, MTU Aero Engines 28% and Rolls-Royce 20%).

The TP400 engine, which powers the Airbus A400M Atlas European military transport aircraft, plays a major role. Snecma holds a 32% stake in this program as a member of the Europrop International GmbH (EPI) consortium, which also includes Snecma, Rolls-Royce, MTU Aero Engines and Industria de Turbo Propulsores – ITP.

### Group products and programs

Safran's operations in the military aircraft engines segment mainly involve Snecma, Turbomeca and Techspace Aero.

### ■ Fighter engines

Historically tied to Dassault Aviation, activity in this segment is based mainly around the following programs:

- the Atar engine (4.5 to 7.1 metric tons of thrust), which powers the Super-Étendard Marine jets and the Mirage III, IV, 5, F1 and 50 family. Series production of this engine has now ceased and approximately 615 engines remain with seven customers;
- the M53 engine (9.5 metric tons of thrust), which powers the Mirage 2000. There are 567 of these engines in service with eight customers;
- the M88 engine (7.5 metric tons of thrust), which powers the Rafale, with 322 engines in service.

### ■ Training and support aircraft engines

Activity in this segment is based on the following programs:

- the Larzac engine (1.4 metric tons of thrust), which powers Dassault Aviation's Alpha Jet training aircraft and for which series production has ceased. The Larzac engine also powers the Russian MiG-AT and Indian HJT36 prototype training aircraft. At the end of 2013, there were 747 engines in service with 12 customers;
- the Adour engine, which delivers thrust of 3.7 metric tons (with afterburner) or 2.9 metric tons (without afterburner), is made in cooperation with Rolls-Royce. It powers support and attack aircraft such as the Jaguar aircraft produced by Dassault Aviation and BAe Systems, and training aircraft such as the Hawk produced by BAe Systems and the Goshawk T-45A produced by Boeing. More than 1,100 engines are in service in 14 countries.

### ■ Patrol, tanker and transport aircraft engines

Activity in this segment is based on the following programs:

- the CFM56 engine powering military versions of the Boeing 707 (CFM56-2), the KC135 tanker aircraft and the Boeing 737 (CFM56-7), for the C-40 transport aircraft, the P-8 Poseidon MMA (Multimission Maritime Aircraft), and the AEW&C (Airborne Early Warning & Control) aircraft;
- the 4,550 kW Tyne turboprop engine, developed by Rolls-Royce and manufactured under license by Tyne Consortium. This engine powers C-160 Transall transport aircraft and Breguet Atlantic and Atlantique 2 maritime patrol aircraft. Series production of this program has ceased but it continues to generate revenues through spare parts and repairs;
- the 8,203 kW TP400 turboprop engine, to power the Airbus A400M European transport aircraft.

### ■ Spare parts and services for military aircraft

After-sales operations for military aircraft primarily involve the sale of spare parts and maintenance, servicing and repair services. This business directly addresses the need for aircraft availability of governments using military aircraft. Two programs account for the bulk of these military aircraft service operations today: Mirage 2000 (M53 engine); and Rafale (M88 engine). The Group also continues to provide services for older aircraft fleets, to meet the needs expressed by customers.

Because of the extreme operating conditions involved, military aircraft engines are usually serviced before they reach 1,000 hours in flight. One of Safran's constant development objectives is to lengthen the interval between servicing visits. The Group has developed a new version of the engine that powers the Rafale; the M88 Pack CGP introduces technical improvements that help maintain the aircraft in optimal operating condition. To reduce total cost of ownership, hot parts and rotating parts have a longer service life, which makes for a longer servicing interval. Most governments currently delegate the management of their spare parts to Safran.

## LIQUID-PROPELLANT AND ELECTRIC-PROPULSION SPACE ENGINES

### Key characteristics of the business sector

This business sector comprises launch vehicle propulsion systems and satellite engines.

Two types of technology are involved: liquid-propellant rocket engines and electric thrusters (known as plasma thrusters).

European civil space activities are assigned among manufacturers in each country to ensure a fair return on investment for all governments involved. The manufacturers then enter into agreements to reallocate these activities in accordance with their areas of expertise.

In Europe, the weak government market means that access to space systematically involves the operator Arianespace, the main player on the commercial market for the launch of geostationary telecommunication satellites. Safran is the main supplier of Ariane engines.

### Group products and programs

Safran's operations in the liquid-propellant and plasma-propulsion engine segment mainly involve Snecma and Techspace Aero.

Safran's direct customers are Airbus Defence & Space (formerly EADS Astrium), which supplies series production units to Arianespace, and the European Space Agency (ESA) for development activities:

- **series production**, with manufacture of the Vulcain 2 cryogenic engine delivering 135 metric tons of thrust to power the main stage of the ES and ECA versions of Ariane 5, and manufacture of the HM7 cryogenic engine delivering seven metric tons of thrust to power the upper stage of the Ariane 5 ECA rocket;
- **development activities**, with the new Vinci restartable cryogenic engine, delivering 18 metric tons of thrust, selected for the upper stage of the improved Ariane 5, (Ariane 5 ME, Midlife Evolution), the first launch of which is scheduled for mid-2018, followed by the new-generation Ariane 6 launch vehicle, for 2021-2022.

In the satellite sector, Safran offers an electric propulsion solution: SPT100 plasma thrusters are in service in geostationary satellites, and the PPS1350 thruster powers, for example, the European Alphabus communication satellite platform.

### 1.3.1.2 Helicopter turbine engines

#### Key characteristics of the business sector

The helicopter turbine engine market is characterized by significant diversity in applications and customer-users. With the exception of armed forces and certain specific civil applications, current helicopter fleets are small in size.

Helicopter engine size is determined mainly by airframe weight and mission type. Helicopters may have one, two or sometimes three engines.

The Group serves:

- government and parapublic applications: police, border control, medical and emergency services;

- civil applications: off-shore oil industry, transport, tourism and private ownership, and airborne work such as spraying and construction;
- military applications: transport, attack and ground support, maritime patrol.

This diversity, coupled with the fact that engines are tightly integrated into the helicopter airframe, gives rise to a wide variety of engines and associated versions.

The helicopter engine market, like the civil aviation market, comprises two activities:

- sale of turbine engines to helicopter manufacturers for installation in new airframes (original equipment);
- service activities based on spare part, maintenance and repair contracts with operators, requiring a major global customer support network with local reach, given the large number of users and the helicopter's limited radius of action.

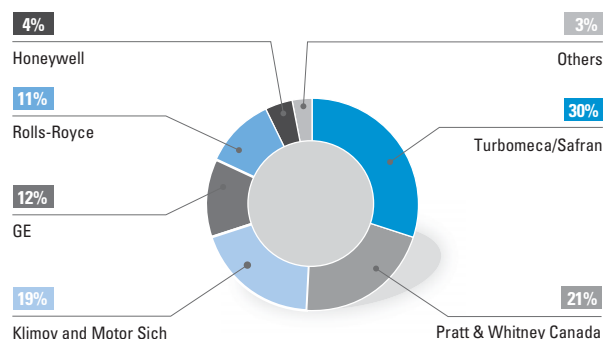
The profile of a helicopter turbine engine program is extremely similar to that of a civil aircraft engine program as presented earlier in the section.

The airframe/engine pairing is often unique and at the origin of a new model. However, there is a trend toward multiple engine sizes among some helicopter manufacturers (offering a choice between two engines). This can also be seen where a helicopter is adapted for a specific purpose, thereby reintroducing competition to a given program.

There are fewer partnerships between engine manufacturers than in the civil aviation engine sector. The main partnership is between Rolls-Royce, Turbomeca, MTU and ITP (MTRI), on the 1,450 shp MTR390-E engine that powers the Tiger. The growth of the helicopter market in emerging markets has also led Safran to develop other types of partnerships with consortiums of helicopter manufacturers looking to enter the propulsion sector. This is the case with HAL (Hindustan Aeronautics Ltd.) in India and AVIC in China, which are both becoming major customers and partners.

The majority of major Western aircraft manufacturer groups are also present in the helicopter turbine engine market: Turbomeca/Safran, GE, Pratt & Whitney Canada, Rolls-Royce and Honeywell.

#### MARKET SHARE: SALES OF HELICOPTER ENGINES, 2009-2013<sup>(1)</sup>



(1) Source: Safran.

#### Group products and programs

Most of Safran's helicopter engines are modular turbine units adaptable to civil and military helicopters. Modularity makes for more efficient maintenance programs. Safran helicopter engines are designed with a large additional power potential (up to 15%), which means they address a broad application spectrum.

Through Turbomeca, Safran is active in all of the helicopter engine categories described above.

#### Turbine engines for light helicopters

For single- and twin-engine light helicopters, Safran offers two types of engine: Arrius and Arriel.

These engines and their derivatives power many civil helicopters, from Airbus Helicopters (EC120, EC135, Écureuil, EC145, Dauphin, etc.), Sikorsky (S76) and Kamov (Ka-226T), along with military helicopters from Airbus Helicopters (Fennec, Lakota, Panther), AgustaWestland (A109 Power) and AVIC in China (Z9).

#### Turbine engines for medium-weight helicopters

In 2012, Safran launched the development of the 1,100 shp<sup>(1)</sup> Arrano engine to power the Airbus Helicopters X4 twin-turbine helicopter, and other helicopters from four to six metric tons. This new engine will consume 10% to 15% less fuel than other engines in service today, and this means higher performance (range, payload) as well as a smaller environmental footprint. The Arrano engine is scheduled to undergo its first bench tests in 2014.

For medium-weight helicopters (five to seven metric tons), Turbomeca is present on the military market for combat helicopters, with the MTR390 (developed jointly with Rolls-Royce and MTU) that powers the Airbus Helicopters Tiger, and the TM333 engine that powers HAL's Dhruv. A special development contract has been signed with Spain (taking on board ITP as an additional engine partner) for a more powerful version of the MTR390 for the Tiger. For civil and military applications with this range of helicopters, Turbomeca develops the Ardiden.

The Ardiden program addresses the new generation of medium helicopters (five to seven metric tons). The Ardiden 1 version is in series production, as is the Indian version, Shakti, developed in partnership with HAL, which powers the new version of HAL's ALH/Dhruv helicopter. The latest version, Ardiden 3, which addresses six- to eight-ton helicopters under development has already won orders from AVIC in China (for the AC352/Z15) and Kamov in Russia (for the Ka-62). With its modular architecture and dual-channel FADEC (Full Authority Digital Engine Control), the Ardiden 3 engine boasts high reliability and exceptionally low fuel consumption.

### ■ Turbine engines for heavy-lift helicopters

On the heavy-lift helicopters market, Makila turbine engines are used on helicopters including the EC 225/725 and Super Puma from Airbus Helicopters.

The RTM322 turbine engine powers NH Industries' NH90 helicopter and AgustaWestland's AW101 Merlin and Apache (UK-specific) helicopters. Powered by this turbine, the Airbus Helicopters X3 hybrid twin-turbine helicopter reached a record speed of 255 knots (472 km/h) in June 2013.

In line with its investment and development policy on new engines in the high-power helicopter turbine engines segment (3,000 shp and above), in 2013 Safran acquired Rolls-Royce's 50% share in the joint RTM322 engine program. Safran thus assumes global responsibility for the design, production, product support and services for the RTM322 engine.

### ■ Spare part and service activities

Following the example of its civil aviation activities, Safran has developed an international structure able to provide customers with local access to technical and sales support, in addition to spare parts and services for turbo engines. Local coverage is provided through a worldwide network of repair centers (performing in-depth maintenance) and Safran/Turbomeca service centers.

## 1.3.1.3 Solid-propellant engines

### Key characteristics of the business sector

This business sector comprises two main segments:

- the civil space industry, comprising launch vehicle propulsion to place satellites in orbit as well as satellite engines;
- the military industry, comprising propulsion for all types of ballistic and tactical missiles.

In the military sector, ballistic missiles are an essential component of national nuclear deterrent forces for countries possessing this capability. With the exception of the United Kingdom, production is entrusted to national manufacturers. In Western Europe, France is the only country to develop its own ballistic missiles.

Orders for tactical missiles are placed by governments. Certain major markets, including the US, Russia and China, remain totally or partially closed to European suppliers or are subject to "local preference" policies.

In both the civil and military segments, engine manufacturers work closely with the launch vehicle or missile prime contractor. Development and engineering programs tend to be long and financed by government budgets, such as the European Space Agency (ESA) for civil space activities in Europe or the national defence budget for strategic operations. Tactical missile development is also financed by customer governments.

Series production activities generally involve limited quantities and fixed costs are high.

### Group products and programs

Safran addresses the civil and military space segments through Herakles and its subsidiaries and holdings.

### ■ Civil space propulsion

This segment features the following activities:

- **series production**, with the manufacture of powder boosters and solid propellant engines for Ariane 5 boosters. Europropulsion, which assembles the engines, and Regulus, which produces the propellants, are joint ventures between Safran and Avio (Italy). Safran also takes part in the European Vega program, in which it is notably responsible for the nozzle on the P80 solid-propellant engine;
- **development activities**, Safran designs and manufactures nozzles in advanced composite materials for US space engines, and is responsible for preliminary design studies on the solid propulsion engines for the future Ariane 6 launch vehicle.

### ■ Ballistic missile propulsion

Safran provides rocket engines for the missiles of France's ocean-going strategic nuclear force, in particular for the fourth-generation program (M51).

### ■ Tactical missile and target propulsion

Safran provides engines for MBDA very-short-range ground-to-air Mistral missiles, and Apache and Scalp long-range air-to-ground missiles, as well as their Storm Shadow derivatives. It also supplies components for the production of SM-3 interceptor missiles, developed by the American company Raytheon for US missile defence programs.

Through Roxel, a 50-50 joint venture with MBDA, Safran develops and assembles a substantial range of engines for tactical missiles of international renown (including Milan, MICA<sup>(1)</sup> and AASM<sup>(2)</sup>).

(1) MICA: Interception, combat and self-defence missile.

(2) AASM: Modular Air-to-Ground Weapon.



## 1.3.2 AIRCRAFT EQUIPMENT

Safran is one of the world's leading aircraft systems and equipment suppliers, specializing in mechanical, hydromechanical and electromechanical equipment.

Safran's Aircraft Equipment business operates in three sectors:



### Landing and braking systems

**Landing gear**

**Wheels and brakes**

**Landing and braking systems**

**Support services for landing gear, wheels and brakes and related systems**

### Engine systems and equipment

**Nacelles and thrust reversers**

**Power transmissions**

### Electrical systems and engineering

**Wiring and electrical connection systems**

**Power electronics and electrical systems**

**Engineering**

This business covers design, manufacture and sale of various products, plus maintenance, repair, related services and sale of spare parts.

The growth potential of Safran's Aircraft Equipment business is significant, with the Group enjoying leading positions in each of its sectors in recent and prospective major short-, medium- and long-haul commercial aircraft programs by Boeing (787, 777 and 737NG), Airbus (A380, A350, and A320ceo and neo) and COMAC (C919).

Thanks to its technological expertise in a large number of Aircraft Equipment sectors, the Group is a preferred partner of aircraft manufacturers and is able to offer a comprehensive range of products and services. Safran is notably the sole comprehensive "ATA 32" supplier (landing gear + brakes + systems).

Safran's substantial capacity for innovation has enabled it to carve out either leading or major positions in its markets. Competitors such as UTC Aerospace Systems (formerly Hamilton Sundstrand and Goodrich in the US) and Honeywell (US) are present in several sectors of the Aircraft Equipment market, whereas Liebherr (Germany), Spirit (US), Moog (US), Zodiac, Thales, Meggitt (UK), Avio Aero (Italy), LATElec and Fokker (Holland) specialize in only one or two specific sectors.

Adopting a less systematic approach than in the Aerospace Propulsion business, Safran has formed a number of alliances and partnerships in the Aircraft Equipment sector, on an individual product and program basis.

Market characteristics are outlined individually below, for each business area.

### 1.3.2.1 Landing and braking systems

This business comprises three main product lines: landing gear, wheels and brakes, and landing/braking control systems.

In 2011, Safran merged its wheels & brakes, landing & braking systems, landing gear, and maintenance & repair businesses to form Messier-Bugatti-Dowty. This organization is in response to market shifts toward more tightly integrated offerings addressing both aircraft manufacturers and airlines.

#### LANDING GEAR

##### Key characteristics of the business sector

The market for commercial aircraft landing gear is shared by Safran, UTC Aerospace Systems (USA), Liebherr (Germany), plus a handful of niche players positioned in specific market segments (business jets, helicopters, drones, etc.). Technology requirements are high, as landing gear must bear extreme loads during maneuvers on the ground: it must be light, compact and robust, while being fully adapted to and optimized for the aircraft's profile. The business model includes a long development period – which starts with the initial aircraft development phase – limited production volume and regular service flows. Technological challenges include the use of new materials to improve the resistance of parts, new, more eco-friendly production processes (elimination of chrome) and enhanced acoustics.

##### Group products and programs

Safran addresses the landing gear segment through Messier-Bugatti-Dowty, which holds around half the market<sup>(1)</sup> for commercial aircraft landing gear.

Safran designs, manufactures and provides after-sales services for landing gear for civil and military planes and helicopters of all sizes. If requested by the customer, it also handles integrated systems. Safran also provides the technical assistance and spare parts needed for its equipment.

Safran is number-one worldwide<sup>(1)</sup> for these structural units, having equipped a fleet of some 24,000 aircraft. The Group supplies the world's major aircraft manufacturers (including Airbus, Boeing, Bombardier and Dassault) and military and civil operators. Among the main commercial aircraft programs is the entire Airbus range, including the A350, as well as Boeing's 787 Dreamliner, the first contract with this US manufacturer. The Group also has a strong

(1) Source: Safran.

presence in military applications, where it equips the A400M Atlas, Rafale, Eurofighter Typhoon, F18 and V22 planes and helicopters from Airbus Helicopters, as well as in the business jet and regional jet markets (ATR, Bombardier, Dassault-Falcon, SuperJet 100 Fokker, Piaggio, etc.).

## WHEELS AND BRAKES

### Key characteristics of the business sector

The present-day wheels and brakes market splits evenly into two segments: aircraft with steel brakes (first-generation brakes), and aircraft with carbon brakes, invented by Safran. The market for carbon brakes has developed rapidly since the 1980s, with the increase in air traffic and the gradual phase-out of steel brakes, replaced by carbon units. The wheels and brakes market is currently shared among four major global players: Safran, UTC Aerospace Systems (USA), Honeywell (USA) and Meggitt (UK).

### Group products and programs

Safran's addresses the wheels and brakes segment through Messier-Bugatti-Dowty.

Safran designs, manufactures and provides after-sales services for wheels and carbon brakes for aircraft. It also provides electronic and electrohydraulic systems for aircraft braking, tire/brake/landing gear monitoring and landing gear steering systems.

The Group's wheels and brakes offering covers civil applications (for the A320, A330/A340, 767 and 777) and the military sector (for the A400M Atlas, Rafale, KC135 refueler and C17 transport aircraft). Recent contract wins for the A350, the A320neo range, the Boeing 737NG and the Boeing 787 have bolstered its position as leader in this sector.

With more than 6,100 aircraft fitted with Safran wheels and carbon brakes, the Group holds more than half<sup>(1)</sup> of the market for aircraft having over 100 seats and fitted with carbon brakes. In 42% of cases, these fleets are less than five years old, which, given the activity's business model, offers the Group a strong and highly profitable future revenue outlook on a constant-fleet basis.

### Electric green taxiing system

There is a growing emphasis on the development of systems for increasing the proportion of electric aircraft systems. A good illustration of this comes with the EGTS International joint venture formed by Safran and Honeywell in 2012, to develop and offer airline companies an electric green taxiing system enabling the aircraft to taxi without airport towing services and without using the aircraft engines. As well as saving fuel, this new system will also reduce noise and pollution during taxiing phases.

(1) Source: Safran.

## LANDING AND BRAKING SYSTEMS

### Key characteristics of the business sector

This market includes braking systems, orientation systems, landing gear and door extension/retraction systems, and monitoring systems. The main players are Safran, UTC Aerospace Systems, GE Aviation Systems and Crane Aerospace & Electronics (USA).

### Group products and programs

Safran's operations in the landing and braking system segment mainly involve Messier-Bugatti-Dowty, selected by Airbus for most of its programs, including the A350 and the A320 family, by Bombardier for its LearJet 85 business jet program, and by Embraer for its KC390 military program.

In the landing/braking electronic control systems segment, Safran's position is buoyed by its technological advance in electric braking and its ability to propose a comprehensive offering to customers, which encompasses landing gear, wheels and brakes, and associated control systems.

### Support services for landing gear, wheels and brakes and related systems

Safran provides maintenance services for its own products, and for competitor products on commercial aircraft with more than 100 seats. Through its partnerships in Asia, the US and France, the Group offers solutions tailored to regional and business jets.

To provide maintenance services for landing gear and landing and braking systems, Safran has developed regional repair centers in Mexico, the UK, France, Singapore and the USA. Some of these repair centers are managed as joint ventures, with partners such as ST Aero, Sabena and Dassault Falcon Jet.

## 1.3.2.2 Engine systems and equipment

## NACELLES AND THRUST REVERSERS

### Key characteristics of the business sector

A nacelle is made up of an air inlet, a fairing, a thrust reverser and a nozzle. The thrust reverser, which reverses the engine's thrust to help brake the aircraft, represents approximately half the value of the nacelle.

The market is organized around these sub-units, which require both specific and varied technical expertise according to the size and complexity of the nacelle. Along with expertise in these sub-units, Safran has also developed unique know-how in nacelle-engine integration and the interface with the engine pylon. UTC Aerospace Systems (USA) is Safran's main competitor on this market.

### Group products and programs

Safran is present in the nacelle and thrust reversers sector through the activities of Aircelle.

Safran designs, manufactures and provides after-sales services for nacelles for business jets, regional jets and commercial aircraft with over 100 seats. It is a recognized expert in the manufacture of complete nacelle systems (A340-500/600 and A380), large-scale reversers (A330 and A320) and acoustic technologies, and has a strong presence in the market for regional and business jets (Embraer 135/145 and 170, Gulfstream V, Bombardier Global Express, Challenger 300 and Sukhoi Superjet 100). Safran is one of three global leaders in this sector, with a market share of 21%<sup>(1)</sup>. Safran has an alliance with GE, through its subsidiary Middle River Aircraft System (MRAS), along the same lines as the CFM engine program partnership. The purpose of this joint venture, called Nexcelle, is to jointly develop nacelles for the CFM engines on future medium-haul aircraft. This is likely to strengthen Safran's long-term position. COMAC has selected the Nexcelle "integrated nacelle" for the CFM LEAP-1C propulsion system. The contract comes with an industrial cooperation agreement between Nexcelle and the Chinese state-owned group AVIC. Nexcelle has also been selected by GE to supply the nacelle for its Passport engine on Bombardier Global 7000/8000 business jets. In addition, Aircelle is working in partnership with MRAS on development of the nacelle for the Airbus A320neo version powered by the CFM LEAP-1A. On the Silvercrest engine program, Aircelle will supply the thrust reversers for Cessna's new Citation Longitude aircraft, and the nacelle and thrust reversers for Dassault's new Falcon 5X business jet.

### Services for nacelles and thrust reversers

Aircelle offers operators service solutions through its Customer Service Development (CSD) Department, generating revenue in spare parts, service, repair and maintenance.

## MECHANICAL POWER TRANSMISSION SYSTEMS

### Key characteristics of the business sector

The mechanical power transmission market covers a range of applications, the main ones being accessory gearboxes (which deliver mechanical energy to engine accessories or aircraft systems), reduction drives (which transfer power to the propeller blades on turboprop aircraft), and main transmission gearboxes (which transfer power to the blades on helicopters). The main players on this market are the engine and helicopter manufacturers themselves, along with equipment suppliers such as the UTC group (USA), Avio Aero (Italy), KHI (Japan), Triumph (USA) and Northstar (USA).

### Group products and programs

Safran's operations in the mechanical power transmission sector involve Hispano-Suiza.

Safran designs, manufactures, markets and maintains a wide range of mechanical power transmission systems for civil and

military aircraft engines. Its reputation for technical expertise in mechanical power transmission systems has enabled it to enter into agreements with Rolls-Royce and more recently Airbus Helicopters, thus bolstering Safran's position among sector leaders.

### 1.3.2.3 Electrical systems and engineering

The shift toward more electrical aircraft systems is a priority for aircraft manufacturers. As electrical systems begin to phase out the hydraulic and pneumatic systems on today's planes, this will bring a significant rise in the power required of electricity generation and distribution systems. The advantages of electrically powered systems include higher safety, lighter weight, smaller volume, and reductions in fuel consumption and greenhouse gas emissions. The introduction of electrical systems will also reduce aircraft assembly and maintenance costs, and improve availability.

Step by step over the past few years, Safran has built a leading world position in electrical power systems, including through acquisitions in power generation and distribution. In 2011, acquisition of the US company Aerosource, Inc. brought Safran access to backup power generation technologies (with the Ram Air Turbine) and electrical equipment repair services. In 2013, Safran finalized the acquisition of Goodrich Electrical Power Systems (GEPS), a leading supplier of onboard aircraft electrical power generation and conversion systems. More recently, in January 2014, Safran signed a final agreement on the acquisition of Eaton Aerospace's power distribution businesses.

These external growth operations, coupled with a substantial internal research and technology effort, enable Safran to assert a strong legitimacy in aircraft electrical systems. Safran has reorganized its electrical systems businesses by consolidating them under a single unit of expertise named Labinal Power Systems (formed on January 2, 2014).

The Labinal Power Systems unit includes:

- Labinal (world number-one in electrical wiring systems);
- Safran Power (specialists in onboard electrical energy), including businesses acquired from Goodrich Electrical Power Systems;
- Aerosource, Inc. (specialists in maintenance and repair of electrical equipment);
- Technofan, a company listed in compartment C of NYSE Euronext Paris (specialists in ventilation equipment and electric engines);
- Safran Engineering Services (specialists in engineering services, especially for electrical systems).

The primary and secondary power distribution businesses of Eaton Aerospace will join this new unit once the acquisition is complete.

With this new operational unit, Safran forms a new world number-one in wiring and power systems. Specifically, Labinal Power Systems covers the whole of the aircraft electrical power chain, thus putting Safran in an ideal position to succeed in its bid for a breakthrough in "more electric aircraft".

(1) Source: Safran.

## ELECTRICAL POWER GENERATION AND DISTRIBUTION SYSTEMS

### Key characteristics of the business sector

The electrical systems market is longer-established, and mostly covers power generation and distribution functions. This market is currently commanded by major players such as UTC Aerospace Systems, Esterline and Zodiac, which cover all or some system components. Only UTC Aerospace Systems and Safran field a comprehensive offering covering main and backup power generation, conversion, and primary and secondary distribution.

The power electronics market is more recent, arising directly from developments in electrically powered aircraft functions (electric thrust reversers, electric brakes, electric load control, etc.). UTC Aerospace Systems and Safran hold skills in this field.

### Group products and programs

Safran's operations in these segments involve part of the Hispano-Suiza businesses, consolidated under Labinal Power Systems in 2014. Since the acquisition of GEPS, Safran has held critical experience and know-how in electrical power generation, central to aircraft electrical systems. The Group also addresses electrical power generation through operations in engines and power transmission systems. Safran will also be filling out its portfolio of products in these areas with its forthcoming acquisition of Eaton Aerospace's primary and secondary power distribution businesses.

Examples of Safran's capacity for innovation in power electronics include ETRAS (Electrical Thrust Reverser Actuation Systems), the world's only electric control system for nacelles, developed on the A380, and EBAC (Electrical Braking Actuation Controller), on the Boeing 787. These major technological advances, along with Safran's engine and electrical wiring expertise, enable the Group to offer aircraft manufacturers innovative electric aircraft systems for their forthcoming programs.

Embraer has selected Safran to provide all emergency backup power and primary and secondary distribution systems for its KC390 military transport aircraft program, the first flight of which is set for 2014.

## ELECTRICAL CONNECTION SYSTEMS

### Key characteristics of the business sector

Wiring and electrical connection systems mainly comprise electrical harnesses as well as main and secondary transformer stations and other electrical cabinets.

Much of the aircraft wiring market is still in the hands of aircraft manufacturers' internal departments. The Group is the leading worldwide supplier<sup>(1)</sup> on this market. Its main rivals are Fokker Elmo (Netherlands), LATElec and, in the US, Ducommun LaBarge.

### Group products and programs

Safran's operations in the wiring and electrical connection system segment mainly involve Labinal<sup>(2)</sup>.

Safran provides electrical and layout design work in addition to wire production and installation support services at the aircraft manufacturer's site, for customers including Airbus and Boeing. If requested, as on upgrade programs, Safran can take on the planning and onboard installation stages. This can – as with recent major programs such as the A380 – extend to an "end-to-end" service covering engineering, manufacture and installation support.

## VENTILATION SYSTEMS AND ELECTRIC MOTORS

### Key characteristics of the business sector

Ventilation systems comprise various electrical, electronic, mechanical and pneumatic subsystems.

High-performance ventilation systems perform the following functions:

- management of air circulation in the cabin and cockpit;
- cooling of aircraft brakes on landing;
- cooling of avionics bays, which house systems including the main aircraft controllers (flight control systems, digital cockpit screens, etc.).

Safran, UTC Aerospace Systems and Honeywell are the main players with skills in this field.

### Group products and programs

Technofan designs, manufactures and markets ventilation systems for aircraft cabins and avionics, and brake cooling systems for commercial and military aircraft and helicopters.

Technofan supplies all ventilation circuit equipment (valves, air filters, nozzles, heat exchangers, flowrate sensors, pressure sensors, etc.) along with the ventilation regulation and control system. Technofan has also developed expertise in electric motors fully integrated in the aircraft electrical chain. Technofan now operates under Labinal<sup>(2)</sup>.

## ENGINEERING SERVICES

### Key characteristics of the business sector

Demand continues to run high on Safran's engineering market. With the many programs currently under development, aircraft manufacturers and equipment vendors are experiencing a shortage of specialist engineering skills.

At the same time, Safran's major aerospace customers are trimming back their supplier panels, and this gives rise to consolidations and new opportunities for those suppliers that are selected.

Selection depends on the ability of suppliers to provide consistent support on their customers' international markets, and to sustain and develop their skills bases.

(1) Source: Safran.

(2) Labinal Power Systems is the new name of Labinal. The name Labinal Power Systems also refers to a new unit, formed on January 2, 2014, that covers all the Safran Group's electrical power system businesses: the company Labinal Power Systems (world front-line player in wiring systems); Safran Power (specialists in onboard power systems), including the businesses acquired from Goodrich Electrical Power Systems and Aerosource, Inc.; Safran Engineering Services (specialists in engineering services, especially for electrical systems); and Technofan (ventilation systems and electric motors).

The Group's main competitors are leading full-service engineering groups such as Alten and Altran as well as niche aviation suppliers, e.g., Assystem and Aeroconseil.

### Group products and programs

Safran is present in the engineering market through Safran Engineering Services. In Europe, the Americas and Asia, Safran Engineering Services is primarily active in the aviation market but also provides services to related markets such as automobile and rail. Its expertise, focused on five broad areas (electrical systems


architecture, aerostructures, mechanical systems, embedded systems and certification support), is used by various Group companies, chief among which ranks Labinal Power Systems. However, it also provides services to major aviation customers (Airbus Group, Boeing, Dassault and Embraer) as well as land transport companies (Bombardier Transport, Renault and Peugeot).

For support in the design of new electrical system architectures, Safran's aircraft manufacturer customers see the expertise of Safran Engineering Services, backed by Labinal Power Systems, as a determining factor.

## 1.3.3 DEFENCE

Safran is a key player in advanced avionics, optronics, electronics and critical software for the civil and defence markets.

The Defence business can be broken down into three key sectors:



### Optronics

- Soldier modernization**
- Optronics and sights**
- Drones**
- High-performance optics**

### Avionics

- Navigation and sensors**
- Seekers and guidance systems**
- Flight control systems**
- Upgrading of military aircraft and civil avionics**
- Onboard information systems and data management**

### Electronics and critical software

- Onboard electronic equipment**
- Onboard critical software**

Through the French and international facilities of its subsidiary Sagem, Safran develops and manufactures electronic equipment, navigation assistance systems, and high-added-value optical and optronic products. It develops, produces or purchases, and maintains computers and printed circuit boards used in all types of platforms for the civil and military aviation and defence sectors. Safran develops onboard electronics and critical software for the systems it manufactures.

Safran's main partners and customers in the Defence sector are governments (ministries or armed forces) and European groups such as Thales, Airbus Group (formerly EADS), Nexter, BAe Systems (UK), MBDA, Finmeccanica (Italy), Saab AB (Sweden), Dassault, DCNS and CMI (Belgium).

Other well-known integrators and equipment and system suppliers in the international aviation and defence sectors are also set to become partners or customers of the Group.

### 1.3.3.1 Optronics

#### Key characteristics of the business sector

Safran's expertise and ability to innovate have enabled it to become a reference in the high-tech industry of optronics. The optronics sector covers a wide range of equipment and systems, including the soldier modernization system, night vision goggles, combat vehicle digitization (vectronics), gyro stabilized optronic pods for aircraft and drone systems, periscopes and optronic masts for submarines, and high-performance optics from its subsidiary REOSC. Safran offers a full range of optronic systems covering land, naval and aerospace applications.

#### Group products and programs

Safran is active in the optronics industry through Sagem and its subsidiaries Vectronix in Switzerland and the US (portable optronic products), Optics 1 Inc. in the US (integrated optical systems and subsystems), and Optovac in Brazil, and through its stake, along with Thales, in Optrolead and Sofradir (world number-one<sup>(1)</sup> in infrared detectors).

#### ■ Soldier modernization

With FELIN (the French acronym for "infantryman with integrated equipment and links"), designed specifically for soldier modernization in the French armed forces, Safran is offering innovative solutions to meet the needs of various armed and security forces (army as well as police, civil security and firefighters) both in France and further afield. Providing the dismounted soldier with optimal ease of movement, this modular approach developed and marketed by Safran meets the objectives of soldier modernization programs (SMP). The soldier has enhanced protection against ballistic risks (shrapnel-proof vest, plates to protect against assault weapons, etc.), NBC risks (integrated ventilation system featuring two filtration systems) and climate risks (technical underwear adapted to a variety of climatic conditions).

(1) Source: Safran.



## ■ Optronics and sights

### Portable optronic equipment

Safran is a trailblazer in, and the leading European producer<sup>(1)</sup> of, portable optronics. It offers a full range of hardware and systems for observation under any weather conditions, day or night. Its thermal cameras and multi-purpose night-vision imagers, such as the JIM LR long-range multifunction imager ordered by the French and other armed forces, have become a global market reference. These high-tech systems are widely used in the overseas operations conducted by French and other Allied armies.

### Onboard systems

Safran equipment provides protection for land combat vehicles (tanks and lighter vehicles). Stabilized sighting and high-precision navigation systems, coupled with optimized human-machine interfaces, ensure high-performance observation, target identification and fire direction, under day or night conditions, and including ambulant firing capability. Safran is involved in French and export (Leclerc, VBCI, BMP3 United Arab Emirates, Saudi Arabia, etc.) land vehicle programs.

In the field of gyrostabilized sights, Safran participates in major combat helicopter programs: Tigre, NH90, Cougar, Panther. The STRIX and OSIRIS infrared sighting systems fitted on Tiger helicopters meet the most demanding conditions of this kind of combat platform, providing for target observation, detection, reconnaissance, identification and localization, as well as pursuit and fire direction for onboard weapons.

Safran's experience in (conventional and nuclear) submarine masts and periscopes has been applied to several programs such as Scorpène, Agosta and Daphné. The new generation of combat nuclear submarines, the Barracuda class, will also be equipped with these technologies – notably incorporating the DAS surface detection system using non-penetrative optronic masts.

Safran's artillery systems boast state-of-the-art capabilities and are used by armed forces in more than 20 countries. The SIGMA 30 family of units for land navigation and artillery pointing make it possible to fire accurately at very short notice.

## ■ Drones

Safran has pushed back the barriers on drone systems through its expertise in critical function chains: navigation and flight control, image chain, and data transmission. Night and day, Safran's tactical-drone systems are used in daily operations, in close contact with threats.

## ■ High-performance optics

With its REOSC optic range, Sagem is a specialist in advanced opto-mechanical equipment for civilian and military applications. As a worldwide leader<sup>(1)</sup> in high-performance spatial optics, Sagem is the sole company in Europe to master polishing and large-scale ceramic substrate treatment (SiC) to a degree of precision within several nanometers. These spatial optics systems are used on the Helios I and II, Meteosat and Spot satellites, and on many scientific satellites.

### Customer support

Sagem's customer support includes high value-added services, including repairs, equipment delivery and technical support. All strive towards the same goal: ensuring that equipment is in full working order at all times.

### 1.3.3.2 Avionics

#### Key characteristics of the business sector

Safran's innovation and expertise make it a top-tier global player in the high-tech avionics industry. The avionics segment covers onboard electronics technologies in four product lines: inertial navigation, flight control systems, guidance and seeker systems, and onboard information systems.

In addressing several different markets with common-core technology platforms, Safran enhances competitive performance and optimizes its customer portfolio. This approach reduces both costs and volatility.

The applications corresponding to this product offering are extensive and encompass all types of platform, such as guided weapons, military and commercial planes and helicopters, and combat vehicles and ships.

Safran's main competitors in these businesses (French and international) include: Thales, BAe Systems (UK), Finmeccanica (Italy), Rockwell Collins (USA), Northrop Grumman (formerly Litton) (USA), Honeywell (USA), Eaton (USA), Liebherr (Germany).

Safran, Europe's leading player<sup>(1)</sup> in navigation systems, acquired the Swiss company Colibrys SA in January 2013. Colibrys has a workforce of 70 and specializes in design and manufacture of high-performance microsensors using MEMS<sup>(2)</sup> technology. With this acquisition, Safran optimizes its portfolio of technological know-how in inertial sensors, and accelerometers in particular.

In February 2013, Safran founded the company Sagem Services India Private Ltd, headquartered in New Delhi. The new company specializes in maintenance and customer support covering the whole spectrum of optronics, navigation and avionics products in service in India.

(1) Source: Safran.

(2) MEMS – Micro Electro Mechanical Systems.

In September 2013, Safran and the Moroccan Hassan II Foundation signed an agreement for the construction of a new Sagem production facility in Casablanca. The new site, which is to employ a workforce of 150 and will assemble mechanical and electronic components for the aerospace industry, will be fully operational in 2014.

### Group products and programs

Safran is present in the avionics sector through Sagem and its US subsidiary Sagem Avionics Inc. (automatic pilot systems for aircraft, actuators and onboard data acquisition and processing modules).

#### ■ Navigation and sensors

As the European market leader<sup>(1)</sup> in inertial navigation systems, Safran offers a wide range of inertial and hybrid systems for submarines, surface ships, land vehicles, airplanes, helicopters and aircraft. Recognized know-how in these technologies lies behind Safran's involvement in programs such as Rafale and A400M Atlas, and, more recently, in a Russian joint venture developing and supplying inertial systems for fighter planes and combat helicopters.

#### ■ Seekers and guidance systems

Building on the Magic II program, Safran has combined expertise in optronics and inertial systems to provide seekers for Mistral and MICA IR missiles. At the heart of the missile's system, the seeker fitted to the MICA uses the most advanced technologies such as bispectral imaging and real-time processors. MICA IR missiles are carried by Rafale fighters and Mirage 2000-5 interceptor aircraft.

The AASM (French acronym meaning Modular Air-to-Ground Weapon) is a family of high-precision weapons for modern air forces. It is a conventional-use weapon that can be used in all conditions, day or night, and is in service on Rafale fighters belonging to the French air force and navy. It harnesses Safran know-how in many areas – infrared and image processing technology, inertial components with hemispherical resonant gyrometer (GRH), laser guidance – and has proved highly effective in recent operations.

Safran has been selected to supply infrared seekers for the French army's medium-range missiles, and for the future French-British anti-surface guided weapon (FASGW).

#### ■ Flight control systems

As a worldwide leader<sup>(1)</sup> in helicopter flight control, Safran offers automatic systems designed to aid the pilot while maintaining a maximum level of security. Safran's expertise extends to components of navigation systems coupled with autopilots: position sensors, flight control actuators and onboard computers. Safran was selected along with partners Airbus helicopters and Thales on the development project for the X4 next-generation helicopter. Embraer commissioned Safran with development and supply of the horizontal stabilizer trim actuator (HSTA) on the KC390. AgustaWestland selected Sagem to handle the development of the secondary onboard computer for the AW169 flight control system.

#### ■ Upgrading of military aircraft and civil avionics

Safran offers turnkey upgrade solutions that include training and maintenance. They are based on Safran's expertise in inertial navigation and fire direction systems, visible and infrared optronics, and digital processing both onboard (weapons systems) and on the ground (mission preparation).

Safran is also a major player in upgrading avionics systems for civil and military helicopters and airplanes. Its offering runs from cockpit displays to complete platform modernization. The Brazilian army and Helibras selected Safran to take charge of upgrading their EC725 helicopters.

#### ■ Onboard information systems and data management

Safran has developed flight-data recording systems (Aircraft Condition Monitoring System – ACMS) equipping ATR, Embraer, Boeing and Airbus aircraft. Under Airbus prime contractorship, it also provides the information system for the A380 and A350. More than simply a data network, the system comprises a fully-fledged intranet combining the properties of a router, server and communication interface.

Given the extensive fleet it equips, among many airline companies, Safran is ideally placed to develop data management services that input recorded flight data to yield results in areas such as flight analysis and optimization of fuel consumption.

#### Customer support

After-sales services account for a quarter of Safran's avionics revenue. The substantial installed base provides a solid footing for developing customer support, especially in repair work.

### 1.3.3.3 Electronics and critical software

Safran is active in onboard electronics and critical software through Sagem's Safran Electronics division and its subsidiaries Safran Electronics Asia Pte Ltd (electronics maintenance center for the Asia Pacific region), Safran Electronics Canada Inc. (onboard electronics for business jets and regional aircraft), FADEC International LLC, a 50-50 US joint venture with BAe Systems, and more recently a German joint venture with MTU Aero Engine GmbH, Aerospace Embedded Solutions GmbH.

The Safran Electronics division provides Group companies with the electronic equipment and critical software required for their world-leading programs. It develops, produces or purchases, and provides maintenance for computers and printed circuit boards for numerous systems (FADEC engines, thrust reversers, nacelles, landing gear, braking systems, flight control systems, inertial navigation systems and sights) for aircraft and naval and terrestrial landing platforms.

Safran Electronics also develops and certifies the critical onboard software for these systems.

(1) Source: Safran.

## ELECTRONIC EQUIPMENT

Safran Electronics specializes in electronic systems for harsh environments (temperature, vibration, etc.). It designs and manufactures single and multiple onboard computers, either standalone or integrated in an IMA (Integrated Modular Avionics) system. These systems address applications such as engine control, flight control, braking control and landing gear control. Safran Electronics also designs and installs electronic control systems for electromechanical actuators and for Labinal Power Systems<sup>(1)</sup> power converters. It also manufactures complex hybrid micro-electronic modules for aerospace applications. For example, it is conducting work on the electronic propellant flow-rate regulation demonstrator for the Vulcain X engine, and on control systems for plasma thrusters. Safran Electronics covers the whole of the supplier chain. It develops know-how and technological expertise in the production of electronic circuit boards, through a strong industrial excellence center based at its Fougères plant.

## ONBOARD CRITICAL SOFTWARE

Safran Electronics develops the complex critical software used in Safran Group onboard systems. This software is said to be “critical” because it must comply with extremely demanding certification standards, as regards dependability in harsh environments.


Safran Electronics teams handle software specification, architecture, coding, verification, quality assurance, configuration management and certification.

### Computer maintenance and repair

At its Massy and Singapore repair centers, Safran Electronics performs maintenance of its own onboard computers along with systems from other Safran Group and third-party manufacturers. It also maintains and repairs computers and electronic boards for a significant number of airlines and airforces worldwide.

## 1.3.4 SECURITY

Security activities can be split into three key sectors:



### Identification systems

**Identification solutions**

**Other businesses**

### e-documents

**SIM cards**

**Bank cards**

**Secure identity documents**

**Trusted Service Management**

### Detection

**Detection by X-ray tomography of explosives and dangerous and illicit substances**

**Spectrometry-based detection and analysis of traces of explosives and dangerous and illicit substances**

Through its Morpho subsidiary, Safran is a world front-runner in biometric identity and authentication solutions, and a leading player in border control for passengers and goods. Safran's Security businesses are driven by the changing sources of threats, the emergence of new security and authentication needs in an increasingly connected world, and government modernization, especially in emerging countries. Safran also pursues constant progress in technologies, backed by a policy of industrial and academic partnerships, plus new acquisitions as relevant opportunities arise, as with Starchip in 2013. Starchip specializes in the design of high-security chips for integration in smartcards. Its innovative approach brings Safran comprehensive coverage of the smartcard value chain on new-generation products.

Through these companies, Safran has perfected cutting-edge technology in areas such as biometrics, onboard software (in particular smart card operating systems), secure terminals (biometric identification terminals, gaming terminals, speed control radars, etc.), secure printing techniques and cryptology, and detection (explosives and illegal substances). Such technology is necessary to access key target markets.

In the air and airport sectors the trend towards increased security continues and requires a considerable joint effort by numerous players, including airport and civil aviation authorities, airline companies, border police and customs authorities. Safran cooperates with all national and international organizations influencing the development of new technologies in the aviation sector. Safran is a world partner of professional organizations including Airport Council International (ACI), the International Air Transport Association (IATA), and the International Civil Aviation Organization (ICAO). It is actively involved in their working groups

(1) See 1.3.2.3 – Electrical systems and engineering.

on issues regarding transport safety and passenger convenience. Safran R&D investments target the emergence of new-generation check-points implementing several of the technologies developed across all its businesses.

Safran is present in the Security sector through Morpho, the world leader<sup>(1)</sup> in biometric solutions. Morpho's main subsidiaries are:

- Morpho Detection, LLC, specializing in the detection of explosives and illicit substances;
- Morpho Cards GmbH, specializing in smart cards and related trusted service management;
- Morpho BV, one of Europe's leading players in the printing of secure documents such as passports;
- MorphoTrust USA, LLC, founded to take in, under a proxy agreement with the US government, the US businesses of L-1 Identity Solutions regarding the issuance of identity documents such as driver's licenses in the US, biometric enrollment services for authorization control, and sensitive projects run by the US government.
- MorphoTrak, LLC, which supports Morpho's biometrics business development in the US, addressing local police services and government contracts in particular.

### 1.3.4.1 Identification

#### Key characteristics of the business sector

Identification solutions comprise the Group's identity programs and products (including identification solutions, automatic systems for processing biometric data, etc.) and security equipment (biometric terminals, biometric enrollment kiosks, gaming terminals, transport safety equipment, etc.), which, by identifying and authenticating persons, contribute to the protection of persons, goods or sites against all types of threats and danger.

By "identify" we mean being able to find reference to a particular individual from among a group of individuals who are, a priori, known. By "authenticate" we mean confirming, based on information provided by individuals (e.g. by pin code, biometric data, etc.) that individuals are who they say they are. Generally speaking, system security calls for combined use of both functions: identification is used when an entitlement is granted, to verify that the individual requesting the entitlement is not persona non grata and that he or she is not referenced in the system under another name; the authentication process then checks biometric information stored for the individual, to confirm his or her entitlement.

The market for automated fingerprint identification systems (AFIS) and multi-biometric platforms (fingerprint, face and iris recognition) addressing forensic applications is concentrated in the hands of a few players, primarily Safran, NEC (Japan) and 3M (US). Demand for biometric technologies is growing, with international development of applications for the delivery and verification (mainly at border controls) of passports and other biometric identification documents (ID card, health card, etc.), and with the development of applications

for delivering unique identification to each individual, as with the Adhaar (unique number) project run by the Indian government's Unique Identification Authority of India (UIDAI), using fingerprint and iris biometric identification.

Markets for varied applications in identification management and flow control are highly competitive, addressed by numerous industrial players (such as Gemalto, NEC, Giesecke & Devrient, 3M Cogent, Cross Match Technologies) and major integrators (including Accenture, Lockheed Martin, Siemens and IBM).

Contributing to these solutions are the identification division of Dutch subsidiary Morpho BV (specializing in the printing and personalization of secure documents), US subsidiaries MorphoTrak and MorphoTrust USA (identification products and solutions), and Morpho Cards (smart card specialists providing cards for identification applications).

With a market share of around 25% in 2012, according to a Frost & Sullivan survey in January 2013, Safran leads the world biometric market for solutions in civil and criminal identification, production of identity documents, biometric terminals, automatic biometric identification systems and biometric enrollment services.

#### Group products and programs

##### ■ Identification solutions

Safran already offers numerous biometric techniques to identify physical persons, including fingerprint recognition (and potentially vein pattern recognition), face, iris and tattoo recognition, and various combinations of these techniques.

The implementation of these techniques enables the following systems and solutions to function:

- major identification management systems (censuses, listings, and issue of ID cards, voter cards, passports, e-health cards, driver's licenses, etc.);
- border control solutions: passenger control by biometric identification, or biometric authentication with e-passport data checks by fingerprint recognition (at Paris and Marseille Provence airports), iris recognition (Oman, Jordan, United Arab Emirates), and facial recognition (Australia, New Zealand); a common European system for Schengen visas and visas for asylum seekers; crime-solving support solutions such as automatic fingerprint recognition or facial recognition systems for police services and the judiciary;
- enrollment services for control of authorizations to work at sensitive sites and on critical applications (e.g. US businesses under proxy).

The identification division also designs and deploys the biometric sensors and equipment used for protecting access to physical premises or information systems, along with biometric enrollment terminals and identity control terminals using one or more of the three major biometric detection technologies (fingerprint, facial and iris recognition).

(1) Source: Safran.

### ■ Other businesses

Image-analysis expertise developed for biometrics is also applied to secure terminals for lotteries or bookmaking, or products, systems and services for transport safety. In road safety, for example, Safran products cover all safety rule control requirements (speed, signs, etc.), and include manual solutions and fully automated digital systems.

### 1.3.4.2 e-documents

#### Key characteristics of the business sector

Through Morpho and its subsidiaries, Safran is a major player in smartcard systems for identifying beneficiaries in a whole range of applications. Safran is present in all market segments, including mobile phones, bank cards, identity documents (such as ID cards, health cards, passports and driver's licenses), and secure access to business networks and the internet. Safran is the fourth-largest smartcard company worldwide<sup>(1)</sup>, after Gemalto, Oberthur Technologies and Giesecke & Devrient (Germany).

#### Group products and programs

##### ■ SIM cards

On the SIM card market, Morpho supplies the world's biggest mobile phone operators (including Orange, AT&T, Deutsche Telekom, Telefonica, Vodafone, T-Mobile) via a worldwide logistics chain.

In the fast-moving field of mobile telecommunications, Morpho offers solutions for: Near-Field Communication (NFC), which enables users to identify themselves via their mobile phone, using it to pay for purchases, for example; machine-to-machine technology capable of tracking a fleet of GSM-equipped vehicles; and digital identification, where a smart card becomes a means of internet user authentication, with reliability as high as for the mobile phone network.

##### ■ Bank cards

Via an extensive network of production and personalization centers, Morpho supplies major banks in regions including Europe, Latin America and Asia. This sector is currently benefiting from two major trends: magnetic stripe cards are giving way worldwide to smart cards meeting the EMV (Europay MasterCard Visa) standard; and no-contact technologies are gaining ground. Both technologies heighten the security of transactions, reduce the incidence of fraud and improve customer convenience.

### ■ Secure identity documents

Morpho's e-documents division contributes to Safran's leadership on the identity solutions market (in which it is global leader<sup>(1)</sup>), for which it produces the following:

- ID cards, driver's licenses, health cards and voter cards;
- paper and electronic passports, visas, and corporate cards integrated in major systems.

### ■ Trusted service management

Trusted service management (TSM) solutions afford high-security remote personalization of smart cards for mobile phones and smartphones, enabling users to download or upgrade applications (payment, transport, loyalty, etc.). Near Field Communication (NFC) technology turns the phone into a non-contact payment card, transport card, etc.

### 1.3.4.3 Detection

#### Key characteristics of the business sector

This sector covers all solutions for detecting CBRNE (chemical, biological, radiological, nuclear, explosive) threats and illicit products such as weapons and drugs. These systems improve security at airports, in air transport (passenger and freight), at borders (land and maritime), and at sensitive sites and major events.

Safran's operations in the detection market primarily concern air transport security; it supplies Explosive Detection Systems (EDS) for automated hold-luggage inspection, and explosive trace (vapor or particle) analysis systems for vetting luggage, passengers and air freight. Safran holds prime expertise in several key technologies, such as 3D X-ray tomography, X-ray diffraction spectroscopy, ion mobility spectrometry, Raman spectroscopy and quadrupole magnetic resonance. Safran has also extended its portfolio of technologies to include mass spectrometry, addressing applications that require very high sensitivity and precision.

Safran is an approved detection systems supplier for many airports and airport security authorities worldwide (including transport security authorities in the USA and Canada), chiefly through the US company Morpho Detection, acquired from GE in 2009 and wholly owned since 2012.

Safran's main competitors in tomography detection are the US companies L3 Communication and SAIC/Reveal. The market is increasingly competitive, and 2012 saw the arrival of new industrial players such as Smiths Detection (UK), OSI/Rapiscan (USA) and Nuctech (China). In ion mobility spectroscopy and Raman spectroscopy for explosive trace analysis, Safran has one of the market's most comprehensive and efficient offerings, its main competitors being Smiths Detection (UK), Thermo Scientific (USA) and Bruker (USA).

(1) Source: Safran.



### Group products and programs

#### ■ Detection by X-ray tomography and X-ray diffraction of explosives and dangerous and illicit substances

This technology is used in automatic detection systems such as large-diameter luggage tunnels at airports, that check up to 1,000 items per hour. The latest additions to the range, the CTX 5800 and 9800, meet the new European Standard 3. Safran also provides unique automatic detection solutions combining tomography and X-ray diffraction, allowing better detection capacity and considerably reducing the number of false alarms. In 2013, Safran held a share of more than 50%<sup>(1)</sup> of the market for X-ray tomography hold-luggage control systems. Safran is currently developing new solutions for the detection and identification of liquid and gel explosives in cabin luggage; initial field tests are at the qualification stage.

#### ■ Spectrometry-based detection and analysis of traces of explosives and dangerous and illicit substances

This kind of equipment (fixed, mobile or even portable) uses ion mobility spectrometry, mass spectrometry or Raman spectrometry to detect and identify vapor traces of explosive or illicit substances. Safran's wide product range addresses a broad spectrum of users' needs and operational environments. The systems are used by all types of security services worldwide (airport passenger control, civil security, prisons, police, customs, etc.), in border control applications (air freight, hold luggage, passengers, cabin luggage), and for protection of sensitive sites (ministries, nuclear power stations, etc.) and major events (sports tournaments, international conferences, etc.).

## 1.4 COMPETITIVE POSITION

Safran covers international high-technology markets in Aerospace, Defence and Security.

In all these fields, Safran faces competition from both international rivals and niche players on some markets.

The Group makes every effort to ensure compliance with applicable rules on competitive business practice in all the countries in which it operates.

To mobilize sufficient resources and share the industrial risks involved in innovative and costly programs, players in the aviation industry can form partnerships capable of developing new technologies, products and services. Accordingly, it is not unusual to find otherwise rival companies joining forces on certain aviation programs.

## 1.5 RESEARCH AND DEVELOPMENT

Safran operates in a high-technology and high value-added arena. From aircraft engines and equipment to defence and security systems, the required technological expertise and reliability must be second to none, given the highly critical nature of the applications. In order to achieve this objective, Safran calls on the best knowledge available in mechanical engineering, aerodynamics, combustion, thermodynamics, metal and composite materials, fuel materials, electronic and electrical engineering, spectrometry, X-ray imaging, image processing and information processing. Research and technology (R&T) comprises all studies, research and technological demonstrations needed to develop expertise for a given product at the lowest possible risk and cost and within the shortest possible timeframe.

Further downstream, research and development (R&D) corresponds to product design, prototype manufacture, development tests and certification tests showing that the product meets customer specifications and applicable regulations. To bridge the gap

between R&T and R&D, and accelerate the emergence of new operations involving innovative concepts, Safran set up an Innovation Department in 2011. This department covers everything from technological demonstrations through to market launch.

Safran Group R&T and innovation projects are guided by forward-looking considerations, and the substantial budgets they draw are in line with Safran's current or targeted positions on its markets. Research, technology, innovation and development are fundamental to the implementation of the Group's strategy. The expenditure involved, close to 71% of which is self-financed, totaled €1.8 billion in 2013, representing almost 12% of revenue. This commitment reflects the importance given to preparing for the future and developing new products and programs.

Under Safran's R&T policy, each company in the Group determines its own research program, and thus concentrates on its own objectives. In tandem, the Group is constantly working to develop technology synergies. Safran R&T breaks down into seven broad

<sup>(1)</sup> Source: Safran.



fields, each covering a range of technological capacities consistent with Group endeavors. There are around fifty of these technological capacities, forming the elementary cells for cross-functional skills management, benchmarking, partnerships and mutualized projects operating across Safran Group companies. Each technological capacity is managed by a leader chosen from among the best experts in the Group.

In 2013, Safran launched a project to set up a research center that would provide all Group companies with a full spectrum of skills addressing long-term challenges in materials and processes, sensors, electronics, information & communication technology, and digital simulation for engineering. The new center, at the Saclay Campus, will be operational from 2014, and in three years' time, research staff there will total around 300. It will help Safran in its endeavor to attract the top talent the Group will be needing in the future.

## 1.5.1 MAJOR TECHNOLOGICAL ORIENTATIONS

### 1.5.1.1 Propulsion performance

Propulsion performance objectives and acceptability requirements for future aircraft engines derive from work carried out through ACARE<sup>(1)</sup>. Objectives are set for two dates: 2020 and 2050. For 2020, aircraft propulsion systems are to cut fuel consumption by 20%, pollutant emissions by 60% and noise levels by 50%. The Flightpath 2050 publication specifies reductions of 75% in greenhouse-gas emissions, 90% in NOx and 65% in noise levels by 2050.

The Group's roadmap for the aircraft propulsion systems of the future, though its subsidiary Snecma, incorporates two technology stages:

- the LEAP turbofan engine, with a very high bypass ratio. For those modules under Snecma's responsibility in CFM, this integrates advanced technologies such as a highly innovative lightweight fan made from composite materials and a high-efficiency low-pressure turbine. This engine will be available in 2016 and will bring about major improvements in line with the ACARE 2020 objective, particularly in terms of fuel consumption. It has been selected by Airbus for its A320neo, by Boeing for its 737 MAX and by COMAC for its C919. R&T work is in progress on long-term continuous improvement in engine performance;
- the second phase is more ambitiously innovative, in line with Flightpath 2050, whose objectives call for breakthroughs in engine architecture through developments such as the open rotor concept and faired architectures with very high bypass ratios. These have been addressed by advanced research under national and European programs outlined in the seventh FPRTD<sup>(2)</sup>, and are to continue under the eighth FPRTD – Horizon 2020 (H2020). Specific initiatives here include the Clean Sky Joint Technology Initiative.

Helicopter turbine engines are subject to similar imperatives requiring reductions in fuel consumption and environmental impacts. Through its subsidiary Turbomeca, the Group has undertaken technology programs along similar lines to address future market needs. The first concrete example of this work came in 2013 with demonstration of a new 800 kW engine for the next-generation

4-ton helicopter program from Airbus Helicopters. Turbomeca's development strategy is backed by a technological demonstration plan for high-power engines (3,000 shp). Then Turbomeca liaises closely with customers to come up with innovative new engine integration products such as hybrid power architecture concepts in drive systems.

The need to lighten aircraft and helicopters and their equipment has led to increased use of composite materials. Safran engines and equipment (whether engines, nacelles, landing gear or brakes) are characterized by heavy mechanical loads and a more difficult environment than for other aircraft sections such as airframes. To develop its composite materials solutions, Safran set up the Safran Composites Center, with resources and skills in organic matrix composites. Herakles, the Group's center of competence for these technologies, provides core expertise in thermostructural composites for aircraft engines, a major technological challenge addressed by substantial research efforts. This research, along with work on new metal alloys, and on high-performance coatings compliant with European REACH<sup>(3)</sup> regulations, is coordinated by the Safran materials and processes department.

### LAUNCH VEHICLES AND MISSILES

Research efforts into rocket propulsion, a cutting-edge industry where technological demands are extremely high, remains a Safran priority. Following the decisions of the November 2012 conference of ministers from European Space Agency (ESA) member states, technological work in this sector is focused on enhanced performance for the Ariane 5 launch vehicle (with an Ariane 5 ME version for mid-2018) and preparation for a forthcoming Ariane 6 launch vehicle, under the space section of the French government's "Investment for the Future" project, with the first flight planned for 2021/2022. The technological scope of these programs extends to Snecma liquid propulsion and to solid propulsion, now fully consolidated under Herakles.

Herakles also develops new missile propulsion technologies, including thruster and nozzle body technologies, solid propellant technologies and innovative thruster architectures. Research

(1) ACARE: Advisory Council for Aeronautics Research in Europe.

(2) FPRTD: Framework Program for Research and Technological Development.

(3) REACH: Registration, Evaluation and Authorization of Chemicals.

focuses include thrust modulation for tactical missiles, in partnership with MBDA and joint subsidiary Roxel, gas valving for interceptors, and higher-thrust solid propellants with more eco-friendly compositions.

### 1.5.1.2 The more electrical aircraft

The move continues towards increased use of electrical energy for aircraft systems and actuators. The movement, which started with the A380 and Boeing 787 programs, will be a defining characteristic of the next generation of short-to medium-haul aircraft. Safran must position its new equipment solutions firmly in this niche and prepare the technologies that will ensure its products are competitive in terms of performance, functions and cost.

Safran is involved in several technology programs alongside aircraft manufacturers in a European or French context. Within the Group, electric aircraft projects have been launched by the Innovation Department and by the SPEC<sup>(1)</sup> Center of Excellence, focusing on power electronics. Work is conducted in close cooperation with aircraft manufacturers and benefits from numerous academic alliances with around 15 CNRS laboratories, and from technology projects undertaken with partners at the cutting-edge of electrical engineering in their sector, such as Alstom, Schlumberger, Schneider and Valeo. Under a partnership with Honeywell, the Innovation Department has carried out a demonstration of the electric green taxiing system on an A320. This new system will reduce aircraft fuel consumption during taxiing; instead of using the aircraft engines for ground maneuvers, electrical energy generated by an auxiliary power unit (APU) drives electric motors in the landing gear wheels.

External growth operations, coupled with a substantial internal research and technology effort, enable Safran to assert a strong legitimacy in aircraft electrical systems. In addition, Safran has reorganized its electrical systems businesses by consolidating them under a single unit of expertise named Labinal Power Systems (formed on January 2, 2014).

### 1.5.1.3 Avionics

#### NAVIGATION

Air, land, sea, satellite and weapons navigation markets are constantly evolving and expanding: the integration of mobile units into cooperative groups, increasing autonomy requirements, and the required land-onboard continuum via secure links are only a few drivers of renewed demand and associated technologies. Safran's approach relies strongly on breakthrough HRG<sup>(2)</sup> technology, whose characteristics make it possible to design and produce world-leading navigation equipment and weapons at competitive costs. Through its subsidiary Sagem, the Group continues with

the development of MEMS<sup>(3)</sup> technology for accelerometers and gyroscopes in portable geolocation applications.

### ELECTRONIC SOLUTIONS AND CRITICAL SOFTWARE

Because onboard electronic systems for severe environments are key components of many Safran Group products, the Safran Electronics division runs ambitious projects on controller architectures featuring more efficient processors, and on component packaging capable of withstanding the hotter environments of future aircraft systems. On systems engineering, Safran is working on process harmonization: a modern software development workshop has been set up for group-wide rollout. Safran is one of Europe's foremost instigators of technological progress in these fields. For example, it was technical coordinator of the ARTEMIS joint undertaking's CESAR project, which came to a successful conclusion in 2012.

### 1.5.1.4 Services

Innovation efforts are called for, consistent with the growing importance of services in the Group's business. Techniques used to diagnose and forecast the condition of airplane and helicopter equipment and systems bring value for Safran product users, as regards both operational considerations (optimization of maintenance), and fleet management support (evaluation of residual value). To address this need, Safran is developing its Monitoring Services system for managing fleet equipment operating data. The new system will initially be rolled out for helicopters. Information extraction from massive amounts of data (big data) is a research focus that holds high potential for the development of new customer services.

### 1.5.1.5 Defence

Sagem harnesses advanced optronics and information and communication technology to develop innovations that will help the Group offer enhanced operational efficacy to land, air and sea forces. Optronics needs range from imagers operating in one or more wavelength bands through to full image processing systems handling monitoring, detection, identification, fire control and self-protection. Integrated battlefield perception and soldier support solutions are developed using systems that couple infrared sensor and light intensification technologies with other functions such as geolocation and data analysis. In infrared sensors the Safran Group offers the technologies held by Sofradir, its joint venture with Thales. Both partners transferred their IR detector technologies to Sofradir, giving it one of the world's most extensive product ranges in this field.

(1) SPEC: Safran Power Electronics Center.

(2) HRG: Hemispherical Resonating Gyro.

(3) MEMS – Micro Electro-Mechanical Systems.

### 1.5.1.6 Security

Safran's leadership, through its subsidiary Morpho, in biometric systems, associated terminals and identity document systems is maintained through significant R&T investment in improving biometric data identification and capture algorithms and in enhancing the performance of anti-fraud and information protection systems. This yields a capability to rapidly build, and then operate, large-scale biometric databases such as that covering the population of India, which has an enrollment rate topping a million individuals per

day. The acquisition of GE's Homeland Protection division in 2009 provides Safran with new development openings in the detection of explosives and other illicit substances. The new acquisition, renamed Morpho Detection, has yielded several technological advances, an example being the detection of liquid explosives by X-ray diffraction. The combination of high-performance detection systems with biometrics and secure electronic identity documents gives rise to a new strategic focus covering identification and flow control for people and goods, a key growth segment in the coming years, especially in the field of air transport security.

## 1.5.2 SCIENTIFIC AND TECHNICAL PARTNERSHIPS

In implementing its R&T strategy, Safran enjoys the support of its partners, which provide it with scientific and technological expertise. Safran thus meets the two prerequisites for success: it identifies known and latent market needs through customer contact, and it adopts an open approach to what is an increasingly complex and multidisciplinary scientific and technological environment.

In 2009, Safran created a scientific council, currently chaired by Professor Mathias Fink, which comprises seven leading international scientists bringing proven expertise in all the scientific disciplines underlying Group businesses. One of the council's main functions is to issue recommendations on the structure and quality of the Group's scientific partnerships.

For the first R&T levels, Safran has developed a network of scientific partners in France in the university and applied research sectors. Safran's partnership with ONERA<sup>(1)</sup> was renewed in 2013, and its partnership with CNRS, the French Center for Scientific Research, will be renewed shortly. The Group has long-term partnerships with many research and higher education organizations, some of whose laboratories form valuable external research hubs. These partnerships also help Safran recruit leading talents: Safran supports the work of around 150 PhD students, runs several international thematic networks on key issues (such as combustion, noise reduction, mechanical engineering and power electronics), and provides support for six university chairs. Safran is stepping up cooperation with CEA, the French Atomic Energy Commission,

with whom it signed a framework agreement in 2013. Then Safran is a founder member of the French Foundation for Aerospace Research (FNRAE), and a front-line contributor to the foundation of three technological research institutes. It is a major player in several competitiveness hubs, including System@tic, Aerospace Valley and ASTech.

Safran plays an active role in European Union bodies and programs. Since 2008, Safran has been closely involved in establishing the Clean Sky Joint Technology Initiative, bringing together the leading players in aviation R&D along with the European Commission in a demonstration program on airframes, engines and systems. Safran has contributed to work on the next stage, through to 2020, of this public-private partnership, to form the framework for H2020 aviation research: a decision by the European Council of Ministers on the launch of Clean Sky 2 is expected shortly.

Safran takes part in many international cooperative research initiatives, with university laboratories in Europe, the US, Russia, Singapore and India.

The intellectual property related to this cooperative work is defined contractually at the beginning of projects between partners. The general principle is that the intellectual property belongs to the partners who performed or co-financed the work, and, at the very least, Safran receives rights of use in its own field.

## 1.5.3 INNOVATION AND INTELLECTUAL PROPERTY

Innovation is at the heart of Safran's strategy. The competitiveness of its products is largely based on the successful integration of technological innovation or adjustments, providing the customer with industry-leading performances. Safran's ability to produce innovations that mark a break with existing technology is amply demonstrated across a huge breadth of sectors: electric green taxiing system, composite fan blades, hemispheric resonator gyros, detection of liquid explosives by X-ray diffraction, on-the-fly fingerprint detection terminals. The creation of cross-disciplinary

teams, capitalizing on the wide range of expertise available in the Group, offers both an efficient and high-performance organizational structure. This approach is typified by the high-potential projects run by the Innovation Department.

The development of technical expertise is also key to preparing for the technological challenges of tomorrow. A process has been set up to determine companies' expertise needs group-wide and thereby plan ahead for renewals and training of new experts.

(1) ONERA: French National Aerospace Research Office.

Intellectual property is of increasing importance amid globalized markets and ever-fiercer competition. It responds to operational imperatives, while strengthening and securing Safran's commercial positions. The creative and innovative ability of teams is demonstrated by the increasing number of patents filed: 781 in 2013. This places the Group among the front-runners in French patents<sup>(1)</sup>. The Thomson Reuters agency also ranks Safran among the one hundred most innovative research organizations worldwide. Overall, the Group's portfolio comprises close to 24,000 intellectual property rights around the world, bolstering its position as international leader in its areas of business.

In addition to patent protection, because of Safran's international reach and extensive partnership involvement, the Group gives great importance to ensuring close control over technology transfers and defining precise policy on the matter.

Some transfers are essential for market access reasons. Technologies for transfer, which do not belong to Safran's core technology portfolio, must be clearly identified, accurately valued, and covered by carefully structured long-term partnership arrangements. Under no circumstances may such partnerships restrict the Group's capacity for technological differentiation in the future.

## Dependence

Safran has not identified any dependence on patents, licenses, industrial, commercial or financial contracts, or new manufacturing processes likely to have a material impact on the Group.

There are risks of production delays and cost penalties for Safran in the event of supplier or partner shortcomings, as set out in section 4.1.3 of this Registration Document (partner and supplier risks).

## 1.5.4 RESEARCH AND DEVELOPMENT EXPENDITURE

Including the portion funded by customers, the total expenditure on Research, Technology and Development (RTD) was approximately €1.8 billion in 2013, representing almost 12% of revenue. RTD operations in France totaled around €1.6 billion, more than 89% of overall RTD expenditure. Some 71% of RTD expenditure is self-funded, and can be broken down as follows:

- Aircraft programs (including LEAP, Silvercrest and Airbus A350): 46%;
- Helicopter engines: 4%;
- Security and defence: 17%;
- R&T: 26%;
- Other: 7%.

<i>(in € millions)</i>	2012	2013
<b>Total R&amp;D</b>	<b>(1,594)</b>	<b>(1,821)</b>
External financing	491	522
<b>Self-funded RTD</b>	<b>(1,103)</b>	<b>(1,299)</b>
% of revenue	8.1%	8.8%
Research tax credit	124	140
<b>Self-funded RTD after research tax credit</b>	<b>(979)</b>	<b>(1,159)</b>
Capitalized expenditure	504	694
Amortization and impairment of R&D expenditure <sup>(*)</sup>	(68)	(76)
<b>Impact on profit from operations</b>	<b>(543)</b>	<b>(541)</b>
% of revenue	4.0%	3.7%

(\*) Excluding non-recurring items.

The significant rise in total self-financed expenditure (€196 million, up by 18%) is explained chiefly by the development of different versions of the LEAP and Silvercrest engines.

Amortization and impairment of R&D expenditure stood at €76 million in 2013, compared with €68 million in 2012.

(1) Third in INPI ranking, March 2013 (for patents filed in 2012).

## 1.6 INDUSTRIAL INVESTMENTS

### 1.6.1 INDUSTRIAL POLICY

To offer its many customers tens of thousands of products of the highest technical caliber every year, Safran pursues a proactive industrial policy targeting industrial excellence and continuous innovation.

This policy is rolled out across all the Group's companies. The Group's Industrial Department oversees effective implementation of the policy through Group industrial committees and various working groups on industrial matters, and provides assistance to Group companies on running their international projects.

As a driving force behind competitive performance, innovation is central to Safran's industrial development endeavor, which explains the steady and tightly controlled input of new technologies and new methods for making new products that meet customers' expectations.

To shorten new product development cycles, Safran's industrial development teams work closely with design offices and apply Group methods and tools for project management and continuous improvement.

Under a make-or-buy strategy currently weighted at 40% make vs 60% buy, the Safran Group develops an international

production system capable of achieving local reach to end customers and the best possible balance of production costs across euro and dollar zones, the dollar being the currency of the aerospace industry. Industrial hubs, covering strategic regions, bring together the resources of regional suppliers and local Safran teams responsible for the most delicate operations carried out in the Group's production facilities.

International development also provides opportunities for Safran's historic suppliers, who are eager to work with Safran in these growth markets. Safran has always given great importance to its suppliers, as a source of innovation, flexibility and economic competitiveness. The SME Pact to which it is signatory covers support and development assistance to innovative SMEs.

Safran also gives special attention to the personal development of its employees. This takes the form of extensive training opportunities and ready transfer across sites and functions, enabling each individual to acquire new skills and develop their talent (see section 5.3).

### 1.6.2 MAIN INDUSTRIAL INVESTMENTS

Safran's property, plant and equipment investments totaled €492 million in 2013, up by 15% on 2012. This total includes the proceeds from the sale of a real estate complex for €42 million in 2013.

The increase in investment is consistent with the Group's expectations for substantial growth in business.

Geographical zone (in € millions)	2012	2013
France	255	306
Europe (excluding France)	62	34
North America	69	68
Asia	18	63
Rest of the world	15	21
<b>TOTAL</b>	<b>419</b>	<b>492</b>

In 2013, most of Safran's property, plant and equipment investments (62%) were in France, for the construction of new sites:

- R&D center for the development of new composite materials, in Vert-le-Petit near Paris;
- plant for making composite parts (fan blades and casings) for future LEAP engines, in Commercy, north-east France;
- Messier-Bugatti-Dowty shop at Bidos (south-west France), for machining titanium landing gear rods.

Construction work on the Safran University in Massy Vilgénis (Paris region) continued throughout 2013.

Safran's other investments in France continue the policy of previous years, involving: renovation or modernization of industrial sites to accommodate production ramp up and the introduction of new Boeing 787, A350, LEAP and Silvercrest programs (Messier-Bugatti-Dowty at Molsheim for assembly of landing gear equipment, etc.); plant renewal or modernization at existing sites (machining systems at Snecma Corbeil and Snecma Gennevilliers, etc.); and modernization of test equipment (Snecma Villaroche, Snecma Istres, Messier-Bugatti-Dowty at Villeurbanne, etc.).

Safran's main investments outside France were:

- launch of the Aircelle podding site<sup>(1)</sup> in Hamburg, making equipment for the LEAP engine on the A320neo program;
- ongoing work on modernization of the Messier-Bugatti-Dowty facility in Montréal (Canada), making steel enclosures for landing gear;
- capacity increases to meet market demand, with new wiring production buildings for Labinal in Morocco, and new plants for Snecma in Querétaro (Mexico) and Suzhou (China);
- construction of a new Messier-Bugatti-Dowty facility making carbon brakes, in Malaysia.

## 1.7 SITES AND PRODUCTION PLANTS

Safran's registered office is located in Paris, France.

The Group carries out its activities at research, production and maintenance centers. The table below lists the Group's main sites in terms of either scale or geographic location.

Company	Site	Activity	Occupancy
<b>FRANCE</b>			
<b>Safran</b>	<b>Paris 15</b>	Registered office	O
	<b>Issy-les-Moulineaux</b>	Shared Services Centre	T
<b>Snecma</b>	<b>Évry/Corbeil</b>	Machining and assembly of aviation parts, sales and marketing of military engines	O
	<b>Gennevilliers</b>	Forging, casting and machining of aircraft parts	O
	<b>Vernon</b>	Design and production of rocket engines	O
	<b>Villaroche</b>	Design, assembly and testing of jet engines, sales and marketing of commercial engines	O
	<b>Montereau/Melun</b>	Customer services	T
	<b>Châtelleraut</b>	Maintenance of military engines, parts, devices and commercial engines	O
	<b>Saint-Quentin-en-Yvelines</b>	Commercial engine MRO (maintenance, repair and operations)	O
	<b>Le Creusot</b>	Machining of turbine disks	O
<b>Société de Motorisation Aéronautique (SMA)</b>	<b>Bourges</b>	Registered office, design, production and sale of light aviation aircraft engines	T
<b>Herakles</b>	<b>Le Haillan</b>	Registered office, propellant-based propulsion for Ariane and missiles, thermostructural composites	O
	<b>Saint-Médard-en-Jalles</b>	Production of solid propellants	O
	<b>Vert-le-Petit</b>	Design, development and production of fuel materials	O
	<b>Toulouse</b>	Production of raw materials for space chemistry	O
<b>Turbomeca</b>	<b>Bordes</b>	Registered office, design, manufacture and testing of gas turbines	O and FL
	<b>Tarnos</b>	Production of mechanical components and maintenance of helicopter engines	O
	<b>Buchelay</b>	Production of hydromechanical parts and subsystems for the aviation industry	O

O: Owner T: Tenant FL: Financial lease.

(1) Physical integration of nacelle and engine.



Company	Site		Activity	Occupancy
Microturbo	Toulouse		Manufacture of low-power turbines	O
Aircelle	Le Havre/Gonfreville		Design and production of nacelles and thrust reversers	O
Hispano-Suiza	Colombes		Registered office and research and production center for power transmission systems	O
Labinal <sup>(1)</sup>	Blagnac		Registered office, engineering	O
	Blagnac		Assembly, installation, maintenance	T
	Vichy		Production of aircraft wiring	O
	Villemur-sur-Tarn		Production of aircraft wiring	O
Messier-Bugatti-Dowty	Molsheim		Production of wheels, brakes and hydraulic systems – Landing gear repair and maintenance	O
	Vélizy-Villacoublay		Registered office, design and testing of brake systems and landing gear	O
	Villeurbanne		Production, research and development of carbon brakes	O
	Bidos/Oloron-Sainte-Marie		Production of landing gear	O
Safran Engineering Services	Montigny-le-Bretonneux		Engineering	T
	Toulouse		Registered office, services	T
Sagem	Boulogne-Billancourt		Registered office	T
	Fougères		Electronic subcontracting	O
	Argenteuil		R&D	O
	Éragny		R&D	O
	Valence		R&D, production	T
	Massy		Manufacture of optoelectronic and aviation systems. Electronic regulation and control systems	FL and T
	Montluçon Domerat		Mechanical, optics and electronics manufacture and systems integration	O
	Poitiers		Manufacture of optoelectronic equipment	O
	Dijon		Manufacture of optical and optoelectronic equipment	O
	Mantes-la-Jolie		Manufacture of aircraft equipment	O
Morpho	Issy-les-Moulineaux		Registered office, administrative and commercial center	T
	Osny		R&D	O
	Saint-Étienne du Rouvray		Process engineering, production and maintenance of terminals	O
EUROPE (EXCLUDING FRANCE)				
Aleat	Tirana	Albania	Manufacture and distribution of ID documents	T
Labinal GmbH	Hamburg	Germany	Engineering, assembly, installation and maintenance	T
Morpho Cards GmbH	Flintbek and Paderborn	Germany	Research, manufacture and sale of smart cards	T

O: Owner T: Tenant FL: Financial lease.

(1) Labinal Power Systems is the new name of Labinal. The name Labinal Power Systems also refers to a new unit, formed on January 2, 2014, that covers all the Safran Group's electrical power system businesses: the company Labinal Power Systems (world front-line player in wiring systems); Safran Power (specialists in onboard power systems), including the businesses acquired from Goodrich Electrical Power Systems and Aerosource, Inc.; Safran Engineering Services (specialists in engineering services, especially for electrical systems); and Technofan (ventilation systems and electric motors).

Company	Site		Activity	Occupancy
<b>Sagem Navigation GmbH</b>	<b>Murr</b>	Germany	R&D, production	T
<b>Techspace Aero</b>	<b>Herstal (Milmort)</b>	Belgium	Registered office, aviation and aerospace production, test cell design and jet engine testing	O
<b>Aircelle Ltd</b>	<b>Burnley</b>	United Kingdom	Production of nacelles and thrust reversers	O
<b>Messier-Dowty Ltd</b>	<b>Gloucester</b>	United Kingdom	Research, testing, engineering and production of landing gear	O
<b>Safran Power UK</b>	<b>Pitstone Green</b>	United Kingdom	Registered office	T
<b>Morpho B.V.</b>	<b>Haarlem</b>	Netherlands	Production, customization and sale of cards, ID and security documents and related products	T
<b>Hispano-Suiza Polska sp. Zoo</b>	<b>Sedziszow Malopolski</b>	Poland	Production of mechanical parts for Safran Group companies	O
<b>Orga Zelenograd Smart Cards and Systems, z.a.o.</b>	<b>Moscow</b>	Russia	Research, manufacture and sale of smart cards	O
<b>Smartinvest o.o.o. and Smartec z.a.o.</b>	<b>Moscow</b>	Russia	Holding company, research	T
<b>Vectronix</b>	<b>Heerbrugg</b>	Switzerland	Research and manufacture of optronics defence products	T
<b>Colibrys SA</b>	<b>Neuchâtel/Yverdon</b>	Switzerland	Registered office, design and manufacture of sensors, including accelerometers	T
<b>NORTH AMERICA</b>				
<b>Messier-Dowty, Inc.</b>	<b>Montreal</b>	Canada	Production of landing gear	O
	<b>Toronto</b>	Canada	Production and maintenance of landing gear	O
<b>Safran Electronics Canada, Inc.</b>	<b>Peterborough</b>	Canada	R&D, customer support and production of aircraft equipment	T
<b>Turbomeca Canada, Inc.</b>	<b>Mirabel</b>	Canada	Gas turbine and aircraft equipment MRO, and work on helicopters	O
<b>Advanced Components International</b>	<b>Fort Myers</b>	United States	Design and production of reservoirs for aerospace applications	O
<b>Aerosource, Inc.</b>	<b>Sommerset</b>	United States	Repair and maintenance of aircraft parts	T
<b>Cenco Inc.</b>	<b>Minneapolis</b>	United States	Test cell engineering	T
<b>Labinal Inc.</b>	<b>Denton</b>	United States	Production of aircraft wiring	T
	<b>Everett</b>	United States	Engineering	T
<b>Labinal Salisbury Inc.</b>	<b>Salisbury</b>	United States	Production of aircraft wiring	O
<b>Messier-Bugatti USA</b>	<b>Walton</b>	United States	Production of carbon brakes – R&D	O
<b>Morpho Detection, LLC</b>	<b>Newark/Wilmington</b>	United States	Research, manufacture and sale of systems and products for detecting dangerous and illicit substances	T
<b>MorphoTrak LLC</b>	<b>Anaheim/Federal Way</b>	United States	Research, sale and technical support of identity products and services	T
<b>MorphoTrust USA, LLC</b>	<b>Billerica</b>	United States	Research, sale and technical support of identity products and services	T
<b>Optics 1, Inc.</b>	<b>Manchester</b>	United States	R&D and production of opto-mechanical and electro-optical systems	T

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Company	Site		Activity	Occupancy
<b>Sagem Avionics, LLC</b>	<b>Grand Prairie</b>	United States	Marketing and customer support for aircraft product lines	T
<b>Turbomeca Manufacturing Inc.</b>	<b>Monroe</b>	United States	Production of helicopter engine parts	O
<b>Turbomeca USA Inc.</b>	<b>Grand Prairie</b>	United States	Maintenance of delivered engines and delivery of spare parts	O
<b>Vectronix, Inc.</b>	<b>Leesburg</b>	United States	Marketing of observation and localization systems and equipment	T
<b>Safran Power USA, LLC</b>	<b>Twinsburg Ohio</b>	United States	Engineering, spare parts, maintenance and repair	T
<b>Labinal de Mexico, SA de CV</b>	<b>Chihuahua</b>	Mexico	Production of aircraft wiring, engineering	T
<b>Messier-Dowty Mexico, SA de CV</b>	<b>Querétaro</b>	Mexico	Production of landing gear	T
<b>Messier Services Americas, SA de CV</b>	<b>Querétaro</b>	Mexico	Landing gear MRO	T
<b>Morpho Cards Mexico</b>	<b>Mexico</b>	Mexico	Sale of biometric devices	T
<b>Snecma America Engine Services (SAMES), SA de CV</b>	<b>Querétaro</b>	Mexico	Commercial engine MRO	T
<b>Snecma Mexico, SA de CV</b>	<b>Querétaro</b>	Mexico	Production of commercial engine parts	T
<b>SOUTH AMERICA</b>				
<b>Morpho do Brasil SA</b>	<b>Taubate/São Paulo</b>	Brazil	Research, manufacture and sale of smart cards	T
<b>Turbomeca do Brasil Industria e Comercio Ltda</b>	<b>Rio de Janeiro</b>	Brazil	Design, manufacture, purchase-sale and maintenance of turbo engines	O
<b>Safran Servicios de Supporte de Programas Aeronauticos Ltda (Safran Aeronautica)</b>	<b>São José dos Campos</b>	Brazil	Technical, operational, interface, customer support and program management services Business unit of Safran Engineering Services	T
<b>Sagem Defesa e Aeronautica Ltda Sagem Optovac</b>	<b>São José dos Campos</b>	Brazil	Optronics assembly and distribution Assembly of helicopter automatic pilots	T
<b>Morpho Tarjeta de Colombia S.A.S</b>	<b>Bogotá</b>	Colombia	Local adaptation of government solution software and hardware	T
<b>Morpho Cards de Colombia S.A.S</b>	<b>Bogotá</b>	Colombia	Manufacture and sale of smart cards	T
<b>AFRICA AND THE MIDDLE EAST</b>				
<b>Morpho South Africa Pty Ltd</b>	<b>Sandton (Johannesburg)</b>	South Africa	Sale of biometric devices	T
<b>Turbomeca Africa</b>	<b>Bonaero</b>	South Africa	Production and repair of helicopter engines	T
<b>Morpho</b>	<b>Abu Dhabi</b>	UAE	Sale of biometric devices	T
<b>Aircelle Maroc</b>	<b>Casablanca</b>	Morocco	Construction of composite parts for engines	T
<b>Labinal Maroc</b>	<b>Temara/Ain Atiq</b>	Morocco	Production of aircraft wiring	FL
<b>Safran Engineering Services Maroc</b>	<b>Casablanca</b>	Morocco	Automobile and aeronautical engineering	FL
<b>Morpho Maroc</b>	<b>Casablanca</b>	Morocco	Software development	T
<b>Snecma Morocco Engine Services</b>	<b>Casablanca</b>	Morocco	Commercial engine MRO	T

O: Owner T: Tenant FL: Financial lease.

Company	Site		Activity	Occupancy
<b>ASIA AND OCEANIA</b>				
<b>Morpho Australasia Pty Ltd</b>	<b>Sydney</b>	Australia	Sale and maintenance of Morpho products	T
<b>Turbomeca Australasia Pty Ltd</b>	<b>Bankstown</b>	Australia	Support and production of turbine engines	T
<b>Messier-Dowty Suzhou Co, Ltd</b>	<b>Suzhou</b>	China	Production of landing gear	O
<b>Snecma Suzhou Co, Ltd.</b>	<b>Suzhou</b>	China	Manufacture and assembly of engine modules	O
<b>Snecma Xinyi Airfoil Castings Co Ltd</b>	<b>Guiyang</b>	China	Aircraft parts foundry	O
<b>Smart Chip Ltd/ Syscom Corporation Ltd</b>	<b>Noida/New Delhi</b>	India	Research, manufacture and sale of smart cards	O
<b>Safran Engineering Services India</b>	<b>Bangalore</b>	India	Automobile and aeronautical engineering	T
<b>Messier Services Asia Pte Ltd</b>	<b>Singapore</b>	Singapore	Landing gear repair	O
<b>Cassis International Pte Ltd</b>	<b>Singapore</b>	Singapore	Trusted service management <sup>(1)</sup>	T
<b>Morpho Cards (Singapore) Pte Ltd</b>	<b>Singapore</b>	Singapore	Sale of smart cards	T
<b>Turbomeca Asia Pacific Pte Ltd</b>	<b>Singapore</b>	Singapore	Maintenance, repair and servicing of helicopter engines	T

O: Owner T: Tenant FL: Financial lease.

(1) Trusted services management enables mobile network operators and service providers to manage and implement authentication solutions on mobile devices, for secure applications such as banking services, transport and physical access to secure sites.

Environmental factors likely to influence the Group's use of its property, plant and equipment are presented in section 5.4.3. The Group has drafted Health, Safety and Environment (HSE) guidelines which enable it to assess the compliance of its property, plant and equipment, and its operations, with HSE regulations. It also regularly conducts self-assessments and audits.

## 1.8 SAFRAN GROUP PURCHASING STRATEGY

Safran pursues a purchasing policy consistent with its objectives of excellence and competitive performance, and with its industrial policy and corporate social responsibility (CSR) strategy.

Safran's purchasing policy seeks to concentrate business with suppliers that meet the demanding requirements and specific rules applicable to the Aerospace, Defence and Security markets, and that are prepared to commit to long-term undertakings with Safran on a balanced, mutually profitable basis.

The policy has four main objectives:

- to build a supplier panel that:
  - enables Safran to meet its current and future needs as regards performance (cost, quality, delivery times), know-how and technological innovation,
  - enables Safran to roll out its CSR strategy upstream through the Supply chain;
- to involve suppliers early on in Safran Group product development programs so that they can meet all customer demands, allowing them to propose innovations and harness the full extent of their know-how on obtaining the best possible cost and performance for products, and full compliance with HSE requirements;
- to promote common procedures, management tools and metrics across all Safran Group companies to improve its operation and performance with suppliers;
- to support key suppliers on measures to adapt their organizations and industrial configurations to expectations and shifts in market demand.

It is rolled out:

- in compliance with the Group's Ethical Guidelines and best practices set out in its mediation guidelines;
- in compliance with Safran's commitments with government authorities, business organizations and other partners;
- through constant cooperation among Group companies, development of a Safran purchasing network and culture, close coordination among all Group players in contact with suppliers, and involvement of the purchasing team in all product life-cycle phases.

To further supplier involvement in the rollout of its purchasing policy, Safran held a convention for key suppliers in 2013, under the banner "Working together for higher effectiveness".

This first suppliers' convention, focused on competitive performance, sought to mobilize the Supply chain on future Safran Group challenges, growth prospects and industrial objectives. Members of the Safran purchasing network and purchasing support functions examined four main topics:

- long-term, balanced relations with the Safran Group;
- demands on cost, quality and delivery time performances;
- fulfillment of new programs;
- innovation and preparation for the future.

## 1.9 SAFRAN QUALITY PERFORMANCE AND POLICY

Safran pursues an ambitious quality policy targeting three main goals:

- customer satisfaction;
- continuous progress in performance;
- competitive standing.

Safran's quality policy operates synergetically across all Group companies, and involves setting performance targets and determining priority actions to ensure lasting efficiency. Group-wide methods and tools are used, derived from pooled experience and best practices across all Group companies.

The quality policy is rooted in Safran Group values and is rolled out consistently with the Safran+ plan.

In 2013, quality progress measures yielded further improvements in customer satisfaction, with tangible results including heightened punctuality performance. Aircraft manufacturer customers expressed their appreciation of quality performance on CFM engines under record production conditions.

The year 2013 also saw the successful rollout of several supplier-oriented initiatives:

- rewrite of supplier quality requirements in more concise terms, to bring a 50% reduction in the number of points listed;
- common supplier approval process, with a hundred or so approvals registered;
- launch of QRQC (Quick Response Quality Control), a management method for improving day-to-day operational performance, both internally and with key suppliers.

In addition, Safran tightened up its development management, by implementing a milestones system with formal reviews, driven by the Group's program management standard, and by stepping up the use of risk analysis and control methods applied to products and processes.

Safran will now be intensifying its quality progress measures to achieve further improvements in:

- customer satisfaction, through group-wide preponderance of "customer voice";

- processes, with improved accommodation for feedback;
- quality performance (internal and with suppliers);
- the Safran quality system, to ensure workforce-wide buy-in.

Safran's quality progress measures are defined and structured in line with the group-wide quality vision, namely: *to achieve recognized second-to-none quality worldwide, worthy of our customers' trust in us.*

## 1.10 SAFRAN+ PROGRESS INITIATIVE

The Safran+ continuous progress and modernization initiative was launched in 2009 with the aim of driving continuous performance improvements throughout the Group. In order to achieve this, Safran+ has defined key areas for progress, set targets and developed a specific approach. Safran+ is a centralized initiative, featuring its own network, and deployed within all of the Group's entities. This structure allows for an array of improvement initiatives, either created by the Group and applicable to all of its companies, or created by the companies themselves for their own internal use. Most of these initiatives involve ongoing improvement, but five ground-breaking projects have also been put forward by the Group. These involve:

- the upgrade of management processes (geared towards support functions);
- decreased working capital requirement;
- control over production purchases;
- the optimization of the upstream Supply chain;
- increased effectiveness of development, research and engineering programs.

They are joined by two permanent, cross-Group initiatives:

- interactive innovation initiatives offering employees the possibility to improve the Company through their sector;
- the use of the Lean Sigma<sup>(1)</sup> approach to train Green Belts, Black Belts and Master Black Belts, professional drivers of Group change, acting in a structured and standardized manner.

Most projects target at least one of the following three objectives:

- higher operating profit;
- lower working capital requirements;
- lower EUR/USD exchange rate risk.

For each of these objectives, the Group's strategy helps define an annual objective per company.

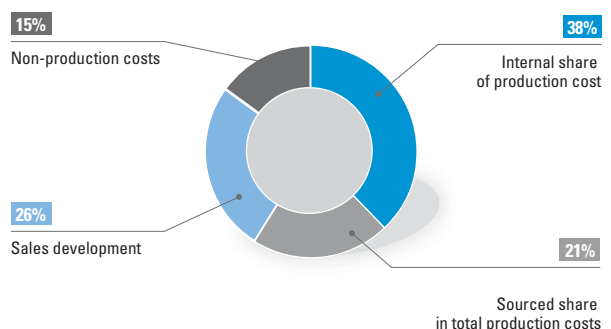
Work toward these objectives is monitored by means of two complementary approaches:

- upstream, managers assess the direct progress of actions using project-relevant operational indicators, from identification through to fulfillment;
- downstream, key management indicators are applied to compare expected against actual performance achieved by

the Company during the year (e.g. production cost indexes, lead part cycles, etc.).

The managers concerned report on progress to Group executive management at two reviews carried out at two different sites per company.

The savings achieved by the Safran+ initiative in 2013 break down as follows:



We note the following progress plan highlights in 2013:

- Rollout of the Lean-Sigma and Interactive Innovation programs continued throughout the Group:
  - more than 900 Green Belts<sup>(2)</sup> and Black Belts<sup>(2)</sup> were trained, and nine new Master Black Belts<sup>(2)</sup> certified,
  - more than 50,000 of the ideas submitted during the year were applied;
- Safran pushed ahead with modernizing group management. All Shared Services Centres in France were consolidated under a single unit in 2013. The following centers are now housed in a single building: non-production purchasing, payroll, recruitment, finance, information systems, health-safety-environment. All projects apply lean-office principles to enhance performance and develop a strong service culture. They will be continuing in 2014. In 2013, the international extension of Shared Services Centres came under examination;
- an initiative was launched on simplified organization for the Safran Group. All Group companies contributed to an inventory of opportunities to be explored in 2014;

(1) Lean Sigma: Continuous performance improvement and waste elimination process.

(2) Responsible for setting up Lean Sigma methods.



- the purchasing function matured, with the Group-wide convergence of multiple processes and the coordination of joint purchasing operations. A supplier performance monitoring system was also set up, based on a harmonized standard. Rollout of the group-wide Purchasing Specification project continued, to help new sectors optimize their purchasing decisions through improved measurement of actual needs;
- the R&D progress initiative, developed with correspondents from Group companies, applied lean engineering principles including “management by sight”, targeting customer satisfaction in terms of costs, quality and delivery times;
- QRQC<sup>(1)</sup> pilot projects, carried out internally and with suppliers, produced very positive results, and it was decided to roll out this rigorous day-to-day management system group-wide;
- the Group began rollout of cooperative enterprise networks aimed at developing innovation and propagating expertise and good practices.

(1) QRQC – Quick-Response Quality Control.



# 2 | REVIEW OF OPERATIONS IN 2013 AND OUTLOOK FOR 2014

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## Business highlights in 2013

### AEROSPACE PROPULSION

- CFM56 engine deliveries increased 7% to 1,502 units in 2013 versus 1,406 units in 2012;
- Almost 10,800 CFM56 and LEAP engines in the backlog (firm orders and commitments), representing over seven years of production at current production rates;
- Silvercrest engine chosen by Dassault to power its new Falcon 5X business jet;
- 934 helicopter engines delivered, up from 924 in 2012;
- Acquisition of Rolls-Royce's stake in the RTM322 joint helicopter engine program.

### AIRCRAFT EQUIPMENT

- Continued ramp-up of production under mature (A320, A330 and Boeing 737) and new programs (Boeing 787);
- Finalization of the Goodrich Electrical Power Systems (GEPS) acquisition;
- Agreements signed with Airbus and Air France to assess and develop an electric green taxiing system;
- Electrical power activities consolidated within a single entity, Labinal Power Systems (created January 2, 2014).

### DEFENCE

- Ongoing deliveries to the French Armed Forces of FELIN infantry combat protection systems, with 14 regiments now fitted out;
- Safran chosen to modernize the inertial navigation and alignment system (SINA) on the Charles-de-Gaulle aircraft carrier;
- Delivery of the 10,000<sup>th</sup> aircraft piloting reference sensor;
- Acquisition of Colibrys SA, a Swiss firm specialized in micro-sensors.

### SECURITY

- Number of Indian residents with a unique identification number tops 500 million (Aadhaar project);
- Strategic partnership signed with Interpol for the supply of innovative biometric solutions;
- 7 million identification cards supplied to voters in Mali;
- High-speed explosives detection system selected for Nice-Côte d'Azur and Narita (Japan) airports;
- Explosives detection system selected by the Canadian Air Transport Security Authority (CATSA).

## 2013 adjusted key figures

(in € millions)	Aerospace Propulsion		Aircraft Equipment		Defence		Security		Holding co. and other		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Revenue	7,005	7,791	3,691	4,121	1,315	1,278	1,546	1,502	3	3	13,560	14,695
Recurring operating income (loss) <sup>(1)</sup>	1,076	1,359	286	380	79	87	145	120	(142)	(158)	1,444	1,788
Profit (loss) from operations <sup>(1)</sup>	1,077	1,345	270	378	79	94	120	117	(152)	(177)	1,394	1,757
Free cash flow <sup>(2)</sup>	464	521	38	67	13	110	11	(42)	38	56	564	712
Acquisitions of property, plant and equipment	168	208	140	169	47	16	46	66	18	33	419	492
Self-funded R&D	649	790	213	254	117	126	124	129	N/A	N/A	1,103	1,299
Headcount <sup>(3)</sup>	23,271	24,511	22,874	24,495	7,182	7,195	7,727	8,403	1,504	1,685	62,558	66,289

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(2) Free cash flow is equal to cash flow from operating activities less changes in working capital and acquisitions of property, plant and equipment and intangible assets.

(3) Headcount at December 31.

## 2.1 COMMENTS ON THE GROUP'S PERFORMANCE IN 2013 BASED ON ADJUSTED DATA

### 2.1.1 RECONCILIATION OF CONSOLIDATED DATA WITH ADJUSTED DATA

#### Foreword

To reflect the Group's actual economic performance and enable it to be monitored and benchmarked against competitors, Safran prepares an adjusted income statement alongside its consolidated financial statements.

Readers are reminded that Safran:

- is the result of the May 11, 2005 merger of the Sagem and Snecma groups, accounted for in accordance with IFRS 3, Business Combinations, in its consolidated financial statements;
- recognizes, as of July 1, 2005, all changes in the fair value of its foreign currency derivatives in "Financial income (loss)", in accordance with the provisions of IAS 39 applicable to transactions not qualifying for hedge accounting (see section 3.1, "Accounting policies", Note 1.f).

Accordingly, 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 2010 interim consolidated financial statements, the Group decided to restate the impact of purchase price allocations for all business combinations. In particular, this concerns the amortization of intangible assets recognized at the time of the acquisition and amortized over extended periods due to the length of the Group's business cycles, along with gains or losses on remeasuring the Group's previously held interests in an entity acquired in a step acquisition;

- 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 foreign currency derivatives hedging future cash flows are neutralized.

## Reconciliation of the consolidated income statement with the adjusted income statement

The impact of these adjustments on income statement items is as follows:

(in € millions)	2013 consolidated data	Currency hedges		Business combinations		2013 adjusted data
		Remeasurement of revenue <sup>(1)</sup>	Deferred hedging gain (loss) <sup>(2)</sup>	Amortization of intangible assets from Sagem-Snecma merger <sup>(3)</sup>	PPA impacts – other business combinations <sup>(4)</sup>	
<b>Revenue</b>	<b>14,490</b>	<b>205</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,695</b>
Other recurring operating income and expenses	(13,195)	(2)	13	150	127	(12,907)
<b>Recurring operating income</b>	<b>1,295</b>	<b>203</b>	<b>13</b>	<b>150</b>	<b>127</b>	<b>1,788</b>
Other non-recurring operating income and expenses	185	-	-	-	(216)	(31)
<b>Profit from operations</b>	<b>1,480</b>	<b>203</b>	<b>13</b>	<b>150</b>	<b>(89)</b>	<b>1,757</b>
Cost of debt	(42)	-	-	-	-	(42)
Foreign exchange gains (losses)	551	(203)	(374)	-	-	(26)
Other financial income and expense	(70)	-	-	-	-	(70)
<b>Financial income (loss)</b>	<b>439</b>	<b>(203)</b>	<b>(374)</b>	<b>-</b>	<b>-</b>	<b>(138)</b>
Income tax expense	(650)	-	110	(52)	52	(540)
Share in profit from associates	15	-	-	-	-	15
Gain on disposal of Ingenico shares	131	-	-	-	-	131
<b>Profit from continuing operations</b>	<b>1,415</b>	<b>-</b>	<b>(251)</b>	<b>98</b>	<b>(37)</b>	<b>1,225</b>
<b>Loss for the period attributable to non-controlling interests</b>	<b>(29)</b>	<b>-</b>	<b>(1)</b>	<b>(2)</b>	<b>-</b>	<b>(32)</b>
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>1,386</b>	<b>-</b>	<b>(252)</b>	<b>96</b>	<b>(37)</b>	<b>1,193</b>

(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 for the period.

(2) Changes in the fair value of instruments hedging future cash flows (€374 million excluding tax) and the impact of including hedges in the measurement of provisions for losses to completion (€13 million).

(3) Cancellation 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) Cancellation of depreciation and amortization of identifiable property, plant and equipment and intangible assets, and the impacts of remeasuring inventories in connection with acquisitions, along with gains on remeasuring the Group's previously-held interest in the RTM322 program.

Readers are reminded that only the consolidated financial statements set out in section 3.1 of this document are audited by the Group's Statutory Auditors. The consolidated financial statements include the revenue and operating profit indicators set out in the adjusted data in Note 5, "Segment information" in section 3.1.

Adjusted financial data other than the data provided in Note 5, "Segment information" in section 3.1 are subject to the verification procedures applicable to all of the information provided in this report.

## 2.1.2 OVERVIEW OF THE GROUP'S PERFORMANCE IN 2013

### Adjusted income statement

(in € millions)	2012 Adjusted data <sup>(1)</sup>	2013 Adjusted data
<b>Revenue</b>	<b>13,560</b>	<b>14,695</b>
Other income	209	264
<b>Income from operations</b>	<b>13,769</b>	<b>14,959</b>
Change in inventories of finished goods and work-in-progress	340	(6)
Capitalized production	642	911
Raw materials and consumables used	(8,160)	(8,639)
Personnel costs	(4,205)	(4,506)
Taxes	(270)	(276)
Depreciation, amortization, and increase in provisions, net of use	(601)	(531)
Asset impairment	(26)	(78)
Other recurring operating income and expenses	(45)	(46)
<b>Recurring operating income</b>	<b>1,444</b>	<b>1,788</b>
Other non-recurring operating income and expenses	(50)	(31)
<b>Profit from operations</b>	<b>1,394</b>	<b>1,757</b>
Cost of net debt	(54)	(42)
Foreign exchange gains (losses)	22	(26)
Other financial income and expense	(122)	(70)
<b>Financial loss</b>	<b>(154)</b>	<b>(138)</b>
<b>Profit before tax</b>	<b>1,240</b>	<b>1,619</b>
Income tax expense	(254)	(540)
Share in profit from associates	19	15
Gain on disposal of Ingenico shares	-	131
<b>Profit from continuing operations</b>	<b>1,005</b>	<b>1,225</b>
<b>PROFIT FOR THE PERIOD</b>	<b>1,005</b>	<b>1,225</b>
Attributable to:		
• owners of the parent	979	1,193
• non-controlling interests	26	32
<b>Earnings per share attributable to owners of the parent (in €)</b>		
Basic earnings per share	2.36	2.87
Diluted earnings per share	2.35	2.87
<b>Earnings per share from continuing operations attributable to owners of the parent (in €)</b>		
Basic earnings per share	2.36	2.87
Diluted earnings per share	2.35	2.87

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).



## Review of operations

### ADJUSTED REVENUE

For full-year 2013, Safran's revenue was €14,695 million, an 8.4% year-on-year increase (8.2% organic growth), compared to €13,560 million in 2012.

Full-year 2013 revenue increased by €1,135 million on a reported basis, notably highlighting performance in the Group's Aerospace businesses. On an organic basis, revenue increased by €1,118 million with higher Aerospace original equipment (OE) volumes, strong civil aftermarket trends, stability in the Security business and resilience in the Defence business (avionics).

### ADJUSTED RECURRING OPERATING INCOME

For full-year 2013, Safran's recurring operating income increased €344 million or 23.8% compared to 2012 and stood at €1,788 million, or 12.2% of revenue (€1,444 million and 10.6% of revenue in 2012). Before taking into account the impact of currency hedging (€103 million) and of acquisitions, newly consolidated activities and disposals (€7 million), the organic year-on-year improvement was €234 million, or 16.2%.

The improvement was primarily driven by the Aerospace Propulsion and Aircraft Equipment activities, which saw solid OE growth and positive trends in the civil aftermarket, as well as by a confirmation of the turnaround of avionics in Defence.

(in € millions)	2012 Adjusted <sup>(1)</sup>	2013
<b>Recurring operating income</b>	<b>1,444</b>	<b>1,788</b>
% of revenue	10.6%	12.2%
<b>Total non-recurring items</b>	<b>(50)</b>	<b>(31)</b>
Capital gain on disposals	1	39
Impairment net of reversals on intangible assets	(1)	(17)
Other non-recurring items	(50)	(53)
<b>PROFIT FROM OPERATIONS</b>	<b>1,394</b>	<b>1,757</b>
% of revenue	10.3%	12.0%

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

### ADJUSTED PROFIT FROM OPERATIONS

Adjusted profit from operations climbed 26.0% to €1,757 million versus €1,394 million in 2012. Non-recurring items represented an expense of €31 million in 2013, and include capital gains on the disposal of Globe Motors Inc. and an office building in Paris; impairment of capitalized development costs related to a legacy engine program; and other charges principally related to past service costs arising on a defined benefit supplementary pension plan for which executive managers within the Group, currently numbering around 400, are eligible.

### ADJUSTED FINANCIAL INCOME (LOSS)

The Group reported an adjusted financial loss of €138 million in 2013, compared to a loss of €154 million in 2012. The financial loss chiefly reflects the cost of net debt, which was down slightly year-on-year, to €42 million from €54 million in 2012. The financial loss also includes the cost of unwinding discounts on certain assets and liabilities (mainly provisions and repayable advances), as well as the impact of any changes in the discount rates used, particularly to calculate provisions. The cumulative impact of these non-cash items was an expense of €50 million in 2013 and an expense of €90 million in 2012. The interest cost on post-employment benefit obligations amounted to €24 million in 2013 versus €23 million one year earlier.

### ADJUSTED INCOME TAX EXPENSE

The adjusted income tax expense for the year increased from €254 million in 2012 to €540 million in 2013, reflecting a higher effective tax rate than in 2012 when the Group's tax expense had notably included the favorable impact of the absorption by Safran of subsidiaries which had been involved in loss-making activities divested several years ago. In 2013, a one-off, temporary (2013-14) tax surcharge increased the applicable corporate tax rate to 38% of taxable income in France.

### ADJUSTED PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Adjusted profit attributable to owners of the parent grew by 22% year-on-year. It was €1,193 million or €2.87 per share, compared to €979 million (€2.36 per share) in full-year 2012. In addition to the rise in recurring operating income, adjusted profit for 2013 includes:

- net financial expense of €138 million, including cost of debt of €42 million;
- tax expense of €540 million;
- capital gains on the disposal of Ingenico shares of €131 million.

## 2.1.3 ADJUSTED KEY FIGURES BY BUSINESS

### SUMMARY OF ADJUSTED KEY FIGURES BY BUSINESS

The backlog grew 16% to €56.2 billion in 2013 compared to €48.5 billion last year.

	Aerospace Propulsion		Aircraft Equipment		Defence		Security		Holding co. and other		Total	
(in € millions)	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Backlog <sup>(1)</sup>	29,879	35,919	14,467	16,485	2,380	2,174	1,737	1,647	N/A	N/A	48,463	56,224
Orders recorded during the year <sup>(2)</sup>	11,516	11,502	3,539	6,776	1,142	1,072	1,862	1,451	N/A	N/A	18,058	20,801
Revenue	7,005	7,791	3,691	4,121	1,315	1,278	1,546	1,502	3	3	13,560	14,695
Recurring operating income (loss) <sup>(3)</sup>	1,076	1,359	286	380	79	87	145	120	(142)	(158)	1,444	1,788
Profit (loss) from operations <sup>(3)</sup>	1,077	1,345	270	378	79	94	120	117	(152)	(177)	1,394	1,757
Free cash flow <sup>(4)</sup>	464	521	38	67	13	110	11	(42)	38	56	564	712
Acquisitions of property, plant and equipment	168	208	140	169	47	16	46	66	18	33	419	492
Self-funded R&D	649	790	213	254	117	126	124	129	N/A	N/A	1,103	1,299
Headcount <sup>(5)</sup>	23,271	24,511	22,874	24,495	7,182	7,195	7,727	8,403	1,504	1,685	62,558	66,289

(1) The backlog corresponds to orders recorded and not yet recognized in revenue. Approximately €0.8 billion of orders in the backlog relates to joint arrangements which will not contribute to Safran's revenue under IFRS 11.

(2) Orders recorded represent orders received during the year.

(3) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(4) Free cash flow is equal to cash flow from operating activities less changes in working capital and acquisitions of property, plant and equipment and intangible assets.

(5) Headcount at December 31.

### 2.1.3.1 Aerospace Propulsion

#### ADJUSTED KEY FIGURES

	2012 Adjusted <sup>(1)</sup>	2013	Year-on-year change
Quantities delivered			
CFM56 engines	1,406	1,502	7%
Helicopter turbine engines	924	934	1%
<i>(in € millions)</i>			
Backlog	29,879	35,919	20%
Orders recorded during the year	11,516	11,502	-
Revenue	7,005	7,791	11%
Recurring operating income	1,076	1,359	26%
Profit from operations	1,077	1,345	25%
Free cash flow	464	521	12%
Acquisitions of property, plant and equipment	168	208	24%
Research and development			
Self-funded R&D	(649)	(790)	22%
% of revenue	9.3%	10.1%	+0.8 pts
Research tax credit	47	51	9%
Self-funded R&D after research tax credit	(602)	(739)	23%
Capitalized expenditure	342	517	51%
Amortization and impairment of R&D expenditure	(25)	(24)	-
Impact on profit from operations	(285)	(246)	-14%
% of revenue	4.1%	3.2%	-0.9 pts
Headcount <sup>(2)</sup>	23,271	24,511	5%

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(2) Headcount at December 31.

Aerospace Propulsion activities can be split into four key sectors that contribute to business line revenue as follows:

Sector	% of business line revenue	
	2012	2013
Civil aviation	61%	64%
Military aviation	11%	10%
Helicopter turbine engines	16%	15%
Ballistics and space	12%	11%

#### REVIEW OF AEROSPACE PROPULSION OPERATIONS IN 2013

Full-year 2013 revenue grew by 11.2% at €7,791 million, or 11.3% on an organic basis, compared to revenue of €7,005 million in the year-ago period. Revenue growth resulted from rising civil OE deliveries, with CFM56 reaching record production rates (1,502 units, 96 units more than in 2012) and a favorable mix and pricing. Total CFM56 and LEAP orders and commitments now stand at close to 10,800 engines, more than seven years of production

at current rates. Military propulsion revenue declined slightly as revenue from TP400 deliveries almost offset the decline in M88 sales. Helicopter turbine OE revenues also showed robust growth due to a favorable mix. Space and missile propulsion revenue was flat in the year. In September 2013, Safran finalized a transaction with Rolls-Royce resulting in the extension to 100% of Safran's ownership in the RTM322 helicopter engine program, which was previously jointly owned. Full ownership of the program extends Turbomeca's range into large turbines for the high-growth heavy

helicopter market, enabling growth for military applications and accelerating time to market for heavy commercial engines. Support contracts previously fulfilled by Rolls-Royce have been transferred and the internalization of Rolls-Royce's workshare has been initiated.

Aftermarket trends were particularly positive and civil aftermarket revenue grew by 19.2% in USD terms, driven by first overhauls of recent CFM56 and GE90 engines. Helicopter turbine maintenance and the military engine aftermarket both grew at a mid-single digit percentage rate. Overall service revenue in Aerospace Propulsion grew by 14% in euro terms and represents a 48.1% share of revenue.

Full-year 2013 recurring operating income was €1,359 million (17.4% of revenue), up 26.3% compared to €1,076 million in the year-ago period (15.4% of revenue). This improvement resulted from healthy activity in the civil aftermarket, as well as from increased OE volume and favorable mix and pricing on commercial engine programs. R&D costs grew in 2013, primarily due to increased LEAP and Silvercrest development spending, essentially all of which is capitalized. Currency hedging had a positive impact on profitability.

## COMMERCIAL AND INDUSTRIAL DEVELOPMENTS

### Civil aviation

#### ■ Low-thrust engines for civil aircraft (regional and business jets)

##### Silvercrest (9,500 – 12,000 pounds of thrust)

Chosen by two aircraft manufacturers, the Silvercrest engine developed by Safran incorporates leading-edge technology to offer unrivalled performance, with ambitious targets in terms of fuel consumption, reliability and respect for the environment.

After having been chosen by Cessna to power its new Citation Longitude business jet in 2012, Safran was selected by Dassault Aviation to supply the engine and key equipment on the company's new Falcon 5X twin-engine business jet, featuring a large cabin and long range (5,200 nautical miles, or more than 9,600km). Safran will supply the complete integrated powerplant system (IPPS), including the Silvercrest engine (Snecma), nacelle and thrust reversers (Aircelle), and the engine suspension system. The engine is also equipped with a FADEC<sup>(1)</sup> system specifically developed by Sagem. This contract marks a strategic step forward for Safran in the market for business jets.

Since ground tests began on the first engine in October 2012, Silvercrest reached – and exceeded – maximum take-off thrust. The results of the tests show the engine's excellent dynamic performance at all thrust levels, with very good operability and very low levels of noise and vibrations. The performance tests were carried out on test rigs at Snecma's Villaroche (closed test cell) and Istres (open-air test cell) plants. Tests will continue throughout 2014 with certification slated for 2015.

Alongside these tests, the assembly line for the series production of the Silvercrest engines has been set up at Villaroche.

##### SaM146 (13,500 – 17,800 pounds of thrust)

The SaM146 engine, developed in partnership with Russian engine manufacturer NPO Saturn and with the participation of Italian engine manufacturer Avio Aero, powers Sukhoi's Superjet 100.

A total of 52 SaM146 engines were delivered in 2013. At the end of the year, the backlog for PowerJet stood at 202 engines. Powerjet is a joint venture set up by Snecma and NPO Saturn to manage the engine program in terms of development, production, marketing and sales, and to provide customer support, maintenance, repair and overhaul services.

At the end of 2013, PowerJet had also been awarded service contracts by Aeroflot, Interjet and Sky Aviation airlines.

##### Passport (10,000 – 20,000 pounds of thrust)

Through Techspace Aero, Safran has a 7% share in Passport, a new GE engine program designed for the future Bombardier, Global 7000 and 8000 business jets. Global 8000 will have a range comparable to long-haul aircraft (7,900 miles, or more than 14,600 km).

Ground testing for Passport began in June 2013 and the engine reached more than 18,000 pounds of thrust. The Passport engine is slated for certification in 2015.

##### SMA

The turboprop SMA SR305-230E powers Turbo Skylane JT-A, the latest aircraft in the Cessna 182 range. A total of 45 engines were delivered in 2013 and the backlog at the end of the year stood at 263 units.

#### ■ CFM mid-thrust engines for civil aircraft (short- to medium-haul aircraft)

##### CFM56 – LEAP

On the A320neo, the LEAP-1A model competes with the PurePower PW1000G engine made by US firm Pratt & Whitney. At December 31, 2013, LEAP-1A had a market share of 50% in aircraft for which engines had already been chosen. The LEAP-1B model was chosen as the sole engine for the Boeing 737 MAX. The LEAP-1C is the sole Western source for the propulsion system (engine plus nacelle) on COMAC's C919 Chinese aircraft. LEAP is expected to be in service by 2016.

2013 also saw a string of major commercial successes. Orders continued to grow for LEAP engines. With new orders and purchase commitments for 1,393 engines in 2013, the backlog for LEAP overtook the CFM56 backlog for the first time, to stand at over 5,700 engines under the A320neo, Boeing 737 MAX and COMAC C919 programs.

(1) Full Authority Digital Engine Control.

A record 1,502 CFM56 engines were delivered by Safran during the year, up 7% on 2012 (1,406). More than 25,700 CFM56 engines have been delivered since the launch of the program. The in-service fleet of CFM56 engines passed the 668 million flying hours mark in 2013 and the engines are used by over 530 customers and operators.

Taking into account the 1,330 orders for CFM56 engines and 1,393 orders for LEAP engines taken during the year, the overall backlog (CFM56 + LEAP) represents around 10,800 engines, or more than seven years of production at current rates. This success confirms CFM as leader in the market for 100+ seater aircraft, and guarantees the success of these programs over several decades.

The first ground tests for LEAP-1A were run in 2013 with excellent results: in almost five weeks of tests, the engine logged 310 hours of operation and over 400 cycles. These tests are part of an extensive ground and flight certification program that will encompass 60 engines and will accumulate 40,000 test cycles before entry into service.

CFM56 engines deliver industry-leading reliability and operational performance.

#### ■ High-thrust engines for civil aircraft (long-haul aircraft)

Production of high-thrust engines was up sharply in 2013, with 619 modules delivered compared to 567 in 2012.

#### GE90 family

Safran has an interest of around 23.5% in this GE program and enjoys a sole-source position on the Boeing 777, for which it delivered 212 modules in 2013 versus 187 modules in 2012.

#### GP7200

Safran delivered 96 high- and low-pressure compressor modules in 2013 compared to 62 in 2012, and has a 17.5% interest in this engine program which powers the A380. At the end of the year, the GP7200 was used by three airlines and has been selected for almost 55% of the A380 aircraft for which an engine has already been chosen.

#### GenX

The GenX engines manufactured for the Boeing 747-8 and Boeing 787, respectively GenX-2B and GenX-1B, were certified in 2011. Safran has a 7.3% share in GenX-2B and a 7.7% share in GenX-1B. The US aircraft manufacturer ramped up its monthly Boeing 787 production during the year and Safran delivered 181 compressor modules, 20% more than in 2012.

#### CF6 – LM6000 family

A total of 130 modules were shipped in 2013. Safran's interest in this program ranges from 10% to 19.4%, depending on the engine model concerned.

#### Service agreements

Safran has signed service agreements with GE for its high-thrust GE90 and GP7200 engines. Service agreements for these engines were also signed with Emirates and Etihad Airways.

#### ■ Industrial operations

Safran has developed an exclusive partnership with US-based Albany for three-dimensional weaving of carbon fiber preforms. These preforms are placed in metal molds and then injected with resin.

The ties between Safran and Albany were recently strengthened with the creation of production facilities bringing together the resources and activities of both companies. A shared facility in Rochester, New Hampshire (United States) will be used to produce woven composite parts for the LEAP engine.

A "twin" facility is currently under construction in Commercy in the Meuse region of France. This new 27,000 sq.m. facility will begin to produce blades and casings for the LEAP engine in 2014.

#### Military aviation

##### ■ M88

In 2013, 20 M88 engines were delivered for the Rafale. The in-service fleet topped the 295,500 flying hours mark during the year.

India is in exclusive talks with Rafale EIG to purchase 126 aircraft. Discussions are continuing under the guidance of Dassault. Other prospective customers are also being canvassed.

##### ■ TP400

The TP400 is the Western world's largest ever turboprop engine. Having been awarded both civil and military certification, the TP400 meets the highest safety standards of global civil aviation and provides potential export opportunities for the A400M Atlas.

A total of 36 engines were delivered in 2013 and the backlog at the end of the year stood at 674 engines for the A400M Atlas fleet ordered by Airbus Defence & Space. The two first A400M Atlas aircraft were delivered to the French Armed Forces during the year.

##### ■ Adour

A total of 49 Adour engines were delivered in 2013. The backlog at the end of 2013 stood at 43 engines for Malaysia, Saudi Arabia and Oman.

## Helicopter turbine engines

### ■ Light helicopters

This segment continued to grow throughout the year:

- the new Arriel 2 (2E) engine was certified by the European Aviation Safety Agency in January 2013. This engine will power Airbus Helicopters' twin-engine EC145T2;
- a new Arrius turbo engine model was on show at the Heli-Expo tradeshow in March 2013. The Arrius 2B2 Plus, equipped with a new FADEC system, is designed for Airbus Helicopters' future lightweight, twin-turbine EC135T3.

Safran landed another win at the Paris Air Show, when Bell Helicopter chose Arrius 2R to power its new five-seat short, light single (SLS) engine helicopter. This marks the first long-term partnership between Safran and Bell Helicopter.

### ■ Medium-weight helicopters

Safran unveiled Arrano, its brand-new turboshaft engine, at the Heli-Expo tradeshow in March 2013. The new 1,100 shp engine benefits from the technological developments resulting from Safran's R&T strategy. It incorporates the results of several upstream research projects, including products and processes validated by the Tech800 demonstrator. Arrano is expected to first run on a test cell in 2014.

At the MAKS Air Show in Moscow in August 2013, Safran unveiled its Ardiden 3G engine installed on a prototype of the Ka-62, a civilian helicopter built by Russian heli manufacturer Kamov. Illustrating the pertinence of Safran's strategic choices, Colombian operator Vertical de Aviacion ordered five Ka-62s on the opening day of the show. This order follows on from the deal signed in December 2012 with Brazilian operator Atlas Taxi Aero for 14 helicopters, and confirms Safran's successful partnership with the Russian high-tech industry.

The Ardiden 3C/WZ16 engine completed its first test bench run at the end of 2013. This turboprop engine was developed in partnership with AVIC Engines (China) for the AC352 helicopter (the Chinese name for Airbus Helicopters' EC175 program), and is the result of close cooperation between Safran and AVIC (China Aviation Industry Corporation). The test bench run marks the start of the engine's test and certification procedure.

### ■ Heavy-lift helicopters

In order to further its investment and development strategy focused on new engines for heavy-lift helicopters (3,000 shp and above), in 2013 Safran acquired Rolls-Royce's 50% stake in the joint RTM322 helicopter engine program, and has now assumed global responsibility for the design, production, product support and services for the RTM322 engine. This 2,100-2,600 shp model powers the Apache (UK fleet), EH101 Merlin and NH90 helicopters.

### ■ Services

Safran continued to expand sales of service agreements in 2013:

- a contract was signed with the UK Ministry of Defence for the maintenance of 411 RTM322 engines powering the EH101 Merlin and Apache helicopters. The six-year contract provides the UK MoD with a guaranteed level of availability for its RTM322 engines, consolidating a number of current support agreements into one overall support package;
- a contract with Avincis group was announced for the maintenance of around 180 engines operated by Inaer, Bond Air Services, Bond Offshore Helicopters and Australian Helicopters;
- at the Heli-Expo tradeshow, a contract was signed with Canada-based CHC Helicopter for the maintenance of 60 Makila 2 engines powering their EC 225 helicopters. These helicopters are used in offshore missions, mainly in the North Sea, Nigeria, Brazil and Australia;
- a partnership was sealed with Milestone Aviation group, the global leader in helicopter leasing, under which services will be provided directly to Milestone customers while expanding Turbomeca's customer base;
- an agreement was also signed for the repair, overhaul and inspection of the Makila 1A2 engines powering the 17 AS532 Cougar helicopters operated by the Dutch Royal Air Force.

### Ballistics and space

The European heavy-lift launcher Ariane 5 successfully completed four lift-offs in 2013, two less than expected due to technical difficulties on the satellites. This marks the European launch vehicle's 57th consecutive success and confirms the excellent reliability of Ariane.

In the liquid propellant engine segment, six Vulcain engines for the core stage of the ES and ECA versions of Ariane 5 and four HM7 engines for the upper stage of Ariane 5 ECA were delivered in 2013.

In 2013, Safran also delivered six series of solid propellant boosters, which provide 90% of Ariane 5's lift-off thrust.

An agreement was signed in late 2013 between Airbus Defence & Space, Safran and Europropulsion<sup>(1)</sup> for the production of the cryogenic rocket engines and solid rocket motors for 18 new Ariane 5 launchers. This agreement allows Safran and its European partners to secure the continued production of Ariane 5 engines until the end of 2018.

2013 also marked the successful kick-off of a new series of tests for the Vinci engine. The continued development of this propellant intended for the upper stage of the future Ariane 5 ME (Midlife Evolution) and Ariane 6 launchers is on track to meet the technical objectives and timetable set by the European Space Agency (ESA). The first test flight for this new engine on Ariane 5 ME is scheduled for mid-2018.

Safran was awarded responsibility for the upstream solid propulsion project for Ariane 6 that led to the choice of configuration of the future launch vehicle. Four identical engines forming the first two

(1) Europropulsion: joint venture with Safran and Avio.



stages will make full use of the synergies with Vega, the future engine for the launch vehicle. The third stage will be an adapted version of the upper stage of Ariane 5 ME, fitted with a Vinci cryogenic engine developed by Snecma.

Safran is also a major contributor to Vega, the European launch vehicle. The second Vega successfully completed its lift-off from the Kourou spaceport in French Guiana on May 7, 2013. Towards the end of the year, Arianespace ordered ten new additional Vega launch vehicles. Representing more than three years' work, they will follow on from the test launch vehicle and five Vega launch vehicles ordered in 2010.

In the industrial applications sector, a new plant producing propellants for airbags was inaugurated in the Caohu business park, 80 km from Shanghai (China). This new 7,000 sq.m. plant results from the joint venture SMECQ Automotive Safety Technology Co. Ltd. set up in October 2010 by Safran and TaiHang ChangQing (THCQ), a subsidiary of China Aviation Industry Corporation (AVIC). SMECQ was set up to produce 300 metric tons of latest-generation gas generator propellants, or the equivalent of 7 million airbags by 2016, in order to meet the growing Chinese demand for automotive safety.

### 2.1.3.2 Aircraft Equipment

#### ADJUSTED KEY FIGURES

	2012 Adjusted <sup>(1)</sup>	2013	Year-on-year change
Quantities delivered			
Power transmission systems	2,019	2,200	9%
A320 thrust reversers	489	513	5%
A380 nacelles	108	108	-
(in € millions)			
Backlog	14,467	16,485	14%
Orders recorded during the year	3,539	6,776	91%
Revenue	3,691	4,121	12%
Recurring operating income	286	380	33%
Profit from operations	270	378	40%
Free cash flow	38	67	76%
Acquisitions of property, plant and equipment	140	169	21%
Research and development			
Self-funded R&D	(213)	(254)	19%
% of revenue	5.8%	6.2%	+0.4 pts
Research tax credit	29	38	31%
Self-funded R&D after research tax credit	(184)	(216)	17%
Capitalized expenditure	126	129	-
Amortization and impairment of R&D expenditure	(32)	(36)	13%
Impact on profit from operations	(90)	(123)	37%
% of revenue	2.4%	3.0%	+0.6 pts
Headcount <sup>(2)</sup>	22,874	24,495	7%

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(2) Headcount at December 31.

Aircraft Equipment activities can be split into four key sectors that contribute to business line revenue as follows:

Sector	% of business line revenue	
	2012	2013
Landing and aircraft systems	47%	46%
Engine systems and equipment	27%	29%
Electrical systems and engineering	24%	23%
Other equipment	2%	2%

## REVIEW OF AIRCRAFT EQUIPMENT OPERATIONS IN 2013

The Aircraft Equipment segment reported full-year 2013 revenue of €4,121 million, up 11.6% (9.8% on an organic basis) compared to the year-ago period.

Increases in OE production rates (notably the Boeing 787, A330 and A380 programs) and the continued recovery of the regional jets market segment drove revenue increases in all activities. The nacelle activity recorded increases in A330 and A320 thrust reversers and in small nacelles. The number of A380 nacelles delivered (108) was stable compared to 2012. The harnessing and landing gear activities saw a robust performance driven by a production ramp-up in all their civil programs including the first shipments to the A350 program. Shipments began in 2013 on the A400M Atlas program to which Safran supplies landing systems.

On a full-year basis, service revenue grew by 15.2% in euro terms and represents 29.5% of segment revenue. Excluding GEPS, the increase in service revenue was 8.9%. This increase is principally driven by aftermarket growth in wheels and brakes (including carbon brakes), gearboxes and nacelles. The increase of service revenue in the sales mix has a favorable impact on profitability.

Full-year 2013 recurring operating income was €380 million (9.2% of revenue), up 32.9% compared to €286 million in the year-ago period (7.7% of revenue). This significant improvement was driven by a favorable volume impact and productivity gains. The increased service activity for wheels and brakes also contributed to this performance. Currency hedging had a positive impact on profitability.

## COMMERCIAL AND INDUSTRIAL DEVELOPMENTS

### Landing and aircraft systems

#### ■ Landing gear

In all, 1,319 landing gear units were delivered by Safran in 2013, 128 more than in 2012.

To meet the ramp-up in monthly production on the Boeing 787, 61 units were delivered by Messier-Bugatti-Dowty in the year (42 in 2012).

Safran continued to upgrade its production facilities in 2013, chiefly in Montreal (Canada) and Bidos in the French Pyrénées-Atlantiques region.

Throughout 2013, Safran signed landing gear maintenance and repair contracts notably for the Airbus fleets operated by Alitalia, Cathay Pacific, Dragonair, Iberia, China Eastern Airlines and South African Airways. These new contracts strengthen Safran's position as a global player in the maintenance and repair of Airbus landing gear units.

#### ■ Wheels and brakes

At December 31, 2013, more than 6,100 aircraft were equipped with Messier-Bugatti-Dowty carbon brakes, giving Safran a share of over 50% of the market for 100+ seater civilian aircraft equipped with carbon brakes.

Safran brakes had been selected for 1,185 Boeing 737NG aircraft (cumulative basis) at December 31, 2013 (891 at end-2012), including 581 aircraft in connection with retrofit projects. A total of 643 of these 1,185 aircraft are already in service. Safran's market share on Boeing 737NG aircraft fitted with carbon brakes represents 68%.

Messier-Bugatti-Dowty's electric brakes for the Boeing 787 Dreamliner continue to capture market share. After being selected by Ethiopian Airlines in 2012, in 2013 they were chosen for aircraft operated by Air Canada, Aeromexico, AviancaTaca, Royal Jordanian Airlines, Air New Zealand, Kenya Airways, Thai Airways International and Royal Brunei.

#### Electric green taxiing system

To meet the demand for more integrated equipment offerings from both aircraft manufacturers and airlines, in 2012 Safran and Honeywell set up a joint venture, EGTS International. This joint venture allows them to pool their complementary expertise and work together to develop and market a new electric green taxiing system, i.e., taxiing without the use of engine power. The aim is to fit both in-service and new aircraft with this system as from 2016/2017.

Electric green taxiing was demonstrated at the Le Bourget Air Show in June 2013, and led to an agreement being signed with Air France to develop the system. In December 2013, an agreement was signed with Airbus to assess electric green taxiing as a new option for A320 aircraft.

#### ■ Filters

In 2013, Safran was selected to supply fuel filters for CFM56 engines in aircraft operated by US-based airlines US Airways and Southwest Airlines.

### Engine systems and equipment

#### ■ Nacelles and thrust reversers

In 2013, Safran delivered a total of 513 thrust reversers for the A320 and 166 thrust reversers for the A330 (489 and 146, respectively, in 2012). As in 2012, a total of 108 nacelles were delivered for the A380.

Another decisive advance was recorded in 2013 for the LEAP-1C nacelles to be used in China's future C919 aircraft, with the launch of production for the first thrust reverser parts. The LEAP-1A nacelle designed for the A320neo is developing as planned.

Safran is also involved in three nacelle development projects in the business aviation sector: Silvercrest, Learjet 85, and Passport on behalf of GE for the Bombardier Global 7000/8000. The Learjet85 nacelle was unveiled to the public at the US business aviation (NBAA) show in Las Vegas.

## Services

Safran reported a 10% rise in business related to nacelle services. In 2013, it opened a parts distribution center in Beijing to serve Chinese airlines that operate aircraft with the Company's jet engine nacelle and thrust reverser products. This new facility will provide spare parts and inventory management for airline companies, with rapid response capability for urgent aircraft-on-ground service requirements. The distribution facility builds on Aircelle's already well-established presence in China, which includes an office in Beijing, along with a network of customer support managers and field service representatives.

In 2013, Safran was also selected to provide systematic preventive maintenance for Trent 700 thrust reversers installed on 50 A330s operated by Cathay Pacific and its subsidiary Dragonair. Safran landed this ten-year contract amid fierce competition, and its success confirms the development of the systematic preventive maintenance model for thrust reversers and nacelles, which have traditionally been repaired as and when needed.

## Mechanical power transmissions

Throughout 2013, Safran continued to develop power transmission for the Trent XWB engines used in the A350 as well as for LEAP engines. During the year Safran delivered the first power transmission gearbox for initial flight testing of the LEAP-1C engine that will power the Chinese aircraft COMAC C919.

## Electrical systems and engineering

### Power generation and distribution systems

Safran can call on its engineering and research teams to develop cutting-edge electrical solutions for all the energy needs of an aircraft. Compared to the current architecture combining electrical, hydraulic, pneumatic and mechanical networks, the "more electric" aircraft offers optimum performance, superior reliability, a lighter carbon footprint and significantly lower production and maintenance costs.

Driven by its ambition to continue developing in this critical aerospace segment, in 2013 Safran finalized its acquisition of Goodrich Electrical Power Systems (GEPS) and in January 2014 announced that it was to create a new industrial division for the

Group's electrical power activities, Labinal Power Systems. This operating division, which will soon include the power distribution solutions of Eaton Aerospace (the acquisition should be completed in the first half of 2014), covers the entire electrical energy chain and places Safran in a strong position to continue its successful breakthrough in the expanding market for "more electric aircraft". This transaction has enabled the Group to create a world leader in electrical and power transmission systems.

### Electrical interconnection systems

Confirming its front-ranking role as engine and parts manufacturer for Dassault's Falcon 5X, Safran was also selected to provide the wiring harnesses for this new aircraft.

### Ventilation systems and electrical engines

In 2013, the Company received the CCAR145 maintenance certificate from the Chinese civil aviation authorities. This allows it to repair all equipment fitted to aircraft registered in China.

For the past 11 years, Technofan has ranked amongst the top ten companies in Airbus' Annual Supplier Support Rating, demonstrating its superior customer service quality.

### Engineering services

Safran Servicos de Supporte de Programas Aeronauticas Ltda (SAR), the Group's new Brazilian entity based in São José dos Campos (São Paulo state), opened for business in May 2013 and includes a new business center for Safran Engineering Services. Safran Engineering Services provides expertise in electrical systems, aerostructure, mechanical systems, avionics and electronic embedded systems. The business has landed major engineering contracts with Embraer and Helibras. A joint venture was set up by SAR with a Brazilian partner to provide engineering services for Embraer's new range of E-Jets E2 regional jets. Safran Engineering Services also helps to develop Safran's local Aircraft Equipment programs with Brazilian customers. Safran Engineering Services has been part of Labinal Power Systems since January 2, 2014.

## Other equipment

### Small electric motors

In October 2013, Safran completed the disposal of Globe Motors Inc., a US-based subsidiary, to Allied Motors Inc. Globe Motors designs, manufactures and distributes precision motors and motorized devices for the automotive, aerospace and weapons industries and had revenue of USD 106 million in 2012.

### 2.1.3.3 Defence

#### ADJUSTED KEY FIGURES

	2012 Adjusted <sup>(1)</sup>	2013	Year-on-year change
Quantities delivered			
Inertial units	454	494	9%
FELIN systems	4,000	4,081	2%
<i>(in € millions)</i>			
Backlog	2,380	2,174	-9%
Orders recorded during the year	1,142	1,072	-6%
Revenue	1,315	1,278	-3%
Recurring operating income	79	87	10%
Profit from operations	79	94	19%
Free cash flow	13	110	N/A
Acquisitions of property, plant and equipment	47	16	-66%
Research and development			
Self-funded R&D	(117)	(126)	8%
% of revenue	8.9%	9.9%	+1.0 pts
Research tax credit	36	39	8%
Self-funded R&D after research tax credit	(81)	(87)	7%
Capitalized expenditure	22	31	41%
Amortization and impairment of R&D expenditure	(8)	(10)	25%
Impact on profit from operations	(67)	(66)	-1%
% of revenue	5.1%	5.2%	+0.1 pts
Headcount <sup>(2)</sup>	7,182	7,195	-

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(2) Headcount at December 31.

Defence activities can be split into three key sectors that contribute to business line revenue as follows:

Sector	% of business line revenue	
	2012	2013
Optronics	53%	48%
Avionics	38%	43%
Electronics and critical software (Safran Electronics)	9%	9%

#### REVIEW OF DEFENCE OPERATIONS IN 2013

Full-year 2013 revenue was down 2.8% at €1,278 million, or down 2.2% on an organic basis, compared to the previous year. Avionics revenue grew on the back of higher deliveries of seeker kit modules and a solid flight control systems activity. This trend was offset by softer revenue in optronics due primarily to the continued decline in shipments of long-range infra-red goggles to the US Armed Forces. Against this backdrop, Safran continued to leverage its leadership in cutting-edge technologies in optronics: Optrolead (50/50 joint venture between Safran and Thales) signed an upstream study program (PEA) for the development of a fourth generation of airborne electro-optical gyro-stabilized systems.

Full-year 2013 recurring operating income at €87 million (6.8% of revenue) was up 10.1% (up 3.8% organically) compared to €79 million (6.0% of revenue) in full-year 2012. The continued turnaround of profitability in avionics resulted from a combination of favorable volume, price and mix effect and cost reductions. Optronics continued to deliver satisfactory profits, although lower than last year, thanks to continued deliveries of the FELIN infantry combat system and the first maintenance and upgrade activity on the French Army's FELIN equipment. Budgetary constraints impacted FELIN requirements at the French Ministry of Defence. Consequently, OE deliveries will cease after 2014 instead of after 2015 as initially expected. However, export potential for soldier modernization programs remains strong.

## COMMERCIAL AND INDUSTRIAL DEVELOPMENTS

### Optronics

#### ■ Modernizing infantry

In 2013, Safran delivered the modern FELIN infantry combat system to four regiments of the French Army, with 14 regiments now outfitted and the system covering all specialist areas of the infantry. The 2014 French Military Planning Act provides for a reduction in deliveries equivalent to 3.5 regiments out of the 21 initially planned. Safran also provides support for the systems delivered and used in active service. Together with the French Directorate General of Weapons Procurement (hereafter "DGA"), the Group is also considering the changes to be made to future FELIN models in light of the feedback received on the ground. The RIF-NG new generation soldier information network development by Safran and now accredited by the DGA is the first dynamic soldier information network in Europe. FELIN continues to attract interest outside France, with talks underway with Benelux, Canada, Algeria and Russia, for example. Good feedback from its use in overseas operations should further cement its reputation.

#### ■ Portable optronic equipment, sight equipment and drones

##### Portable optronic equipment

The string of commercial successes in portable optronics this year confirms the front-ranking position of Safran technology, despite an overall decline in the market prompted by the withdrawal of armed forces from certain overseas military operations and by cuts in the defence budget in most developed countries. New orders will bring the number of JIM-LR multifunction goggles in service and on order across the globe to over 6,000 (UN, the US, Algeria, etc.)

In France, Safran received confirmation that the two conditional tranches of the JIRTANG contract to deliver several hundred new-generation infrared goggles would go ahead.

Throughout the year Safran, via its subsidiary Vectronix, supplied various countries (Israel, Norway, etc.) with laser range finder (LRF) modules and took part in the program to modernize Bundeswehr infantry with the supply of Moskito and Vector rangefinders.

Optovac Mecânica e Optoeletrônica Ltda, a Brazilian subsidiary created in 2012 and specializing in optronics and night vision, continued to grow in 2013 and began to operate out of the Univap Technology Park in San Jose dos Campos. The many solutions offered to its Brazilian customers demonstrates how Optovac is increasing its exposure and activity in the country.

##### Onboard optronic equipment

Sagem landed a major contract with DCNS to deliver EOMS-NG (Electro-Optical Multifunction System – New Generation) systems

that will be installed on four French navy amphibious and projection vessels: three Mistral-class projection and command (BPC) ships and the Siroco TCD landing craft transport vessel. The EOMS-NG provides day and night vision and offers 360° surveillance, identification, tracking and target engagement functionalities.

In the periscope business, Sagem outfitted five DCNS submarines with ten optronic surveillance masts for the Brazilian, Indian and French navies.

In the segment of gyrostabilized observation systems, Sagem received a large order from its partner Airbus Helicopters for Euroflir optronics systems in connection with several export contracts (Chile, Uzbekistan, etc.).

Through Optrolead, its joint venture with Thales, Safran takes an active role in the upstream study program for new-generation airborne gyrostabilized pods featuring numerous sensors, which offer industry-beating performances at equal mass and volumes to existing systems.

In the field of cameras for land-based applications, the SATIS device featuring a high-resolution detector made good progress in 2013. Technical advances also helped drive development and enabled the Group to start marketing its multi-function viewfinders for PASEO land platforms. On a commercial front, the progress of these programs and stronger decisive partnerships with foreign companies spell good news for export opportunities going forward.

### Drones

The DGA confirmed its order for five SDTI tactical drones to round out its existing in-service capabilities.

Safran also continued to provide SDTI drone support services for the French Armed Forces throughout 2013.

During the year, Safran carried out an additional series of flight tests of its new Patroller™ tactical drone in multi-mission configuration, incorporating a communications intelligence (COMINT) system. The positioning capabilities of the drone are attracting growing interest from export customers.

### Avionics

#### ■ Navigation systems and sensors

In 2013 Safran continued to benefit from the investments made in this high-tech industry in previous years.

On a commercial front, 2013 saw the first major orders for the BlueNaute attitude and heading reference system, in particular from a US hydrographic vessel and the Indonesian Coast Guard.

Also in the shipbuilding field, Safran was chosen by the DGA to modernize the inertial navigation and alignment system on the Charles-de-Gaulle aircraft carrier.

In the aerospace field, 2013 was defined by several success stories demonstrating Safran's excellence in navigation:

- the 10,000th aircraft piloting reference sensor (APIRS) was delivered: APIRS are today fitted to a large number of civil airplanes, including Bombardier's Dash 8, Casa 295 and ATR72, Airbus Helicopters' EC135/145/155/225 and NH Industries' NH90;
- Indian airframe manufacturer Hindustan Aeronautics Ltd (HAL) ordered more than 100 Sigma 95 navigation systems for the Indian Air Force;
- Thales Alenia Space ordered Regys 20 3-axis gyros for its satellite applications. Regys 20 is made using the latest hemispherical resonator gyro (HRG) technology.

In 2013, Safran ran the first flight tests of its HRG-based navigation system prototype on an Airbus A320. This new, innovative technology yielded excellent results.

In cockpit avionics, Dallas-based Sagem Avionics Inc. in the US supplied several helicopter operators with its multifunction Integrated Cockpit Display System (ICDS). The display suite is an intuitive and particularly user-friendly system that is very popular among helicopter crews.

Safran, the European leader in navigation systems, acquired the Swiss company Colibrys SA in January 2013. Colibrys has around 70 employees and is specialized in the design and production of high-performance micro-sensors based on silicon MEMS<sup>(1)</sup> technology. Through this acquisition, Safran expands its range of technological expertise, particularly in inertial sensors and accelerometers.

#### ■ Seekers and guidance systems

Safran's AASM Modular air-to-ground weapons system confirmed its excellent performance capabilities, particularly during operations in Mali. Following the successful completion of firing tests for the new laser-guided missile on the Rafale, Safran received an order for over 200 AASM suites from the DGA.

Building on its expertise in weapons guidance systems, Safran was selected to supply infrared seekers for MMP medium-range missiles for the Army and FASGW<sup>(2)</sup> light anti-ship missiles as part of a joint project with the British. Safran was also chosen by the DGA to conduct a design study contract for inertial navigation systems for new-generation tactical missiles.

#### ■ Flight control systems

Several important events occurred in 2013 in the field of electric flight control systems:

- Safran was chosen by Bell Helicopter to supply certain actuators for the B525;
- the horizontal stabilizer trim system which Safran is producing for Embraer's KC 390 program continued to develop;
- the Detail Design Review (DDR) phase was completed and the first simulation bays for the nacelle's electrical thrust reverser actuation system (ETRAS) on the C919 were delivered to COMAC.

Safran also worked on projects for a more electric helicopter, proposing a fly-by-wire flight control system featuring a sidestick, an altitude and heading reference system and quadruplex flight computers.

#### ■ Onboard information systems/data management

In 2013, Safran leveraged synergies between two of its subsidiaries, Snecma and Sagem, to offer airline companies an innovative service allowing them to optimize operating costs. The use of flight data combined with an onboard information system (Cassiopée) allows Safran to provide a responsive, flexible solution and reduce aircraft consumption.

#### ■ Electronics and critical software

Fadec Alliance Inc., a joint venture set up by GE Aviation and Fadec International (itself a joint venture between Sagem and BAE) is to supply next-generation Fadec 4 devices to be fitted to the LEAP and Passport engines. In 2013, Fadec 4 successfully completed several milestones enabling the first engine rotations for CFM's LEAP and GE's Passport.

Also in the year, Fadec International celebrated its successful 10-year partnership, which has seen it deliver over 9,900 engine control systems representing more than 600 million flying hours.

Numerous in-progress projects have also successfully completed important milestones:

- the first functional tests for the A350's remote braking control units were completed;
- the Detail Design Review (DDR) phase was completed on the brake control system for Embraer's KC390.

Aerospace Embedded Solutions GmbH (AES), a joint venture set up in 2012 by Safran and MTU in Germany, delivered the first series engine control software for the A400M Atlas.

(1) Micro Electro Mechanical Systems.

(2) Future Anti-Surface Guided Weapon.



### 2.1.3.4 Security

#### ADJUSTED KEY FIGURES

	2012 Adjusted <sup>(1)</sup>	2013	Year-on-year change
Quantities delivered			
Smart telco and bank cards (millions of units)	630	621	-1%
CTX equipment	65	79	22%
<i>(in € millions)</i>			
Backlog	1,737	1,647	-5%
Orders recorded during the year	1,862	1,451	-22%
Revenue	1,546	1,502	-3%
Recurring operating income	145	120	-17%
Profit from operations	120	117	-2%
Free cash flow	11	(42)	N/A
Acquisitions of property, plant and equipment	46	66	43%
Research and development			
Self-funded R&D	(124)	(129)	4%
% of revenue	8.0%	8.6%	+0.6 pts
Research tax credit	12	12	-
Self-funded R&D after research tax credit	(112)	(117)	4%
Capitalized expenditure	14	17	21%
Amortization and impairment of R&D expenditure	(3)	(6)	N/A
Impact on profit from operations	(101)	(106)	20%
% of revenue	6.5%	7.1%	+0.6 pts
Headcount <sup>(2)</sup>	7,727	8,403	9%

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

(2) Headcount at December 31.

Security activities can be split into three key sectors that contribute to business line revenue as follows:

Sector	% of business line revenue	
	2012	2013
Identification	63%	62%
E-documents	22%	22%
Detection	15%	16%

#### REVIEW OF SECURITY OPERATIONS IN 2013

The Security activity reported full-year 2013 revenue of €1,502 million, down 2.8% compared to the year-ago period. Stable revenue on an organic basis reflects a mixed situation in identification, slow growth in detection and stability in e-documents. In identification, MorphoTrust continued its robust growth, driven by US Federal activities. A tough market for Morpho's biometric activities (excluding MorphoTrust) offset this growth as governmental contracts were subject to budgetary constraints or

political instability. The e-documents activity has been significantly impacted in its smartchip telco and banking segments due to intensified price pressure and late introduction of NFC technology. Nevertheless, Safran regained traction in the telco and banking market as deliveries of NFC and LTE technology-enabled devices commenced. Detection ended 2013 with strong momentum, notably delivering CTX tomographic detection systems to the TSA (US), CATSA (Canada) and other export markets.

Full-year 2013 recurring operating income decreased by 17.2% to €120 million compared to €145 million in the year-ago period. The decline is principally due to the run-off of a few biometric identification projects which had been profitable in their latter years, not yet offset by new contracts. In e-documents, cost reductions did not entirely offset margin declines due to pricing pressure. Detection margins improved on higher CTX volumes.

Management and organizational changes in the second half of 2013 will result in the adaptation of the cost base and refocusing resources on significant growth prospects characteristic of the Security business.

In March 2013, Safran divested part of its stake in Ingenico, generating around €130 million in profit after tax. Safran nevertheless remains a major shareholder of the company, with 10.2% of its capital and around 17% of its voting rights.

## COMMERCIAL AND INDUSTRIAL DEVELOPMENTS

### Identification systems

#### ■ Major identity management systems

In the US, Safran is the leading supplier of identity management solutions, with its system for issuing driving licenses currently used in 42 of 50 states. Several states (Arizona, Illinois, Alabama, Connecticut) renewed their commitment to Safran in 2013 for the replacement and upgrade of their driving license issuance systems. Safran also provides biometric identification solutions to the FBI, the Department of Defense and the State Department. In 2013, Safran became the first operator to be awarded the highest security certification by the North American Security Product Organization (NASPO) for a facility that produces driving licenses and ID cards.

In Albania, the concession awarded in 2008 to manage the entire production process (enrollment, personalization, issue and distribution) of secure biometric identity cards and passports was renewed for a further ten years and extended to include a platform giving access to e-Services in order to help improve and make safer public and private transactions carried out online by Albanian citizens.

In Egypt, the one-millionth identity card was issued in March under the country's new (color) ID system.

In Mali, Safran supplied and personalized – within an extremely short timeframe – seven million electoral ID cards used in the July and August presidential elections.

India's Unique Identification Authority (UIDAI) had delivered over 500 million unique identification numbers at the end of December from its Aadhaar biometric system which uses Morpho technology. Following on from the Aadhaar project, alternate usages have been confirmed for the technology, in particular biometric identification for the banking industry.

#### ■ Border control

Following orders for gates and kiosks for Perth, Sydney and Brisbane airports as part of the Australian border control system, tests of the latest generation automated border control solution, SmartGate Plus, were successfully completed in actual operating conditions at Auckland airport in New Zealand.

#### ■ Criminal identification

Building on its long-standing relationship, in 2013 Safran entered into a strategic partnership to supply Interpol with a range of innovative biometric solutions and other technical support to enhance international security. Under the five-year partnership, Safran's cutting-edge facial recognition technology will also be provided to Interpol. The two organizations, along with other key partners, will also collaborate on developing global standards and best practices.

The latest improvements to the FBI's new-generation identification solutions have made searches using digital fingerprints far more effective and further increased the rate of crimes solved. Boasting enhanced capacity, speed and accuracy for comparing fingerprints and other prints left at crime scenes, the system meets the public security needs of over 18,000 police, government, tribal and federal organizations across the country.

Police forces in several US states including Missouri and Arizona are using MorphoIDent, a portable fingerprint device which can now be used to make simultaneous searches in several AFIS systems regardless of the system provider, thanks to a software platform that can interface with local, federal, or central AFIS systems.

The US Department of Defense has chosen Safran to provide maintenance services for the platform used as its main biometric identification system, while the French Interior Ministry has renewed its contract for Safran to provide maintenance services for the FAED<sup>(1)</sup> system used by French police.

#### ■ Biometric enrollment services

Biometric enrollment is particularly developed in the US and Safran provides enrollment services through various representative offices throughout the country. Enrollment records user's biometric and biographical data and performs background checks and other ID services. Biometric enrollment is used to deliver accreditations and access documents meeting the security requirements demanded by the partners concerned. These can be national (e.g., the TSA<sup>(2)</sup>) or local government bodies.

In 2013, Safran announced that it had enrolled 1.5 million drivers in the year as part of TSA's Hazardous Materials Endorsement Threat Assessment Program (HTAP). This program is in the final phase of integration within the TSA's Unique Enrollment Service featuring all enrollment and registration functions introduced by

(1) Automated Fingerprint Identification System (Fichier automatisé des empreintes digitales).

(2) Transportation Security Administration.

the TSA in order to verify biometric and background data for individuals seeking access to critical premises or segments of the transportation system.

### ■ Biometric equipment

Safran is the world's first company to achieve Common Criteria certification<sup>(1)</sup> for fingerprint spoof detection in a biometric device: the MorphoSmart™ Optic 301 fingerprint reader was certified by an independent German certification body and means that the device meets the industry's highest standards for spoof detection.

In 2013, Safran also launched its IAD™ (Iris-at-a-Distance) technology, which can simultaneously capture the iris and face of a person at a distance of one meter in just one second. Combining iris and face capture, IAD is suited to a wide range of applications requiring fast and accurate imaging technology such as border and access control.

### ■ Other businesses

In 2013, the first ELITE games terminals began to be rolled out for La Française des Jeux. These latest-generation terminals use new on-the-fly imaging technology, making them easy to use and increasing bulletin design possibilities.

### E-documents

Buoyed by the acquisitions carried out in December 2012, Safran strengthened its positions on the banking market in Europe, where the business grew 60% in value terms over the year. The migration from stripe cards to smart cards in line with the Europay MasterCard Visa (EMV) standard and the growing trend towards Dual Interface Contactless/Contact technology in Western Europe continued to drive growth in the banking market, even though the pace of growth has slowed in certain regions such as Brazil which has completed the migration. The sharp fall in the value of the Brazilian real and Indian rupee had a significant impact on the business's performance in euro terms.

In the telecoms market, the roll-out of LTE (4G) technology – particularly in North America – and the significant inroads made by a large South American telecoms group spurred considerable growth in value terms in the Americas region, despite the adverse currency impact. India saw a sharp decline in value terms prompted by regulatory changes affecting telecoms operators as from end-2012 and by the depreciation of the rupee. However, Safran increased its market share and strengthened its leadership on this market. Business in other regions remained stable overall, amid fierce downward pressure on prices and a lower-than-expected roll-out of Near Field Communication (NFC) technology.

At the beginning of 2013, Orange and Safran created the world's first mobile identity management system for the healthcare sector. This healthcare data mobility system enables doctors to securely access patient files via a tablet or mobile device using strong SIM authentication.

December saw the launch of mobile payment solutions using Samsung smartphones by the Commonwealth Bank of Australia in partnership with Mastercard. Safran's Trusted Services Management (TSM) technology means that the mobiles can be personalized remotely and used for secure contactless payments.

### Detection

#### ■ Tomography and diffraction-based detection systems

The high-throughput CTX 9800 device was chosen for in-hold baggage screening at Japan's Narita airport, which acquired 13 of the new systems, bringing the number of devices installed at Narita to around 40.

Similarly, the Nice-Côte d'Azur airport in France, where four of these devices came into service in 2013, became the first airport in the continental EU to screen all passenger checked baggage – referred to as Level 1 screening – with an advanced explosives detection system (EDS).

The US TSA had already chosen CTX 9800 in 2012. In 2013, it also awarded Safran a contract to provide reduced-size CTX 5800 explosives detection devices for a fixed price of up to USD 130 million over the next five years.

In Canada, CATSA<sup>(2)</sup> also ordered these two devices under a five-year fixed-price contract worth up to USD 100 million. Safran delivered 20 systems to CATSA in 2013.

#### ■ Spectrometry-based trace detection equipment

Over 200 Itemiser® DX explosives trace detectors (ETD) were deployed by global air carriers in 2013 to meet new regulatory mandates for enhanced cargo screening. Early in the year Morpho Detection launched an online store where US customers can directly order consumables to optimize the maintenance and operation of their trace detection systems.

Infraero, Brazil's national airport operator, has selected Safran's desktop explosives trace detection system, the Itemiser DX. Ahead of the 2014 FIFA World Cup and 2016 Olympic Games, the Itemiser DX provides Infraero with the highest level of passenger and baggage screening security across Brazilian airports.

(1) Common Criteria are internationally recognized criteria (ISO 15408) which define a common framework for evaluating and certifying security features and capabilities of Information Technology products.

(2) Canadian Air Transport Security Authority.

## 2.2 COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.2.1 CONSOLIDATED INCOME STATEMENT

(in € millions)	2012 Adjusted <sup>(1)</sup>	2013	Year-on-year change
<b>Revenue</b>	<b>13,615</b>	<b>14,490</b>	<b>+6.4%</b>
Other operating income and expenses	(12,372)	(13,195)	
<b>Recurring operating income</b>	<b>1,243</b>	<b>1,295</b>	<b>+4.2%</b>
Other non-recurring operating income and expenses	(56)	185	
<b>Profit from operations</b>	<b>1,187</b>	<b>1,480</b>	<b>+24.7%</b>
Financial income	533	439	
Income tax expense	(433)	(650)	
Share in profit from associates	19	15	
Gain on disposal of Ingenico shares	-	131	
Profit from continuing operations	1,306	1,415	
Loss for the period attributable to non-controlling interests	(24)	(29)	
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>1,282</b>	<b>1,386</b>	

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

#### Consolidated revenue

Consolidated revenue climbed 6.4% year-on-year, to €14,490 million from €13,615 million in 2012.

The difference between adjusted revenue and consolidated revenue is due to the exclusion of foreign currency derivatives from the adjusted figures. Neutralizing the impact of foreign currency hedging decreased consolidated revenue in 2013 by €205 million while it increased consolidated revenue by €55 million in 2012. This year-on-year change in the revenue impact of foreign currency hedging results from movements in average exchange rates with regard to the effective hedged rates for the period on the portion of foreign currency denominated flows hedged by the Group. For example, the hedged EUR/USD rate in 2013 was 1.28, against an annual average rate of 1.33, which explains why netting out the effect of foreign currency hedging gives a consolidated revenue figure that is lower than adjusted consolidated revenue.

Year-on-year changes in revenue excluding the impact of adjusting items are analyzed below (see section 2.1.2).

#### Recurring operating income

Recurring operating income rose 4.2% to €1,295 million in 2013 from €1,243 million in 2012. The difference between recurring operating income and adjusted recurring operating income, which came in at €1,788 million, reflects:

- amortization charged against intangible assets measured when allocating the purchase price for business combinations, representing €150 million versus €156 million in 2012 for the May 2005 Sagem-Snecma business combination. The adjustment related to other business combinations includes amortization charged against intangible assets measured when allocating the purchase price in the amount of €100 million (€97 million in 2012) and a cancellation of the impact of inventory remeasurement in the amount of €27 million;
- a negative €216 million impact resulting from foreign currency transactions (positive impact of €52 million in 2012).

Changes in recurring operating income, excluding the impact of adjusting items, are analyzed below (see section 2.1.2).

## Profit from operations

Profit from operations came in 24.7% higher at €1,480 million for the year, compared to €1,187 million in 2012. Profit from operations includes recurring operating income of €1,295 million in 2013 (€1,243 million in 2012) and non-recurring income of €185 million (a non-recurring loss of €56 million in 2012). Profit from operations differs from profit from operations as adjusted (€1,757 million), since as well as recurring operating items, it also includes a net gain of €216 million on the remeasurement of the Group's previously-held interest in the RTM322 project (see Scope of consolidation, section 3.1, Note 4).

Changes in profit from operations based on adjusted figures are analyzed below along with non-recurring items (see section 2.1.2).

## Financial income (loss)

The Group reported financial income of €439 million in 2013 and €533 million in 2012.

Two items account for the difference between consolidated and adjusted financial income for 2013 (see section 2.1.2):

- changes in the fair value of currency instruments hedging future cash flows, which had a positive impact of €374 million in 2013 (€742 million in 2012). This amount is recognized in full in financial income (loss) in the consolidated financial statements. However, the impact of changes in financial instruments hedging future cash flows is neutralized in the adjusted financial statements;

- the net positive impact of foreign currency hedging on the portion of foreign exchange denominated flows hedged by the Group, totaling €203 million in 2013 (net negative impact of €55 million in 2012). This impact is recognized in financial income (loss) in the consolidated financial statements, but within profit from operations (mostly in revenue) in the adjusted income statement.

## Income tax expense

Income tax expense in full-year 2013 came in at €650 million compared to €433 million in 2012. The increase in this caption chiefly results from the €199 million rise in profit before tax between 2012 and 2013 which itself results from growth in the Group's business (increase of €293 million in profit from operations – see section 2.1.2).

The increase in income tax expense is also related to an increase in the corporate income tax rate introduced by the amending French Finance Law (*Loi de finances rectificative*) for 2013 (adopted in late 2013) and to the 3% tax on dividend payouts introduced by the amending French Finance Law for 2012 which is recognized in income tax expense in the year in which dividends are paid.

## Consolidated profit attributable to owners of the parent

This caption amounted to €1,386 million for 2013 and €1,282 million for 2012.

## 2.2.2 SIMPLIFIED CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2013

The simplified consolidated balance sheet at December 31, 2013 presented below is taken directly from the consolidated financial statements included in section 3.1 of this document.

(in € millions)	Dec. 31, 2012 Adjusted <sup>(1)</sup>	Dec. 31, 2013
<b>Assets</b>		
Goodwill	3,078	3,495
Property, plant and equipment and intangible assets	6,476	7,381
Other non-current assets	818	734
Derivatives (positive fair value)	647	864
Inventories and work-in-progress	4,131	4,135
Trade and other receivables	5,025	5,102
Other current assets	597	590
Cash and cash equivalents	2,193	1,672
<b>TOTAL ASSETS</b>	<b>22,965</b>	<b>23,973</b>
<b>Equity and liabilities</b>		
Share capital	5,997	6,814
Provisions	2,887	2,975
Borrowings subject to specific conditions	670	670
Interest-bearing financial liabilities	3,175	2,730
Derivatives (negative fair value)	225	186
Other non-current liabilities	1,062	1,412
Trade and other payables	8,767	8,920
Other current liabilities	182	266
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,965</b>	<b>23,973</b>

(1) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see section 3.1, Note 3).

## 2.2.3 CHANGE IN NET DEBT

The year-on-year change in the Group's net debt breaks down as follows:

(in € millions)	2012	2013
<b>Cash flow from operations</b>	<b>1,702</b>	<b>1,984</b>
Change in working capital	(85)	155
Acquisitions of property, plant and equipment	(419)	(492)
Acquisitions of intangible assets	(634)	(935)
<b>Free cash flow</b>	<b>564</b>	<b>712</b>
Dividends paid	(300)	(481)
Divestments/acquisitions of securities and other	(199)	(388)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>65</b>	<b>(157)</b>
Net debt at January 1	(997)	(932)
<b>Net debt at December 31</b>	<b>(932)</b>	<b>(1,089)</b>



Cash flow from operations is calculated by taking profit or loss before tax and adjusting for income and expenses with no cash impact, for example net charges to depreciation, amortization and provisions and changes in the fair value of financial instruments hedging future cash flows<sup>(1)</sup>. The Group's ability to finance working capital needs, acquisitions of property, plant and equipment and intangible assets and dividends out of operating activities rose by €282 million over the year, from €1,702 million in 2012 to €1,984 million in 2013.

Operations generated €712 million of free cash flow (40% of adjusted recurring operating income in 2013), €148 million more than in 2012. The net debt position was €1,089 million at December 31, 2013 compared to €932 million at December 31, 2012.

Free cash flow generation of €712 million results from cash from operations of €1,984 million, a decrease in working capital needs of €155 million – obtained despite the rise in production volumes – and rising R&D and capital expenditure in preparation for future growth. During the year there had been some uncertainty on year-end free

cash flow. However, continuous and consistent management of working capital needs and low customer payment delays at year-end contributed to a satisfactory level of cash generation.

Dividends paid in the year include the final dividend payment of €0.65 per share in respect of 2012 and an interim dividend of €0.48 per share in respect of 2013, representing a total payout of €471 million.

Acquisitions of securities relate mainly to the acquisition of Goodrich Electrical Power Systems for €301 million, and to the acquisition of Rolls-Royce's 50% stake in the RTM322 program (previously jointly held with Group subsidiary Turbomeca) for €293 million. Safran's sale of 6.6 million Ingenico shares brought proceeds of €287 million, and the disposal of Globe Motors Inc. was completed for a cash consideration of €68 million.

As of December 31, 2013, Safran had cash and cash equivalents of €1.7 billion and €2.55 billion of secured and undrawn facilities available.

## 2.3 COMMENTS ON THE PARENT COMPANY FINANCIAL STATEMENTS

The financial statements of Safran SA for the year ended December 31, 2013 were prepared using the same accounting principles as those used for the 2012 parent company financial statements.

Safran decided that the assets and liabilities of its subsidiary Lexsa SA would be transferred to Safran SA with effect from December 23, 2013, based on their net carrying amount. This transaction generated a €1 million surplus which was recognized in additional paid-in capital within equity.

### 2.3.1 SAFRAN SA INCOME STATEMENT

<i>(in € millions)</i>	2012	2013
Revenue	314	388
Other operating income and expenses	(443)	(547)
Loss from operations	(129)	(159)
Financial income	732	473
Non-recurring items	(5)	(26)
Income tax benefit	167	40
<b>PROFIT FOR THE PERIOD</b>	<b>765</b>	<b>328</b>

Revenue came in at €388 million in 2013 versus €314 million in 2012 and chiefly includes billings of general assistance services provided by the parent company to its subsidiaries, as well as amounts billed in respect of rent, employees, IT services and miscellaneous services related to projects managed by the parent company on behalf of all of its subsidiaries. The €74 million year-on-year increase in revenue in 2013 results primarily from the development of research projects and from the growth in volume of IT services carried out on behalf of subsidiaries and rebilled to those companies.

Other operating income and expenses represented a net expense of €547 million in 2013 and €443 million in 2012. The increase in net other operating expenses in 2013 stems mainly from the rollout of group-wide projects and from the rise in the number of Safran SA employees following the implementation and completion of projects to upgrade the Group's administrative and support functions.

Loss from operations totaled €159 million in 2013 and €129 million in 2012.

(1) See section 3.1, Consolidated statement of cash flows.

Safran SA reported financial income of €473 million in 2013 and €732 million in 2012. This figure mainly includes dividends received from subsidiaries for €502 million (€574 million in 2012), net interest expense of €4 million (net interest income of €39 million in 2012), foreign exchange losses amounting to €21 million (foreign exchange gains of €72 million in 2012), and net additions to provisions for impairment of financial assets or exchange losses totaling €5 million (net reversals of €47 million in 2012).

The Company reported a non-recurring loss of €26 million in 2013 and €5 million in 2012, due mainly to the net €21 million impact of accelerated depreciation and amortization charged against non-current assets.

The income tax line represented a benefit of €50 million under the Group's tax consolidation regime (benefit of €191 million in 2012, resulting mainly from the merger of Sagem Télécommunications into Safran). This benefit also includes a net charge to the provision for the transfer of the tax saving relating to the French tax group from Safran SA to its loss-making subsidiaries, in an amount of €10 million.

On account of the above, profit for the year came in at €328 million, compared to €765 million in 2012.

## 2.3.2 SAFRAN SA SIMPLIFIED BALANCE SHEET AT DECEMBER 31, 2013

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
<b>Assets</b>		
Non-current assets	9,462	9,843
Cash and cash equivalents and marketable securities	1,861	1,359
Other current assets	2,144	2,157
<b>TOTAL ASSETS</b>	<b>13,467</b>	<b>13,359</b>
<b>Equity and liabilities</b>		
Share capital	5,758	5,636
Provisions	677	707
Borrowings	2,814	2,565
Other payables	4,218	4,451
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,467</b>	<b>13,359</b>

The decrease in share capital reflects profit for the year of €328 million, dividends paid in 2013 for a total of €471 million (€271 million for the remaining 2012 dividend balance and €200 million in 2013 interim dividends paid in December 2013), and a net charge to tax-driven provisions amounting to €21 million.

The increase in non-current assets primarily results from subscriptions to the share capital increase carried out at (i) Safran Power UK in relation to the acquisition of Goodrich Electrical Power Systems (€275 million), and (ii) Safran USA (€60 million).

The increase in this caption also results from having subscribed to the share capital of Aerofund III in an amount of €30 million.

Net cash from operating activities came in at €604 million. The net cash position (cash and cash equivalents less borrowings and debt) was affected by the share capital increase at several foreign subsidiaries for €335 million, and by the €248 million decrease in borrowings – mainly in the form of commercial paper.

## 2.3.3 INFORMATION CONCERNING SUPPLIER PAYMENT PERIODS

<i>(in € millions)</i>	Amounts due	Amounts not yet due		Total trade payables
		Amounts due in 0-30 days	Amounts due in 30-60 days	
December 31, 2013	4.2	16.8	77.5	98.5
December 31, 2012	7.9	4.5	67.4	79.8

## 2.4 OUTLOOK FOR 2014

Safran expects on a full-year basis:

- adjusted revenue to increase by a percentage rate in the mid-single digits compared to 2013 revenue restated for IFRS 11 (at an estimated average rate of USD 1.30 to the euro);
- adjusted recurring operating income to increase by low double digits compared to 2013 recurring operating income restated for IFRS 11 (at a hedged rate of USD 1.26 to the euro);
- free cash flow to represent close to 40% of adjusted recurring operating income, subject to usual uncertainties on the timing of advance payments.

The full-year 2014 outlook is based on the following underlying assumptions:

- restatements of slightly more than (€300) million to 2013 revenue and slightly less than (€10) million to 2013 adjusted recurring operating income related to IFRS 11;
- healthy increase in Aerospace OE deliveries;

- civil aftermarket increase by a percentage in the low to mid-teens;
- stable level of self-funded R&D with a lower level of capitalization compared to 2013;
- stable level of tangible capex;
- profitable growth for the Security business;
- continued benefits from the ongoing Safran+ plan to enhance the cost structure and reduce overheads.

### Factors with a potential impact on results

Major risk factors that could have an adverse impact on the Group's business, financial position or results of operations are described in section 4.

## 2.5 SUBSEQUENT EVENTS

### Acquisition of Eaton Aerospace's Power Distribution and Integrated Cockpit Solutions business

On January 20, 2014, Safran announced that it had signed a definitive agreement to acquire the Aerospace Power Distribution Management Solutions and Integrated Cockpit Solutions business of Eaton.

The acquisition of the Aerospace Power Distribution Management Solutions business brings key contactor and circuit breaker technologies to Safran. As the continuation of Safran's strategy

addressing the market for "more electric aircraft", it reinforces Labinal Power Systems, which consolidates the Group's electrical power activities.

The acquisition of the Integrated Cockpit Solutions business allows Safran to bolster Sagem's offering and North-American presence in avionics and flight controls, bringing recognized expertise in panels and displays, including illuminated switches and cockpit controls.

The transaction, which is expected to close in the first half of 2014, is subject to regulatory approvals and satisfaction of other customary closing conditions.



# 3 | FINANCIAL STATEMENTS

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### Consolidated financial statements for the year ended December 31, 2013

The consolidated financial statements of Safran and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union at the date the consolidated financial statements were approved by the Board of Directors.

#### SIMPLIFIED CONSOLIDATED INCOME STATEMENT

<i>(in € millions)</i>	<b>2012*</b>	<b>2013</b>
Revenue	13,615	14,490
Recurring operating income	1,243	1,295
Profit from operations	1,187	1,480
Profit for the period	1,306	1,415

\* The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

### Parent company financial statements for the year ended December 31, 2013

The parent company financial statements have been prepared in accordance with French generally accepted accounting principles pursuant to CRC Regulation 99-03 issued by the French Accounting Regulation Committee on April 29, 1999.

#### SIMPLIFIED PARENT COMPANY INCOME STATEMENT

<i>(in € millions)</i>	<b>2012</b>	<b>2013</b>
Revenue	314	388
Profit from ordinary activities before tax	603	315
Profit for the year	765	328

#### Note

In accordance with article 28 of Regulation (EC) 809/2004, the following information is incorporated by reference in this Registration Document:

- the consolidated and parent company financial statements for the year ended December 31, 2011 and the corresponding audit reports as presented in sections 3.2 and 3.3 of the 2011 Registration Document filed with the AMF on April 13, 2012 under number D. 12-0340; the consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union;
- the consolidated and parent company financial statements for the year ended December 31, 2012 and the corresponding audit reports as presented in sections 3.2 and 3.4 of the 2012 Registration Document filed with the AMF on March 28, 2013 under number D. 13-0243; the consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union.

Those sections of the 2011 and 2012 Registration Documents that are not incorporated by reference in this document are either considered no longer pertinent for investors or are dealt with in another section of the 2013 Registration Document.

## 3.1 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2013

### CONSOLIDATED INCOME STATEMENT

(in € millions)	Note	2012 <sup>(*)</sup>	2013
<b>Revenue</b>	<b>6</b>	<b>13,615</b>	<b>14,490</b>
Other income	6	209	264
<b>Income from operations</b>		<b>13,824</b>	<b>14,754</b>
Change in inventories of finished goods and work-in-progress		340	(32)
Capitalized production		642	911
Raw materials and consumables used	6	(8,160)	(8,648)
Personnel costs	6	(4,205)	(4,506)
Taxes		(270)	(276)
Depreciation, amortization, and increase in provisions, net of use	6	(854)	(790)
Asset impairment	6	(29)	(82)
Other recurring operating income and expenses	6	(45)	(36)
<b>Recurring operating income</b>		<b>1,243</b>	<b>1,295</b>
Other non-recurring operating income and expenses	6	(56)	185
<b>Profit from operations</b>		<b>1,187</b>	<b>1,480</b>
Cost of net debt		(54)	(42)
Foreign exchange gains		709	551
Other financial income and expense		(122)	(70)
<b>Financial income (loss)</b>	<b>7</b>	<b>533</b>	<b>439</b>
<b>Profit before tax</b>		<b>1,720</b>	<b>1,919</b>
Income tax expense	8	(433)	(650)
Share in profit from associates	14	19	15
Gain on disposal of Ingenico shares	4	-	131
<b>Profit from continuing operations</b>		<b>1,306</b>	<b>1,415</b>
<b>PROFIT FOR THE PERIOD</b>		<b>1,306</b>	<b>1,415</b>
<b>Attributable to:</b>			
owners of the parent		1,282	1,386
non-controlling interests		24	29
<b>Earnings per share attributable to owners of the parent (in €)</b>	<b>9</b>		
Basic earnings per share		3.09	3.33
Diluted earnings per share		3.08	3.33

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € millions)	2012 <sup>(*)</sup>	2013
<b>Profit for the period</b>	<b>1,306</b>	<b>1,415</b>
<b>Other comprehensive income</b>		
<b>Items to be recycled to profit</b>	<b>(29)</b>	<b>(101)</b>
Available-for-sale financial assets	5	4
Translation adjustments and net investment hedges <sup>(1)</sup>	(44)	(93)
Income tax related to components of other comprehensive income to be recycled to profit	10	(12)
<b>Items not recycled to profit</b>	<b>(101)</b>	<b>(15)</b>
Actuarial gains and losses on post-employment benefits	(147)	(21)
Income tax related to components of other comprehensive income not recycled to profit	46	6
<b>Other comprehensive income (expense) for the period</b>	<b>(130)</b>	<b>(116)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,176</b>	<b>1,299</b>
<b>Attributable to:</b>		
• owners of the parent	1,156	1,274
• non-controlling interests	20	25

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) Including €3 million in translation losses relating to associates (€5 million in translation gains in 2012).

In 2013, translation adjustments include losses of €6 million arising on long-term financing for foreign subsidiaries (losses of €22 million in 2012). This financing meets the criteria for classification as a net investment in a foreign operation and is treated in accordance with the applicable provisions of IAS 21. Translation adjustments also include gains of €39 million in 2013 (losses of €6 million in 2012) corresponding to exchange differences arising on the February 2012 issue by Safran of USD 1.2 billion in senior unsecured notes on the US private placement market, classified as a hedge of the net investment in some of the Group's US operations.

The remaining balance consists of translation losses of €126 million arising on foreign subsidiaries (translation losses of €16 million in 2012).

As of January 1, 2013, and in accordance with the amended IAS 19, changes in actuarial gains and losses are shown in "Other comprehensive income" and not subsequently recycled to profit (see Notes 3 and 21).

## CONSOLIDATED BALANCE SHEET

### Assets

<i>(in € millions)</i>	Note	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013
Goodwill	10	3,078	3,495
Intangible assets	11	3,872	4,641
Property, plant and equipment	12	2,604	2,740
Non-current financial assets	13	281	384
Investments in associates	14	281	133
Non-current derivatives (positive fair value)	27	62	-
Deferred tax assets	8	243	205
Other non-current financial assets		13	12
<b>Non-current assets</b>		<b>10,434</b>	<b>11,610</b>
Current financial assets	13	176	198
Current derivatives (positive fair value)	27	585	864
Inventories and work-in-progress	15	4,131	4,135
Trade and other receivables	16	5,025	5,102
Tax assets	8	421	392
Cash and cash equivalents	17	2,193	1,672
<b>Current assets</b>		<b>12,531</b>	<b>12,363</b>
<b>TOTAL ASSETS</b>		<b>22,965</b>	<b>23,973</b>

### Equity and liabilities

<i>(in € millions)</i>	Note	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013
Share capital	19	83	83
Consolidated retained earnings	19	4,444	5,138
Net unrealized gains on available-for-sale financial assets	19	25	29
Profit for the period		1,282	1,386
<b>Equity attributable to owners of the parent</b>		<b>5,834</b>	<b>6,636</b>
<b>Non-controlling interests</b>		<b>163</b>	<b>178</b>
<b>Total equity</b>		<b>5,997</b>	<b>6,814</b>
Provisions	20	1,823	1,751
Borrowings subject to specific conditions	22	670	670
Non-current interest-bearing financial liabilities	23	2,259	1,295
Non-current derivatives (negative fair value)	27	12	36
Deferred tax liabilities	8	981	1,293
Other non-current financial liabilities	25	81	119
<b>Non-current liabilities</b>		<b>5,826</b>	<b>5,164</b>
Provisions	20	1,064	1,224
Current interest-bearing financial liabilities	23	916	1,435
Trade and other payables	24	8,767	8,920
Tax liabilities	8	156	202
Current derivatives (negative fair value)	27	213	150
Other current financial liabilities	25	26	64
<b>Current liabilities</b>		<b>11,142</b>	<b>11,995</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,965</b>	<b>23,973</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Cumulative translation adjustments and net investment hedges	Consolidated reserves and retained earnings	Actuarial gains and losses on post-employment benefits	Profit for the period	Other	Equity attributable to owners of the parent	Non-controlling interests	Total
<b>At Dec. 31, 2011</b>	<b>83</b>	<b>3,360</b>	<b>(112)</b>	<b>20</b>	<b>162</b>	<b>979</b>	<b>-</b>	<b>478</b>	<b>(2)</b>	<b>4,968</b>	<b>154</b>	<b>5,122</b>
Change in accounting policy (IAS 19)	-	-	-	-	-	(20)	(132)	-	42 <sup>(*)</sup>	(110)	-	(110)
<b>At Jan. 1, 2012</b>	<b>83</b>	<b>3,360</b>	<b>(112)</b>	<b>20</b>	<b>162</b>	<b>959</b>	<b>(132)</b>	<b>478</b>	<b>40</b>	<b>4,858</b>	<b>154</b>	<b>5,012</b>
Comprehensive income for the period	-	-	-	5	(42)	-	(145)	1,282	56 <sup>(*)</sup>	1,156	20	1,176
Acquisitions/disposals of treasury shares	-	-	94	-	-	24	-	-	(20)	98	-	98
Dividends	-	-	-	-	-	(154)	-	-	-	(154)	(17)	(171)
2012 interim dividend	-	-	-	-	-	(133)	-	-	-	(133)	-	(133)
Other movements	-	-	-	-	-	478	-	(478)	9	9	6	15
<b>At Dec. 31, 2012</b>	<b>83</b>	<b>3,360</b>	<b>(18)</b>	<b>25</b>	<b>120</b>	<b>1,174</b>	<b>(277)</b>	<b>1,282</b>	<b>85</b>	<b>5,834</b>	<b>163</b>	<b>5,997</b>
Comprehensive income for the period	-	-	-	4	(90)	-	(20)	1,386	(6) <sup>(*)</sup>	1,274	25	1,299
Acquisitions/disposals of treasury shares	-	-	1	-	-	1	-	-	(3)	(1)	-	(1)
Dividends	-	-	-	-	-	(271)	-	-	-	(271)	(10)	(281)
2013 interim dividend	-	-	-	-	-	(200)	-	-	-	(200)	-	(200)
Other movements	-	-	-	-	-	1,282	-	(1,282)	-	-	-	-
<b>At Dec. 31, 2013</b>	<b>83</b>	<b>3,360</b>	<b>(17)</b>	<b>29</b>	<b>30</b>	<b>1,986</b>	<b>(297)</b>	<b>1,386</b>	<b>76</b>	<b>6,636</b>	<b>178</b>	<b>6,814</b>

(\*) See table below:

	Tax impact on amended IAS 19	Tax impact on translation adjustments	Total
Change in accounting policy (IAS 19) at January 1, 2012	42	-	42
2012 comprehensive income	46	10	56
2013 comprehensive income	6	(12)	(6)

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in € millions)	2012 <sup>(*)</sup>	2013
<b>I. Cash flow from operating activities</b>		
Profit attributable to owners of the parent	1,282	1,386
Depreciation, amortization, impairment and provisions <sup>(1)</sup>	962	941
Share in profit from associates (net of dividends received)	(19)	(15)
Change in fair value of derivatives	(779)	(432)
Capital gains and losses on asset disposals	10	(382)
Profit attributable to non-controlling interests	24	29
Other	222	457
<b>Cash flow from operations, before changes in working capital</b>	<b>1,702</b>	<b>1,984</b>
Change in inventories and work-in-progress	(388)	45
Change in operating receivables and payables	228	178
Change in other receivables and payables	75	(68)
<b>Change in working capital</b>	<b>(85)</b>	<b>155</b>
<b>Total I<sup>(2)</sup></b>	<b>1,617</b>	<b>2,139</b>
<b>II. Cash flow used in investing activities</b>		
Capitalization of R&D expenditure <sup>(3)</sup>	(512)	(720)
Payments for the purchase of intangible assets, net of proceeds	(122)	(215)
Payments for the purchase of property, plant and equipment, net of proceeds	(419)	(492)
Payments arising from the acquisition of investments or businesses, net	(193)	(733)
Proceeds arising from the sale of investments or businesses, net	-	353
Proceeds (payments) arising from the sale (acquisition) of financial assets, net	(86)	(35)
<b>Total II</b>	<b>(1,332)</b>	<b>(1,842)</b>
<b>III. Cash flow from financing activities</b>		
Change in share capital	-	-
Acquisitions and disposals of treasury shares	118	2
Repayment of borrowings and long-term debt	(119)	(111)
Increase in borrowings	917	9
Change in repayable advances	(9)	(27)
Change in short-term borrowings	(122)	(191)
Dividends paid to owners of the parent	(283)	(471)
Dividends paid to non-controlling interests	(17)	(10)
<b>Total III</b>	<b>485</b>	<b>(799)</b>
<b>Effect of changes in foreign exchange rates</b>	<b>Total IV</b>	<b>(8)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>I+II+III+IV</b>	<b>(521)</b>
Cash and cash equivalents at beginning of year	1,431	2,193
Cash and cash equivalents at end of year	2,193	1,672
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>762</b>	<b>(521)</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) In 2012, this caption includes €721 million in depreciation and amortization, €54 million in impairment, and €187 million in provisions.

In 2013, this caption includes €762 million in depreciation and amortization, €103 million in impairment, and €76 million in provisions.

(2) Including €182 million in taxes paid in 2013 (€238 million in 2012), of which €93 million in interest paid in 2013 (€88 million in 2012) and €43 million in interest received in 2013 (€42 million in 2012).

(3) Including €26 million in capitalized interest in 2013 (€8 million in 2012).

## NOTES TO THE SAFRAN GROUP CONSOLIDATED FINANCIAL STATEMENTS

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Safran (2, boulevard du Général Martial-Valin – 75724 Paris Cedex 15, France) is a *société anonyme* (joint-stock corporation) incorporated in France and permanently listed on Compartment A of the Euronext Paris Eurolist market.

The consolidated financial statements reflect the accounting position of Safran SA and the subsidiaries it controls, directly or indirectly and jointly or exclusively, as well as entities over which it exercises a significant influence (the “Group”).

The consolidated financial statements are drawn up in euros and all amounts are rounded to the nearest million unless otherwise stated.

The Board of Directors’ meeting of February 19, 2014 adopted and authorized the publication of the 2013 consolidated financial statements.

The consolidated financial statements will be final once they have been approved by the General Shareholders’ Meeting.

## Note 1 • Accounting policies

The consolidated financial statements of Safran and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and adopted by the European Union (available from [http://ec.europa.eu/internal\\_market/accounting/ias/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm)) at the date the consolidated financial statements were approved by the Board of Directors. They include standards approved by the IASB, namely IFRS, International Accounting Standards (IAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC).

The derivatives used by the Group are contracted under FBF (French Banking Federation) or ISDA (International Swaps and Derivatives Association) master agreements, in which amounts due and receivable are only offset in the event of default of one of the contracting parties. Consequently, these amendments to IAS 32, which clarify that financial assets and financial liabilities must be able to be offset in any circumstances if a net amount is to be presented on the balance sheet, do not impact the Group’s consolidated financial statements.

Details of offsetting regarding derivatives carried in assets and liabilities are provided in Notes 18 and 26.

### Changes in accounting policies

#### ■ New IFRS standards, amendments and interpretations effective as of January 1, 2013

- IFRS 13, Fair Value Measurement.
- Amendments to IAS 12, Income Taxes – Deferred Tax: Recovery of Underlying Assets.
- Amendments to IAS 19, Employee Benefits – Defined Benefit Plans.
- Amendments to IFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities.
- Improvements to IFRS published in May 2012.

The changes and impacts resulting from the amendments to IAS 19, Employee Benefits, are detailed in Note 3, “Change in accounting policy”.

The other standards, amendments and interpretations effective as of January 1, 2013 do not have a material impact on the Group’s financial statements, particularly IFRS 13, Fair Value Measurement, which requires counterparty risk to be taken into account in measuring derivative instruments (see Note 1.w).

#### ■ New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2013

- Amendments to IAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.

#### ■ New published IFRS standards, amendments and interpretations not yet effective or not early adopted by the Group

- IFRS 9, Financial Instruments – Classification and Measurement of Financial Assets and Liabilities.
- IFRS 9, Financial Instruments – Hedge Accounting.
- IFRS 10, Consolidated Financial Statements.
- IFRS 11, Joint Arrangements.
- IFRS 12, Disclosures of Interests in Other Entities.
- IAS 27 (revised 2011), Separate Financial Statements.
- IAS 28 (revised), Investments in Associates and Joint Ventures.
- Amendments to IAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions.
- Amendments to IAS 36, Impairment – Recoverable Amount Disclosures for Non-Financial Assets.
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and to IFRS 9, Financial Instruments: Classification and Measurement of Financial Assets and Liabilities – Novation of Derivatives and Continuation of Hedge Accounting.
- Amendments to IFRS 9, Financial Instruments, regarding the deferral of the mandatory effective date of the standard.
- Amendments to IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; and IFRS 12, Disclosure of Interests in Other Entities, dealing with retrospective application.



- Amendments to IFRS 10, Consolidated Financial Statements; IFRS 12, Disclosure of Interests in Other Entities; and IAS 27 (revised 2011), Separate Financial Statements – Investment Entities.
- Improvements to IFRS published in December 2013.
- IFRIC 21, Levies.

Most of these new standards, amendments and interpretations have been adopted by the European Union. Those texts not yet adopted (in particular IFRS 9) cannot be applied ahead of their effective date even if early adoption were permitted.

The Group has assessed or is in the process of assessing the impacts resulting from the first-time application of these standards, amendments and interpretations.

The application of IFRS 10, Consolidated Financial Statements, effective as of January 1, 2014, will not have a material impact on the consolidated financial statements.

IFRS 11, Joint Arrangements, effective as of January 1, 2014, eliminates proportionate consolidation for interests in jointly controlled entities. Based on the Group's analysis of the entities concerned, those entities which it currently proportionately consolidates have been classified as either joint operations or joint ventures within the meaning of the new standard. Of the 19 entities proportionately consolidated at December 31, 2013 (see Note 28), 12 will be classified as joint ventures as defined by IFRS 11 and will therefore be accounted for by the equity method as of January 1, 2014. Since the businesses of these 12 entities are closely linked to the Group's own operations, the Group's share of their net earnings will be presented in the Group's recurring operating income.

The Group has estimated the impact of applying IFRS 11 in its 2013 financial statements, which will be included alongside its 2014 financial statements for comparative purposes: consolidated revenue is expected to decrease by around €300 million while recurring operating income should fall by less than €10 million in relation to the figures for 2013 presented in this report.

IFRS 12, Disclosure of Interests in Other Entities, is effective as of January 1, 2014 and will result in additional disclosures regarding associates and joint ventures in the notes to the financial statements.

## a) Basis of measurement used to prepare the consolidated financial statements

The consolidated financial statements are prepared on a historical cost basis except for certain assets and liabilities, as allowed by IFRS. The categories of assets and liabilities not measured at historical cost are disclosed in the sections below.

## b) Consolidation

### ■ Basis of consolidation

Entities over which Safran directly or indirectly exercises permanent de facto or de jure control are fully consolidated.

Entities controlled jointly by Safran and another group are proportionately consolidated.

Entities over which Safran exercises significant influence, without having exclusive or joint control, are accounted for under the equity method. Significant influence is presumed to exist when the Group holds at least 20% of voting rights.

A company effectively enters the scope of consolidation at the date on which control is acquired or significant influence is exercised.

The removal of a company from the scope of consolidation is effective as of the date control or significant influence is relinquished. If the loss of control occurs without any transfer of interest, for example due to dilution, the company's removal from the scope of consolidation is simultaneous with the event that triggers such loss of control or significant influence.

Non-controlling interests represent the portion of profit and net assets not held by owners of the parent, and are presented separately from the owners' share in the income statement and in shareholders' equity.

IAS 27 (revised 2008) states that any changes in the ownership interest that do not result in the loss or acquisition of control are to be recognized in equity attributable to owners of the parent. This applies to acquisitions of additional shares in a subsidiary after control has been obtained in a previous acquisition or to sales of shares that do not result in a loss of control.

Sales of shares that result in a loss of control are to be recognized in profit or loss and the gain or loss on disposal is to be calculated on the entire ownership interest at the date of the transaction. Any residual interest is to be measured at fair value through profit or loss when control is relinquished.

### ■ Intragroup transactions

All material transactions between fully or proportionately consolidated companies are eliminated, as are internally generated Group profits.

Transactions between fully and proportionately consolidated companies are eliminated to the extent of the percentage held in the jointly controlled company, regardless of whether or not they have an impact on consolidated profit. Such transactions are not eliminated when the jointly held company acts solely as an intermediary or renders balanced services for the benefit of, or as a direct extension of, the businesses of its various shareholders.

## c) Business combinations

The Group has applied IFRS 3 and IAS 27 (revised 2008) since January 1, 2010. As the application of these revised standards is prospective, business combinations carried out prior to January 1, 2010 continue to be accounted for under the previous IFRS 3 and IAS 27.

### ■ Business combinations carried out after January 1, 2010

#### Acquisition method

Business combinations are accounted for using the acquisition method at the date on which control is obtained:

- identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value;

- where applicable, non-controlling interests in the acquiree are measured either at fair value or at the Group's share in the acquiree's net identifiable assets (including fair value adjustments). This option is available for all business combinations based on a case-by-case analysis of each transaction;
- acquisition-related costs (transaction fees) must be recognized separately from the combination as expenses in the period in which they are incurred;
- adjustments to contingent consideration for a business combination are measured at fair value at the acquisition date, even if it is unlikely that an outflow of resources will be required to settle the obligation. After the acquisition date, any adjustments to the consideration are measured at fair value at the end of each reporting period. The cost of the combination, including where appropriate the estimated fair value of any contingent consideration, is finalized within the 12 months following the acquisition (measurement period). Any changes in the fair value of such consideration more than 12 months after the measurement period are recognized in profit or loss.

Any previously held interests in the acquiree are remeasured to fair value, with the resulting gain or loss recognized in profit or loss.

#### Goodwill

At the acquisition date, goodwill is measured as the difference between:

- the acquisition-date fair value of the consideration transferred, plus the amount of any non-controlling interest in the acquiree, measured based on the share in the net assets acquired (including fair value adjustments), or on the overall value of the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

When goodwill arises on the acquisition of fully or proportionately consolidated companies, it is carried under assets in the balance sheet under the heading "Goodwill". Negative goodwill is recorded immediately in profit or loss. However, goodwill arising on the acquisition of equity-accounted companies is recorded on the line "Investments in associates", in accordance with IAS 28.

Goodwill may be adjusted within 12 months of the acquisition to take into account the definitive estimate of the fair value of the assets acquired and liabilities assumed. Beyond this period, adjustments are recorded in profit or loss.

Goodwill arising as part of a business combination is allocated to cash-generating units (CGUs), as described in Note 1.I. Goodwill is not amortized but is tested for impairment at least annually and whenever there are events or circumstances indicating that it may be impaired, as described in Note 1.I. Impairment charged against goodwill is taken to profit or loss and may not be reversed.

#### ■ Business combinations carried out prior to January 1, 2010

The principles set out above were already applicable to business combinations, except that:

- acquisition-related costs were included in the cost of the combination;
- non-controlling interests (previously known as minority interests) were recognized for each combination based on their share in the net identifiable assets of the acquiree (including fair value adjustments);
- business combinations carried out in stages (step acquisitions) were recognized separately at the date of each transaction; any additional interest acquired did not impact previously recognized goodwill, and the difference with respect to the fair value at the date control was acquired was recognized in equity;
- partial sales led to recognition of a disposal gain or loss in proportion to the interest sold, and the assets and liabilities retained were not remeasured;
- adjustments to contingent consideration were only recognized if they represented an obligation for the Group at the acquisition date, it was probable that an outflow of resources would be required to settle the obligation, and the obligation could be estimated reliably. Any adjustments to contingent consideration after the measurement period impacted goodwill rather than profit or loss.

#### ■ Options used on the first-time adoption of IFRS

Business combinations prior to January 1, 2004 were not restated in accordance with IFRS 3, Business Combinations.

#### d) Discontinued operations and assets (or disposal groups) held for sale

A non-current asset or group of non-current assets and associated liabilities are classified as held for sale if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable. Non-current assets or disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and are presented on separate lines of the consolidated balance sheet.

A discontinued operation represents a separate major line of business or geographic area of operations for the Group that either has been disposed of, or is classified as held for sale. The results and cash flows attributable to the activities disposed of or held for sale are presented on separate lines of the consolidated financial statements for all periods presented.

## e) Translation methods

The financial statements of subsidiaries with a different functional currency than that used by the Group are translated into euros as follows:

- assets and liabilities are translated at the year-end closing exchange rate, while income statement and cash flow items are translated at the average exchange rate for the year;
- translation gains and losses resulting from the difference between the closing exchange rate at the previous year-end and the closing exchange rate at the end of the current reporting period, and from the difference between the average and closing exchange rates for the period, are recorded in equity as translation adjustments.

On disposal of a foreign operation, cumulative foreign exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Note 1.w. discusses the net investment hedge set up by the Group for some of its foreign operations.

### ■ Options used on the first-time adoption of IFRS

All cumulative translation adjustments at January 1, 2004 were written off against equity. Accordingly, the gain or loss on any subsequent disposals of a foreign operation will be adjusted only by those cumulative translation differences arising after January 1, 2004.

## f) Translation of foreign currency transactions and foreign currency derivatives

Transactions denominated in currencies other than the presentation currencies of Group entities are translated into euros at the exchange rate prevailing at the transaction date.

At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Any resulting foreign exchange gains and losses are recognized in "Financial income (loss)" for the period, except for translation differences relating to a financial instrument designated as a net investment hedge, which are reported in other comprehensive income (see Note 1.w).

Long-term monetary assets held by a Group entity on a foreign subsidiary for which settlement is neither planned nor likely to occur in the foreseeable future, represent an investment in a foreign operation. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, exchange differences arising on these items are recorded in other comprehensive income (OCI) up to the date on which the investment is sold. If the transaction does not qualify as a net investment in a foreign operation, the corresponding exchange differences are recognized in the income statement.

The Group uses currency derivatives to manage and hedge its exposure to fluctuations in exchange rates which can impact revenue net of foreign currency purchases. The Group's forex

hedging policy along with the forward currency contracts and options it uses are described in Note 27, "Management of market risks and derivatives".

Pursuant to IAS 39, these foreign currency derivatives are recognized in the balance sheet at their fair value at the end of the reporting period. In view of the constraints resulting from applying IFRS 3 to the Sagem<sup>(1)</sup>-Snecma business combination, the Group decided that none of its foreign currency derivatives qualified for hedge accounting. Accordingly, any changes in the fair value of these derivatives are recognized in "Financial income (loss)".

## g) Revenue

The main types of contracts identified in the Safran Group are standard product and spare part sales contracts, installed base maintenance and/or support contracts, and design sales contracts.

If a payment deferral has a material impact on the calculation of the fair value of the consideration to be received, it is taken into account by discounting future payments.

### ■ Standard product and spare part sales contracts

Revenue is only recognized if the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and if it is probable that the economic benefits associated with the transaction will flow to the entity. If there is a risk that the transaction will be canceled or that the receivable identified at the inception of the contract cannot be collected, no revenue is recognized. When this is no longer the case, revenue is recorded.

### ■ Service contracts (including design sales contracts, installed base maintenance and support contracts)

Under service contracts, revenue may only be recognized if:

- the stage of contract completion can be measured reliably; and
- the costs incurred in respect of the contract and the costs to complete the contract can be measured reliably.

Income from Group service contracts is recorded under the percentage-of-completion method, based on the technical objectives formally set down in such contracts.

If contract income cannot be measured reliably, revenue is only recognized to the extent of the contract costs incurred.

If revenue is representative of the contractual stage of completion, the costs to be recognized are measured on the basis of the margin set forth in the contract. If calculated costs are less than actual costs, the temporarily excess costs are maintained in inventories and work-in-progress. If calculated costs are greater than actual costs, a provision for services to be rendered is recognized for the difference.

Forecast contract margins are reviewed on a regular basis. A provision is set aside for any losses on completion as soon as such losses are foreseeable.

(1) Sagem is the trading name of Sagem Défense Sécurité.

## h) Current and deferred tax

Tax expense (tax income) is the aggregate of current tax and deferred tax recorded in the income statement.

Current tax expense is the amount of income tax payable for a period, calculated in accordance with the rules established by the relevant tax authorities on the basis of taxable profit for the period. Current tax expense also includes any penalties recognized in respect of tax adjustments recorded in the period. The tax expense is recognized in profit or loss unless it relates to items recognized directly in equity, in which case the tax expense is recognized directly in equity.

Deferred tax assets and liabilities are calculated for each entity on temporary differences arising between the carrying amount of assets and liabilities and their corresponding tax base. The tax base depends on the tax regulations prevailing in the countries where the Group manages its activities. Tax losses and tax credits that can be carried forward are also taken into account.

Deferred tax assets are recognized in the balance sheet if it is more likely than not that they will be recovered in subsequent years. The value of deferred tax assets is reviewed at the end of each reporting period.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset when tax is levied by the same tax authority and offsetting is permitted by the local tax authorities.

The liability method is applied and the impact of changes in tax rates is recognized in profit or loss for the period in which the corresponding tax law was enacted and the change in tax rate decided, unless the transactions concerned are recognized directly in equity.

The 3% tax on dividend distributions introduced by the amending French Finance Law for 2012 is recognized as a tax expense in the period in which the related dividends were paid.

Research tax credits in France, or any similar tax arrangements in other jurisdictions, are considered as operating subsidies related to research and development expenses incurred during the period. Accordingly, they are classified under the heading "Other income" in the income statement, and not as a decrease in income tax expense. The recognition of all or part of research tax credits received in the year as revenue can be deferred over several periods provided the tax credits relate to development expenditures capitalized in the Group's consolidated financial statements.

The "CICE" tax credit introduced to boost competitiveness and employment in France is also recognized in "Other income" as it is treated as an operating subsidy.

## i) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of ordinary shares issued and outstanding during the period, less the average number of ordinary shares purchased and held as treasury shares.

Diluted earnings per share is calculated by dividing profit by the weighted average number of shares issued or to be issued at the end of the reporting period, including the impact of all potentially dilutive ordinary shares and the dilutive impact of stock options but excluding treasury shares. The dilutive impact of stock options and free share grants is calculated using the treasury stock method taking into account the average share price for the period concerned.

## j) Intangible assets

Intangible assets are recognized on the balance sheet at fair value, historical cost or production cost, depending on the method of acquisition. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset are included in the cost of that asset when a significant period of time is needed to prepare the asset for its intended use or sale (generally more than 12 months). The initial amount recorded on the balance sheet is reduced by accumulated amortization and impairment losses, where appropriate.

### ■ Intangible assets acquired in a business combination

These assets are recognized at fair value at the date control was acquired and are amortized on a straight-line basis, as described below.

- Intangible assets recognized at the time of the 2005 Sagem-Snecma merger and classified under "Aircraft programs" are accounted for by program (the fair value of each recognized aircraft program, covering several types of intangible asset such as technologies, backlogs and customer relations) and are amortized over the residual useful life of the programs, not to exceed 20 years;
- Intangible assets acquired as part of a business combination carried out since the Group was established (also including technologies, customer relations and other intangible assets acquired) are amortized over the estimated useful life of each identified intangible asset (3 to 16 years);
- Other aircraft brand names with a finite life are amortized over 20 years.

Indefinite-lived brands are not amortized but are tested for impairment as described in Note 1.I.

### ■ Separately acquired intangible assets

Software is recognized at acquisition cost and amortized on a straight-line basis over its useful life (between one and five years).

Patents are capitalized at acquisition cost and amortized over their useful life, i.e., the shorter of the period of legal protection and their economic life.

Contributions paid to third parties in connection with aircraft programs (participation in certification costs, etc.) are considered as acquired intangible assets and are therefore capitalized unless the program proves unprofitable.

## ■ Research and development costs

Research and development costs are recognized as expenses in the period in which they are incurred. However, internally financed development expenditures are capitalized if the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset and the intention and ability (availability of technical, financial and other resources) to complete the intangible asset and use or sell it;
- the probability that future economic benefits will flow from the asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

In the Group's businesses, all criteria for capitalizing development expenditures are met when the decision to launch the development concerned is taken by management and program/project profitability as validated by relevant internal or external sources can be demonstrated. Development expenditures cannot be capitalized before this time.

Capitalization ceases as soon as the product to which the development expenditures relate is brought into service.

Where the payment of research and development contracts is contractually guaranteed by the customer (e.g., certain development contracts whose financing is included in the selling price of the deliverables), the expenditure incurred is recognized in "Inventories and work-in-progress".

Capitalized development expenditures are stated at production cost and amortized using the straight-line method as from the initial delivery of the product, over a useful life not exceeding 20 years.

Intangible assets are tested for impairment in accordance with the methods set out in Note 1.I.

## k) Property, plant and equipment

Property, plant and equipment are recorded in the balance sheet at historical purchase cost or production cost less accumulated depreciation and impairment losses.

Borrowing costs directly attributable to the acquisition, construction or production of an item of property, plant and equipment are included in the cost of that item when a significant period of time is needed to prepare the asset for its intended use or sale (generally more than 12 months).

Replacement and major overhaul costs are identified as components of property, plant and equipment. Other repair and maintenance costs are expensed as incurred.

For finance leases, the capitalized asset and the borrowing cost at the inception of the lease are stated at the lower of market value and the present value of minimum lease payments.

During the lease period, payments are apportioned between the finance cost and the amortization of the borrowing in order to produce a constant periodic rate of interest for the remaining balance of the liability for each period.

The gross amount of items of property, plant and equipment is depreciated over the expected useful life of their main components, mainly using the straight-line method.

If the transfer of ownership at the end of a finance lease term is certain, the item of property, plant and equipment is depreciated over its useful life. Otherwise, the item of property, plant and equipment is depreciated over the shorter of its useful life and the term of the lease.

The main useful lives applied are as follows:

Buildings	15-40 years
Capitalized engines	
• Frames	20 years
• Major overhauls	based on flying hours
Technical facilities	5-40 years
Equipment, tooling and other	5-15 years

Property, plant and equipment are tested for impairment in accordance with the methods set out in Note 1.I.

## l) Impairment of non-current assets

Non-current assets, and particularly goodwill acquired in a business combination, are allocated to cash-generating units (CGUs)<sup>(1)</sup>. Two types of CGUs are defined within the Group:

- CGUs corresponding to programs, projects, or product families associated with specific assets: development expenditures, property, plant and equipment used in production;
- CGUs corresponding to the business segments monitored by Group management and relating chiefly to the Group's main subsidiaries.

In the event of a sale or restructuring of the Group's internal operations which affects the composition of one or more of the CGUs to which goodwill has been allocated, the allocations are revised using a method based on relative value. This method takes the proportion represented by the business sold or transferred in the cash flows and terminal value of the original CGU at the date of sale or transfer.

Impairment tests are performed at least once a year (in the first half of the year) on assets with indefinite useful lives or on non-amortizable assets such as goodwill. Impairment tests are also carried out on amortizable assets, where the amortization/depreciation period has not yet begun. Impairment testing is carried out whenever there is an indication of impairment irrespective of whether the assets are amortizable/depreciable.

At the end of each reporting period, the Group's entities assess whether there are events or circumstances indicating that an asset may be impaired. Such events or circumstances notably include material adverse changes which in the long-term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) or the Group's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, disputes and litigation, etc.).

(1) A CGU is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.



If such events or circumstances exist, the recoverable amount of the asset is estimated. If the carrying amount of the asset exceeds its recoverable amount, the asset is considered as impaired and its carrying amount is reduced to its recoverable amount by recognizing an impairment loss under "Profit from operations".

Recoverable amount is defined as the higher of an asset's or group of assets' fair value less costs to sell and value in use. Value in use is the present value of expected future cash flows, determined using a benchmark rate that reflects the Group's weighted average cost of capital. This discount rate is a post-tax rate applied to post-tax cash flows, which gives the same result as that which would have been obtained by applying a pre-tax rate to pre-tax cash flows, as required by IAS 36.

Future cash flows are calculated differently depending on the assets tested:

- (i) assets allocated to programs, projects or product families: expected future cash flows are projected over the life of the development programs or projects, capped at 40 years, and are discounted at the benchmark rate. Certain programs or projects are also subject to a specific risk premium. This long timeframe better reflects the characteristics of the Group's operating cycles (aircraft and defence), where assets tend to have a long useful life and slow product development;
- (ii) goodwill: expected future cash flows are calculated based on the medium-term plans established for the next four years and estimated cash flows for years five to ten, discounted at the benchmark rate. The value in use of the assets is the sum of the present value of these cash flows and the terminal value, calculated based on standardized flows representing long-term activities for years five to ten, taking into account a perpetual growth rate.

Should a test on a CGU's assets indicate an impairment loss, the Group first establishes the recoverable amount of the assets considered separately. Any impairment loss is initially allocated to goodwill and then to the assets of the CGU prorata to their carrying amount.

An impairment loss recognized against goodwill may not be reversed. For other assets, indications of impairment loss are analyzed at the end of each subsequent reporting period, and if there are favorable changes in the estimates which led to the recognition of the impairment, the impairment loss is reversed through profit or loss.

### **m) Equity investments, loans and receivables**

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, equity investments in non-consolidated companies are classified as available-for-sale and therefore measured at fair value. For listed securities, fair value corresponds to market price. If fair value cannot be measured reliably, investments are recognized at amortized cost. Changes in fair value are recognized directly

in equity, unless there is an objective indication that the financial asset is impaired (see below). In this case, an impairment loss is recognized in profit or loss. The impairment loss is reversed through profit or loss only upon the disposal of the investments.

Loans and receivables are carried at cost and may be written down if there is an objective indication of impairment. The impairment loss corresponds to the difference between the carrying amount and the recoverable amount, and is recognized in profit or loss. It may be reversed if the recoverable amount subsequently increases to above the carrying amount.

An objective indication of impairment is a significant or prolonged reduction in the value of the asset:

- for assets available for sale, an objective indication results from a significant drop in the estimated future cash flows associated with these assets, major difficulties of the issuer, a substantial drop in the expected return on these assets, or a significant or prolonged fall in the fair value of listed financial assets;
- for loans and receivables, an objective indication results from the Group's awareness that the debtor is in financial difficulty (payment default, liquidation, etc.).

### **n) Inventories and work-in-progress**

Inventories and work-in-progress are measured at the lower of cost determined using the weighted average cost formula, and net realizable value.

Cost is calculated based on normal production capacity and therefore excludes any idle capacity costs.

Net realizable value represents the estimated selling price less the costs required to complete the asset or make the sale.

Borrowing costs incurred during the production phase are included in the value of inventories when the eligibility conditions are met.

### **o) Cash and cash equivalents**

Cash and cash equivalents include available funds (cash in hand, bank accounts, etc.), highly liquid short-term investments (less than three months) and term deposits with exit options exercisable at no penalty within less than three months that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### **p) Treasury shares**

All treasury shares held by the Group are deducted from consolidated shareholders' equity based on their acquisition price. Gains and losses on the disposal of treasury shares are recorded directly in equity and do not impact profit or loss for the period.



## q) Share-based payment

The Group grants various share-based payments to its employees, including free shares and leveraged savings plans.

In accordance with IFRS 2, Share-based Payment, free share grants and employee share issues are measured at fair value at their respective grant dates. These employee benefits are recognized as payroll costs for the Group with an offsetting entry to consolidated retained earnings. Total equity is not impacted.

### ■ Free share plan

In accordance with IFRS 2, the expense representing the fair value of these plans is recognized on a straight-line basis through profit or loss over the vesting period of the rights under the plans. The vesting period runs from the grant date to the final vesting date and spans two or four years, depending on the country. The fair value of free share grants is determined by reference to the market value of the shares at the grant date, adjusted for future dividends and the cost of non-transferability, assessed using a forward purchase/sale approach.

### ■ Group leveraged savings plan

For its leveraged employee shareholding plan, the Group applies a calculation method which takes into account the cost of the five-year lock-up period for shares granted to employees and the opportunity gain which allows employees to enjoy the same market conditions as those of the Group (i.e., more attractive conditions than those they could obtain as retail investors). The cost booked in respect of this plan represents the difference between the fair value of the shares subscribed and the subscription price, and is expensed in full within profit or loss at the end of the subscription period.

### ■ Options used on the first-time adoption of IFRS

The Safran Group decided to apply the provisions of IFRS 2, Share-based Payment, solely to compensation settled in equity instruments granted after November 7, 2002 and that had not yet vested at January 1, 2004.

## r) Provisions

The Group records provisions when it recognizes a present probable or potential (in the event of a business combination) legal or constructive obligation as a result of a past event for which an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of that obligation.

### ■ Provisions for losses on completion and losses arising on delivery commitments

A provision for losses on completion is recognized for contracts managed on a percentage-of-completion basis, and a provision for losses arising on delivery commitments is recognized for standard sales contracts, when:

- it is highly probable that a contract will be onerous (the unavoidable costs of meeting the obligations under the contract exceed the associated economic benefits);
- the contract, signed before the end of the reporting period, gives rise to obligations for the Group in the form of the delivery of goods, the provision of services or the payment of some form of termination indemnities;
- a reliable estimate can be made of the Group's obligation.

Unavoidable costs for which a provision is recognized represent the lower of the net cost of executing the contract (i.e., the forecast loss on the contract) and the cost of failing to execute the contract (e.g., withdrawal costs in the event of early termination).

In the aviation industry, standard sales contracts may be onerous particularly when they do not specifically provide for spare part sales. Accordingly, the Group recognizes a provision for losses arising on delivery commitments when it is firmly committed to delivering goods under an onerous contract.

The cash flows used in this analysis are discounted to take into account their spread over time.

Under onerous contracts subject to a firm commitment, losses arising on delivery commitments are recognized primarily as a deduction from work-in-progress for the completed portion of the contract, and shown in provisions for work to be completed.

### ■ Provisions for financial guarantees on sales

As part of its civil engine sales campaigns, the Safran Group grants two types of guarantees to its customers:

- financial guarantees under which it provides a guarantee to the lending institutions that finance its customer;
- guarantees covering the value of assets, under which Safran grants the customer an option to return the aircraft at a given date for an agreed price.

These commitments are undertaken by Safran together with General Electric, and form part of financing packages proposed by aircraft manufacturers to airline companies. They correspond to the share represented by Group engines in the financing of the aircraft.

Financial commitments are generally granted on signature of the sales agreement, but do not actually take effect until the customer so requests.

These guarantees generate risks. However, the total gross amount of the guarantees does not reflect the net risk to which Safran is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, i.e., the aircraft pledged.

A provision is recognized in respect of these guarantees, reflecting events likely to generate a future outflow of resources for the Group.

#### ■ Provisions for performance warranties

These provisions are recorded to cover the Group's share of probable future expenses with respect to operating and performance warranties on deliveries of engines and equipment. They generally cover operations for a period of one to three years depending on the type of equipment delivered, and are calculated as appropriate based on technical files or statistics, particularly with respect to the return of parts covered by a warranty.

#### s) Post-employment benefits

In compliance with the laws and practices of each country in which it operates, the Group grants its employees post-employment benefits (pensions, termination payments, early retirement plans, etc.) as well as other long-term benefits including long-service awards, jubilee benefits and loyalty premiums.

For its basic plans and other defined contribution plans, the contribution paid in the period is recognized in expenses when due. No provision is recorded.

Provisions recognized for obligations under defined benefit plans are valued using the projected unit credit method. This determines, for each employee, the present value of the benefits to which the employee's current and past services will grant entitlement on retirement. The actuarial calculations include demographic (retirement date, employee turnover rate, etc.) and financial (discount rate, salary increase rate, etc.) assumptions, and are performed at the end of each reporting period.

When the assets belonging to a multi-employer defined benefit plan cannot be reliably allocated to each participating employer, the plan is accounted for as a defined contribution plan, in accordance with IAS 19.34 (amended).

When plans are funded, the plan assets are placed with entities that are responsible for paying the benefits in the countries concerned. These assets are measured at fair value. Provisions are recorded to cover shortfalls in the fair value of plan assets compared with the present value of the Group's obligations.

An asset surplus is only recognized in the balance sheet when it represents future economic benefits effectively available to the Group.

In accordance with the amended IAS 19, changes in actuarial gains and losses arising on defined benefit plans are recognized in "Other comprehensive income" and not subsequently recycled to profit. They are shown on the statement of financial position within equity for their net-of-tax amount.

The Group distinguishes between operating components and financial components when presenting defined benefit expense:

- service cost for the period is shown in profit from operations, along with past service costs arising on the introduction of a new

plan or curtailments or settlements of an existing plan, which are now recognized immediately in this caption;

- the cost relating to unwinding the discount on the net pension liability (asset) is shown in financial income (loss).

#### t) Borrowings subject to specific conditions

The Safran Group receives public financing in the form of repayable advances to develop aircraft and defence projects. These advances are repaid based on the revenue generated by future sales of engines or equipment.

Repayable advances are treated as sources of financing and are recognized in liabilities in the consolidated balance sheet under the heading "Borrowings subject to specific conditions".

At inception, they are measured at the amount of cash received or, when acquired, at the value of probable future cash flows discounted at market terms at the acquisition date. They are subsequently measured at amortized cost at the end of each reporting period, taking into account the most recent repayment estimations.

The present value of estimated repayments, based on management's best estimates, is regularly compared with the net carrying amount of repayable advances, defined as the sum of amounts received, plus any interest capitalized at the end of the reporting period, less repayments made. If as a result of this analysis the present value of estimated repayments is durably more or less than the carrying amount of the repayable advances over three consecutive years, that unrecognized portion of the present value of the advance which is higher or lower than the carrying amount is taken to profit or loss.

For certain contracts, the Safran Group has to pay a fee based on replacement sales realized under the program once the advance has been fully repaid. This fee is not considered as repayment of an advance but as an operating expense.

#### u) Interest-bearing financial liabilities

On initial recognition, interest-bearing financial liabilities are measured at the fair value of the amount received, less any directly attributable transaction costs. Besides the specific conditions applicable to hedge accounting (Note 1.w), interest-bearing financial liabilities are subsequently carried at amortized cost using the effective interest rate method.

#### v) Commitments to purchase non-controlling interests

In accordance with IAS 32, commitments undertaken by the Group to purchase non-controlling (minority) interests in its subsidiaries as part of business combinations carried out prior to January 1, 2010 are recognized in financial liabilities for the present value of the

purchase amount. The matching entry is a reduction in non-controlling interests. When the value of the commitment exceeds the amount of non-controlling interests, the Group recognizes the difference as goodwill, in the absence of any IFRS guidance. Similarly, any subsequent change in present value is recognized in financial liabilities and offset against goodwill, except for the impact of unwinding the discount, which is recognized in "Other financial income and expenses".

If the non-controlling interests have not been acquired by the time the commitment expires, the previously recognized entries are reversed. If the non-controlling interests have been purchased, the amount recognized in financial liabilities is closed out by the amount paid to purchase them.

### w) Derivatives and hedge accounting

The Group uses derivative instruments to hedge potential risks arising from its operating and financial activities. These instruments are primarily used to hedge its exposure to the risk of fluctuations in exchange rates. Derivatives are also used to hedge changes in interest rates and to a lesser extent, changes in commodity prices. The derivatives used can include forward currency contracts and currency options or interest rate swaps. The Group's market risk management policy is described in Note 27, "Management of market risks and derivatives".

Most derivatives are traded over-the-counter and no quoted prices are available. Consequently, they are measured using models commonly used by market participants to price such instruments (discounted cash flow method or option pricing models).

The counterparty risk taken into account in pricing derivatives is not material.

For a derivative or non-derivative hedging instrument to be eligible for hedge accounting, the hedging relationship must be formally designated and documented at inception and its effectiveness must be demonstrated throughout the life of the instrument using documented effectiveness tests.

The accounting principles applicable to foreign currency derivatives used to hedge foreign exchange risk are set out in Note 1.f.

The Group contracted a net investment hedge of some of its US operations using USD debt. Changes in the fair value of the debt attributable to the hedged foreign exchange risk are recognized within other comprehensive income for the effective portion of the hedge. Changes in fair value attributable to the ineffective portion of the hedge are taken to profit or loss. Amounts carried in equity are taken to profit or loss when the hedged investment is sold or unwound. The interest rate component of the hedging instrument is shown in "Financial income (loss)".

Certain derivatives used to hedge interest rate risk on fixed-rate financial assets and liabilities may be designated as hedging instruments in a fair value hedging relationship. In this case, the borrowings hedged by the interest rate derivatives (mainly interest rate swaps) are adjusted to reflect the change in fair value attributable to the hedged risk. Changes in the fair value of hedged items are taken to profit or loss for the period and offset by symmetrical changes in the fair value of the interest rate swaps (effective portion).

The Group uses derivative instruments to hedge the risk of fluctuations in the price of certain listed commodities. This price risk affects its purchases of semi-finished products with a high raw material component. The Group's commodity price hedging strategy is described in Note 27, "Management of market risks and derivatives". Pursuant to IAS 39, these commodity derivatives are recognized in the balance sheet at their fair value at the end of the reporting period. Given the difficulty in documenting hedging relationships between these derivatives and purchases of semi-finished products including components other than hedged raw materials, the Group decided not to designate any of these commodity risk hedges as eligible for hedge accounting, and to recognize any changes in the fair value of these instruments in "Financial income (loss)".

### x) Sale of receivables

Some Group subsidiaries sell their trade receivables. In the case of sales involving the transfer of substantially all of the risks and rewards associated with the asset (payment default, late-payment risk, etc.), the asset may be removed from the balance sheet.

### y) Structure of the consolidated balance sheet

The Group is engaged in a variety of activities, most of which have long operating cycles. Consequently, assets and liabilities generally realized or unwound within the scope of the operating cycle (inventories and work-in-progress, receivables, advances and downpayments received from customers, trade and other payables, and foreign currency and commodity derivatives, etc.) are presented with no separation between current and non-current portions. However, other financial assets and liabilities as well as provisions are considered as current if they mature within 12 months of the end of the reporting period. All other financial assets, liabilities and provisions are considered non-current.

### z) Recurring operating income

To make the Group's operating performance more transparent, Safran includes an intermediate operating indicator known as "Recurring operating income" in its reporting.

This sub-total excludes income and expenses which are largely unpredictable because of their unusual, infrequent and/or material nature, such as:

- impairment losses recognized against goodwill, impairment losses or reversals of impairment losses recognized against intangible assets relating to programs, projects or product families as a result of an event that substantially alters the economic profitability of such programs, projects or product families (e.g., negotiated sales agreements, changes in production processes, etc.);
- capital gains and losses on disposals of operations;
- gains on remeasuring any previously held equity interests in entities in which the Group has acquired a controlling interest;
- other unusual and/or material items not directly related to the Group's ordinary operations.

## Note 2 • Main sources of estimates

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) described above requires management to make certain estimates and assumptions that affect the reported amounts of consolidated assets, liabilities, income and expenses.

The assumptions used vary from one business to the next, but are considered reasonable and realistic in all cases. The resulting estimates are based on the Group's past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements, in particular of a contractual or commercial nature.

Estimates and underlying assumptions are reviewed on an ongoing basis.

When unforeseen developments in events and circumstances occur, particularly as regards global economic trends and the Group's own business environment, actual results may differ from these estimates. In such a case, the assumptions and where appropriate the reported amounts of assets and liabilities concerned are adjusted accordingly.

The Group also tests its sensitivity to changes in the assumptions underlying its main estimates in order to anticipate the impact of volatility and lack of visibility in the global economic environment and particularly in certain Group sectors. These analyses are regularly reviewed by management.

The main accounting policies which require the use of estimates are described below.

### a) Estimates relating to programs and contracts

The main estimates used by the Group to prepare its financial statements relate to forecasts of future cash flows under programs and contracts (business plans). Forecast future total cash flows under programs and contracts represent management's best estimate of the rights and obligations expected to derive from the program or contract.

The assumptions applied and resulting estimates used for programs and contracts cover periods that are sometimes very long (up to several decades), and take into account the technological, commercial and contractual constraints of each such program and contract.

These estimates primarily draw on assumptions about the volumes, output and selling prices of products sold, associated production costs, exchange rates for foreign currency-denominated sales and purchases as well as normal risks and uncertainties in respect of forecast cost overruns and, for discounted future cash flows, the discount rate adopted for each contract. Where such information is available, particularly for major civil aviation programs and contracts, volume and output assumptions used by the Group for

products sold are analyzed in light of the assumptions published by major contractors.

Cash flow forecasts, which may or may not be discounted, are used to determine the following:

- **impairment of non-current assets:** Goodwill and assets allocated to programs (aircraft programs, development expenditures and property, plant and equipment used in production) are tested for impairment as described in Note 1.i. The recoverable amount of these assets is generally determined using cash flow forecasts based on the key assumptions described above;
- **capitalization of development expenditures:** The conditions for capitalizing development expenditures are set out in Note 1.j. Determining whether future economic benefits are expected to flow to the Group is instrumental in deciding whether project costs can be capitalized. This analysis is carried out based on future cash flow forecasts drawing on the key assumptions described above. The Group also uses estimates when determining the useful life of its projects;
- **profit (loss) on completion of contracts accounted for under the percentage-of-completion method:** The Group uses the percentage-of-completion method to account for contracts. Under this method, it recognizes revenue based on the percentage of work completed, calculated by reference to the technical objectives met or costs incurred. This method requires an accurate estimate of results on completion using future cash flow forecasts that take into account contractual indexes and commitments as well as other factors inherent to the contract based on historical and/or forecast data. This method also requires an accurate estimate of the contract's stage of completion.

When the total costs that are necessary to cover the Group's risks and obligations under the contract are likely to exceed total contract revenue, the expected loss is recognized within losses on completion;

- **losses arising on delivery commitments:** In the aviation industry, standard sales contracts may be onerous when they do not specifically provide for spare part sales. Accordingly, the Group recognizes a provision for losses arising on delivery commitments when it is firmly committed to delivering goods under an onerous contract and is likely to incur a loss within the foreseeable future. It uses estimates, notably as regards the term of the firm production/delivery commitment and projected production costs;
- **repayable advances:** The forecast repayment of advances received from the State is based on income from future sales of engines, equipment and spare parts, as appropriate. As a result, they are closely related to the business plans prepared by the operating divisions using the main assumptions discussed above.

Any changes in estimates and assumptions underlying cash flow forecasts for programs and contracts could have a material impact on the Group's future earnings and/or the amounts reported in its balance sheet. Consequently, the sensitivity of key estimates and assumptions to such changes is systematically tested and the results of these tests reviewed by management on a regular basis.

## b) Provisions

Provisions reflect management's best estimates using available information, past experience and, in some cases, estimates supplied by independent experts.

In particular, contractual provisions relating to performance warranties given by the Group take into account factors such as the estimated cost of repairs and, where appropriate, the discount rate applied to cash flows. The value of these commitments may be based on a statistical assessment.

Provisions relating to financial guarantees given by the Group are based on the estimated value of the underlying assets, the probability that the customers concerned will default, and, where appropriate, the discount rate applied to cash flows.

The costs and penalties actually incurred or paid may differ significantly from these initial estimates when the obligations unwind, and this may have a material impact on the Group's future earnings.

At the date of this report, the Group has no information suggesting that these inputs are not appropriate taken as a whole, and is not aware of any situation that could materially impact the provisions recognized.

## c) Post-employment benefits

The Group uses statistical data and other forward-looking inputs to determine assets and liabilities relating to post-employment benefits. These inputs include actuarial assumptions such as the discount rate, salary increase rate, retirement age, and employee turnover and mortality. Actuarial calculations are performed by independent actuaries. At the date of preparation of the financial statements, the Group considers that the assumptions used to measure its commitments are appropriate and justified.

However, if circumstances or actuarial assumptions – especially the discount rate – proved significantly different from actual experience, the amount of post-employment liabilities shown in the balance sheet could change significantly, along with equity.

## d) Trade and other receivables

The Group estimates any collection risks based on commercial information, prevailing economic trends and information concerning the solvency of each customer, in order to determine any necessary write-downs on a case-by-case basis.

## e) Allocation of the cost of business combinations

Business combinations are recorded using the acquisition (purchase) method. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at fair value at the date control is acquired.

One of the most important areas in which estimates are used in accounting for a business combination concerns the calculation of fair value and the underlying assumptions applied. The fair value of certain items acquired in a business combination can be measured reliably, for example property, plant and equipment using market price. However, the fair value of other items such as intangible assets or contingent liabilities may prove more difficult to establish. These complex measurements are usually performed by independent experts based on a series of assumptions. These experts are generally required to estimate the impact of future events that are uncertain at the date of the combination.

## f) Disputes and litigation

Certain Group subsidiaries may be party to governmental, legal or arbitration proceedings which, because of their inherent uncertainty, could have a material impact on the Group's financial position (see Note 31, "Disputes and litigation").

The Group's management takes stock of any outstanding proceedings and monitors their progress. It also decides whether to book a provision or adjust the amount of any existing provision if events arise during the proceedings that require a reassessment of the risk involved. The Group consults legal experts both within and outside the Group in determining the costs that may be incurred.

The decision to book a provision in respect of a given risk and the amount of any such provisions are based on an assessment of the risk associated with each individual case, management's estimate of the likelihood that an unfavorable decision will be issued in the proceedings in question, and the Group's ability to estimate the amount of the provision reliably.



## Note 3 · Change in accounting policy

The Group has applied the amended IAS 19, Employee Benefits, since January 1, 2013.

In accordance with IAS 8 on changes in accounting policy applied retrospectively, comparative information for the prior period is presented in the 2013 consolidated financial statements. The change in accounting policy consists in recognizing all of the Group's post-employment benefit obligations in the consolidated financial statements, including actuarial gains and losses and past service costs that had not previously been fully recognized as a result of applying the "corridor" method. This change in accounting policy had a negative €110 million impact on equity at January 1, 2012. The impacts of this change in accounting policy on the 2012 consolidated financial statements are shown below.

### Main changes introduced by the amended IAS 19

As of January 1, 2013, and in accordance with the amended IAS 19, the corridor method has been discontinued. Changes in actuarial gains and losses are shown in "Other comprehensive income" and are not subsequently recycled to profit.

The past service cost is recognized immediately in the event of plan curtailments or modifications, or at the date the plan is settled, whereas it was previously recognized over the residual term of the plan.

In addition, the interest component is now calculated based on obligations under defined benefit plans, the fair value of plan assets, the impact of the asset ceiling and the discount rate, all as of the beginning of the reporting period. Previously, the interest component related to plan assets was calculated based on the expected return on those assets.

The other changes induced by the amended IAS 19 are not material.

### Impact of the change in accounting policy on the 2012 consolidated financial statements

#### ■ a) Impact on the consolidated balance sheet at January 1, 2012

#### Assets

(in € millions)	Jan. 1, 2012 Published	Impact of the amended IAS 19	Jan. 1, 2012 Restated
Deferred tax assets	251	30	281
Other non-current assets	9,641	(20)	9,621
<b>Non-current assets</b>	<b>9,892</b>	<b>10</b>	<b>9,902</b>
Current assets	10,810		10,810
<b>Current assets</b>	<b>10,810</b>	<b>-</b>	<b>10,810</b>
<b>TOTAL ASSETS</b>	<b>20,702</b>	<b>10</b>	<b>20,712</b>

#### Equity and liabilities

(in € millions)	Jan. 1, 2012 Published	Impact of the amended IAS 19	Jan. 1, 2012 Restated
Share capital	83		83
Consolidated retained earnings	4,387	(110)	4,277
Net unrealized gains on available-for-sale financial assets	20		20
Profit for the period	478		478
<b>Equity attributable to owners of the parent</b>	<b>4,968</b>	<b>(110)</b>	<b>4,858</b>
<b>Non-controlling interests</b>	<b>154</b>		<b>154</b>
<b>Total equity</b>	<b>5,122</b>	<b>(110)</b>	<b>5,012</b>
Provisions	1,374	132	1,506
Deferred tax liabilities	718	(12)	706
Other non-current liabilities	2,333		2,333
<b>Non-current liabilities</b>	<b>4,425</b>	<b>120</b>	<b>4,545</b>
Current liabilities	11,155		11,155
<b>Current liabilities</b>	<b>11,155</b>	<b>-</b>	<b>11,155</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>20,702</b>	<b>10</b>	<b>20,712</b>



## ■ b) Impact on the consolidated income statement and consolidated statement of comprehensive income for 2012

### Consolidated income statement for 2012

<i>(in € millions)</i>	<b>2012 Published</b>	<b>Impact of the amended IAS 19</b>	<b>2012 Restated</b>
<b>Revenue</b>	<b>13,615</b>		<b>13,615</b>
Depreciation, amortization, and increase in provisions, net of use	(827)	(27)	(854)
Other recurring operating income and expenses	(11,518)		(11,518)
<b>Recurring operating income</b>	<b>1,270</b>	<b>(27)</b>	<b>1,243</b>
Other non-recurring operating income and expenses	(56)		(56)
<b>Profit from operations</b>	<b>1,214</b>	<b>(27)</b>	<b>1,187</b>
Cost of net debt	(54)		(54)
Foreign exchange gains	709		709
Other financial income and expense	(120)	(2)	(122)
<b>Financial income (loss)</b>	<b>535</b>	<b>(2)</b>	<b>533</b>
<b>Profit before tax</b>	<b>1,749</b>	<b>(29)</b>	<b>1,720</b>
Income tax expense	(442)	9	(433)
Share in profit from associates	19		19
<b>Profit from continuing operations</b>	<b>1,326</b>	<b>(20)</b>	<b>1,306</b>
<b>Profit for the period</b>	<b>1,326</b>	<b>(20)</b>	<b>1,306</b>
Attributable to:			
• owners of the parent	1,302	(20)	1,282
• non-controlling interests	24		24

The negative €27 million impact on recurring operating income results chiefly from the discontinuation of the amortization of actuarial gains and losses and past service costs (positive €10 million impact) and the immediate recognition of past service costs relating to two agreements entered into in 2012 (negative €36 million impact) (see Note 21).

### Consolidated statement of comprehensive income for 2012

<i>(in € millions)</i>	<b>2012 Published</b>	<b>Impact of the amended IAS 19</b>	<b>2012 Restated</b>
<b>Profit for the period</b>	<b>1,326</b>	<b>(20)</b>	<b>1,306</b>
<b>Other comprehensive income</b>			
<b>Items to be recycled to profit</b>	<b>(29)</b>		<b>(29)</b>
<b>Items not recycled to profit</b>		<b>(101)</b>	<b>(101)</b>
• Actuarial gains and losses on post-employment benefits		(147)	(147)
• Income tax related to components of other comprehensive income not recycled to profit		46	46
<b>Other comprehensive income (expense) for the period</b>	<b>(29)</b>	<b>(101)</b>	<b>(130)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,297</b>	<b>(121)</b>	<b>1,176</b>
Attributable to:			
• owners of the parent	1,374	132	1,506
• non-controlling interests	1,275	(119)	1,156
	22	(2)	20

## ■ c) Impact on the consolidated statement of cash flows for 2012

## Consolidated statement of cash flows for 2012

<i>(in € millions)</i>	2012 Published	Impact of the amended IAS 19	2012 Restated
Profit attributable to owners of the parent	1,302	(20)	1,282
Depreciation, amortization, impairment and provisions	933	29	962
Other	232	(9)	223
Other non-cash income and expense items	(765)		(765)
<b>Cash flow from operations, before changes in working capital</b>	<b>1,702</b>		<b>1,702</b>
<b>Change in working capital</b>	<b>(85)</b>		<b>(85)</b>
<b>Total cash flow from operating activities</b>	<b>1,617</b>		<b>1,617</b>
<b>Total cash flow used in investing activities</b>	<b>(1,332)</b>		<b>(1,332)</b>
<b>Total cash flow from financing activities</b>	<b>485</b>		<b>485</b>
Other	(8)		(8)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>762</b>		<b>762</b>
Cash and cash equivalents at beginning of year	1,431		1,431
Cash and cash equivalents at end of year	2,193		2,193
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>762</b>		<b>762</b>

## ■ d) Impact on the consolidated balance sheet at December 31, 2012

**Assets**

<i>(in € millions)</i>	Dec. 31, 2012 Published	Impact of the amended IAS 19	Dec. 31, 2012 Restated
Deferred tax assets	193	50	243
Other non-current financial assets	33	(20)	13
Other non-current assets	10,178		10,178
<b>Non-current assets</b>	<b>10,404</b>	<b>30</b>	<b>10,434</b>
Current assets	12,531		12,531
<b>Current assets</b>	<b>12,531</b>	<b>-</b>	<b>12,531</b>
<b>TOTAL ASSETS</b>	<b>22,935</b>	<b>30</b>	<b>22,965</b>

**Equity and liabilities**

<i>(in € millions)</i>	Dec. 31, 2012 Published	Impact of the amended IAS 19	Dec. 31, 2012 Restated
Share capital	83		83
Consolidated retained earnings	4,653	(209)	4,444
Net unrealized gains on available-for-sale financial assets	25		25
Profit for the period	1,302	(20)	1,282
<b>Equity attributable to owners of the parent</b>	<b>6,063</b>	<b>(229)</b>	<b>5,834</b>
<b>Non-controlling interests</b>	<b>165</b>	<b>(2)</b>	<b>163</b>
<b>Total equity</b>	<b>6,228</b>	<b>(231)</b>	<b>5,997</b>
Provisions	1,515	308	1,823
Deferred tax liabilities	1,028	(47)	981
Other non-current liabilities	3,048		3,048
<b>Non-current liabilities</b>	<b>5,591</b>	<b>261</b>	<b>5,852</b>
Current liabilities	11,116		11,116
<b>Current liabilities</b>	<b>11,116</b>	<b>-</b>	<b>11,116</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,935</b>	<b>30</b>	<b>22,965</b>

## Note 4 • Scope of consolidation

### Main changes in the scope of consolidation in 2013

#### ■ Acquisition of Goodrich Electrical Power Systems (GEPS)

On March 26, 2013, after completing all required approval procedures, Safran finalized its acquisition of Goodrich Electrical Power Systems (GEPS), a leading supplier of on-board aerospace electrical power systems. The cash consideration for the transaction amounted to USD 390 million. GEPS brings new capabilities to Safran's product offering, including the critical electrical power generation know-how and experience which is the heart of electrical power systems. This transaction, by combining GEPS and Safran's complementary strengths, gives birth to a world leader in aerospace electrical power systems with a comprehensive product portfolio. The provisional allocation of the purchase price at December 31, 2013 is summarized below:

<i>(in USD millions)</i>	<b>Provisional allocation</b>
Acquisition price	390
<b>Acquisition cost of shares</b>	<b>390</b>
<b>Fair value of net assets:</b>	
Net assets at acquisition date	52
Fair value of technology	65
Fair value of customer relationships	89
Remeasurement of inventories	6
Other intangible assets	5
<b>Fair value of assets acquired and liabilities assumed</b>	<b>217</b>
<b>Goodwill</b>	<b>173</b>

The definitive allocation of the purchase price to identifiable assets and liabilities will be completed within the 12 months following the acquisition.

GEPS' contribution to the Group's performance in 2013 was as follows:

<i>(in € millions)</i>	<b>2013</b>
Revenue	138
Recurring operating income <sup>(1)</sup>	3

<sup>(1)</sup> Excluding depreciation and amortization charged against inventory consumption and property, plant and equipment and intangible assets identified in connection with the provisional allocation of the purchase price (€9 million at December 31, 2013).

#### ■ Acquisition of Rolls Royce's stake in the RTM 322 program

On September 2, 2013, Safran completed its purchase of Rolls-Royce's 50% stake in their joint RTM322 helicopter engine program for €293 million. Besides Rolls-Royce's 50% share in the

RTM322 program, the transaction also includes the intellectual property rights (IPR) related to this business as well as Rolls-Royce's 50% share in the RRTM (Rolls-Royce-Turbomeca) joint venture. Turbomeca (Safran's world leading helicopter engine business) will assume global responsibility for the design, production, product support and services for the RTM322 engine.

Since this transaction is classified as a business combination within the meaning of IFRS 3, the Group's has remeasured to fair value its previously-held interest in the venture. The resulting net gain of €216 million was booked under "Other non-recurring operating income and expenses".

The provisional allocation of the total value of this business at December 31, 2013 is summarized below:

<i>(in € millions)</i>	<b>Provisional allocation</b>
<b>Acquisition price of 50% share (A)</b>	<b>293</b>
<b>Fair value of previously-held interest in the venture (B)</b>	<b>281</b>
Net assets at acquisition date	70
Fair value of technology acquired	117
Remeasurement of inventories	41
<b>Fair value of identifiable assets and liabilities (C)</b>	<b>228</b>
<b>GOODWILL (A)+(B)-(C)</b>	<b>346</b>

The definitive allocation of this value to the identifiable assets and liabilities will be completed within the 12 months following the acquisition.

The contribution of the 50% stake in RTM322 to the Group's performance in 2013 was as follows:

<i>(in € millions)</i>	<b>2013</b>
Revenue	39
Recurring operating income <sup>(1)</sup>	5

<sup>(1)</sup> Excluding depreciation and amortization charged against inventory consumption and property, plant and equipment and intangible assets identified in connection with the provisional allocation of the purchase price (€28 million at December 31, 2013).

#### ■ Disposal of Ingenico shares

Pursuant to the authorizations granted by the Boards of Directors of Safran on March 13, 2013 and of Morpho on March 14, 2013, Safran, through its subsidiary Morpho, divested part of its stake in payment solutions provider Ingenico on March 15, 2013. The divestment was carried out by way of a private placement through an accelerated book building process.

A total of 6.6 million shares, representing 12.57% of the share capital of Ingenico, were sold at a per-share price of €43.45, for a total amount of €287 million. The transaction generated €131 million in profit after tax for Safran. Safran intends to remain a significant shareholder of Ingenico with 10.25% of its share capital and approximately 17% of its voting rights at December 31, 2013.

### ■ Sale of Globe Motors Inc.

On October 18, 2013, Safran completed the sale of Globe Motors Inc., a US-based subsidiary specialized in the design and distribution of precision motors and motorized devices. Globe Motors was sold to Allied Motion Inc. for USD 90 million (€68 million), generating a disposal gain of €23 million which was recognized in "Other non-recurring operating income and expenses".

### ■ Agreement for a future acquisition

On January 20, 2014, Safran announced that it had signed a definitive agreement to acquire the aerospace power distribution management solutions and integrated cockpit solutions business of Eaton Aerospace, a North American supplier positioned in the commercial and military aviation market.

The acquisition is consistent with Safran's strategy addressing the market for 'more electric aircraft', and reinforces its new electrical power business, Labinal Power Systems. The cash consideration for the transaction is around €200 million.

The acquisition, which is awaiting regulatory clearance and must meet other conditions usually applicable in such circumstances, should be finalized in the first half of 2014.

The power distribution activities will be consolidated within the Aircraft Equipment business, while the integrated cockpit solutions will join the Defence business.

## Main changes in the scope of consolidation in 2012

### ■ Acquisition of an additional 10% interest in Sofradir

On January 25, 2012, Safran and Thales acquired Areva's 20% stake in Sofradir, their jointly-owned subsidiary in infrared detector technology. As a result of this transaction, Thales and Safran each raised their stake in Sofradir from 40% to 50%.

Sofradir is proportionately consolidated in the Safran Group's financial statements. The €14 million difference between the acquisition cost of the shares (€24 million) and the Group's share in the net assets acquired (€10 million) is recognized as goodwill.

### ■ Acquisition of the residual 19% non-controlling interest in Morpho Detection Inc. (MDI)

In December 2012, Safran acquired General Electric's residual 19% interest in Morpho Detection Inc. (MDI) for €90 million. This transaction results from the exercise of an option provided for in the September 2009 agreements concerning Safran's purchase from General Electric of an 81% stake in MDI. The acquisition was financed out of Group cash and increased Safran's stake in Morpho Detection Inc. to 100%. The difference between the value of the commitment to purchase non-controlling interests and the price of the December 2012 transaction gave rise to a €45 million decrease in goodwill.

## Note 5 • Segment information

### Segments presented

In accordance with IFRS 8, Operating Segments, segment information reflects Safran's different businesses.

The Group's operating segments reflect the organization of subsidiaries around tier-one entities ("consolidation sub-groups"). These consolidation sub-groups are organized based on the type of products and services they sell. Four operating segments have been identified based on these criteria.

#### ■ Aerospace Propulsion

The Group designs, develops, produces and markets propulsion systems for commercial aircraft, military transport, training and combat aircraft, rocket engines, civil and military helicopters, tactical missiles and drones. This segment also includes maintenance, repair and overhaul (MRO) activities and the sale of spare parts.

#### ■ Aircraft Equipment

Safran specializes in mechanical, hydromechanical and electromechanical equipment. The Group designs and builds landing gear, wheels, brakes and associated systems, thrust reversers and nacelles, composite material parts, engine control systems and associated equipment, ventilation systems and hydraulic filters, wiring, and electrical connection (including onboard electronics) and power systems. Aircraft Equipment also includes maintenance, repair and related services and the sale of spare parts.

#### ■ Defence

Defence includes all businesses serving naval, land and aviation defence industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defence applications.

Safran develops inertial navigation systems for aviation, naval and land applications, flight commands for helicopters, tactical optronic systems and drones (gyrostabilized optronic pods, periscopes, infrared cameras, multifunction binoculars, air surveillance systems), and defence equipment and systems.

#### ■ Security

The Security businesses include a suite of solutions developed by the Group to increase the safety and security of travel, critical infrastructure, electronic transactions and individuals. These solutions meet emerging needs for the safety and security of people, companies, critical facilities and countries. The Security businesses offer biometric technologies for fingerprint, iris and face recognition, identity management solutions, access management and transaction security (smart cards), as well as tomographic systems for the detection of dangerous or illicit substances in baggage.

#### ■ Holding company and other

In "Holding company and other", the Group includes Safran SA's activities and holding companies in various countries.

### Business segment performance indicators

The segment information presented in the following tables is identical to that presented to Executive Management, which – in accordance with the Group's governance structure – has been identified as the "Chief Operating Decision Maker" for the assessment of the performance of business segments and the allocation of resources between the different businesses.

The assessment of each business segment's performance by Executive Management is based on adjusted contribution figures as explained in the Foreword (in section 2.1 of the Registration Document).

Data for each business segment are prepared in accordance with the same accounting principles as those used for the consolidated financial statements (see Note 1), except for the restatements made in respect of adjusted data (see foreword in section 2.1 of the registration document).

Inter-segment sales are performed on an arm's length basis.

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

Working capital represents the gross balance of trade receivables, inventories and trade payables.

Segment assets represent the sum of goodwill, intangible assets, property, plant and equipment, and all current assets except cash and cash equivalents and tax assets.

Non-current assets comprise goodwill, property, plant and equipment, intangible assets and investments in associates.



## Segment information

The operating segments and key indicators shown are defined above.

### AT DECEMBER 31, 2013

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	Total operating segments	Holding company and other	Total adjusted data	Currency hedges	Impacts of business combinations	Total consolidated data
<b>Revenue</b>	7,791	4,121	1,278	1,502	14,692	3	14,695	(205)	-	14,490
<b>Recurring operating income<sup>(1)</sup></b>	1,359	380	87	120	1,946	(158)	1,788	(216)	(277)	1,295
Other non-recurring operating income and expenses	(14)	(2)	7	(3)	(12)	(19)	(31)	-	216	185
<b>Profit (loss) from operations</b>	1,345	378	94	117	1,934	(177)	1,757	(216)	(61)	1,480
<b>Free cash flow</b>	521	67	110	(42)	656	56	712	-	-	712
<b>Gross operating working capital</b>	(422)	1,088	389	150	1,205	(47)	1,158	-	-	1,158
<b>Segment assets</b>	10,587	5,032	1,692	2,506	19,817	1,371	21,188	-	-	21,188
(1) of which depreciation, amortization and increase in provisions, net of use	(239)	(173)	(52)	(39)	(503)	(28)	(531)	(9)	(250)	(790)
of which impairment	(65)	4	(19)	1	(79)	1	(78)	(4)	-	(82)

### AT DECEMBER 31, 2012

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	Total operating segments	Holding company and other	Total adjusted data	Currency hedges	Impacts of business combinations	Total consolidated data
<b>Revenue</b>	7,005	3,691	1,315	1,546	13,557	3	13,560	55	-	13,615
<b>Recurring operating income<sup>(1)</sup></b>	1,076	286	79	145	1,586	(142)	1,444	52	(253)	1,243
Other non-recurring operating income and expenses	1	(16)	-	(25)	(40)	(10)	(50)	-	(6)	(56)
<b>Profit (loss) from operations<sup>(1)</sup></b>	1,077	270	79	120	1,546	(152)	1,394	52	(259)	1,187
<b>Free cash flow</b>	464	38	13	11	526	38	564	-	-	564
<b>Gross operating working capital</b>	(480)	1,059	442	118	1,139	(12)	1,127	-	-	1,127
<b>Segment assets</b>	9,616	4,463	1,746	2,649	18,474	1,071	19,545	-	-	19,545
(1) of which depreciation, amortization and increase in provisions, net of use	(285)	(173)	(67)	(58)	(583)	(18)	(601)	-	(253)	(854)
of which impairment	(37)	2	5	4	(26)	-	(26)	(3)	-	(29)

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

**Revenue (adjusted data)**

<i>(in € millions)</i>	2012	2013
<b>Aerospace Propulsion</b>		
Original equipment and related products and services	3,340	3,700
Services	3,287	3,746
Sales of studies	296	271
Other	82	74
<b>Sub-total</b>	<b>7,005</b>	<b>7,791</b>
<b>Aircraft Equipment</b>		
Original equipment and related products and services	2,402	2,675
Services	1,054	1,214
Sales of studies	114	149
Other	121	83
<b>Sub-total</b>	<b>3,691</b>	<b>4,121</b>
<b>Defence</b>		
Sales of equipment	939	887
Services	257	282
Sales of studies	107	106
Other	12	3
<b>Sub-total</b>	<b>1,315</b>	<b>1,278</b>
<b>Security</b>		
Sales of equipment	1,212	1,187
Services	293	292
Sales of studies	13	17
Other	28	6
<b>Sub-total</b>	<b>1,546</b>	<b>1,502</b>
<b>Holding company and other</b>		
Other	3	3
<b>Sub-total</b>	<b>3</b>	<b>3</b>
<b>TOTAL</b>	<b>13,560</b>	<b>14,695</b>

## Information by geographic area

### AT DECEMBER 31, 2013

<i>(in € millions)</i>	France	Europe (excl. France)	North America	Asia	Rest of the world	Total adjusted data	Currency hedges	Total consolidated data
Revenue by location of customers	3,285	3,235	4,635	2,491	1,049	14,695	(205)	14,490
%	22%	22%	32%	17%	7%			
Non-current assets by location	7,399	1,407	1,914	128	161			11,009
%	67%	13%	18%	1%	1%			

### AT DECEMBER 31, 2012

<i>(in € millions)</i>	France	Europe (excl. France)	North America	Asia	Rest of the world	Total adjusted data	Currency hedges	Total consolidated data
Revenue by location of customers	3,069	3,139	4,103	2,149	1,100	13,560	55	13,615
%	23%	23%	30%	16%	8%			
Non-current assets by location	6,354	1,161	2,075	75	170			9,835
%	65%	11%	21%	1%	2%			

No individual customer accounted for more than 10% of Group revenue in 2013 or 2012.

## Note 6 · Breakdown of the main components of profit from operations

### Revenue

<i>(in € millions)</i>	2012	2013
Original equipment and related products and services	5,774	6,278
Sales of defence and security equipment	2,146	2,055
Services	4,917	5,455
Sales of studies	532	536
Other	246	166
<b>TOTAL</b>	<b>13,615</b>	<b>14,490</b>

### Other income

Other income mainly comprises research tax credits and operating subsidies.

<i>(in € millions)</i>	2012	2013
Research tax credit <sup>(*)</sup>	124	140
Competitiveness and employment tax credit (CICE)	-	25
Other operating subsidies	67	86
Other operating income	18	13
<b>TOTAL</b>	<b>209</b>	<b>264</b>

<sup>(\*)</sup> Of which €9 million in connection with additional research tax credits in respect of 2012, included in 2013 income (€4 million in respect of 2011 included in 2012 income).

The third amending French Finance Law for 2012 introduced a tax credit known as the "CICE" to boost competitiveness and employment in France, effective January 1, 2013. The CICE is calculated for each calendar year and in 2013 represents 4% of remuneration paid that is equal to or less than 2.5 times the minimum wage (SMIC). The Group recognizes accrued income to match the corresponding payroll charge. Given the characteristics of this tax credit and based on the treatment applied to the research tax credit, the Group considers the CICE as an operating subsidy.

### Raw materials and consumables used

This caption breaks down as follows for the period:

<i>(in € millions)</i>	2012	2013
Raw materials, supplies and other	(2,495)	(2,625)
Bought-in goods	(361)	(300)
Changes in inventories	48	(13)
Sub-contracting	(2,915)	(3,059)
Purchases not held in inventory	(391)	(440)
External service expenses	(2,046)	(2,211)
<b>TOTAL</b>	<b>(8,160)</b>	<b>(8,648)</b>

## Personnel costs

(in € millions)	2012	2013
Wages and salaries	(2,712)	(2,889)
Social security contributions	(1,105)	(1,163)
Share grants and leveraged savings plan	(2)	-
Statutory employee profit-sharing	(73)	(91)
Optional employee profit-sharing	(131)	(142)
Additional contributions	(31)	(48)
Profit-sharing bonus for employees	(8)	(4)
Corporate social contribution	(50)	(61)
Other employee costs	(93)	(108)
<b>TOTAL</b>	<b>(4,205)</b>	<b>(4,506)</b>

The increase in wages and salaries reflects compensation policies, the rise in headcount resulting from new hires recruited by Group companies in response to the growth in business, and to a lesser extent changes in the scope of consolidation in 2013.

The increase in statutory and optional employee profit-sharing reflects the Group's improved profit.

In both 2013 and 2012, since the dividends per share paid by Safran were up on the average dividend paid in the previous two years, the Group paid its employees a profit-sharing bonus. In 2013, this bonus was determined in accordance with the Group's new profit-sharing agreement signed in 2012. Based on the analysis that the profit-sharing bonus mechanism introduced by the Law of July 28, 2011 is also a form of profit redistribution, the Group's

profit-sharing agreement states that an additional amount is payable if dividends increase (starting from dividends payable in 2013 in respect of 2012 profit). Up until 2012, the bonus awarded was a fixed amount representing the amount negotiated and granted in respect of dividends paid.

The second amending French Finance Law for 2012 increased the corporate social contribution (*forfait social*) to 20% for amounts paid out as of August 1, 2012, compared to the 8% applicable to payouts before this date. This contribution comprises employer taxes on certain ancillary components of salaries. It covers optional and statutory employee-profit sharing, additional employer contributions to the employee savings plan and employee retirement savings plan, pension top-up payments and the profit-sharing bonus.

## Depreciation, amortization and increase in provisions, net of use

(in € millions)	2012 <sup>(*)</sup>	2013
<b>Net depreciation and amortization expense</b>		
• intangible assets	(381)	(399)
• property, plant and equipment	(340)	(363)
<b>Total net depreciation and amortization expense<sup>(1)</sup></b>	<b>(721)</b>	<b>(762)</b>
<b>Net increase in provisions</b>	<b>(133)</b>	<b>(28)</b>
<b>DEPRECIATION, AMORTIZATION, AND INCREASE IN PROVISIONS, NET OF USE</b>	<b>(854)</b>	<b>(790)</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €150 million in 2013 and €156 million in 2012; and during acquisitions: €100 million in 2013 and €97 million in 2012.

## Asset impairment

(in € millions)	Impairment expense		Reversals	
	2012	2013	2012	2013
Property, plant and equipment and intangible assets	(16)	(16)	15	8
Financial assets	(6)	(24)	4	7
Inventories and work-in-progress	(319)	(190)	303	189
Receivables	(42)	(94)	32	38
<b>TOTAL</b>	<b>(383)</b>	<b>(324)</b>	<b>354</b>	<b>242</b>

## Other recurring operating income and expenses

(in € millions)	2012	2013
Capital gains and losses on asset disposals	(14)	(11)
Royalties, patents and licenses	(12)	(16)
Losses on irrecoverable receivables	(10)	(6)
Other operating income and expenses <sup>(*)</sup>	(9)	(3)
<b>TOTAL</b>	<b>(45)</b>	<b>(36)</b>

(\*) Of which an expense of €4 million in 2013 relating to the review of the probability that borrowings subject to specific conditions will be repaid (income of €29 million in 2012).

## Other non-recurring operating income and expenses

(in € millions)	2012	2013
Gains on remeasuring previously held equity interests	-	216
Capital gains on asset disposals	1	39
Impairment net of reversals on intangible assets	(7)	(17)
Other non-recurring items	(50)	(53)
<b>TOTAL</b>	<b>(56)</b>	<b>185</b>

In 2013, gains on remeasuring the Group's previously held interest in the RTM322 program (see Note 4) were recognized in non-recurring operating items.

Capital gains for €39 million were recognized on the disposal of Globe Motors (see Note 4) and on the sale of property.

Impairment losses of €17 million were recognized against intangible assets relating to various programs (see Note 11).

Other non-recurring items correspond mainly to past service costs of €40 million arising on a supplementary defined benefit pension plan for which executive managers within the Group, currently

numbering around 400 are eligible (see Note 21), and to transaction and integration costs of €10 million relating to recent business combinations.

At December 31, 2012, other non-recurring items related mainly to the write-down of receivables arising before Group customer Hawker Beechcraft filed for Chapter 11 bankruptcy protection (€16 million), and to transaction-related costs and other costs incurred in connection with recent business combinations (€34 million).



## Note 7 · Financial income (loss)

<i>(in € millions)</i>	2012(*)	2013
Financial expense on interest-bearing financial liabilities	(97)	(85)
Financial income on cash and cash equivalents	43	43
<b>Cost of net debt</b>	<b>(54)</b>	<b>(42)</b>
Gain (loss) on foreign currency hedging instruments	742	374
Foreign exchange gains and losses	(42)	155
Net foreign exchange gains (losses) on provisions	9	22
<b>Foreign exchange gains (losses)</b>	<b>709</b>	<b>551</b>
Gain or loss on interest rate and commodity hedging instruments	(1)	(6)
Net expenses on disposals of financial assets	-	(1)
Impairment of available-for-sale financial assets	(3)	(8)
Write-downs of loans and other financial receivables	-	2
Dividends received	2	3
Other financial provisions	-	2
Interest component of IAS 19 expense(*)	(23)	(24)
Impact of discounting	(90)	(50)
Other	(7)	12
<b>Other financial income and expense</b>	<b>(122)</b>	<b>(70)</b>
<b>FINANCIAL INCOME (LOSS)</b>	<b>533</b>	<b>439</b>
<b>of which financial expense</b>	<b>(263)</b>	<b>(174)</b>
<b>of which financial income</b>	<b>796</b>	<b>613</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

## Note 8 · Income tax

### Income tax expense

Income tax expense breaks down as follows:

<i>(in € millions)</i>	2012(*)	2013
Current income tax expense	(105)	(303)
Deferred tax expense	(328)	(347)
<b>TOTAL TAX EXPENSE</b>	<b>(433)</b>	<b>(650)</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

## Effective tax rate

The effective tax rate breaks down as follows:

<i>(in € millions)</i>	2012	2013
Profit before tax	1,720	1,919
Standard tax rate applicable to the parent company	36.10%	38.00%
<b>Tax expense at standard rate</b>	<b>(621)</b>	<b>(729)</b>
Impact of permanent differences	128	19
Impact of research and CICE tax credits	44	61
Impact of reduced tax rates	36	34
Impact of unrecognized tax	(17)	2
Impact of tax on dividends	-	(14)
Impact of other items	(3)	(23)
<b>Current income tax expense recognized in profit or loss</b>	<b>(433)</b>	<b>(650)</b>
<b>EFFECTIVE TAX RATE</b>	<b>25.17%</b>	<b>33.87%</b>

At the end of 2011, the fourth amending French Finance Law for 2011 established a one-off, temporary 5% tax increase for the 2011 and 2012 financial years for French companies with revenue over €250 million. The amending French Finance Law for 2013, which was adopted in late 2013, increased this surtax to 10.7% for the 2013 and 2014 financial years.

The 3% tax on dividend distributions introduced by the amending French Finance Law for 2012 is recognized as a tax expense in the period in which the dividends were paid.

## Deferred tax assets and liabilities

### ■ Deferred tax assets (liabilities) in the balance sheet

<i>(in € millions)</i>	Assets	Liabilities	Net
<b>Net deferred tax assets (liabilities) at December 31, 2012</b>	<b>243</b>	<b>981</b>	<b>(738)</b>
Deferred taxes recognized in profit or loss	(26)	321	(347)
Deferred taxes recognized directly in equity	-	(6)	6
Reclassifications	(5)	-	(5)
Translation adjustments	(8)	(3)	(5)
Changes in scope of consolidation	1	-	1
<b>NET DEFERRED TAX ASSETS (LIABILITIES) AT DECEMBER 31, 2013</b>	<b>205</b>	<b>1,293</b>	<b>(1,088)</b>

## ■ Deferred tax asset bases

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
<b>Deferred tax asset bases</b>		
Property, plant and equipment and intangible assets	(3,463)	(4,444)
Inventories	127	139
Current assets/liabilities	337	407
Financial assets/liabilities	(536)	(795)
Provisions	1,589	1,866
Tax adjustments	(376)	(399)
Losses carried forward and tax credits	611	530
<b>TOTAL DEFERRED TAX ASSET BASES</b>	<b>(1,711)</b>	<b>(2,696)</b>
<b>Total gross deferred tax balance (a)</b>	<b>(663)</b>	<b>(1,024)</b>
<b>Total unrecognized deferred tax assets (b)</b>	<b>75</b>	<b>64</b>
<b>TOTAL NET DEFERRED TAXES RECOGNIZED (a)-(b)</b>	<b>(738)</b>	<b>(1,088)</b>

## Current tax assets and liabilities

Current tax assets and liabilities break down as follows:

<i>(in € millions)</i>	Assets	Liabilities	Net
<b>Net tax assets (liabilities) at December 31, 2012</b>	<b>421</b>	<b>156</b>	<b>265</b>
Movements during the period <sup>(1)</sup>	(20)	50	(70)
Translation adjustments	(7)	(9)	2
Other movements	(2)	5	(7)
<b>NET TAX ASSETS (LIABILITIES) AT DECEMBER 31, 2013</b>	<b>392</b>	<b>202</b>	<b>190</b>

(1) Of which a negative €303 million impact in the income statement.

## Note 9 • Earnings per share

At December 31, 2013, the Group's potentially dilutive ordinary shares correspond to the free share plan (see Note 19e).

Earnings per share break down as follows:

	Index	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013
<b>Numerator (in € millions)</b>			
Profit for the period attributable to owners of the parent	(a)	1,282	1,386
<b>Denominator (in shares)</b>			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	1,121,419	581,104
Number of shares excluding treasury shares	(d)=(b-c)	415,908,166	416,448,481
Weighted average number of shares (excluding treasury shares)	(d')	415,280,826	416,292,736
Potentially dilutive ordinary shares:			
Dilutive impact of share grants and leveraged savings plan	(e)	639,059	132,493
Weighted average number of shares after dilution	(f)=(d'+e)	415,919,885	416,425,229
<b>Ratio: earnings per share (in €)</b>			
Basic earnings per share	(g)=(a*1million)/(d')	3.09	3.33
Diluted earnings per share	(h)=(a*1million)/(f)	3.08	3.33

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

## Note 10 • Goodwill

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2012 Net	Changes in scope of consolidation	Transfers	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments and other	Dec. 31, 2013 Net
Snecma – Aircraft engines	417	-	-	-	-	(1)	416
Turbomeca (incl. Microturbo) – Helicopter engines	237	346	-	-	-	-	583
Techspace Aero – Aircraft engine components	47	-	-	-	-	-	47
Herakles – Aerospace and strategic propulsion	228	-	-	-	-	-	228
Other	1	-	-	-	-	-	1
<b>Total Propulsion</b>	<b>930</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>1,275</b>
Aircelle – Nacelles and aerostructures	213	-	-	-	-	-	213
Labinal – Electrical wiring	228	-	-	-	-	(2)	226
Safran Engineering Services - Engineering	78	-	-	-	-	-	78
Messier-Bugatti-Dowty (incl. Sofrance) – Landing and braking systems	171	-	-	-	-	-	171
Technofan – Ventilation systems	10	-	-	-	-	-	10
Globe Motors Inc.	10	(10)	-	-	-	-	-
Safran Power – Power generation	-	137	-	-	-	(4)	133
<b>Total Aircraft Equipment</b>	<b>710</b>	<b>127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>831</b>
Sagem – Defence	119	-	-	-	-	(1)	118
<b>Total Defence</b>	<b>119</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>118</b>
Morpho – Identification	955	-	-	-	-	(33)	922
Morpho – Cards	58	-	-	-	-	(1)	57
Morpho – Detection	306	-	-	-	-	(14)	292
<b>Total Security</b>	<b>1,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48)</b>	<b>1,271</b>
<b>TOTAL</b>	<b>3,078</b>	<b>473</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(56)</b>	<b>3,495</b>

### Movements in the period

The main movements in this caption during the period under review concern:

- the controlling interest taken by the Group in the RTM322 program as a result of acquiring Rolls Royce's 50% stake in this previous 50/50 joint venture, adding €346 million to the goodwill of the Turbomeca CGU after the preliminary purchase price allocation (see Note 4);
- the acquisition by Safran of Goodrich Electrical Power Systems (see Note 4);
- the disposal of Globe Motors (see Note 4).

### Annual impairment tests

The Group tests goodwill for impairment during the first half of the year.

The Group performed annual impairment tests on the cash-generating units presented above, by comparing their value in use with their carrying amount.

The main assumptions used in determining the value in use of cash-generating units are described below:

Operating forecasts take into account general economic data, specific inflation rates for each geographic area, a USD exchange rate based on available market information and mid- to long-term

macro-economic assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next four years and standardized cash flows are based on long-term plans for years five to ten. The average USD exchange rate adopted is 1.26 for years 2014 to 2017 and 1.35 thereafter (2012: 1.29 for years 2013 to 2016 and 1.35 thereafter). These exchange rate assumptions were used for forecasting during the first half of the year.

- The growth rate used to calculate terminal value was set at 1.5% for Aircraft Equipment and Defence CGUs and at 2% for Aerospace Propulsion and Security CGUs (unchanged from 2012).
- The benchmark post-tax discount rate used is 8% (unchanged from 2012) and is applied to post-tax cash flows. However, a post-tax discount rate of 9% is used for the CGUs in the Security business line (2012: 9.5%).

Based on these tests, no impairment was deemed necessary in addition to that already recognized against individual assets. Furthermore, the recoverable amount of each CGU wholly justifies the goodwill balances recorded in Group assets. No impairment of goodwill was recognized as a result of the annual impairment tests in 2012.

A sensitivity analysis was carried out in respect of the Group's main goodwill balances, by introducing the following changes to the main assumptions:

- a 5% increase or decrease in the USD/EUR exchange rate;
- a 0.5% increase in the benchmark discount rate;
- a 0.5% decrease in the perpetual growth rate.

In 2013 as in 2012, the above changes in the main assumptions taken individually do not result in values in use lower than the carrying amounts of goodwill balances.

## Note 11 • Intangible assets

Intangible assets break down as follows:

(in € millions)	Dec. 31, 2012			Dec. 31, 2013		
	Gross	Amortization/ impairment	Net	Gross	Amortization/ impairment	Net
Aircraft programs <sup>(1)</sup>	2,670	(1,448)	1,222	2,670	(1,630)	1,040
Development expenditures	1,853	(435)	1,418	2,540	(483)	2,057
Commercial agreements and concessions	422	(143)	279	520	(165)	355
Software	416	(343)	73	473	(367)	106
Brands	147	(11)	136	147	(17)	130
Commercial relationships	569	(174)	395	743	(225)	518
Technology	298	(72)	226	341	(101)	240
Other	178	(55)	123	272	(77)	195
<b>TOTAL</b>	<b>6,553</b>	<b>(2,681)</b>	<b>3,872</b>	<b>7,706</b>	<b>(3,065)</b>	<b>4,641</b>

(1) Remeasured at fair value in connection with the Sagem-Snecma merger in 2005.

Brands with indefinite useful lives are valued at €119 million and comprise the Snecma (€85 million) and Turbomeca (€34 million) brands. The weighted average remaining amortization period for aircraft programs is approximately five years.



Movements in intangible assets break down as follows:

<i>(in € millions)</i>	Gross	Amortization/ impairment	Net
<b>At December 31, 2012</b>	<b>6,553</b>	<b>(2,681)</b>	<b>3,872</b>
Capitalization of R&D expenditure <sup>(1)</sup>	720	-	720
Internally produced assets excluding R&D	94	-	94
Separate acquisitions	161	-	161
Disposals and retirements	(25)	13	(12)
Amortization	-	(399)	(399)
Impairment losses recognized in profit or loss	-	(16)	(16)
Reclassifications	(15)	10	(5)
Changes in scope of consolidation	256	(7)	249
Translation adjustments	(38)	15	(23)
<b>AT DECEMBER 31, 2013</b>	<b>7,706</b>	<b>(3,065)</b>	<b>4,641</b>

(1) Including capitalized interest of €26 million.

Research and development expenditure recognized in recurring operating income for the year totaled €681 million including amortization (€667 million in 2012).

Amortization was recognized in respect of revalued assets for €250 million (allocation of the cost of the Snecma group business combination for €150 million and other recent acquisitions for €100 million).

## 2013 impairment tests

The main assumptions used to determine the recoverable amount of intangible assets relating to programs, projects and product families are as follows:

- the average USD exchange rate adopted is 1.26 for years 2014 to 2017 and 1.35 thereafter (2012: 1.29 for years 2013 to 2016 and 1.35 thereafter). These exchange rate assumptions correspond to the assumptions updated during the second half of the year;
- the benchmark discount rate used is 8% (unchanged from 2012). Depending on the intangible asset concerned, the discount rate may be increased by a specific risk premium to take account of any technological or product/market risks. Discount rates therefore range from 8% to 11%, as in 2012.

As a result of the impairment tests carried out in 2013, intangible assets relating to Propulsion projects were written down for a cumulative amount of €15 million, while intangible assets relating to Security projects were written down in an amount of €2 million.

These write-downs are shown in non-recurring operating expenses for the year (see Note 5).

A sensitivity analysis was carried out in respect of the Group's main intangible assets relating to programs, projects and product families, by introducing the following changes to the main assumptions:

- a 5% increase or decrease in the USD/EUR exchange rate;
- a 1% increase or decrease in the benchmark discount rate;
- a 10% increase or decrease in the standard sales contract volumes.

In 2013 as in 2012, the above changes in the main assumptions taken individually do not result in a material risk with respect to the recoverable amounts of intangible assets relating to programs, projects and product families.

## 2012 impairment tests

As a result of the impairment tests carried out in 2012, intangible assets relating to a Security project were written down for a cumulative amount of €7 million. This write-down is shown within non-recurring operating expenses (see Note 5).

## Note 12 · Property, plant and equipment

Property, plant and equipment break down as follows:

(in € millions)	Dec. 31, 2012			Dec. 31, 2013		
	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	233	-	233	226	-	226
Buildings	1,333	(697)	636	1,353	(690)	663
Technical facilities, equipment and tooling	4,241	(3,008)	1,233	4,310	(3,112)	1,198
Assets in progress, advances	321	(4)	317	464	(4)	460
Site development and preparation costs	50	(27)	23	54	(31)	23
Buildings on land owned by third parties	96	(50)	46	98	(53)	45
Computer hardware and other equipment	495	(379)	116	515	(390)	125
<b>TOTAL</b>	<b>6,769</b>	<b>(4,165)</b>	<b>2,604</b>	<b>7,020</b>	<b>(4,280)</b>	<b>2,740</b>

Movements in property, plant and equipment can be analyzed as follows:

(in € millions)	Gross	Depreciation/ impairment	Net
<b>At December 31, 2012</b>	<b>6,769</b>	<b>(4,165)</b>	<b>2,604</b>
Internally produced assets	97	-	97
Additions	481	-	481
Disposals and retirements	(187)	136	(51)
Depreciation	-	(363)	(363)
Impairment losses recognized in profit or loss	-	(7)	(7)
Reclassifications	(14)	22	8
Changes in scope of consolidation	(24)	47	23
Translation adjustments	(102)	50	(52)
<b>AT DECEMBER 31, 2013</b>	<b>7,020</b>	<b>(4,280)</b>	<b>2,740</b>

Assets held under finance leases and recognized in property, plant and equipment break down as follows:

(in € millions)	Dec. 31, 2012			Dec. 31, 2013		
	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	5	-	5	5	-	5
Buildings	156	(31)	125	139	(30)	108
Technical facilities, equipment and tooling	50	(34)	16	13	(4)	9
Computer hardware and other equipment	21	(19)	2	20	(19)	1
<b>TOTAL</b>	<b>232</b>	<b>(84)</b>	<b>148</b>	<b>177</b>	<b>(53)</b>	<b>124</b>

## Note 13 · Current and non-current financial assets

Financial assets include:

(in € millions)	Dec. 31, 2012			Dec. 31, 2013		
	Gross	Impairment	Net	Gross	Impairment	Net
Non-consolidated investments <sup>(1)</sup>	359	(150)	209	516	(208)	308
Other financial assets	356	(108)	248	381	(107)	274
<b>TOTAL</b>	<b>715</b>	<b>(258)</b>	<b>457</b>	<b>897</b>	<b>(315)</b>	<b>582</b>

(1) Of which listed securities for €52 million at December 31, 2013 and €50 million at end-2012 (Embraer and Myriad).

Non-consolidated equity investments are classified as available-for-sale and measured at fair value or at cost if fair value cannot be reliably measured.

The main changes in the gross value of non-consolidated equity investments in 2013 were as follows:

- in January 2013, Safran agreed to invest €30 million in the creation of Aerofund III, an investment fund set up to promote SMEs in the Aerospace sector. Only €3 million of this amount had been released at December 31, 2013 (see Note 20);
- in December 2013, Safran recapitalized Société de Motorisation Aéronautique (SMA) in an amount of €49 million.

The Group reviewed the value of each of its available-for-sale investments in order to determine whether any impairment loss needed to be recognized based on available information and the current market climate.

The main changes in impairment on non-consolidated equity investments in 2013 were as follows:

- impairment loss recognized against SMA shares for €46.3 million (this impairment loss was recognized in recurring operating income in an amount of €11.6 million; the balance of €34.7 million results from the reclassification of the provision for negative net equity booked prior to the December 2013 recapitalization);
- impairment loss recognized against Myriad shares for €2.7 million (€3.4 million in 2012).

### Other financial assets

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Loans to non-consolidated companies	148	168
Loans to employees	28	29
Deposits and guarantees	9	9
Other <sup>(1)</sup>	63	68
<b>TOTAL</b>	<b>248</b>	<b>274</b>
<b>Non-current</b>	<b>72</b>	<b>76</b>
<b>Current</b>	<b>176</b>	<b>198</b>

(1) Of which a net receivable of €35 million at December 31, 2013 in respect of warranties received in connection with the SME acquisition (€38 million at December 31, 2012).

Loans to non-consolidated companies correspond to revolving credit account agreements.

The table below shows movements in other financial assets:

(in € millions)	
<b>At December 31, 2012</b>	<b>248</b>
Increase	45
Decrease	(12)
Impairment (reversal/allowance)	1
Reclassifications	(2)
Changes in scope of consolidation	(6)
<b>AT DECEMBER 31, 2013</b>	<b>274</b>

## Note 14 • Investments in associates

The Group's share in the net equity and profit or loss from associates breaks down as follows:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013			
	Net	% interest	Shareholders' equity	Share in profit from associates	Net
Ingenico <sup>(1)</sup>	272	10.25%	118	15	133
Other <sup>(2)</sup>	9	N/A	-	-	-
<b>TOTAL</b>	<b>281</b>		<b>118</b>	<b>15</b>	<b>133</b>

(1) Due to the lack of published data for Ingenico at the date of publication of this report, the share of profit or loss for second-half 2013 was determined based on consensus forecasts provided by analysts. The stock market value was €317 million at December 31, 2013 (5,442,257 shares with a market value of €58.28) versus €514 million at December 31, 2012 (11,950,583 shares with a market value of €43). On March 15, 2013, Safran sold a 12.57% stake in Ingenico, representing 6.6 million shares with a market value of €43.45 (see Note 4).

(2) Deconsolidated companies whose retained earnings have been frozen.

Ingenico has been accounted for under the equity method since March 31, 2008.

An assessment of impairment indicators was performed for this investment and did not result in the recognition of any impairment.

Movements in this caption during the period break down as follows:

(in € millions)

<b>At December 31, 2012</b>	<b>281</b>
Share in profit from associates	15
Disposal of Ingenico shares	(151)
Other movements <sup>(1)</sup>	(12)
<b>AT DECEMBER 31, 2013</b>	<b>133</b>

(1) Of which a decrease of €3 million with respect to Ingenico (see consolidated statement of comprehensive income and Note 19c).

## Note 15 • Inventories and work-in-progress

Inventories and work-in-progress break down as follows:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
	Net	Net
Raw materials and supplies	597	594
Finished goods	1,656	1,690
Work-in-progress	1,834	1,814
Bought-in goods	44	37
<b>TOTAL</b>	<b>4,131</b>	<b>4,135</b>

Movements in inventories and work-in-progress can be analyzed as follows:

(in € millions)	Gross	Impairment	Net
<b>At December 31, 2012</b>	<b>4,685</b>	<b>(554)</b>	<b>4,131</b>
Movements during the period	(45)	-	(45)
Net impairment expense	-	(1)	(1)
Changes in scope of consolidation	91	(5)	86
Translation adjustments	(42)	6	(36)
<b>AT DECEMBER 31, 2013</b>	<b>4,689</b>	<b>(554)</b>	<b>4,135</b>

## Note 16 • Trade and other receivables

(in € millions)	Dec. 31, 2012 Net	Movements during the period	Impairment/ Reversal	Changes in scope of consolidation	Reclassifications	Translation adjustments	Dec. 31, 2013 Net
<b>Operating receivables</b>	<b>4,546</b>	<b>99</b>	<b>(57)</b>	<b>16</b>	<b>3</b>	<b>(28)</b>	<b>4,579</b>
Debit balances on trade payables/ advance payments to suppliers	279	47	(24)	-	-	(1)	301
Trade receivables	4,252	43	(33)	16	3	(27)	4,254
Current operating accounts	3	10	-	-	-	-	13
Employee-related receivables	12	(1)	-	-	-	-	11
<b>Other receivables</b>	<b>479</b>	<b>47</b>	<b>1</b>	<b>2</b>	<b>(1)</b>	<b>(5)</b>	<b>523</b>
Prepayments	67	6	-	1	-	(1)	73
VAT receivables	338	52	-	-	-	(2)	388
Other State receivables	13	4	-	-	(1)	(1)	15
Other receivables	61	(15)	1	1	-	(1)	47
<b>TOTAL</b>	<b>5,025</b>	<b>146</b>	<b>(56)</b>	<b>18</b>	<b>2</b>	<b>(33)</b>	<b>5,102</b>

In both 2013 and 2012, the Group sold trade receivables under three agreements requiring derecognition under IFRS. The terms and conditions of these agreements are presented in Note 23, "Interest-bearing financial liabilities".

Under the agreement with General Electric Capital Corp. regarding CFM Inc., the Group retains a continuing involvement in the form of

a guarantee deposit pledged to protect the purchaser against the risks associated with the receivables sold. The carrying amount of this guarantee deposit at December 31, 2013 was USD 6.9 million compared to USD 5.8 million at December 31, 2012 (amounts based on a 50% interest).

The table below provides a breakdown of trade receivables by maturity:

(in € millions)	Carrying amount at Dec. 31	Neither past due nor impaired	Past due but not impaired at Dec. 31 (in days)					Total past due but not impaired	Past due and impaired
			< 30	31-90	90-180	181-360	> 360		
At December 31, 2012									
Trade receivables	4,252	3,791	218	105	47	37	50	457	4
At December 31, 2013									
Trade receivables	4,254	3,842	128	100	69	55	49	401	11

## Note 17 • Cash and cash equivalents

Cash and cash equivalents break down as follows at December 31, 2013:

<i>(in € millions)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2013</b>
Negotiable debt securities	3	-
Money-market funds	14	14
Short-term investments	1,350	1,146
Sight deposits	826	512
<b>TOTAL</b>	<b>2,193</b>	<b>1,672</b>

The table below presents changes in cash and cash equivalents:

<i>(in € millions)</i>	
<b>At December 31, 2012</b>	<b>2,193</b>
Movements during the period	(497)
Changes in scope of consolidation	(5)
Translation adjustments	(19)
<b>AT DECEMBER 31, 2013</b>	<b>1,672</b>



## Note 18 · Summary of financial assets

The table below presents the carrying amount of the Group's financial assets at December 31, 2012 and December 31, 2013:

	Carrying amount				Total  = a+b+c+d
	At amortized cost		At fair value		
	Loans and receivables  (a)	Assets held to maturity  (b)	Financial assets at fair value (through profit or loss)  (c)	Financial assets available for sale (through equity)  (d)	
<b>At December 31, 2012</b> <i>(in € millions)</i>					
<b>Non-current financial assets</b>					
Non-consolidated investments				209	209
Non-current derivatives (positive fair value)			62		62
Other non-current financial assets	72				72
<b>Sub-total non-current financial assets</b>	<b>72</b>	<b>-</b>	<b>62</b>	<b>209</b>	<b>343</b>
Other current financial assets	176				176
Current derivatives (positive fair value)			585		585
Trade receivables	4,252				4,252
Current operating accounts and other receivables	64				64
Cash and cash equivalents	2,193				2,193
<b>Sub-total current financial assets</b>	<b>6,685</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>7,270</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>6,757</b>	<b>-</b>	<b>647</b>	<b>209</b>	<b>7,613</b>

	Carrying amount				Total  = a+b+c+d
	At amortized cost		At fair value		
	Loans and receivables  (a)	Assets held to maturity  (b)	Financial assets at fair value (through profit or loss)  (c)	Financial assets available for sale (through equity)  (d)	
<b>At December 31, 2013</b> <i>(in € millions)</i>					
<b>Non-current financial assets</b>					
Non-consolidated investments				308	308
Non-current derivatives (positive fair value)			-		-
Other non-current financial assets	76				76
<b>Sub-total non-current financial assets</b>	<b>76</b>	<b>-</b>	<b>-</b>	<b>308</b>	<b>384</b>
Other current financial assets	198				198
Current derivatives (positive fair value)			864		864
Trade receivables	4,254				4,254
Current operating accounts and other receivables	60				60
Cash and cash equivalents	1,672				1,672
<b>Sub-total current financial assets</b>	<b>6,184</b>	<b>-</b>	<b>864</b>	<b>-</b>	<b>7,048</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>6,260</b>	<b>-</b>	<b>864</b>	<b>308</b>	<b>7,432</b>

The Group did not reclassify any financial assets between the amortized cost and fair value categories in 2012 or 2013.

### Fair value of financial assets

The fair value of financial assets recorded at amortized cost is close to their carrying amount.

Safran uses the fair value hierarchy set out in IFRS 13 to determine the classification of financial assets at fair value:

- Level 1: inputs that reflect quoted prices for identical assets or liabilities in active markets;

- Level 2: directly or indirectly observable inputs other than quoted prices for identical assets or liabilities in active markets;
- Level 3: unobservable inputs.

The Group's financial assets carried at fair value at December 31, 2012 are shown below:

(in € millions)	Level 1	Level 2	Level 3	Total
Non-consolidated investments <sup>(*)</sup>	50	-	-	50
Derivatives (positive fair value)	-	647	-	647
<b>TOTAL</b>	<b>50</b>	<b>647</b>	<b>-</b>	<b>697</b>

(\*) Excluding investments at cost.

The Group's financial assets carried at fair value at December 31, 2013 are shown below:

(in € millions)	Level 1	Level 2	Level 3	Total
Non-consolidated investments <sup>(*)</sup>	52	-	-	52
Derivatives (positive fair value)	-	864	-	864
<b>TOTAL</b>	<b>52</b>	<b>864</b>	<b>-</b>	<b>916</b>

(\*) Excluding investments at cost.

In 2012 and 2013, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

### Offsetting of financial assets and financial liabilities

At Dec. 31, 2012 (in € millions)	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet <sup>(1)</sup> (c)	Amount subject to offset agreement but not offset (d)	Net (c) - (d)
Derivatives (positive fair value)	647	-	647	218	429

(1) See Note 27.

At Dec. 31, 2013 (in € millions)	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet <sup>(1)</sup> (c)	Amount subject to offset agreement but not offset (d)	Net (c) - (d)
Derivatives (positive fair value)	864	-	864	179	685

(1) See Note 27.

The tables above show the financial assets for which an offsetting agreement exists with respect to financial liabilities.

At both December 31, 2013 and December 31, 2012, the Group did not offset any financial assets and liabilities on its balance sheet, since it did not meet the conditions specified in IAS 32. Master offsetting (netting) agreements governing the subscription of OTC

derivatives with bank counterparties provide for a right of set-off only in the event of default, insolvency or bankruptcy of one of the parties to the agreement.

The amounts subject to an offset agreement but not offset comprise a portion of the Group's derivatives with a negative fair value, since amounts can only be offset if they relate to the same counterparty.

## Note 19 • Consolidated shareholders' equity

### a) Share capital

At December 31, 2013, Safran's share capital was fully paid up and comprised 417,029,585 shares, each with a par value of €0.20. Safran's equity does not include any equity instruments issued other than its shares.

### b) Breakdown of share capital and voting rights

Changes in the breakdown of share capital and voting rights are as follows:

#### DECEMBER 31, 2012

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights <sup>(*)</sup>
Private investors	225,492,451	54.07%	232,460,825	47.00%
French State	125,940,227	30.20%	143,752,222	29.07%
Current and former employee shareholders	64,475,488	15.46%	118,355,148	23.93%
Treasury shares	1,121,419	0.27%	-	-
<b>TOTAL</b>	<b>417,029,585</b>	<b>100.00%</b>	<b>494,568,195</b>	<b>100.00%</b>

(\*) Exercisable voting rights.

#### DECEMBER 31, 2013

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights <sup>(*)</sup>
Private investors	261,687,728	62.75%	267,697,671	51.90%
French State	93,440,227	22.41%	132,440,227	25.68%
Current and former employee shareholders	61,320,526	14.70%	115,672,870	22.42%
Treasury shares	581,104	0.14%	-	-
<b>TOTAL</b>	<b>417,029,585</b>	<b>100.00%</b>	<b>515,810,768</b>	<b>100.00%</b>

(\*) Exercisable voting rights.

On March 27, 2013, the French State finalized the sale of a 3.12% stake in Safran's share capital by way of a private institutional placement through an accelerated book building process reserved for institutional investors. On November 15, 2013, the French State carried out a similar operation on 4.7% of Safran's share capital. The French State's interest in Safran following these two transactions was 22.41%.

The French State has indicated that in accordance with article 11 of Law 86-912 of August 6, 1986, it will offer shares of the Company to Safran employees at a later date.

Each share carries entitlement to one vote. Shares held in registered form for over two years have double voting rights.

The 581,104 treasury shares have no voting rights.

#### ■ Treasury shares

The number of treasury shares has declined since December 31, 2012 following:

- the delivery of 495,700 shares in April 2013 to settle obligations to employees of European subsidiaries under the free share plan launched on April 3, 2009 (see Note 19e);
- the sale of 44,615 shares under the liquidity agreement.

On May 31, 2012, the Shareholders' Meeting authorized the Board of Directors to buy and sell shares in the Company in accordance with the applicable laws and regulations.

This authorization was renewed by the Shareholders' Meeting held on May 28, 2013.

Pursuant to these authorizations, in 2013 the Company purchased 2,957,646 shares for €115 million, and sold 3,002,261 shares for €117 million. These transactions were carried out within the scope of a liquidity agreement.

In January 2012, the Group signed a liquidity agreement with Oddo aimed at enhancing the liquidity for the market in Safran shares. A total of €10 million was assigned to this agreement.

At December 31, 2013, 62,500 shares were held in connection with the Group's liquidity agreement.

### c) Equity

Movements in equity are as follows:

(in € millions)

<b>Equity prior to profit at December 31, 2012</b>	<b>4,552</b>
2012 profit	1,282
Dividend distribution	(271)
2013 interim dividend	(200)
Change in translation adjustment and net investment hedges	(90)
Current taxes on net investment hedges recognized in equity	(12)
Deferred taxes recognized in equity (IAS 19)	6
Delivery and sale of treasury shares	2
Current taxes on disposals of treasury shares recognized in equity	(3)
Change in actuarial gains and losses on post-employment benefits	(20)
Available-for-sale financial assets	4
<b>EQUITY PRIOR TO PROFIT AT DECEMBER 31, 2013</b>	<b>5,250</b>

### d) Dividend distribution

A dividend payout of €0.96 per share was approved in respect of 2012 and partially paid in that year in the form of an interim dividend of €0.31 per share, representing a total of €129 million. The remaining €0.65 dividend per share was paid in first-half 2013, representing a total payout of €271 million.

The Board of Directors' meeting of December 11, 2013 approved payment of an interim dividend of €0.48 per share in respect of 2013, representing a payout of €200 million.

At the Shareholders' Meeting to be called on May 27, 2014 in order to approve the financial statements for the year ended December 31, 2013, the Board of Directors will recommend payment of a dividend of €1.12 per share in respect of 2013, representing a total payout of €467 million (before deducting the interim dividend paid). Taking account of the interim dividend already paid, the amount still to be distributed totals €267 million.

### e) Share-based payment

#### ■ Free share grants

Pursuant to the authorization granted by the Shareholders' Meeting of May 28, 2008, the Executive Board decided to implement a free share plan on April 3, 2009. The plan was intended for employees of Group companies based in the European Union and on the payroll at April 3, 2009. A total of 42,345 beneficiaries based in ten different countries each received 100 shares under the plan.

#### Terms and conditions of the share grants

Shares granted to employees of Group companies headquartered in France vest fully after a period of two years. The shares are also subject to a minimum two-year lock-up period, which begins on the date the shares fully vest. Shares granted to employees of Group companies headquartered outside France vest fully after a period of four years and are not subject to a lock-up period.

These shares are not subject to any specific performance conditions other than the employee's effective presence in the Company throughout the vesting period.

All shares granted by Safran under such plans are equity-settled.

### Measurement of rights to free share grants

Rights to shares were measured at their fair value at the grant date. The value of the shares at the grant date was reduced by (i) the estimated present value of future dividends forfeited by employees during the vesting period, and (ii) the cost to the Group's French employees of the minimum lock-up period.

	France	Other countries (excl. France)
Grant date	4/3/2009	4/3/2009
Vesting date	4/3/2011	4/3/2013
Post vesting lock-up period	2 years	none
Number of employee beneficiaries at the grant date	36,785	5,560
Number of shares granted per employee		100
Total number of shares granted	3,678,500	556,000
Expected dividend payout rate		3.17%
Risk-free rate at the grant date		2.675%
Market value of shares at the grant date		€7.54
Fair value per share	€6.75	€6.64

The expense recognized in respect of these shares in 2013 was €0.2 million (€0.9 million in 2012).

Fully vested shares granted to employees of European companies were delivered at the beginning of April 2013 (495,700 shares).

### ■ Leveraged Group savings plan

In November 2011, the Group launched a leveraged employee shareholding plan allowing employees working in France to acquire Safran shares under preferential conditions. A total of six million Safran treasury shares were available for subscription under this plan.

The plan was rolled out to Group employees working outside France in the first half of 2012.

### Terms and conditions of the leveraged plan

Under the leveraged plan, employees can subscribe to Safran shares at a lower-than-market price (i.e., 20% less than the average of the closing share price between November 11, 2011 and December 8, 2011 for employees of Group companies headquartered in France and between March 21, 2012 and April 19, 2012 for employees of Group companies headquartered outside France). These shares are subject to a five-year lock-up period.

For each share purchased by employees, a bank mandated by the Group contributes nine additional shares. Employees are guaranteed a return at least equal to the amount they invested. In addition, all amounts invested are indexed to the share price so that employees accrue a return on their investment if the share price rises above the undiscounted reference share price.

As consideration for the bank top-up and guarantees (capital and indexation) included in this plan, employees have waived their right to the 20% discount granted by Safran and to any dividends payable on the shares over the period.

All of the shares subscribed are held in a leveraged fund set up specifically for this purpose within the Group's employee savings plan.

### Cost of the leveraged plan

The cost of this plan has been measured in accordance with the recommendation issued by the French National Accounting Board (*Conseil National de la Comptabilité* – CNC), taking into account the applicable five-year lock-up period. This approach uses a replication strategy based on a market participant selling the share at the end of the five-year lock-up period, borrowing the amount needed to purchase the share immediately on the market, and financing the amount borrowed by a forward sale and by the dividends paid over the lock-up period. The cost of the leveraged plan also factors in the implicit opportunity gain whereby employees are able to access institutional rather than retail rates for derivative instruments.

The first part of the plan, launched by the Group in 2011, represented a total expense of €8.2 million which was recognized in personnel costs in second-half 2011. The second international part of the plan represented an expense of €0.6 million, recognized in the first half of 2012. No expenses have since been recognized in respect of this plan. The characteristics and assumptions used to measure the plan are set out in Note 19e, section 3.1 of the 2012 Registration Document.

## Note 20 • Provisions

Provisions break down as follows:

(in € millions)	Dec. 31, 2012	Additions	Reversals			Changes in scope of consolidation	Other	Dec. 31, 2013
			Utilizations	Reclassifications	Surplus			
Performance warranties	642	244	(119)	(2)	(84)	23	(2)	702
Financial guarantees	28	7	(7)	-	(2)	-	-	26
Services to be rendered	487	270	(221)	-	(8)	-	(5)	523
Post-employment benefits <sup>(*)</sup>	739	111	(76)	-	(4)	-	28	798
Sales agreements and long-term receivables	129	72	(22)	(2)	(38)	7	10	156
Provisions for losses on completion and losses arising on delivery commitments	518	139	(89)	(88)	(10)	5	-	475
Disputes and litigation	36	12	(9)	-	(4)	-	1	36
Other <sup>(1)</sup>	308	61	(49)	-	(6)	1	(56)	259
<b>TOTAL</b>	<b>2,887</b>	<b>916</b>	<b>(592)</b>	<b>(92)</b>	<b>(156)</b>	<b>36</b>	<b>(24)</b>	<b>2,975</b>
<b>Non-current</b>	<b>1,823</b>							<b>1,751</b>
<b>Current</b>	<b>1,064</b>							<b>1,224</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) Of which a provision of €85 million (December 31, 2012: €90 million) for environmental liabilities and contingent liabilities subject to a specific guarantee granted by SNPE to Safran in connection with the acquisition of SME and its subsidiaries (see Note 30).

(in € millions)	2013
Net amount recognized in operating items	(72)
Net amount recognized in financial items	(4)
<b>TOTAL NET AMOUNT RECOGNIZED IN THE INCOME STATEMENT</b>	<b>(76)</b>

The Group makes a number of reclassifications when provisions initially recognized in liabilities – namely provisions for losses on completion and for losses arising on delivery commitments – are subsequently recognized in assets, for example writedowns of inventories and work-in-progress.

## Note 21 • Post-employment benefits

The Group has various commitments in respect of defined benefit pension plans, retirement termination benefits and other commitments, mainly in France and the United Kingdom. The accounting treatment applied to these commitments is detailed in Note 1.s.

### a) Presentation of post-employment benefits

#### ■ France

##### Defined benefit pension plans

The Group's supplementary defined benefit retirement plan for former Snecma managerial grade staff between 1985 and 1995 and still employed by the Group, is closed and has been frozen since 1995. The plan is funded by contributions paid to an insurance company which then manages payment of the pensions. At December 31, 2013, around 205 claimants were still in active service and the last retirement is planned for 2015.

Following the closure of this plan, managerial-grade staff (*cadres*) were moved to a new supplementary defined contribution pension plan that has been rated out to most Group companies.

In late 2013, the Board of Directors approved a new supplementary pension plan in France, for which executive managers within the Group, currently numbering around 400, are eligible.

The plan, effective as of January 1, 2014, provides for the payment of benefits based on years of service within the beneficiary category (at least five years of service are required to be eligible for the benefits, and up to 10 years are taken into account in determining entitlement) and benchmark compensation (corresponding to the average salary in the 36 months preceding retirement).

The benefits payable are capped at three times the annual social security ceiling ("PASS") in France. The combined amount of benefits under all pension regimes cannot exceed 35% of the benchmark compensation.

##### Retirement termination benefits

This heading includes obligations in respect of statutory termination benefits due on retirement and supplementary payments required by the collective bargaining agreement for the metallurgy industry. The Group also signed a three-year agreement starting in 2012 increasing retirement termination benefits for the over 50s.

##### Other long-term benefits

In France, this heading mainly comprises obligations in respect of long-service awards, loyalty premiums and executive bonuses.

#### ■ United Kingdom

##### Defined benefit pension plans

There are three pension funds in place at Messier-Dowty/Messier Services Ltd, Aircelle Ltd and Safran UK. These pension funds have been contracted out, which means they replace the mandatory supplementary pension plan. The plans are managed by trusts. Employees participate in the funding through salary-based contributions. With the exception of the Safran UK pension fund, the average breakdown of contributions between the employer and the employee is 88% and 12%, respectively. The Safran UK pension fund only covers pensions for retired employees of Cinch UK, which was sold in 2009.

#### ■ Rest of the world

The Group offers its other employees post-employment benefits and long-service bonuses in accordance with local laws and practices. The main regions concerned are:

- Americas: pension funds mainly in Canada and to a lesser extent in the US; retirement termination benefits in Mexico;
- Europe: pension funds in Belgium, Germany, the Netherlands and Switzerland; retirement termination benefits in Poland; long-service bonuses in the Netherlands and Poland;
- Asia: retirement termination benefits in India.

### b) Financial position

(in € millions)	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013	France	United Kingdom	Rest of the world
Gross obligations	1,146	1,243	639	457	147
Fair value of plan assets	407	445	9	354	82
<b>Provision recognized in the accounts</b>	<b>739</b>	<b>798</b>	<b>630</b>	<b>103</b>	<b>65</b>
• Defined benefit pension plans	188	221	69	103	49
• Retirement termination benefits	514	538	524	-	14
• Long-service bonuses and other employee benefits	37	39	37	-	2
<b>Recognized net plan assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).



(in € millions)	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013	Defined benefit pension plans	Retirement termination benefits	Long-service bonuses and other long-term benefits
Gross obligations	1,146	1,243	666	538	39
Fair value of plan assets	407	445	445	-	-
<b>Provision recognized in the accounts</b>	<b>739</b>	<b>798</b>	<b>221</b>	<b>538</b>	<b>39</b>
<b>Recognized net plan assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

The €97 million increase in the Group's gross obligation chiefly results from a new retirement plan set up within the Group (recognition of past service costs in non-recurring operating expenses for €40 million – see Note 6) and from the change in

actuarial assumptions used to measure post-employment benefits (decrease of 0.25 points in the discount rate for the eurozone, increase of 0.4 points in the inflation rate for the UK region).

The cost of the Group's pension obligations in 2012 and 2013 can be analyzed as follows:

(in € millions)	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013
Current service cost	(33)	(41)
Actuarial gains and losses (on other long-term benefits)	(3)	-
Change in retirement plans (implementation, curtailment and settlement)	(36)	(39)
Plan administration costs	(1)	(1)
<b>Total operating component of the pension expense</b>	<b>(73)</b>	<b>(81)</b>
Interest cost on the net benefit obligation	(23)	(24)
<b>Total financing component of the pension expense</b>	<b>(23)</b>	<b>(24)</b>
<b>TOTAL</b>	<b>(96)</b>	<b>(105)</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

The Group expects to pay a total of €26 million into its defined benefit pension plans in 2014 (€25 million in 2013 and €27 million in 2012).

Main assumptions used to calculate the gross benefit obligation:

(in € millions)		Eurozone	United Kingdom
<b>Discount rate</b>	Dec. 31, 2012	3.25%	4.50%
	<b>Dec. 31, 2013</b>	<b>3.00%</b>	<b>4.50%</b>
<b>Inflation rate</b>	Dec. 31, 2012	2.00%	2.95%
	<b>Dec. 31, 2013</b>	<b>2.00%</b>	<b>3.35%</b>
<b>Rate of annuity increases</b>	Dec. 31, 2012	2.00%	2.90%
	<b>Dec. 31, 2013</b>	<b>2.00%</b>	<b>3.20%</b>
<b>Rate of future salary increases</b>	Dec. 31, 2012	1.50%-5.00%	N/A
	<b>Dec. 31, 2013</b>	<b>1.5%-5.00%</b>	<b>N/A</b>
<b>Retirement age</b>	Dec. 31, 2012	Managerial: 64/65 years Non-managerial: 62/65 years	65 years
	<b>Dec. 31, 2013</b>	<b>Managerial: 64/65 years Non-managerial: 62/65 years</b>	<b>65 years</b>

The discount rates are determined by reference to the yield on investment-grade bonds (AA), using the Iboxx index for its two main regions (eurozone and UK).

### ■ Sensitivity analysis

A 0.5% increase or decrease in the main actuarial assumptions would have the following impacts on the gross value of the projected benefit obligation at December 31, 2013:

(in € millions)

Sensitivity (basis points)	-0.50%	+0.50%
Discount rate	88	(78)
Inflation rate	(37)	38
Rate of future salary increases	(39)	43

For the purpose of the analysis, it was assumed that all other variables remained the same.

The change in the value of the gross projected benefit obligation would have mainly affected actuarial gains and losses recognized in other comprehensive income.

## c) Change in the gross benefit obligation and plan assets

### ■ Change in gross benefit obligation

(in € millions)	2012	2013	Defined benefit pension plans	Retirement termination benefits	Other employee benefits
<b>GROSS BENEFIT OBLIGATION AT BEGINNING OF YEAR</b>	<b>908</b>	<b>1,146</b>	<b>595</b>	<b>514</b>	<b>37</b>
<b>A. Pension expense</b>					
Current service cost	33	41	12	25	4
Actuarial gains and losses (on other long-term benefits)	3	-	-	-	-
Change in retirement plans (implementation, curtailment and settlement)	36	39	40	(1)	-
Interest cost	41	41	23	17	1
<b>Total expense recognized in the income statement</b>	<b>113</b>	<b>121</b>	<b>75</b>	<b>41</b>	<b>5</b>
<b>B. Actuarial gains and losses arising in the year on post-employment plans</b>					
Actuarial gains and losses resulting from changes in demographic assumptions	4	3	3	-	-
Actuarial gains and losses resulting from changes in financial assumptions	127	36	23	13	-
Experience adjustments	28	1	(3)	4	-
<b>Total remeasurement recognized in other comprehensive income for the period</b>	<b>159</b>	<b>40</b>	<b>23</b>	<b>17</b>	<b>-</b>
<b>C. Other items</b>					
Employee contributions	4	3	3	-	-
Benefits paid	(45)	(64)	(18)	(43)	(3)
Changes in scope of consolidation	-	-	-	-	-
Other movements	-	9	-	9	-
Translation adjustments	7	(12)	(12)	-	-
Reclassification to liabilities held for sale	-	-	-	-	-
<b>Total other items</b>	<b>(34)</b>	<b>(64)</b>	<b>(27)</b>	<b>(34)</b>	<b>(3)</b>
<b>GROSS BENEFIT OBLIGATION AT END OF YEAR</b>	<b>1,146</b>	<b>1,243</b>	<b>666</b>	<b>538</b>	<b>39</b>
Average weighted term of pension plans (years)	15	14	18	10	8

### ■ Change in fair value of plan assets

(in € millions)	2012	2013	Defined benefit pension plans	Retirement termination benefits	Other employee benefits
<b>FAIR VALUE OF PLAN ASSETS AT BEGINNING OF YEAR</b>	<b>358</b>	<b>407</b>	<b>407</b>	<b>-</b>	<b>-</b>
<b>A. Income</b>					
Interest income on plan assets	18	17	17	-	-
Plan administration costs	(1)	(1)	(1)	-	-
<b>Total income recognized in the income statement</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>-</b>	<b>-</b>
<b>B. Actuarial gains and losses arising in the year on post-employment plans</b>					
Return on plan assets (excluding interest income component)	12	19	19	-	-
<b>Total remeasurement recognized in other comprehensive income for the period</b>	<b>12</b>	<b>19</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>C. Other items</b>					
Employee contributions	3	3	3	-	-
Employer contributions	27	28	28	-	-
Benefits paid	(17)	(18)	(18)	-	-
Changes in scope of consolidation	-	-	-	-	-
Other movements	-	-	-	-	-
Translation adjustments	7	(10)	(10)	-	-
Reclassification to assets held for sale	-	-	-	-	-
<b>Total other items</b>	<b>20</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>-</b>
<b>FAIR VALUE OF PLAN ASSETS AT END OF YEAR</b>	<b>407</b>	<b>445</b>	<b>445</b>	<b>-</b>	<b>-</b>

### d) Asset allocation

	United Kingdom % allocation at		Other European countries % allocation at	
	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
Shares	37.83%	36.13%	16.36%	15.41%
Bonds and debt instruments	33.73%	26.59%	63.69%	66.04%
Property	6.92%	6.68%	11.91%	8.39%
Mutual funds (OPCVM) and diversified funds	16.20%	25.59%	0.00%	0.00%
Cash and cash equivalents	1.34%	0.96%	1.86%	1.68%
Other	3.98%	4.05%	6.18%	8.48%

An active market price exists for all plan assets except property. In the UK, the Group's long-term aim is to limit its exposure to defined benefit plans and ultimately endeavor to contract out these obligations to insurance firms under favorable market conditions. In the meantime, the Group is committed to ensuring that its pension obligations are adequately funded.

The Group's investment policy for pension funds in the UK combines safe harbor investments (in monetary funds, government bonds, bond funds), to secure the medium-term funding of obligations, with riskier investments such as in equity funds and real estate funds, whose expected profitability over the long term guarantees the financial stability of the plans.

**e) Contributions to defined contribution plans**

The expense for 2013 in respect of defined contribution plans amounts to €335 million (€313 million in 2012).

The expense is broken down into contributions paid into standard retirement plans and contributions paid into Art. 83 supplementary retirement plans which have been set up within the Group's main French companies. The expense for the period also includes contributions paid into a multi-employer plan in the United Kingdom (€0.6 million). The Group does not expect the contributions to be paid into this multi-employer plan to increase in the medium-term due to the net shortfall of the plan.

**f) Individual training entitlement**

In accordance with French Law 2004-391 of May 4, 2004 governing professional training and with the industry-wide agreement of July 20, 2004, the Group's French companies grant their employees the right to individual training. Employees are entitled to at least 20 training hours per calendar year, which can be carried forward and accumulated up to a maximum total of 120 hours.

This is taken into account in the French companies' collective bargaining on in-service training and skills development.

**Note 22 · Borrowings subject to specific conditions**

This caption mainly includes repayable advances granted by the French State.

Movements in this caption break down as follows:

(in € millions)

<b>At December 31, 2012</b>	<b>670</b>
New advances received	1
Advances repaid	(28)
Cost of borrowings	30
Translation adjustments	(7)
Adjustments to the probability of repayment of advances	4
<b>AT DECEMBER 31, 2013</b>	<b>670</b>

## Note 23 · Interest-bearing financial liabilities

### Breakdown of interest-bearing financial liabilities

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Bond issue	759	-
Senior unsecured notes in USD	945	832
Finance lease liabilities	118	106
Other long-term borrowings	437	357
<b>Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)</b>	<b>2,259</b>	<b>1,295</b>
Bond issue	-	753
Finance lease liabilities	45	15
Other long-term borrowings	346	349
Accrued interest not yet due	14	11
<b>Current interest-bearing financial liabilities, long-term at inception</b>	<b>405</b>	<b>1,128</b>
Commercial paper	407	250
Short-term bank facilities and equivalent	104	57
<b>Current interest-bearing financial liabilities, short-term at inception</b>	<b>511</b>	<b>307</b>
<b>Total current interest-bearing financial liabilities (less than 1 year)</b>	<b>916</b>	<b>1,435</b>
<b>TOTAL INTEREST-BEARING FINANCIAL LIABILITIES</b>	<b>3,175</b>	<b>2,730</b>

Movements in this caption break down as follows:

(in € millions)	
<b>At December 31, 2012</b>	<b>3,175</b>
Increase in borrowings	11
Accrued interest	(3)
Decrease in borrowings	(151)
Change in short-term borrowings	(191)
Changes in scope of consolidation	(17)
Foreign exchange differences	(13)
Reclassifications and other	(81)
<b>AT DECEMBER 31, 2013</b>	<b>2,730</b>

#### ■ Main long-term borrowings at inception

- On February 9, 2012, Safran issued USD 1.2 billion in senior unsecured notes on the US private placement market, which included:
  - USD 155 million of 7-year notes due February 2019 at a 3.70% fixed-rate coupon (Tranche A);
  - USD 540 million of 10-year notes due February 2022 at a 4.28% fixed-rate coupon (Tranche B);
  - USD 505 million of 12-year notes due February 2024 at a 4.43% fixed-rate coupon (Tranche C).

A USD interest rate hedge (floating-rate swap on 6-month US Libor) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively. Tranche A has been kept at a fixed rate.

The issue's initial fixed-rate interest came out at 2.47% in 2013 after taking account of interest rate derivatives.

- Safran five-year bonds: €750 million issued to French and international investors on November 26, 2009 and maturing on November 26, 2014. The bonds' initial 4.0% fixed-rate interest came out at 3.31% in 2013 after taking account of interest rate derivatives.
- European Investment Bank (EIB) borrowings: €263 million (€300 million at December 31, 2012). This loan bears floating-rate interest indexed to 3-month Euribor plus 0.73% and is repayable in equal six-monthly installments between December 17, 2013 and December 17, 2020.

- Employee savings financing under the Group employee savings plan: €418 million (€430 million at December 31, 2012).

The maximum maturity is five years and the amount falling due within one year is €293 million. The interest rate is set annually and indexed to the five-year French Treasury bill rate (BTAN), i.e., 1.62% for 2013 and 3.56% for 2012.

The interest rate used for 2014 is 1.87%. A fixed-rate borrower/floating-rate lender interest rate swap was taken out in respect of this financing for €75 million with the aim of fixing the interest rate over a period of four years from the end of 2012. The swap was unwound in the first six months of 2013.

- Messier-Bugatti-Dowty USA Inc. real estate lease financing contract with a fixed rate of 5.2%: this was repaid in full in July 2013 (USD 38 million, or €29 million, at December 31, 2012).
- Turbomeca real estate lease financing contract: €45 million (€50 million at December 31, 2012), of which €5 million was due within one year. The lease bears fixed-rate interest of 4.7% and expires in November 2021.

- Sagem real estate lease financing contract: €42 million (€47 million at December 31, 2012), bearing floating-rate interest indexed to 3-month Euribor. The lease expires in January 2022.

The Group's other long- and medium-term borrowings are not material taken individually.

#### ■ Main short-term borrowings

- Commercial paper: €250 million (€407 million at December 31, 2012).

This amount comprises several drawdowns made under market terms and conditions, mostly with maturities of less than one year.

- Financial current accounts with non-consolidated subsidiaries: €31 million (€33 million at December 31, 2012). Interest is indexed to Euribor.

Other short-term borrowings are not material taken individually.

#### ■ Analysis by maturity

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
Maturing in:		
1 year or less	916	1,435
More than 1 year and less than 5 years	1,139	340
Beyond 5 years	1,120	955
<b>TOTAL</b>	<b>3,175</b>	<b>2,730</b>

Analysis by currency:

<i>(in millions of currency units)</i>	Dec. 31, 2012		Dec. 31, 2013	
	Currency	EUR	Currency	EUR
EUR	2,119	2,119	1,864	1,864
USD	1,354	1,026	1,189	862
CAD	1	-	-	-
GBP	3	4	-	-
Other	N/A	26	N/A	4
<b>TOTAL</b>		<b>3,175</b>		<b>2,730</b>

Analysis by type of interest rate (fixed/floating), before hedging:

<i>(in € millions)</i>	Total		Non-current				Current			
	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
	Base	Base	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	1,873	1,690	1,774	4.16%	898	4.29%	99	3.38%	792	3.91%
Floating rate	1,302	1,040	485	2.08%	397	1.21%	817	1.54%	643	0.94%
<b>TOTAL</b>	<b>3,175</b>	<b>2,730</b>	<b>2,259</b>	<b>3.71%</b>	<b>1,295</b>	<b>3.34%</b>	<b>916</b>	<b>1.74%</b>	<b>1,435</b>	<b>2.58%</b>

Analysis by type of interest rate (fixed/floating), after hedging:

	Total		Non-current				Current			
	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012		Dec. 31, 2013		Dec. 31, 2012		Dec. 31, 2013	
	Base	Base	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
(in € millions)										
Fixed rate	1,045	970	946	3.26%	178	4.02%	99	3.38%	792	3.26%
Floating rate	2,130	1,760	1,313	2.38%	1,117	1.90%	817	1.54%	643	0.94%
<b>TOTAL</b>	<b>3,175</b>	<b>2,730</b>	<b>2,259</b>	<b>2.75%</b>	<b>1,295</b>	<b>2.19%</b>	<b>916</b>	<b>1.74%</b>	<b>1,435</b>	<b>2.22%</b>

The Group's net debt position is as follows:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Cash and cash equivalents (A)	2,193	1,672
Interest-bearing financial liabilities (B)	3,175	2,730
Fair value of interest rate derivatives hedging borrowings (C)	50	(31)
<b>TOTAL (A) - (B) + (C)</b>	<b>(932)</b>	<b>(1,089)</b>

Safran's issue of USD 1.2 billion in senior unsecured notes on the US private placement market on February 9, 2012 was maintained in US dollars and no foreign exchange swaps were taken out in this respect. Changes in the euro value of this issue had a positive impact of €39 million on the Group's net debt at December 31, 2013.

Net debt at both December 31, 2013 and December 31, 2012 does not include the following three assigned trade receivables without recourse:

- CFM Inc.:
  - Confirmed 24-month facility for USD 200 million (automatically renewable for further 12-month periods at the end of the first 24 months) granted in October 2009 by General Electric Capital Corp. and renewed under the same terms in October 2013 for a maximum period of four years. A total of USD 124 million (USD 62 million at 50%) had been drawn on this facility at December 31, 2013, versus USD 105 million (USD 52.5 million at 50%) at December 31, 2012.
- CFM SA:
  - Confirmed 364-day facility for USD 1,000 million, renewed in December 2013 by a syndicate of ten banks led by Royal Bank of Scotland (USD 1,500 million in 2012), on which USD 998 million (USD 499 million at 50%) had been drawn at December 31, 2013, versus USD 1,498 million (USD 749 million at 50%) at December 31, 2012.
  - Confirmed 24-month facility for an equivalent value of USD 110 million granted in July 2010 (automatically renewable for further 12-month periods at the end of the first 24 months) by Medio Factoring (Intesa San Paolo group), on which USD 55 million (USD 27.5 million at 50%) had been drawn at December 31, 2013, versus USD 48 million (USD 24 million at 50%) at December 31, 2012.

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Net debt	(932)	(1,089)
Total equity	5,997 <sup>(*)</sup>	6,814
<b>GEARING RATIO</b>	<b>15.54%</b>	<b>15.98%</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).



## Note 24 · Trade and other payables

(in € millions)	Dec. 31, 2012	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2013
<b>Operating payables</b>	<b>7,787</b>	<b>183</b>	<b>18</b>	<b>(40)</b>	<b>3</b>	<b>7,951</b>
Credit balances on trade receivables	1,182	(57)	-	-	-	1,125
Advance payments from customers	3,509	(6)	2	(5)	-	3,500
Trade payables	2,021	139	20	(31)	2	2,151
Current operating account	3	10	(6)	-	1	8
Employee-related liabilities	1,072	97	2	(4)	-	1,167
<b>Other payables</b>	<b>980</b>	<b>(1)</b>	<b>5</b>	<b>(9)</b>	<b>(6)</b>	<b>969</b>
State aid, accrued payables	19	(1)	-	-	-	18
State, other taxes and duties	180	8	-	(2)	-	186
Deferred income	617	(2)	4	(4)	-	615
Other	164	(6)	1	(3)	(6)	150
<b>TOTAL</b>	<b>8,767</b>	<b>182</b>	<b>23</b>	<b>(49)</b>	<b>(3)</b>	<b>8,920</b>

Trade payables carry no interest and fall due in less than one year.

Deferred income primarily concerns revenue recognized under the percentage-of-completion method or revenue deferred.

Trade and other payables fall due as shown below:

(in € millions)	Less than 12 months	More than 12 months
Operating payables	7,498	453
Other payables	823	146
<b>TOTAL</b>	<b>8,321</b>	<b>599</b>

## Note 25 · Other current and non-current financial liabilities

(in € millions)	Dec. 31, 2012	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2013
Payables on purchases of property, plant and equipment and intangible assets	93	48	-	1	-	142
Payables on purchases of investments <sup>(*)</sup>	14	28	-	-	-	42
<b>TOTAL</b>	<b>107</b>	<b>76</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>184</b>
<b>Non-current</b>	<b>81</b>					<b>120</b>
<b>Current</b>	<b>26</b>					<b>64</b>

(\*) Including €27 million corresponding to the unpaid portion of the investment in the "Aerofund III" fund (see Note 13).

## Note 26 · Summary of financial liabilities

The table below presents the carrying amount of the Group's financial liabilities at December 31, 2012 and December 31, 2013:

### AT DECEMBER 31, 2012

(in € millions)	Carrying amount		Total
	Financial liabilities at amortized cost	Financial liabilities at fair value	
Borrowings subject to specific conditions	670	-	670
Non-current interest-bearing financial liabilities	2,259	-	2,259
Current interest-bearing financial liabilities	916	-	916
Trade payables	2,021	-	2,021
Payables on purchases of investments	14	-	14
Payables on purchases of property, plant and equipment and intangible assets	93	-	93
Current operating accounts	3	-	3
Non-current derivatives (negative fair value)	-	12	12
Current derivatives (negative fair value)	-	213	213
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,976</b>	<b>225</b>	<b>6,201</b>

### AT DECEMBER 31, 2013

(in € millions)	Carrying amount		Total
	Financial liabilities at amortized cost	Financial liabilities at fair value	
Borrowings subject to specific conditions	670	-	670
Non-current interest-bearing financial liabilities	1,295	-	1,295
Current interest-bearing financial liabilities	1,435	-	1,435
Trade payables	2,151	-	2,151
Payables on purchases of investments	42	-	42
Payables on purchases of property, plant and equipment and intangible assets	142	-	142
Current operating accounts	8	-	8
Non-current derivatives (negative fair value)	-	36	36
Current derivatives (negative fair value)	-	150	150
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,743</b>	<b>186</b>	<b>5,929</b>

The fair value of financial liabilities is determined by reference to the future cash flows associated with each liability, discounted at market interest rates at the end of the reporting period, with the exception of borrowings subject to specific conditions, whose fair value cannot be estimated reliably given the uncertainties regarding the amounts to be repaid and the timing of repayment.

At December 31, 2013 and December 31, 2012, the fair value of financial liabilities approximates their carrying amount, except in the case of the following items:

(in € millions)	Dec. 31, 2012		Dec. 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings subject to specific conditions	670	N/A	670	N/A
Interest-bearing financial liabilities <sup>(1)</sup>	3,175	3,287	2,730	2,766

(1) This measurement relates to Level 2 in the fair value hierarchy (see Note 18).

Safran uses the fair value hierarchy described in Note 18 to determine the classification of financial liabilities at fair value.

The Group's financial liabilities carried at fair value at December 31, 2012 are shown below:

(in € millions)	Level 1	Level 2	Level 3	Total
Derivatives (negative fair value)	-	225	-	225
<b>TOTAL</b>	<b>-</b>	<b>225</b>	<b>-</b>	<b>225</b>

The Group's financial liabilities carried at fair value at December 31, 2013 are shown below:

(in € millions)	Level 1	Level 2	Level 3	Total
Derivatives (negative fair value)	-	186	-	186
<b>TOTAL</b>	<b>-</b>	<b>186</b>	<b>-</b>	<b>186</b>

In 2013 and 2012, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

## Offsetting of financial liabilities and financial assets

### AT DECEMBER 31, 2012

(in € millions)	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet <sup>(1)</sup> (c)	Amount subject to offset agreement but not offset (d)	Net (c) - (d)
Derivatives (negative fair value)	225	-	225	218	7

(1) See Note 27.

### AT DECEMBER 31, 2013

(in € millions)	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet <sup>(1)</sup> (c)	Amount subject to offset agreement but not offset (d)	Net (c) - (d)
<b>Derivatives (negative fair value)</b>	<b>186</b>	<b>-</b>	<b>186</b>	<b>179</b>	<b>7</b>

(1) See Note 27.

The tables above show the financial liabilities for which an offsetting agreement exists with respect to financial assets.

At both December 31, 2013 and 2012, the Group did not offset any financial liabilities and financial assets on its balance sheet, since it did not meet the conditions specified in IAS 32. Master offsetting (netting) agreements governing the subscription of OTC derivatives with bank counterparties provide for a right of set-off

only in the event of default, insolvency or bankruptcy of one of the parties to the agreement.

The amounts subject to an offsetting agreement but not offset comprise a portion of the Group's derivatives with a positive fair value, since amounts can only be offset if they relate to the same counterparty.

## Note 27 · Management of market risks and derivatives

The main market risks to which the Group is exposed are foreign currency risk, interest rate risk, listed commodity price risk, equity risk, counterparty risk and liquidity risk.

The carrying amount of derivatives used to manage market risks is shown below:

(in € millions)	Dec. 31, 2012		Dec. 31, 2013	
	Assets	Liabilities	Assets	Liabilities
<b>Interest rate risk management</b>	<b>62</b>	<b>(12)</b>	<b>10</b>	<b>(41)</b>
Floating-for-fixed interest rate swaps	-	(12)	-	(5)
Fixed-for-floating interest rate swaps	62	-	10	(36)
<b>Foreign currency risk management</b>	<b>585</b>	<b>(210)</b>	<b>852</b>	<b>(134)</b>
Currency swaps	-	-	-	-
Purchase and sale of forward currency contracts	311	(118)	652	(56)
Currency option contracts	274	(92)	200	(78)
<b>Commodity risk management</b>	<b>-</b>	<b>(3)</b>	<b>2</b>	<b>(11)</b>
Forward purchases of commodities	-	(3)	2	(11)
<b>TOTAL</b>	<b>647</b>	<b>(225)</b>	<b>864</b>	<b>(186)</b>

### Foreign currency risk management

Most Aerospace Propulsion and Aircraft Equipment revenue is denominated in US dollars, which is virtually the sole currency used in the civil aviation industry. The net excess of revenues over operating expenses for these activities totaled USD 5.6 billion for 2013 (USD 5.0 billion in 2012).

To protect its earnings, the Group implements a hedging policy (see below) with the aim of reducing uncertainty factors affecting operating profitability and allowing it to adapt its cost structure to an unfavorable monetary environment.

#### ■ Hedging policy

Two basic principles underscore the foreign currency risk management policy defined by Safran SA for most of its subsidiaries:

- to protect the Group's economic performance from random fluctuations in the US dollar;
- to optimize the quality of hedging whenever possible, without jeopardizing the Group's economic performance (first principle).

Protecting economic performance means setting a minimum USD exchange rate parity over an applicable term. Minimum parity corresponds to a USD exchange rate that allows Safran to meet its operating profit targets. Hedging arrangements have been made accordingly, over a four-year timeframe.

#### ■ Management policy

The hedging policy is based on managing the financial instrument portfolio so that the exchange rate parity does not fall below a pre-defined minimum threshold.

In building up its hedging portfolio, the Group primarily uses forward sales, accumulators and options (EUR call/USD put).

Optimization measures are also used with a view to improving the minimum exchange rate parity, and seek to protect the Group's economic performance at all times. They are based on products that allow the Group to take advantage of any improvement in the underlying exchange rate parities, without calling into question the original minimum threshold.

These products consist chiefly of forward purchases, accumulators, and purchases and sales of options (USD call/EUR put).

## Foreign currency derivatives

The portfolio of foreign currency derivatives breaks down as follows:

(in millions of currency units)	Dec. 31, 2012				Dec. 31, 2013			
	Fair value <sup>(1)</sup>	Notional amount <sup>(1)</sup>	Less than 1 year	1 to 5 years	Fair value <sup>(1)</sup>	Notional amount <sup>(1)</sup>	Less than 1 year	1 to 5 years
<b>Forward exchange contracts</b>	<b>193</b>				<b>596</b>			
Short USD position	157	13,323	5,764	7,559	620	12,348	8,317	4,031
Of which against EUR	157	12,979	5,560	7,419	593	11,855	8,091	3,764
Long USD position	28	(700)	(250)	(450)	(31)	(2,808)	(2,631)	(177)
Of which against EUR	28	(700)	(250)	(450)	(31)	(2,808)	(2,631)	(177)
Short CAD position against CHF	5	81	81	-	4	6	6	-
Short GBP position against EUR	-	-	-	-	1	75	75	-
Long EUR position against CHF	(7)	(78)	(28)	(50)	(3)	(56)	(32)	(24)
Long PLN position against EUR	2	(225)	(85)	(140)	1	(210)	(70)	(140)
Long MXN position against USD	8	(4,135)	(1,395)	(2,740)	4	(5,040)	(1,540)	(3,500)
<b>Currency option contracts</b>	<b>182</b>				<b>122</b>			
USD put purchased	75	2,750	2,350	400	82	8,000	7,900	100
USD put sold	(19)	(1,200)	(1,200)	-	(3)	(400)	(400)	-
USD call sold	(60)	9,607	5,224	4,383	(75)	18,083	15,583	2,500
USD call purchased	5	(350)	(350)	-	2	(1,983)	(1,983)	-
EUR put purchased	-	-	-	-	1	45	45	-
EUR call sold	-	-	-	-	-	90	90	-
Accumulators – sell USD <sup>(2)</sup>	167	9,020	2,778	6,242	110	5,299	4,181	1,118
Accumulators – buy USD <sup>(2)</sup>	13	(1,132)	(965)	(167)	-	(751)	(751)	-
Accumulators – sell GBP <sup>(2)</sup>	3	219	219	-	-	-	-	-
Accumulators – sell CAD <sup>(2)</sup>	(2)	341	-	341	5	73	73	-
<b>TOTAL</b>	<b>375</b>				<b>718</b>			

(1) Fair values are expressed in millions of euros; notional amounts are expressed in millions of currency units.

(2) Notional amounts for accumulators represent the maximum cumulative amount until the instrument is unwound.

The €343 million increase in the fair value of foreign currency derivatives between December 31, 2012 and December 31, 2013 reflects an increase of €438 million in the fair value of currency hedging instruments not yet settled at December 31, 2013 and premiums received (negative impact of €95 million).

In view of the accounting constraints resulting from the application of IAS 39, the Group decided not to apply hedge accounting and to recognize all changes in the fair value of its derivatives in "Financial income (loss)". Accordingly, the €438 million increase in the fair value of derivatives not yet settled at the end of the reporting period has been recognized in "Financial income (loss)". Of this amount €374 million was recognized in "Gain or loss on foreign currency hedging instruments" for derivatives hedging revenue net of future purchases; €24 million was recognized in "Foreign exchange gains and losses" for derivatives hedging balance sheet positions; and €40 million was recognized in the same caption for premiums matured during the year.

In order to reflect the economic effects of its currency hedging policy, the Group also prepares adjusted financial statements in which gains or losses on the hedging instruments are presented for the same periods as the gains or losses on the items hedged (see Foreword in section 2.1 of the Registration Document).

In the first half of 2012, the Group hedged a portion of its US operations as part of a net investment hedge using the February 9, 2012 unsecured notes issue on the US private placement market (see Note 23).

### ■ Exposure and sensitivity to foreign currency risk

The exposure of the Group's financial instruments to EUR/USD foreign currency risk can be summarized as follows:

<i>(in USD millions)</i>	Dec. 31, 2012	Dec. 31, 2013
Total assets excluding derivatives	1,298	1,527
Total liabilities excluding derivatives	(2,309)	(2,215)
Derivatives hedging balance sheet positions <sup>(*)</sup>	(170)	(369)
<b>NET EXPOSURE AFTER THE IMPACT OF DERIVATIVES HEDGING BALANCE SHEET POSITIONS</b>	<b>(1,181)</b>	<b>(1,057)</b>

(\*) Notional amount.

Assets and liabilities excluding derivatives primarily consist of operating receivables and payables denominated in USD in the balance sheets of Group subsidiaries whose functional currency is the euro, and unsecured notes issued by Safran on the US private placement market for USD 1.2 billion.

In addition to this exposure, Safran has EUR/USD currency derivatives hedging revenue net of future purchases. These have a fair value of USD 890 million, compared to a total fair value of USD 916 million of EUR/USD currency derivatives at December 31, 2013 (USD 417 million and USD 418 million, respectively, at December 31, 2012).

The sensitivity of financial instruments to a 5% increase or decrease in the EUR/USD exchange rate is as follows:

Impact on balance sheet positions <i>(in € millions)</i>	Dec. 31, 2012		Dec. 31, 2013	
	USD		USD	
Closing rate	1.32		1.38	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
EUR/USD exchange rate used for sensitivity analysis	1.25	1.39	1.31	1.45
Impact recognized through profit or loss (before tax)	(615)	463	(377)	274
Impact recognized through equity (before tax)	(50)	45	(44)	40

### Interest rate risk management

The Group's exposure to fluctuations in interest rates covers two types of risk:

- fair value risk in respect of fixed-rate financial assets and liabilities. Interest rate fluctuations impact the market value of these assets and liabilities;
- cash flow risk in respect of floating-rate financial assets and liabilities. Interest rate fluctuations have a direct impact on the Group's profit or loss.

Within the framework of its interest rate risk management policy, the Group arbitrates between these two types of risks using financial instruments specific to fixed-income markets (interest rate swaps and options, etc.).

### ■ Exposure to euro interest rate risk

The interest rate payable on the €750 million bond issue, which had been converted to a floating rate using floating-rate borrower/fixed-rate lender swaps, was converted back to a fixed rate in 2011. As a result, besides the floating-rate borrower/fixed-rate lender swaps for €750 million with a residual maturity of one to three years, the Group also held fixed-rate borrower/floating-rate lender swaps for the same maturity and amount. Interest rate swaps with a residual maturity of one year expired in 2012. The notional amount of each leg of the swaps was €250 million.

Changes in the fair value of the old and new swaps are recognized in "Gain or loss on interest rate and commodity hedging instruments" under "Financial income (loss)".

In 2012, a fixed-rate borrower/floating-rate lender interest rate swap maturing in December 2016 was taken out for €75 million, with the aim of fixing the interest rate on a portion of the financing for the employee savings plan as of January 1, 2013. The swap was unwound in the first six months of 2013.

(in € millions)	Dec. 31, 2012				Dec. 31, 2013			
	Fair value	Notional amount (€)	Less than 1 year	1 to 5 years	Fair value	Notional amount (€)	Less than 1 year	1 to 5 years
<b>Interest rate swaps</b>								
Fixed-for-floating	22	500	-	500	10	500	500	-
Floating-for-fixed	(12)	575	-	575	(5)	500	500	-
<b>TOTAL</b>	<b>10</b>				<b>5</b>			

Exposure to euro interest rate risk before and after hedging:

Dec. 31, 2012 (in € millions)	Current		Non-current		Total	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	24	793	824	478	848	1,271
Other financial assets	-	99	1	68	1	167
Cash and cash equivalents	33	1,828	-	-	33	1,828
<b>Net exposure before hedging</b>	<b>(9)</b>	<b>(1,134)</b>	<b>823</b>	<b>410</b>	<b>814</b>	<b>(724)</b>
Derivatives <sup>(*)</sup>	-	-	75	(75)	75	(75)
<b>Net exposure after hedging</b>	<b>(9)</b>	<b>(1,134)</b>	<b>898</b>	<b>335</b>	<b>889</b>	<b>(799)</b>

(\*) Notional amount.

Dec. 31, 2013 (in € millions)	Current		Non-current		Total	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	777	625	65	397	842	1,022
Other financial assets	-	99	1	73	1	172
Cash and cash equivalents	136	1,134	-	-	136	1,134
<b>Net exposure before hedging</b>	<b>641</b>	<b>(608)</b>	<b>64</b>	<b>324</b>	<b>705</b>	<b>(284)</b>
Derivatives <sup>(*)</sup>	-	-	-	-	-	-
<b>Net exposure after hedging</b>	<b>641</b>	<b>(608)</b>	<b>64</b>	<b>324</b>	<b>705</b>	<b>(284)</b>

(\*) Notional amount.

### ■ Exposure to USD interest rate risk

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market has also been partially converted to a floating rate. At their inception, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million was maintained at a fixed rate.

These swaps are eligible for fair value hedge accounting.



	Dec. 31, 2012				Dec. 31, 2013				
	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years
<i>(in € millions)</i>									
<b>USD interest rate swaps</b>									
Fixed-for-floating – fair value hedge	40	1,045	-	1,045	(36)	1,045	-	-	1,045
Floating-for-fixed – fair value hedge	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>40</b>				<b>(36)</b>				

Changes in the fair value of the hedging instrument and hedged item within the scope of this hedge are recognized in “Financial income (loss)” as follows:

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
Change in fair value of hedging instrument	40	(76)
Change in fair value of hedged item	(40)	75
<b>IMPACT OF FAIR VALUE INTEREST RATE HEDGES ON PROFIT</b>	<b>-</b>	<b>(1)</b>

Exposure to USD interest rate risk before and after hedging:

<b>Dec. 31, 2012</b> <i>(in USD millions)</i>	Current		Non-current		Total	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	65	28	1,251	10	1,316	38
Other financial assets	34	55	1	3	35	58
Cash and cash equivalents	62	134	-	-	62	134
<b>Net exposure before hedging</b>	<b>(31)</b>	<b>(161)</b>	<b>1,250</b>	<b>7</b>	<b>1,219</b>	<b>(154)</b>
Derivatives <sup>(*)</sup>	-	-	(1,045)	1,045	(1,045)	1,045
<b>Net exposure after hedging</b>	<b>(31)</b>	<b>(161)</b>	<b>205</b>	<b>1,052</b>	<b>174</b>	<b>891</b>

<sup>(\*)</sup> Notional amount.

<b>Dec. 31, 2013</b> <i>(in USD millions)</i>	Current		Non-current		Total	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	18	24	1,147	-	1,165	24
Other financial assets	39	75	-	2	39	77
Cash and cash equivalents	96	355	-	-	96	355
<b>Net exposure before hedging</b>	<b>(117)</b>	<b>(406)</b>	<b>1,147</b>	<b>(2)</b>	<b>1,030</b>	<b>(408)</b>
Derivatives <sup>(*)</sup>	-	-	(1,045)	1,045	(1,045)	1,045
<b>Net exposure after hedging</b>	<b>(117)</b>	<b>(406)</b>	<b>102</b>	<b>1,043</b>	<b>(15)</b>	<b>637</b>

<sup>(\*)</sup> Notional amount.

## ■ Sensitivity to interest rate risk

The aggregate sensitivity of net exposures to EUR and USD interest rate risk after the impact of hedging is shown below:

Impact of changes in interest rates (in € millions)	Dec. 31, 2012	Dec. 31, 2013
Interest rate assumptions used	+1%	+1%
Impact on profit or loss (before tax)	1	(2)
Impact on equity (before tax)	-	-

## Management of commodity risk

Since 2009, the Group's policy has been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel and platinum). Oil was included in the Group's commodity hedging policy in 2012, as was gold in 2013. The policy seeks to protect the Group's economic performance from commodity price volatility.

Commodity hedges aiming to reduce uncertainty factors have been contracted for a term of five to six years. To hedge commodity prices, the Group uses forward purchases of commodities on the London Metal Exchange (LME).

These forward purchases are then used to hedge highly probable flows arising in Group companies and resulting from purchases of semi-finished parts with a major commodity component. These cash flows are determined based on the backlog and budget forecasts.

The notional amount of nickel forward purchase contracts at December 31, 2013 represented 3,671 tons of nickel (2,783 tons at December 31, 2012), including contracts for 975 tons maturing in less than one year (755 tons at end-2012) and 2,696 tons in one to five years (2,028 tons at end-2012).

The notional amount of platinum forward purchase contracts at December 31, 2013 represented 5,808 ounces (7,068 ounces at December 31, 2012), including contracts for 1,692 ounces maturing in less than one year (1,260 ounces at end-2012) and 4,116 ounces in one to five years (5,808 ounces at end-2012).

The notional amount of oil forward purchase contracts at December 31, 2013 represented 718,000 barrels (532,000 at December 31, 2012), including contracts for 67,000 barrels maturing in less than one year (33,000 at end-2012), 651,000 barrels in one to five years (350,000 at end-2012) and nil in more than five years (149,000 at end-2012).

The Group had no gold forward purchase contracts at December 31, 2013.

These instruments had a negative fair value of €9 million at end-2013. Given the difficulty in documenting hedging relationships between these derivatives and purchases of semi-finished products including components other than hedged raw materials, the Group decided not to designate any of these commodity risk hedges as eligible for hedge accounting, and to recognize any changes in the fair value of these instruments in "Financial income (loss)".

## Equity risk management

Safran is exposed to fluctuations in the stock market price of Embraer and Myriad shares, the only listed shares it holds.

A 5% decrease in the price of these shares would have a net negative impact of €3 million on equity at end-2013 and end-2012.

## Counterparty risk management

The Group is exposed to counterparty risk on the following:

- short-term financial investments;
- derivatives;
- trade receivables;
- financial guarantees granted to customers.

Financial investments are diversified and consist of blue-chip securities that are traded with top-tier banks.

The sole purpose of the Group's derivative transactions is to reduce the overall exposure to foreign currency, interest rate and commodity risks resulting from its ordinary business activities. Transactions are either carried out on organized markets or over-the-counter with investment-grade counterparties.

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their wide geographic spread.

The maturity schedule for trade and other receivables is set out in Note 16.

## Liquidity risk management

Treasury management is centralized within the Group. Where permitted by local legislation, all surplus cash is invested with, and financing requirements of subsidiaries met by, the parent company on an arm's length basis. The central cash team manages the Group's current and forecast financing requirements, and ensures it has the ability to meet its financial commitments while maintaining a level of available cash funds and confirmed credit facilities commensurate with its scale and debt repayment profile.

Since some of the Group's liquidity lines have not been drawn, Safran is relatively insensitive to liquidity risk.

A number of financial covenants apply to the EIB borrowing set up in 2010 (see Note 23).

The following two ratios apply:

- net debt/EBITDA < 2.5;
- net debt/total equity (gearing) < 1.

Undrawn confirmed liquidity facilities at December 31, 2013 totaled €2,550 million and comprised two syndicated credit lines for €1,600 million and €950 million, maturing in December 2015 and October 2016, respectively. These two facilities must comply with a net debt/EBITDA ratio of less than 2.5.

This covenant also applies to the senior unsecured notes issued on the US private placement market (see Note 23).

The terms “net debt”, “EBITDA” and “total equity” used in connection with EIB borrowings, the senior unsecured notes issued on the US private placement market and syndicated credit lines are defined as follows:

- net debt: borrowings (excluding borrowings subject to specific conditions) less marketable securities and cash and cash equivalents;
- EBITDA: the sum of profit (loss) from operations and the net charge to depreciation, amortization and provisions for impairment of assets (calculated based on adjusted data);
- total equity: equity attributable to owners of the parent and non-controlling interests.

## Note 28 • Interests in joint ventures

The Group has interests in a number of joint ventures which are proportionately consolidated (their contribution is recognized line-by-line in the financial statements). The joint ventures are:

- CFM International Inc. and CFM International SA: coordination of the CFM56 engine program with General Electric and program marketing;
- Shannon Engine Support Ltd: leasing of CFM56 engines, modules, equipment and tooling to airline companies;
- Famat: manufacture of large casings subcontracted by Snecma and General Electric;
- Europropulsion: research, development, testing and manufacture of solid propellant propulsion systems;
- Ulis: manufacture of uncooled infrared detectors;
- Sofradir: manufacture of cooled infrared detectors;
- SEMMB: manufacture of ejectable seating;
- Matis: manufacture of aircraft wiring;
- CFAN: production of composite fan blades for turbo engines;
- Hydrep: repair of landing gear for regional and business jets;
- A-Pro: repair of landing gear for regional and business jets;
- CFM Materials LP: sale of used CFM56 parts;
- Regulus: aerospace propulsion;
- Roxel SAS: holding company;
- Roxel France SA: motors for tactical missiles;
- Roxel Ltd: motors for tactical missiles;
- Propulsion Technologies International: engine repair and maintenance;
- EIMASS: identification.

The table below shows the Group's share in the various financial indicators of these joint ventures, included in the consolidated financial statements:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Current assets	522	557
Non-current assets	354	301
Current liabilities	459	461
Non-current liabilities	38	30
Operating income	545	508
Operating expenses	(459)	(434)
Financial income (loss)	(2)	(1)
Income tax expense	(15)	(24)
Profit for the period	70	51
Cash flows from operating activities <sup>(1)</sup>	42	76
Cash flows used in investing activities	(32)	(6)
Cash flows used in financing activities <sup>(1)</sup>	(37)	(46)

(1) See Note 23 discussing trade receivable assignment programs at CFM Inc.

## Note 29 • Related parties

In accordance with IAS 24, the Group's related parties are considered to be its shareholders (including the French State), companies in which these shareholders hold equity interests, proportionately consolidated and equity-accounted companies (associates), and management executives.

Transactions with equity-accounted companies were not material in 2013 or 2012, and they are not therefore included in the table below.

<i>(in € millions)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2013</b>
Sales to related parties	3,577	3,646
Purchases from related parties	(199)	(172)

<i>(in € millions)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2013</b>
Receivables from related parties	1,567	1,647
Payables to related parties	1,851	1,770

<i>(in € millions)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2013</b>
Guarantees granted to related parties (off-balance sheet) <sup>(1)</sup>	954	1,456

(1) See Note 30.

Transactions with related parties primarily concern the delivery of aviation products to Airbus and the French Directorate General of Weapons Procurement.

## Management compensation

Management executives comprise members of the Board of Directors and Executive Management, as well as any persons with the power to take management decisions with regard to the Group's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Group.

<i>(in € millions)</i>	<b>Dec. 31, 2012<sup>(*)</sup></b>	<b>Dec. 31, 2013</b>
Short-term benefits <sup>(1)</sup>	11.1	9.7
Post-employment benefits	1.3	10.0
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.

All compensation and benefits awarded to members of the Supervisory Board/Board of Directors and to members of the Executive Board and Executive Management are shown on a gross basis, including the fixed portion of compensation and the provision for the variable portion to be paid in the subsequent year.

The Group's total post-employment commitments in respect of management executives amounted to €11.4 million at December 31, 2013 and €2.9 million at December 31, 2012.

## Relations between Safran and its subsidiaries

The main financial transactions between Safran and its subsidiaries are described below.

- Cash is pooled at the level of the Safran Group. Cash pooling agreements therefore exist between Safran and each of the Group companies. These govern the terms and conditions of advances and investments.

- A foreign currency risk management policy is also implemented centrally by the head company for the entire Safran Group. This policy seeks to protect the economic performance of operating subsidiaries from random foreign currency fluctuations (mainly USD) and optimize the quality of the hedges implemented via a portfolio of hedging instruments.
- A commodity risk management policy is defined centrally in the same manner as the policy for managing foreign currency risk. This policy is designed to reduce uncertainty factors regarding the volatility of commodity prices (mainly nickel and platinum) affecting the economic performance of operating subsidiaries.
- In France, Safran is liable for the entire income tax charge, additional income tax contributions and the annual minimum tax charge due by the tax group comprising itself and its tax-consolidated subsidiaries, pursuant to the provisions of article 223-A of the French Tax Code (*Code général des impôts*).  
In accordance with the tax consolidation agreement in France, tax-consolidated subsidiaries bear their own tax charge as if they were not members of the tax group, and pay the corresponding amounts to Safran as their contribution to the Group tax payment;
- Services rendered by the holding company to its subsidiaries are generally billed to beneficiaries based on assistance agreements.

## Note 30 • Off-balance sheet commitments

### Endorsements, guarantees and other commitments

#### ■ Commitments in respect of ordinary activities

The various commitments given by the Safran Group are as follows:

(in € millions)	Dec. 31, 2012 <sup>(*)</sup>	Dec. 31, 2013
Employee-related commitments	73	28
Commitments given to customers (completion warranties, performance bonds)	318	315
Commitments given to third parties	1,415	2,420
Commitments given to customs authorities	77	79
Vendor warranties given <sup>(1)</sup>	21	11
Other commitments given	204	148
<b>TOTAL</b>	<b>2,108</b>	<b>3,001</b>

(\*) The data published for 2012 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of the amended IAS 19, Employee Benefits (see Note 3).

(1) Vendor warranties, the amount of which may be fixed or determinable.

Commitments given to third parties relate mainly to guarantees granted by Safran or its subsidiaries to customers and principals (essentially aircraft manufacturers), in which Safran or the subsidiary provides a joint and several guarantee that its subsidiaries will perform their duties under their contractual obligations. These guarantees are given in respect of research, design, development, manufacturing, marketing and product support programs in place at Group subsidiaries. They are generally granted for the term of the program concerned, and are capped at a certain amount.

The increase in commitments given to third parties in 2013 results mainly from guarantees granted to aircraft manufacturers by Snecma in connection with contracts to supply Leap engines.

The amount of commitments granted to Airbus is shown within "Guarantees granted to related parties" in Note 29, "Related parties".

The various commitments received by the Safran Group are as follows:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Commitments received from banks on behalf of suppliers	11	11
Completion warranties	28	33
Endorsements and guarantees received	52	47
Vendor warranties received <sup>(1)</sup>	12	10
Other commitments received	5	3
<b>TOTAL</b>	<b>108</b>	<b>104</b>

(1) Vendor warranties received at December 31, 2013 do not include those received in connection with the SME acquisition, which are described below.

### Warranties received from SNPE

Under the terms of the share transfer agreement, SNPE granted Safran a specific warranty for a period of 30 to 40 years concerning environmental liabilities due to past operations at eight sites. This warranty is capped at €240 million for 15 years and at €200 million thereafter. Safran is liable for 10% of the costs. The agreement provides for specific warranty sublimits totaling €91 million for cleanup during operations, including €40 million for pollution resulting from the use of ammonium and sodium perchlorates, which is to be managed within the framework of the Perchlorate Plan. Safran will be liable for 10% of the cleanup costs and 50% of the Perchlorate Plan costs. The plan was jointly drawn up by Safran

and SNPE within 18 months of the acquisition date in order to define, reduce and/or restrict the sources of ammonium perchlorate pollution, and must be executed over a period of five years. These warranties granted by SNPE to Safran are counter-guaranteed by the French State for €216 million. When preparing the opening balance sheet and calculating goodwill, environmental studies were conducted in order to assess these environmental liabilities and contingent environmental liabilities as well as the abovementioned warranties.

The share transfer agreement also provides for other warranties granted by the seller which are capped at €25 million and have time limits of three to ten years depending on their nature.

### Other contractual obligations and commitments

The Group also recognizes obligations or commitments to make future payments:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013	Period to maturity		
	Total	Total	Less than 1 year	1 to 5 years	Beyond 5 years
Long-term borrowings at inception	783	705	349	280	76
Finance lease commitments	163	121	15	59	47
Operating lease commitments	257	321	72	163	86
Bonds	763	756	756	-	-
Senior unsecured notes in USD	955	841	9	-	832
<b>TOTAL</b>	<b>2,921</b>	<b>2,744</b>	<b>1,201</b>	<b>502</b>	<b>1,041</b>

Lease payments recognized in profit or loss for the period amounted to €129 million (€125 million at December 31, 2012).

### Vendor warranties

Vendor warranties are given or received on the acquisition or sale of companies.

In the context of the Group's acquisition of SME, the environmental warranty given to Safran by SNPE (see the description above) is called upon an ongoing basis in proportion to the costs effectively incurred to treat pollution resulting from past operations.

At December 31, 2013, no other such warranties had been called, and no provisions were therefore recognized in the Group's consolidated financial statements.

### Capital expenditure commitments

At December 31, 2013, capital expenditure commitments totaled €312 million versus €248 million at December 31, 2012.

At December 31, 2013, expenditure commitments in respect of intangible assets totaled €333 million versus €394 million at December 31, 2012.

## Financial guarantees granted on the sale of Group products

These guarantees generate risks which represented a total gross amount of USD 72 million at December 31, 2013 (USD 72 million at December 31, 2012). This amount does not, however, reflect the actual risk to which Safran is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, consisting of the aircraft pledged. Accordingly, only the net risk as calculated using the valuation model is covered by a provision in the financial statements (see Note 20).

## Contingent liabilities arising on ordinary activities

As part of their ordinary activities, Safran, some of its subsidiaries, or certain joint arrangements or consortia in which they are shareholders or members, may be subject to various claims from customers. These claims usually consist of compensation requests for late completion and/or for additional work in connection with product performance and reliability falling outside the scope of the statutory performance warranties provisioned or included within contract costs (see Notes 2 b and 20). While the initial amount of any such claim may be material in certain cases, it does not necessarily have any bearing on the costs that may be ultimately incurred to satisfy the customer. As these claims represent contingent liabilities, no provision has been recognized.

In the absence of an agreement between the parties, certain of these claims may give rise to litigation, the most significant of which is indicated in Note 31.

## Note 31 • Disputes and litigation

Except for the matters described below, neither Safran nor any of its subsidiaries are, or have been, notably during the last 12 months, parties to any governmental, legal or arbitration proceedings that are likely to have, or have had, in the recent past, a significant effect on the financial position or profitability of Safran and/or the Safran Group. A provision is only booked to cover the expenses that may result from such proceedings when the expenses are probable and their amount can be either quantified or reasonably estimated. The amount of the provisions booked is based on an evaluation of the level of risk for each case, and does not primarily depend on the status of the proceedings, although the occurrence of events during the proceedings can nonetheless lead to a reassessment of the risk. Safran believes that it has set aside adequate provisions to cover the risks of general or specific proceedings, either in progress or possible in the future.

- A number of civil and/or criminal lawsuits have been filed against certain Safran subsidiaries in connection with aviation accidents. The Group's insurance policy would cover any civil damages payable by Safran or its subsidiaries under these proceedings.
- In a decision dated May 26, 2011, the Paris Court of Appeals upheld the ruling of the Commercial Court and ordered Sagem to pay €10 million in damages to a supplier. As the Court of Appeals' decision was enforceable, Sagem paid these damages in full and adjusted the amount of its provisions accordingly. Sagem appealed this decision before the Court of Cassation.
- In a decision dated September 18, 2012, the Court of Cassation partially overturned the Court of Appeals' decision, ordering the supplier to reimburse Sagem in an amount of €9 million. The supplier has appealed this decision to the Court of Appeals. The parties entered into an agreement in June 2013 to settle the dispute under conditions deemed satisfactory for Sagem.

- SME, which was acquired by Safran from SNPE on April 5, 2011 and has been trading as Herakles since May 1, 2012, received a formal notice from the prefecture of Haute Garonne in July 2010 ordering the Company to cease contaminating surface water supplies with perchlorate ion. Herakles filed an application for annulment of this order. Herakles then withdrew its application, the withdrawal being recorded by the Toulouse Administrative Court in an order dated April 2, 2013. A letter from the prefecture dated March 14, 2011 stated that an offense report would be drawn up for failure to comply with the prefecture's order. However, Herakles has not received any further information on this matter. In relation to this contamination, two reports were drawn up against Herakles for failure to separate networks and disclose pollution information, in addition to an offense report for the unauthorized discharge of a harmful substance.

The urban community of Bordeaux (*Communauté Urbaine de Bordeaux – CUB*) served Herakles with a writ of summons for summary proceedings before the Paris Large Claims Court (*Tribunal de Grande Instance*). In an order handed down on May 3, 2012, a legal expert was appointed in order to determine the original cause and impact of the perchlorate-contaminated drinking water supply. Several meetings were held at which the legal expert requested various documents from the different parties. The proceedings are ongoing. At this stage, the urban community of Bordeaux has not disclosed the amount of its claim.

The agreements governing the above-mentioned acquisition include environmental guarantees given by SNPE to Safran. Under these guarantees, Herakles is to carry out additional analyses and adopt a plan of action for perchlorate management (see Note 3), the content of which must be validated by the authorities. The implementation of the aforementioned plan should have a positive impact on these proceedings.



- At the end of 2002, a group of French manufacturers, including the former Snecma group, was collectively the subject of a request for arbitration by a common customer, for a sum which, according to the claimant, would not be less than USD 260 million and for which the group of manufacturers may be jointly liable with regard to the claimant. This request related to the performance of past contracts entered into by these manufacturers and in which Snecma's participation was approximately 10%. An agreement was signed by the parties in June 2003, whereby the claimant withdrew from the proceedings. In November 2012, the claimant filed a new request for arbitration on similar grounds to those invoked in 2002 and for a revised amount of €226 million. The parties are strongly challenging this claim. At the date of this report, it is not possible to evaluate any potential financial risk. Consequently, Safran has not recognized a provision. The proceedings are still ongoing.
- At the end of 2008, proceedings were brought against three employees of a Group subsidiary in connection with the alleged payment by Sagem SA of commissions to local intermediaries between 2000 and 2003. These payments were allegedly made in an attempt to corrupt employees of the Nigerian government with the aim of being awarded the State's electronic ID card contract. Safran was also placed under judicial investigation in connection with this case in February 2009. In a written statement dated January 18, 2011, the public prosecutor of Paris requested the partial dismissal of the claim in favor of Safran and one of the three employees indicted, and referral of the case of the other two employees to the Correctional Court. In an order dated February 28, 2011, the investigating judge decided to refer the case of Safran and the two employees to the Correctional Court. The third employee was acquitted. The case was heard before the Paris Correctional Court in June 2012. In a ruling on September 5, 2012, the Court acquitted the two employees involved in the case but declared Sagem SA guilty of corrupting foreign government officials. As a result, Safran was ordered to pay a fine of €500,000. The Company has appealed this decision. The proceedings are currently pending, and will be called before the Paris Court of Appeals in September 2014. In September 2009, a tax collection notice was issued for €11.7 million further to a tax deficiency notice sent at the end of 2006. The amount of the tax adjustment was contested in a claim filed by Safran SA with the tax authorities in 2011. This claim was rejected by the authorities on June 20, 2012. Safran referred the case to the Montreuil Administrative Court on August 3, 2012 and the dispute is currently pending before this Court.
- In 2009 and 2010, Safran received several requests for information from the European Commission's Directorate General for Competition as part of an inquiry into activities

previously carried out by Sagem SA. The activities concerned by the inquiry were sold to General Cable at the end of 2005. On July 5, 2011, Safran received a statement of objections from the European Commission. General Cable, which also received a statement of objections from the Commission in the same case, has filed a claim with Safran under the sale agreement in order to protect its rights in the event that an unfavourable decision against the entity sold is fully or partially covered by the vendor's warranty. Safran had access to the case file and replied to the objections in October 2011. The Commission is continuing its investigations and sent Safran a new questionnaire in May 2013. Safran was able to present its comments on the case during hearings organized by the European Commission in June 2012.

Based on an analysis of all aspects of this case known to date, the Group's exposure to this risk is not considered material.

### Tax litigation and contingencies

- The €14 million tax adjustment notified in respect of the rules governing the allocation of tax expense between the parent company Snecma and its consolidated subsidiaries up to the end of 2004 was contested in 2007 before the tax authorities who rejected this claim on June 24, 2011. Safran filed a statement of claim with the Administrative Court. In a ruling handed down on July 4, 2013, the Montreuil Administrative Court ruled partially in Safran's favor by granting relief from the €7.2 million in additional tax payments. Safran appealed against this decision before the Versailles Administrative Court as regards the surplus. No provision has yet been set aside in respect of this dispute.
- In October 2010, a Group subsidiary in Brazil was served a tax deficiency notice for €56.2 million in connection with unpaid import levies and duties. In light of existing legislation and case law with regard to the customs clearance for aviation products, this tax adjustment was challenged, and in May 2012 a first ruling was handed down in favor of the subsidiary. This decision was upheld by a judgment handed down by a Brasilia Appeal Court. Since the Brazilian tax authorities are not challenging this latest decision, the dispute is now terminated.
- Another Group subsidiary in Brazil is accused of not having levied a value added tax known as ICMS in the period 2010-2011 when selling products to its customers. The amounts concerned came to BRL 172 million (around €52.8 million) at December 31, 2013, including BRL 144 million in penalties and interest. Following an analysis, the Company is challenging the grounds for this reassessment, based on initial case law decisions that have gone in favor of the taxpayer. No provision has therefore been set aside in this respect.

## Note 32 · Subsequent events

None.

## Note 33 • List of consolidated companies

	Country	2012		2013	
		Consolidation method	% interest	Consolidation method	% interest
Safran SA	France	Parent company			
Aerospace Propulsion					
Snecma	France	FC	100.00	FC	100.00
CFAN	United States	PC	50.00	PC	50.00
CFM International SA	France	PC	50.00	PC	50.00
CFM International Inc.	United States	PC	50.00	PC	50.00
CFM Materials LP	United States	PC	50.00	PC	50.00
Famat	France	PC	50.00	PC	50.00
Fan Blade Associates	United States	FC	100.00	FC	100.00
Shannon Engine Support Ltd	Ireland	PC	50.00	PC	50.00
Snecma America Engine Services	Mexico	FC	100.00	FC	100.00
Snecma Morocco Engine Services	Morocco	FC	51.00	FC	51.00
Snecma Participations SA	France	FC	100.00	FC	100.00
Snecma Participations Inc.	United States	FC	100.00	FC	100.00
Snecma Services Brussels	Belgium	FC	100.00	FC	100.00
Snecma Suzhou	China	FC	100.00	FC	100.00
Snecma Xinyi Airfoil Castings Co Ltd	China	FC	90.00	FC	90.00
Propulsion Technologies International	United States	PC	50.00	PC	50.00
Techspace Aero	Belgium	FC	67.19	FC	67.19
Cenco Inc.	United States	FC	67.19	FC	67.19
Techspace Aero Inc.	United States	FC	67.19	FC	67.19
Turbomeca SA	France	FC	100.00	FC	100.00
Microturbo SA	France	FC	100.00	FC	100.00
Turbomeca Africa Pty Ltd	South Africa	FC	51.00	FC	51.00
Turbomeca America Latina	Uruguay	FC	100.00	FC	100.00
Turbomeca Asia Pacific	Singapore	FC	100.00	FC	100.00
Turbomeca Australasia	Australia	FC	100.00	FC	100.00
Turbomeca Beijing Helicopter Engines Trading Cie Ltd <sup>(1)</sup>	China	FC	100.00	-	-
Turbomeca Canada	Canada	FC	100.00	FC	100.00
Turbomeca do Brasil	Brazil	FC	100.00	FC	100.00
Turbomeca Germany	Germany	FC	100.00	FC	100.00
Turbomeca Manufacturing Inc.	United States	FC	100.00	FC	100.00
Turbomeca Sud Americana <sup>(1)</sup>	Uruguay	FC	100.00	-	-
Turbomeca Tianjing Helicopter Engines Trading Cie Ltd	China	FC	100.00	FC	100.00
Turbomeca UK	United Kingdom	FC	100.00	FC	100.00
Turbomeca USA Inc.	United States	FC	100.00	FC	100.00

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(2) First-time consolidation in 2013.

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(5) Merged into Morpho USA Inc. on January 1, 2013.

(6) Merged into Etablissements Vallaroché SA at January 1, 2013.

	Country	2012		2013	
		Consolidation method	% interest	Consolidation method	% interest
Turbomeca Mexico <sup>(2)</sup>	Mexico	-	-	FC	100.00
Herakles (formerly SME)	France	FC	100.00	FC	100.00
Europropulsion SA	France	PC	50.00	PC	50.00
Pyroalliance	France	FC	85.00	FC	85.00
Regulus	France	PC	40.00	PC	40.00
Roxel France SA	France	PC	50.00	PC	50.00
Roxel Ltd	United Kingdom	PC	50.00	PC	50.00
Roxel SAS	France	PC	50.00	PC	50.00
Structil	France	FC	80.00	FC	80.00
<b>Aircraft Equipment</b>					
Aircelle	France	FC	100.00	FC	100.00
Aircelle Ltd	United Kingdom	FC	100.00	FC	100.00
Aircelle Maroc	Morocco	FC	100.00	FC	100.00
SLCA	France	FC	100.00	FC	100.00
Messier-Bugatti-Dowty	France	FC	100.00	FC	100.00
A-Pro Inc.	United States	PC	50.00	PC	50.00
Hydrep	France	PC	50.00	PC	50.00
Messier-Bugatti USA	United States	FC	100.00	FC	100.00
Messier-Bugatti-Dowty Malaisie	Malaysia	FC	100.00	FC	100.00
Messier-Dowty Inc.	Canada	FC	100.00	FC	100.00
Messier-Dowty Ltd	United Kingdom	FC	100.00	FC	100.00
Messier-Dowty Mexico SA de CV	Mexico	FC	100.00	FC	100.00
Messier Services Americas	Mexico	FC	100.00	FC	100.00
Messier Services Asia Pte Ltd	Singapore	FC	60.00	FC	60.00
Messier Services Inc.	United States	FC	100.00	FC	100.00
Messier Services Ltd	United Kingdom	FC	100.00	FC	100.00
Messier Services Mexico	Mexico	FC	100.00	FC	100.00
Messier Services Pte Ltd	Singapore	FC	100.00	FC	100.00
Sofrance SA	France	FC	100.00	FC	100.00
Suzhou II	China	FC	100.00	FC	100.00
Technofan SA	France	FC	95.15	FC	95.15
Technofan Inc.	United States	FC	100.00	FC	100.00
Labinal	France	FC	100.00	FC	100.00
Labinal de Chihuahua, SA de CV	Mexico	FC	100.00	FC	100.00
Labinal GmbH	Germany	FC	100.00	FC	100.00
Labinal Inc.	United States	FC	100.00	FC	100.00
Labinal Maroc	Morocco	FC	100.00	FC	100.00
Labinal de Mexico SA de CV	Mexico	FC	100.00	FC	100.00
Labinal Salisbury Inc.	United States	FC	100.00	FC	100.00

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	Country	2012		2013	
		Consolidation method	% interest	Consolidation method	% interest
Matis Aerospace	Morocco	PC	50.00	PC	50.00
Safran Engineering Services	France	FC	100.00	FC	100.00
Safran Engineering Services India	India	FC	100.00	FC	100.00
Safran Engineering Services Maroc	Morocco	FC	100.00	FC	100.00
Hispano-Suiza SA	France	FC	100.00	FC	100.00
Hispano-Suiza Polska	Poland	FC	100.00	FC	100.00
Safran Power UK <sup>(2)</sup>	United Kingdom	-	-	FC	100.00
Safran Power US <sup>(2)</sup>	United States	-	-	FC	100.00
Globe Motors Inc. <sup>(3)</sup>	United States	FC	100.00	-	-
Globe Motors de Mexico, SA de CV <sup>(3)</sup>	Mexico	FC	100.00	-	-
Globe Motors Portugal <sup>(3)</sup>	Portugal	FC	100.00	-	-
SEM MB SA	France	PC	50.00	PC	50.00
<b>Defence</b>					
Sagem	France	FC	100.00	FC	100.00
Optics1 Inc.	United States	FC	100.00	FC	100.00
Safran Electronics Asia Pte Ltd	Singapore	FC	51.00	FC	51.00
Safran Electronics Canada	Canada	FC	100.00	FC	100.00
Sagem Avionics Inc.	United States	FC	100.00	FC	100.00
Sagem Navigation GmbH	Germany	FC	100.00	FC	100.00
Sofradir	France	PC	50.00	PC	50.00
ULIS	France	PC	42.51	PC	42.51
Vectronix AG	Switzerland	FC	100.00	FC	100.00
Vectronix Inc.	United States	FC	100.00	FC	100.00
REOSC <sup>(2)</sup>	France	-	-	FC	100.00
<b>Security</b>					
Morpho	France	FC	100.00	FC	100.00
Aleat	Albania	FC	75.00	FC	75.00
Bioscrypt Canada Inc.	Canada	FC	100.00	FC	100.00
ComnetIX, Inc.	Canada	FC	100.00	FC	100.00
EIMASS	United Arab Emirates	PC	40.00	PC	40.00
Identix Incorporated <sup>(4)</sup>	United States	FC	100.00	-	-
Integrated Biometric Technology LLC <sup>(4)</sup>	United States	FC	100.00	-	-
Integrated Biometric Technology Services LLC <sup>(4)</sup>	United States	FC	100.00	-	-
L1 Identity Solutions Inc. <sup>(4)</sup>	United States	FC	100.00	-	-
L1 International Inc. <sup>(5)</sup>	United States	FC	100.00	-	-
L-1 Secure Credentialing, Inc.	United States	FC	100.00	FC	100.00
Morpho Australasia Pty Ltd	Australia	FC	100.00	FC	100.00
Morpho BV (formerly Sagem Identification BV)	Netherlands	FC	100.00	FC	100.00
Morpho Canada	Canada	FC	100.00	FC	100.00

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(5) Merged into Morpho USA Inc. on January 1, 2013.

(6) Merged into Etablissements Vallaroché SA at January 1, 2013.

	Country	2012		2013	
		Consolidation method	% interest	Consolidation method	% interest
Morpho Maroc	Morocco	FC	100.00	FC	100.00
Morpho South Africa (Pty) Ltd	South Africa	FC	100.00	FC	100.00
MorphoTrak Inc.	United States	FC	100.00	FC	100.00
Morpho Trust Inc.	United States	FC	100.00	FC	100.00
Morpho UK Ltd	United Kingdom	FC	100.00	FC	100.00
Morpho USA Inc.	United States	FC	100.00	FC	100.00
SecuriMetrics, Inc.	United States	FC	100.00	FC	100.00
Trans Digital Technologies LLC	United States	FC	100.00	FC	100.00
Morpho Cards GmbH (formerly Sagem Orga GmbH)	Germany	FC	100.00	FC	100.00
Cassis America Inc	United States	FC	100.00	FC	100.00
Cassis International Europe	France	FC	100.00	FC	100.00
Cassis International Korea Co. Ltd <sup>(1)</sup>	South Korea	FC	100.00	-	-
Cassis International Pte Ltd	Singapore	FC	100.00	FC	100.00
Cassis Services Sdn Bhd	Malaysia	FC	100.00	FC	100.00
Morpho Cards do Brasil (formerly Sagem Orga do Brasil)	Brazil	FC	100.00	FC	100.00
Morpho Cards Colombia SAS	Colombia	FC	100.00	FC	100.00
Morpho Cards Indonesia	Indonesia	FC	100.00	FC	100.00
Morpho Cards Pte Ltd (formerly Sagem Orga Pte Ltd)	Singapore	FC	100.00	FC	100.00
Morpho Cards de Peru SAC	Peru	FC	100.00	FC	100.00
Morpho Cards Portugal (formerly Orga Card Portugal)	Portugal	FC	100.00	FC	100.00
Morpho Cards Romania SRL (formerly Sagem Orga SRL)	Romania	FC	100.00	FC	100.00
Morpho Cards UK Ltd (formerly Sagem Orga UK Ltd)	United Kingdom	FC	100.00	FC	100.00
Morpho Cards USA, Inc. (formerly Sagem Orga USA, Inc.)	United States	FC	100.00	FC	100.00
Morpho Cards South Africa Pty. Ltd (formerly Sagem Orga SA Pty Ltd)	South Africa	FC	100.00	FC	100.00
CPS Technologies <sup>(2)</sup>	France	-	-	FC	100.00
Morpho Cards Czech <sup>(2)</sup>	Czech Republic	-	-	FC	100.00
Orga Carte et Système <sup>(1)</sup>	France	FC	100.00	-	-
Orga Smart Chip Ltd	India	FC	100.00	FC	100.00
Orga Syscom Corporation Ltd	India	FC	100.00	FC	100.00
Orga Zelenograd Smart Cards and Systems	Russia	FC	100.00	FC	100.00
Sagem Orga FZ LLC	United Arab Emirates	FC	100.00	FC	100.00
Sagem Orga Mexico	Mexico	FC	100.00	FC	100.00
MorphoDetection Inc.	United States	FC	100.00	FC	100.00
Morpho Detection Hong Kong	China	FC	100.00	FC	100.00
Morpho Detection International Inc.	United States	FC	100.00	FC	100.00
Morpho Detection GmbH	Germany	FC	100.00	FC	100.00
Morpho Detection UK	United Kingdom	FC	100.00	FC	100.00

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(5) Merged into Morpho USA Inc. on January 1, 2013.

(6) Merged into Etablissements Vallaroché SA at January 1, 2013.

	Country	2012		2013	
		Consolidation method	% interest	Consolidation method	% interest
Quantum Magnetics Inc.	United States	FC	100.00	FC	100.00
Syagen Technology Inc.	United States	FC	100.00	FC	100.00
Ingenico	France	EQ	22.77	EQ	10.25
<b>Holding company and other</b>					
Etablissements Vallaroche SA	France	FC	100.00	FC	100.00
Labinal Investments Inc.	United States	FC	100.00	FC	100.00
Lexvall 2 <sup>(6)</sup>	France	FC	100.00	-	-
Lexvall 13 <sup>(6)</sup>	France	FC	100.00	-	-
Safran UK	United Kingdom	FC	100.00	FC	100.00
Safran USA Inc.	United States	FC	100.00	FC	100.00
Sagem Mobiles	France	FC	100.00	FC	100.00
Soreval	Luxembourg	FC	100.00	FC	100.00

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(2) First-time consolidation in 2013.

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(5) Merged into Morpho USA Inc. on January 1, 2013.

(6) Merged into Etablissements Vallaroche SA at January 1, 2013.

## 3.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (YEAR ENDED DECEMBER 31, 2013)

*This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.*

*The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.*

*This report also includes information relating to the specific verification of information given in the Group's management report.*

*This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2013 on:

- the audit of the accompanying consolidated financial statements of Safran;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in note 1 to the consolidated financial statements regarding new IFRS standards, interpretations and amendments that Safran applies as from January 1, 2013, and in particular regarding the change in accounting policies resulting from the application of

the new standard IAS 19 (Revised) "Employee Benefits", whose impacts on 2012 consolidated financial statements are described in Note 3 to the consolidated financial statements.

### II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

As indicated in the Note 2 to the consolidated financial statements, the preparation of the Group's consolidated financial statements requires the management of your company to define assumptions in order to make estimates that have an impact on the book values of the assets and liabilities and on the income and expenses recorded in the consolidated financial statements, as well as on the disclosures in the consolidated financial statements.

We consider that the matters that are the subject of significant estimates and for which our assessments require justification include estimates relating to contracts and programs, especially with regards to fixed asset impairment tests and the valuation of certain provisions.

#### FIXED ASSET IMPAIRMENT TESTS

At least once a year and at any time if there are indications of impairment, the Group performs impairment tests on goodwill. Also, at each annual close, the Group performs impairment tests on assets allocated to programs (aerospace programs, development costs and tangible assets used in production) when occurrence of events or circumstances indicating a risk of impairment. These tests are based on the discounting of future cash flows expected from cash generating units, projects or programs to which the dedicated assets are attached, according to the conditions described in note 1.1 to the consolidated financial statements. We reviewed the conditions of implementation of these impairment tests and verified the consistency of the assumptions adopted. We also verified that notes 10 and 11 to the consolidated financial statements give the appropriate disclosure.



### PROVISIONS

Safran recognizes provisions for losses upon completion, losses on delivery commitments, provisions for financial guarantees relating to sales and provisions for commercial guarantees, as described in note 1.r to the consolidated financial statements. Our work consisted notably in assessing the assumptions, the contractual and forecast data, and the technical and statistical bases on which these estimates are based, reviewing Group's calculations by means of sampling, and examining the procedures for the management's approval of these estimates. On that basis, we assessed the reasonable nature of these estimates.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, March 26, 2014

The Statutory Auditors

French original signed by

**MAZARS**

Thierry Colin

Gaël Lamant

**ERNST & YOUNG et Autres**

Vincent de La Bachelerie

Jean-Roch Varon

### 3.3 PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2013

#### PARENT COMPANY INCOME STATEMENT

<i>(in € millions)</i>	Note	2012	2013
<b>Revenue</b>	<b>14</b>	<b>313.8</b>	<b>388.1</b>
Other operating income		28.6	1.0
Transfer of charges	15	6.4	6.8
Reversal of depreciation, amortization and provisions	9	1.7	10.3
<b>Operating income</b>		<b>350.5</b>	<b>406.2</b>
Purchases of commodities		(1.2)	(1.4)
Cost of goods sold		(288.9)	(327.3)
Taxes and duties other than income tax		(10.1)	(10.7)
Payroll costs		(156.5)	(181.3)
Charges to depreciation, amortization and provisions			
Charges to depreciation and amortization	9	(15.6)	(22.5)
Charges to provisions for contingencies and losses		(5.8)	(20.4)
Other expenses		(1.7)	(1.2)
<b>Operating expenses</b>		<b>(479.8)</b>	<b>(564.8)</b>
<b>Loss from operations</b>		<b>(129.3)</b>	<b>(158.6)</b>
Dividends received from investments		574.1	502.1
Income from other marketable securities and long-term loans		76.5	18.8
Other interest and similar income		50.2	45.5
Reversal of provisions and transfer of charges		68.4	24.8
Foreign exchange gains		71.8	-
Net proceeds from sales of marketable securities		0.1	-
<b>Financial income</b>		<b>841.1</b>	<b>591.2</b>
Charges to provisions for financial items		(21.2)	(29.6)
Interest and similar expenses		(87.5)	(67.9)
Foreign exchange losses		-	(20.6)
Net losses on sales of marketable securities		-	-
<b>Financial expenses</b>		<b>(108.7)</b>	<b>(118.1)</b>
<b>Net financial income</b>	<b>16</b>	<b>732.4</b>	<b>473.1</b>
<b>Profit from ordinary activities before tax</b>		<b>603.1</b>	<b>314.5</b>
Non-recurring income from non-capital transactions		1.3	-
Non-recurring income from capital transactions		33.4	13.2
Reversal of provisions and transfer of charges		7.6	7.1
<b>Non-recurring income</b>		<b>42.3</b>	<b>20.3</b>
Non-recurring expenses on non-capital transactions		(1.6)	(0.9)
Non-recurring expenses on capital transactions		(26.2)	(16.9)
Charges to provisions for non-recurring items		(19.2)	(28.8)
<b>Non-recurring expenses</b>		<b>(47.0)</b>	<b>(46.6)</b>
<b>Non-recurring expense</b>	<b>17</b>	<b>(4.7)</b>	<b>(26.3)</b>
Statutory employee profit-sharing	19	-	-
Income tax benefit arising from tax consolidation	19	190.5	49.9
Provisions set aside to cover income taxes of loss-making subsidiaries	19	(24.0)	(10.3)
<b>PROFIT FOR THE YEAR</b>		<b>764.9</b>	<b>327.8</b>

## PARENT COMPANY BALANCE SHEET AT DECEMBER 31, 2013

## Assets

		Dec. 31, 2012	Dec. 31, 2013		
(in € millions)	Note		Gross	Deprec., amort. and provisions	Net
Non-current assets					
Intangible assets					
Purchased goodwill	2	3,270.6	3,268.2		3,268.2
Other intangible assets	2	40.7	112.0	49.6	62.4
Total intangible assets		3,311.3	3,380.2	49.6	3,330.6
Property, plant and equipment	2	46.8	143.2	67.6	75.6
Financial assets					
• Equity investments	2	5,614.1	6,432.1	460.2	5,971.9
• Other financial assets	2	489.8	541.6	77.2	464.4
Total financial assets	2	6,103.9	6,973.7	537.4	6,436.3
TOTAL NON-CURRENT ASSETS		9,462.0	10,497.1	654.6	9,842.5
Current assets					
• Payments on account		6.0	5.5		5.5
Accounts receivable					
• Trade receivables	3	92.3	106.9	0.1	106.8
• Other receivables	3	353.4	327.3	0.9	326.4
• Group current accounts	3	1,640.3	1,664.3		1,664.3
Marketable securities					
• Treasury shares	6	21.1	16.8		16.8
• Other securities	6	1,277.1	1,090.7		1,090.7
Cash at bank and in hand		562.5	251.7		251.7
Prepayments	5	7.6	6.4		6.4
TOTAL CURRENT ASSETS		3,960.3	3,469.6	1.0	3,468.6
Redemption premiums	7	0.1	0.1		0.1
Unrealized foreign exchange losses		44.9	47.6		47.6
TOTAL ASSETS		13,467.3	14,014.4	655.6	13,358.8

## Equity and liabilities

<i>(in € millions)</i>	Note	Dec. 31, 2012	Dec. 31, 2013
<b>Shareholders' equity</b>	<b>8</b>		
Share capital (fully paid up)	8	83.4	83.4
Additional paid-in capital		3,288.6	3,289.7
Reserves:			
• Legal reserve		8.3	8.3
• Tax-driven reserves		302.0	302.0
• Other reserves		1,421.1	1,421.1
Retained earnings		3.0	368.3
<b>Profit for the year</b>		<b>764.9</b>	<b>327.8</b>
Interim dividends		(128.9)	(199.9)
Tax-driven provisions	9	15.1	35.6
<b>TOTAL EQUITY</b>		<b>5,757.5</b>	<b>5,636.3</b>
<b>Provisions for contingencies and losses</b>			
Provisions for contingencies	9	23.0	29.7
Provisions for losses	9 and 10	654.2	677.5
<b>TOTAL PROVISIONS FOR CONTINGENCIES AND LOSSES</b>		<b>677.2</b>	<b>707.2</b>
<b>Liabilities</b>			
Bond issue	11	750.0	750.0
USD senior unsecured notes issue	12	909.5	870.1
Other loans and borrowings		1,154.0	945.2
Payments received on account		-	-
Group current accounts		3,460.4	3,422.8
Trade payables		79.8	98.5
Due to suppliers of non-current assets		43.2	86.9
Other liabilities		586.3	776.3
Deferred income		-	0.2
<b>TOTAL LIABILITIES</b>		<b>6,983.2</b>	<b>6,950.0</b>
Unrealized foreign exchange gains		49.3	65.3
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,467.3</b>	<b>13,358.8</b>

## PARENT COMPANY STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	2012	2013
<b>I. Cash flows from operating activities</b>		
Profit for the year	764.9	327.8
Elimination of non-cash items and income and expenses not relating to operations		
• Net charge to depreciation, amortization and provisions	8.5	73.5
• Capital gains/losses on asset disposals	0.2	(1.3)
<b>Net cash from operations before changes in working capital</b>	<b>773.6</b>	<b>400.0</b>
<b>Changes in working capital<sup>(*)</sup></b>	<b>(439.2)</b>	<b>203.9</b>
<b>Net cash from operating activities</b>	<b>334.4</b>	<b>603.9</b>
<b>II. Cash flows from investing activities</b>		
Purchases of intangible assets and property, plant and equipment	(58.3)	(80.6)
Increase in financial assets	(923.4)	(345.6)
Loans granted	(113.9)	(45.0)
Loans repaid	922.3	70.4
Sales of intangible assets and property, plant and equipment	-	11.3
Sales of financial assets	-	-
<b>Net cash used in investing activities</b>	<b>(173.3)</b>	<b>(389.5)</b>
<b>III. Cash flows from financing activities</b>		
Dividends paid to shareholders	(153.9)	(270.7)
Interim dividends	(128.9)	(199.9)
Increase in borrowings	909.5	-
Decrease in borrowings	(20.4)	(76.9)
Change in share capital	-	-
Change in short-term borrowings	(105.1)	(171.3)
<b>Net cash from (used in) financing activities</b>	<b>501.2</b>	<b>(718.8)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>662.3</b>	<b>(504.4)</b>
Opening cash and cash equivalents	1,201.3	1,863.6
Treasury shares reclassified as marketable securities		
Increase (decrease) in cash and cash equivalents	662.3	(504.4)
<b>Closing cash and cash equivalents<sup>(**)</sup></b>	<b>1,863.6</b>	<b>1,359.2</b>

(\*) In view of the nature of the Company's operations, this line includes changes in current accounts.

<b>(**) Closing cash and cash equivalents:</b>	<b>2012</b>	<b>2013</b>
Treasury shares	24.0	16.8
Other	1,277.1	1,090.7
Cash at bank and in hand	562.5	251.7
Short-term bank facilities and bank overdrafts		
<b>Closing cash and cash equivalents</b>	<b>1,863.6</b>	<b>1,359.2</b>
Closing cash and cash equivalents	1,863.6	1,359.2
Provisions for impairment of treasury shares	(2.9)	-
<b>Net cash and cash equivalents recorded in the balance sheet</b>	<b>1,860.7</b>	<b>1,359.2</b>

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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## FOREWORD

Safran decided that the assets and liabilities of its subsidiary Lexsa SA would be transferred to Safran SA with effect from December 23, 2013, based on their carrying amount.

This transaction generated a merger surplus of €1.1 million which was recognized as paid-in capital within equity.

## Note 1 • Accounting policies

### a) Accounting rules and methods

The parent company financial statements for the year ended December 31, 2013 have been prepared in accordance with accounting rules and regulations applicable in France pursuant to CRC Regulation 99-03 issued by the French Accounting Regulation Committee on April 29, 1999 and subsequent opinions and recommendations issued by the French National Accounting Council (CNC) and the French accounting standard-setter (ANC).

### b) Intangible assets

All intangible assets are valued at purchase cost.

The “technical” merger deficit generated by the 2005 merger of Snecma into Sagem SA based on carrying amounts was recorded as an asset. Of the total, 83.39% – based on Sagem SA’s stake in Snecma following the tender offer but before the merger – corresponded to unrealized capital gains on the Snecma brand name and on the equity investments carried in Snecma’s balance sheet. The capital gains were determined using the same approach as that applied to measure the fair values of the identifiable assets and liabilities of the Snecma group companies at April 1, 2005 for recognition in Safran’s consolidated balance sheet. The merger deficit was therefore allocated to Snecma’s various assets as described in Note 2.a, without adjusting their carrying amounts in the accounts of Safran. The merger deficit is not amortizable and is therefore tested annually for impairment. In the event that any of the underlying assets (equity investments, brands) are sold, the portion of the deficit allocated to the assets concerned without adjusting their carrying amount will be written off to the income statement.

Patents and licenses are amortized over the shorter of the period of legal protection and period of effective use.

Application software is amortized on a straight-line basis over a period of one to five years.

Increases in standard depreciation rates permitted by the tax authorities to encourage investment are considered as “accelerated tax depreciation” and are recorded in tax-driven provisions in equity.

### c) Property, plant and equipment

As required by the applicable accounting regulations, since January 1, 2005 property, plant and equipment have been depreciated over their useful lives.

Property, plant and equipment are recorded in the balance sheet at historical purchase cost less accumulated depreciation and impairment losses.

Assets purchased before December 31, 1976 which were included in the 1976 legal revaluation are stated at revalued cost.

Assets purchased after January 1, 1977 are valued at purchase cost, plus incidental acquisition expenses (necessary to bring the asset into a state of use) and any customs duties.

Assets purchased in a foreign currency are translated into euros at the exchange rate prevailing on the transaction date.

Assets produced by the Company are recorded at production cost.

In compliance with CRC Regulation 04-06, significant components of certain buildings whose useful lives differ from that of the asset as a whole are recognized and depreciated separately.

#### ■ Depreciation

The main useful lives applied to property, plant and equipment are as follows:

• buildings	15 to 40 years
• building improvements; fixtures and fittings	10 years
• office furniture	6 years and 8 months
• office equipment	6 years and 8 months
• vehicles	4 years
• technical installations, equipment, industrial tools and other	3 to 10 years

Property, plant and equipment are depreciated on a straight-line or declining-balance basis.

Increases in standard depreciation rates permitted by the tax authorities to encourage investment are considered as “accelerated tax depreciation” and are recorded in tax-driven provisions in equity.



## ■ Impairment tests

If there is any evidence that an asset may be impaired at year-end, the Company performs an impairment test.

Impairment is recognized in the income statement when the recoverable amount of the asset falls below its carrying amount. Recoverable amount is the higher of fair value and value in use.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, less costs to sell. Value in use is based on the present value of expected future cash flows, calculated using a benchmark discount rate which reflects the Group's weighted average cost of capital.

calculated based on standardized flows representing long-term operations for years five to ten, taking into account a perpetual growth rate.

These cash flows are discounted using the Group's benchmark discount rate, which reflects its weighted average cost of capital.

Annual impairment tests are performed during the first half of the year in order to bring this procedure into line with the Group's internal medium- and long-term forecasting timetable.

A write-down is recorded when the fair value falls below the carrying amount.

Provisions are recorded in respect of loans and other financial assets when their recovery is uncertain.

## d) Financial assets

### ■ Gross carrying amount

Financial assets are recorded at purchase price.

The 2007 French Finance Act introduced a new tax treatment of equity investment acquisition expenses, requiring their capitalization (inclusion in the cost price of securities) and amortization over a period of five years by way of accelerated tax depreciation.

Therefore, in accordance with the opinion issued by the CNC Urgent Issues Taskforce on June 15, 2007, the Company elected for a change in tax option from January 1, 2007, whereby the gross carrying amount of equity investments purchased after this date corresponds to the purchase price of the securities plus acquisition expenses. These acquisition expenses are then subject to accelerated tax depreciation over a period of five years.

## e) Receivables and payables

Receivables and payables are recorded at nominal value. A provision for impairment in value is recognized for receivables where their recoverable amount is less than their carrying amount.

### ■ Foreign-currency denominated receivables and payables

Receivables and payables in foreign currencies are translated into euros at the exchange rate prevailing at December 31.

Any resulting translation gains or losses are recorded under unrealized foreign exchange gains and losses in the balance sheet.

A contingency provision is recorded for any net unrealized foreign exchange losses not offset by currency hedges.

### ■ Methods used to calculate the fair value of financial assets

The fair value of equity investments as defined below is compared to their carrying amount, which is calculated as the gross value of the investments plus the technical merger deficit allocated to these investments without affecting their carrying amount (see Note 1.b, section 3.3), less the contingency provision covering the risk of Safran SA having to redistribute the tax savings arising due to the use of tax losses of subsidiaries in the tax consolidation group (see Note 1.m, section 3.3).

The fair value of equity investments is calculated:

- based on their average stock market price for the month preceding the year-end for listed investments;
- based on their share in net equity, adjusted where appropriate for significant unrealized capital gains net of taxes;
- based on the intrinsic value of equity, reflecting the present value of the expected future cash flows (enterprise value), less debt where appropriate.

Expected future cash flows are calculated based on the medium-term plans established for the next four years and on forecast cash flows for years five to ten. The enterprise value of the assets is the sum of the present value of these cash flows and the terminal value,

## f) Investment securities

Investment securities are recorded at purchase cost. A provision for impairment is recorded when the fair value of securities, determined based on their value in use and their probable trading value, is less than their purchase cost. The fair value of listed securities is determined based on their average stock market price for the month preceding the year-end.

### ■ Treasury shares

Treasury shares are recorded at purchase cost. Fair value is equal to the lower of purchase cost and the average stock market price for the month preceding the year-end. A provision for impairment is recorded when the purchase cost exceeds the average stock market price. However, the following specific accounting rules apply for stock option and free share plans or any other type of employee share ownership plan:

- when shares are earmarked for a specific stock option plan whose exercise is considered probable, an additional calculation is performed for each plan. A contingency provision is recorded when the option exercise price is less than the fair value;

- when shares are allocated to a specific free share plan, their carrying amount corresponds to either (i) the purchase price of the shares if they were allocated to the plan as from its inception, or (ii) the carrying amount of the shares at the date they are reclassified if they were allocated to the plan subsequent to their acquisition. These shares are not measured at fair value due to the underlying commitment to grant them to employees, which is covered by a provision recorded under liabilities in the balance sheet.

### g) Cash at bank and in hand

Foreign-currency denominated liquid assets and current liabilities held at year-end are translated at the exchange rate prevailing at December 31.

Any resulting translation gains or losses are recorded in financial income and expenses.

### h) Tax-driven provisions

Provisions for accelerated tax depreciation are recorded in relation to software applications and to equity investment acquisition expenses.

### i) Provisions for contingencies and losses

Clearly identified contingencies and losses which are likely to materialize in the light of past or current events are covered by provisions, particularly retirement bonus obligations and top-hat retirement plans.

#### ■ Employee benefit obligations

The Company has various obligations under defined benefit plans, the most important of which are described below:

The Company's obligations for end-of-career bonuses payable pursuant to the metallurgy industry collective bargaining agreement or company agreements are covered by provisions.

Depending on their age brackets, managerial-grade staff are also covered by a supplementary defined contribution plan as well as a defined benefit top-hat retirement plan.

These obligations are recognized and measured in accordance with CNC Recommendation 2003-R-01 regarding the recognition and measurement of employee benefit obligations. All obligations under defined benefit plans are measured by an independent actuary.

Where appropriate, the impact of changes in actuarial assumptions underlying the calculation of post-employment benefits (end-of-career bonuses and top-hat retirement plans) is spread over the expected average remaining working lives of employees in accordance with the corridor method. Any liabilities not covered by a provision (actuarial differences and unrecognized past service costs) are recorded in off-balance sheet commitments.

All components of the net periodic pension cost (service cost, amortization of actuarial gains and losses, impacts of plan amendments, interest cost, return on plan assets) are recorded in the income statement.

### j) Financial instruments

#### ■ Foreign currency hedges

Given the high number of foreign-currency denominated transactions carried out by certain subsidiaries, Safran SA manages foreign currency risk on behalf of these companies by hedging forecast commercial transactions using forwards and options.

The fair value of financial instruments set up by Safran to hedge the net position of foreign-currency denominated operating receivables and payables of subsidiaries covered by a Safran foreign exchange guarantee is recorded in the balance sheet.

The fair value of financial instruments used to hedge future transactions denominated in foreign currencies is not recorded in the balance sheet.

Premiums paid and received on options are initially recorded in the balance sheet and then released to profit or loss on maturity or expiration of the options.

Foreign currency gains and losses arising on these transactions along with hedging gains and losses transferred to subsidiaries are recorded as foreign exchange gains and losses.

#### ■ Interest rate hedges

The Company may use interest rate swaps to hedge its exposure to changes in interest rates.

#### ■ Commodity hedges

The Company enters into forward purchases of commodities to hedge its subsidiaries' exposure to fluctuations in the prices of certain listed commodities such as nickel, platinum and oil. All gains and losses arising on these hedging transactions are transferred to subsidiaries.

### k) Revenue

Revenue mainly comprises the provision of services for the Group's subsidiaries and is broken down according to the type of service provided to each beneficiary. Recurring services are billed on a monthly basis.

Research services are recognized on a percentage-of-completion basis.

## l) Non-recurring items

The Company uses the definition of non-recurring items laid down in the French General Chart of Accounts. In particular, non-recurring items include capital gains and losses arising on the sale of non-current assets.

## m) Income tax and tax consolidation

In 2005, the Company elected for the Group tax consolidation regime set out in articles 223-A to 223-Q of the French Tax Code (*Code général des impôts*).

In fiscal 2013, the tax consolidation group included the following companies:

- Safran (head of the tax group)
- Aircelle
- Aircelle Europe Services
- Établissements Vallaroche
- Herakles
- Hispano-Suiza
- Labinal Power Systems (formerly Labinal)
- REOSC (formerly Lexvall 21)
- Lexvall 22
- Lexvall 23
- Lexvall 24
- Lexvall 25
- Messier-Bugatti-Dowty
- Microturbo
- Morpho

- Safran Aero Composite
- Safran Consulting
- Safran Engineering Services
- Safran International Resources
- Safran Sixty
- Sagem
- Sagem Mobiles
- Société Lorraine de Constructions Aéronautiques
- Société de Motorisations Aéronautiques
- Snecma
- Snecma Participations
- Snecmasat
- Sofrance
- SSI
- Technofan
- Turbomeca
- Vallaroche Conseil

In accordance with the tax consolidation agreements entered into between Safran and its subsidiaries, each subsidiary in the tax group records in its accounts the amount of tax that it would have paid on a stand-alone basis. Any tax savings or additional liabilities arising as a result of tax consolidation are recorded by Safran in its capacity as head of the tax group.

Any tax savings arising on the use of tax losses of subsidiaries in the tax consolidation group are recorded in Safran's income statement and neutralized by way of a provision. This provision is released to profit or loss when prior year losses are used by the consolidated subsidiary or when they become time-barred and may no longer be used by the subsidiary concerned.

## Note 2 · Non-current assets, gross carrying amount, depreciation, amortization and impairment

### a) Non-current assets

(in € millions)	Dec. 31, 2012	Increase	Decrease	Dec. 31, 2013
<b>Intangible assets</b>				
• Purchased goodwill/(merger deficit) <sup>(1)</sup>	3,270.6		2.4	3,268.2
• Concessions, patents, licenses, brand names, processes, software, rights and equivalent assets and other	77.8	37.2	3.0	112.0
<b>TOTAL</b>	<b>3,348.4</b>	<b>37.2</b>	<b>5.4</b>	<b>3,380.2</b>
<b>Property, plant and equipment</b>				
• Land	7.9		2.4	5.5
• Buildings	46.1	9.1	9.1	46.1
• Technical installations, equipment and industrial tools	2.7	2.0	0.1	4.6
• Other property, plant and equipment	43.4	8.4	1.5	50.3
• Property, plant and equipment in progress	11.9	29.5	6.8	34.6
• Payments on account		2.1		2.1
<b>TOTAL</b>	<b>112.0</b>	<b>51.1</b>	<b>19.9</b>	<b>143.2</b>
<b>Financial assets</b>				
• Equity investments <sup>(2)(3)(4)</sup>	6,070.9	372.5	11.3	6,432.1
• Loans to equity investments <sup>(5)</sup>	462.4	42.0	69.7	434.7
• Other long-term investments <sup>(6)</sup>	71.3	0.2		71.5
• Loans	18.0	0.4	0.8	17.6
• Other financial assets	15.3	2.5		17.8
<b>TOTAL</b>	<b>6,637.9</b>	<b>417.6</b>	<b>81.8</b>	<b>6,973.7</b>

(1) The merger deficit was allocated "off-the-books" – i.e., without adjusting the carrying amounts of the related assets – to unrealized capital gains on the Snecma brand name in the amount of €56 million and on equity investments in the amount of €3,212 million (including Aircelle for €185 million, Messier Bugatti Dowty for €172 million, Sagem for €31 million, Labinal and Safran Engineering Services for €214 million, Snecma for €2,098 million, Techspace Aéro for €164 million, Herakles for €143 million, and Turbomeca and Microturbo for €205 million).

(2) Following the transfer of the assets and liabilities of Lexsa to Safran, Lexsa shares were canceled based on their gross value (€11 million).

(3) Increases in this item primarily reflect (i) the €30 million investment in the Aerofund III fund, (ii) the capital increase at Safran Power UK in the amount of €275 million, and at Safran USA in the amount of €60 million and (iii) a €7 million adjustment to the valuation of Herakles shares.

(4) The 1.12% stake in Embraer, considered of strategic interest and a long-term investment, is shown in equity investments for €38.4 million (gross and net).

(5) Loans granted mainly to Smartinvest (€9 million) and Snecma Suzhou (€6 million) and loans repaid mainly by Morpho (€20 million), Morpho Cards do Brazil (€7 million), Turbomeca do Brazil (€3 million), Aircelle Maroc (€2 million), Messier Bugatti USA (€2 million) and Roxel (€2 million).

(6) Other long-term investments primarily include bonds issued by a company currently in liquidation. These bonds have been written down in full, along with the related accrued interest (see Note 9).

## b) Depreciation, amortization and impairment

<i>(in € millions)</i>	Dec. 31, 2012	Increase	Decrease	Dec. 31, 2013
<b>Intangible assets</b>				
• Concessions, patents, licenses, brand names, processes, software, rights and equivalent assets and other	37.1	13.3	0.8	49.6
<b>TOTAL</b>	<b>37.1</b>	<b>13.3</b>	<b>0.8</b>	<b>49.6</b>
<b>Property, plant and equipment</b>				
• Land	0.3	0.3		0.6
• Buildings	35.7	2.2	5.6	32.3
• Technical installations, equipment and industrial tools	0.5	0.5		1.0
• Other property, plant and equipment	28.7	6.2	1.2	33.7
<b>TOTAL</b>	<b>65.2</b>	<b>9.2</b>	<b>6.8</b>	<b>67.6</b>

See Note 9 for details of financial assets.

## Note 3 · Maturities of receivables and liabilities

	Gross carrying amount	Maturing in		
(in € millions)		1 year or less	Between 1 and 5 years	Beyond 5 years
Receivables				
Non-current assets				
Loans to equity investments	434.7	272.5	160.2	2.0
Loans	17.6		17.6	
Other non-current financial assets	17.8		17.8	
Sub-total	470.1	272.5	195.6	2.0
Current assets				
Payments on account	5.5	5.5		
Trade receivables	106.9	106.9		
Prepaid and recoverable taxes	239.4	227.5	11.9	
Other receivables	87.9	75.9	12.0	
Group current accounts	1,664.3	1,664.3		
Prepayments	6.4	6.4		
Sub-total	2,110.4	2,086.5	23.9	-
TOTAL – RECEIVABLES	2,580.5	2,359.0	219.5	2.0
Liabilities				
Bond issue	750.0	750.0		
USD senior unsecured notes issue	870.1			870.1
Other loans and borrowings	945.2	720.1	150.0	75.1
Group current accounts	3,422.8	3,422.8		
Trade payables <sup>(7)</sup>	98.5	98.5		
Due to suppliers of non-current assets	86.9	25.1	61.8	
Other liabilities	776.3	511.5	157.0	107.8
Deferred income	0.2	0.2		
TOTAL – LIABILITIES	6,950.0	5,528.2	368.8	1,053.0

(\*) The balance of trade payables comprises 21% payable in 30 days and 79% payable in 60 days (contractual payment period). At end-2012, the balance of trade payables comprised 15% payable in 30 days and 85% payable in 60 days (contractual payment period).

## Note 4 · Accrued income

In accordance with the accruals principle, accrued income is recorded in the following asset headings:

(in € millions)	Dec. 31, 2012	Dec. 31, 2013
Trade receivables	9.7	11.3
Loans to equity investments	8.0	7.2
Group current accounts	0.1	0.1
<b>TOTAL</b>	<b>17.8</b>	<b>18.6</b>

## Note 5 · Prepayments and deferred income

Prepayments mainly comprise financial expenses, subscriptions to professional bodies, professional fees and equipment and software maintenance contracts.

The Company's deferred income amounted to €0.2 million at end-2013 (no deferred income at end-2012).

## Note 6 · Marketable securities

### Treasury shares

(number of shares)

<b>Opening treasury shares</b>	<b>1,121,419</b>
Acquisition of shares under the liquidity agreement	2,957,646
Sale of shares under the liquidity agreement	(3,002,261)
Delivery of shares under the French and international leveraged share plans	(495,700)
<b>Closing treasury shares</b>	<b>581,104</b>
o/w recorded in "Marketable securities" (gross and net: €16.8 million)	
• Shares earmarked for employees	518,604
• Shares held under a liquidity agreement	62,500
	<b>581,104</b>

### Free share grants

Pursuant to the authorization granted by the Shareholders' Meeting of May 28, 2008, the Executive Board decided to implement a free share plan on April 3, 2009. The plan was intended for employees of Group companies based in the European Union and on the payroll at April 3, 2009. A total of 42,345 beneficiaries based in ten different countries each received 100 shares under the plan.

#### ■ Terms and conditions of the share grants

Shares granted to employees of Group companies headquartered in France vest fully after a period of two years. The shares are also

subject to a minimum two-year lock-up period, which begins on the date the shares fully vest. Shares granted to employees of Group companies headquartered outside France vest fully after a period of four years and are not subject to a lock-up period.

These shares are not subject to any specific performance conditions other than the employee's effective presence in the Company throughout the vesting period.

All shares granted by Safran under such plans are equity-settled.

Free shares vested by employees of French companies were delivered on April 3, 2011 (3,502,100 shares) and shares vested by employees of European companies were delivered on April 3, 2013 (495,700 shares).



### ■ Measurement of rights to free shares

Employee rights under the free share plan were measured based on the closing share price on the grant date, i.e., €7.54 per share.

	France	Other countries
Grant date	04/03/2009	04/03/2009
Vesting date	04/03/2011	04/03/2013
Post vesting lock-up period	2 years	none
Number of employee beneficiaries at the grant date	36,785	5,560
Number of shares granted per employee		100
Total number of shares granted	3,678,500	556,000
Market value of shares at the grant date		€7.54

### Leveraged Group savings plan

In November 2011, the Group launched a leveraged employee shareholding plan allowing employees working in France to acquire Safran shares under preferential conditions. A total of six million Safran treasury shares were available for subscription under this plan.

The plan was rolled out to Group employees working outside France in the first half of 2012 and a total of 371,997 shares were subscribed.

### ■ Terms and conditions of the leveraged plan

Under the leveraged plan, employees can subscribe to Safran shares at a lower-than-market price (i.e., 20% less than the average of the closing share price between November 11, 2011 and December 8, 2011 for employees of Group companies headquartered in France and between March 21, 2012 and April 19, 2012 for employees of Group companies headquartered outside France). These shares are subject to a five-year lock-up period.

For each share purchased by employees, a bank mandated by the Group contributes nine additional shares. Employees are guaranteed a return at least equal to the amount they invested. In addition, all amounts invested are indexed to the share price so that employees accrue a return on their investment if the share price rises above the undiscounted reference share price.

As consideration for the bank top-up and guarantees (capital and indexation) included in this plan, employees have waived their right to the 20% discount granted by Safran and to any dividends payable on the shares over the period.

All of the shares subscribed are held in a leveraged fund set up specifically for this purpose within the Group's employee savings plan.

### Other securities

Other securities include short-term (less than three months) money market investments and term deposits with liquid exit options exercisable at no cost within three months, readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

## Note 7 · Redemption premiums

This item comprises the redemption premiums on the Company's bonds, which are amortized over the life of the bonds.

## Note 8 • Equity

Changes in equity were as follows in 2013:

(in € millions)	Opening balance	Appropriation of 2012 profit	Increase	Decrease	Closing balance
Share capital	83.4				83.4
Additional paid-in capital	3,288.6		1.1 <sup>(4)</sup>		3,289.7
Legal reserve	8.3				8.3
Tax-driven reserves	302.0				302.0
Other reserves <sup>(1)</sup>	1,421.1				1,421.1
Retained earnings	3.0	365.3			368.3
2012 profit	764.9	(764.9)			-
2013 profit	-		327.8		327.8
2012 interim dividends	(128.9)	128.9			-
2013 interim dividends	-			199.9 <sup>(3)</sup>	(199.9)
Tax-driven provisions	15.1		23.6	3.1	35.6
<b>TOTAL</b>	<b>5,757.5</b>	<b>(270.7)<sup>(2)</sup></b>	<b>352.5</b>	<b>203.0</b>	<b>5,636.3</b>

(1) Including €16.8 million in reserves hedging treasury shares held at December 31, 2013.

(2) 2012 dividends paid in 2013.

(3) An interim dividend of €0.48 per share was paid on December 19, 2013.

(4) Merger surplus resulting from the merger with Lexsa, recognized within equity in Safran's financial statements.

## Share capital

At December 31, 2013, the Company's share capital comprised 417,029,585 ordinary shares with a par value of €0.20 each, listed on the Eurolist market (Compartment A) of NYSE Euronext Paris under ISIN code FR0000073272 (SAF).

### SHARE OWNERSHIP AT DECEMBER 31, 2013

	Shares		Voting rights	
	Number	%	Number	%
Private investors	261,687,728	62.75%	267,697,671	51.90%
French State	93,440,227	22.41%	132,440,227	25.68%
Employee shareholders	61,320,526	14.70%	115,672,870	22.43%
Treasury shares	581,104	0.14%	-	-
<b>TOTAL</b>	<b>417,029,585</b>	<b>100.00%</b>	<b>515,810,768</b>	<b>100.00%</b>

## Note 9 • Provisions

<i>(in € millions)</i>	Dec. 31, 2012	Charges	Reversals <sup>(1)</sup>	Dec. 31, 2013
<b>Tax-driven provisions:</b>				
Accelerated tax depreciation	15.1	23.6	3.1	35.6
<b>Sub-total</b>	<b>15.1</b>	<b>23.6</b>	<b>3.1</b>	<b>35.6</b>
<b>Contingency provisions:</b>				
Foreign exchange losses	20.2	24.5	20.2	24.5
Litigation	2.7	4.1	1.7	5.1
Other	0.1			0.1
<b>Sub-total</b>	<b>23.0</b>	<b>28.6</b>	<b>21.9</b>	<b>29.7</b>
<b>Loss provisions:</b>				
Retirement benefits and similar obligations	16.8	14.6	4.4	27.0
Subsidiary tax losses carried forward	605.2	19.6	9.2	615.6
Other	32.2	6.9	4.2	34.9
<b>Sub-total</b>	<b>654.2</b>	<b>41.1</b>	<b>17.8</b>	<b>677.5</b>
<b>Provisions for impairment:</b>				
Of equity investments	456.8	5.1	1.7	460.2
Of financial assets	77.2			77.2
Of other receivables	1.0			1.0
Of marketable securities	2.9		2.9	-
<b>Sub-total</b>	<b>537.9</b>	<b>5.1</b>	<b>4.6</b>	<b>538.4</b>
<b>TOTAL</b>	<b>1,230.2</b>	<b>98.4</b>	<b>47.4</b>	<b>1,281.2</b>
Breakdown in the income statement:				
• operating income and expenses		20.4	10.3	
• financial income and expenses		29.6	24.8	
• non-recurring income and expenses		28.8	3.1	
• income tax		19.6	9.2	

(1) Including €4.6 million in reversals of surplus provisions relating to equity investments and marketable securities.

## Note 10 · Employee benefit obligations

The main assumptions used to calculate the Company's retirement benefit obligations were as follows:

	2012	2013
Discount rate	3.25%	3.00%
Inflation rate	2.00%	2.00%
Expected return on plan assets	4.56%	3.00%
Rate of future salary increases	1.50%-5.00%	1.50%-5.00%
Probable retirement age of managerial-grade staff	64/65 years	64/65 years
Probable retirement age of non managerial-grade staff	62/65 years	62/65 years
Mortality tables used	TV/TD 2006-2008	TV/TD 2006-2008

Change in benefit obligation (in € millions)	2012	2013	Defined benefit pension plans	Retirement termination benefits
Present value of obligation	42.1	87.2	55.6	31.6
Fair value of plan assets	-	(2.6)	(2.6)	-
<b>Funding shortfall</b>	<b>42.1</b>	<b>84.6</b>	<b>53.0</b>	<b>31.6</b>
Unrecognized actuarial gains and losses and past service costs	(25.9)	(58.2)	(43.3)	(14.9)
<b>Benefit obligations covered by a provision in the balance sheet</b>	<b>16.2</b>	<b>26.4</b>	<b>9.7</b>	<b>16.7</b>
Service cost	1.4	3.7	-	3.7
Interest cost	1.0	1.2	0.4	0.8
Amortization of actuarial gains and losses	0.9	9.6	9.6	-
<b>Expense</b>	<b>3.3</b>	<b>14.5</b>	<b>10.0</b>	<b>4.5</b>
Expected return on plan assets	-	-	-	-
Benefits paid	(1.4)	(4.3)	(3.5)	(0.8)
<b>Provision charge/(reversal)</b>	<b>1.9</b>	<b>10.2</b>	<b>6.5</b>	<b>3.7</b>

### Defined benefit pension plans

A supplementary defined benefit pension plan was implemented by Snecma in 1985 and closed on June 30, 1995 using a step mechanism that allowed eligible employees present in the Company at that date to maintain all or part of their benefits.

The plan is funded by contributions paid to an insurance company which then manages payment of the pensions. At December 31, 2013, around 17 claimants were still in active service and the last retirement is planned for 2015.

Following the closure of this plan, managerial-grade staff (*cadres*) were moved to a new supplementary defined contribution pension plan.

In late 2013, the Board of Directors approved a new supplementary pension plan in France for which executive managers within the Group, currently numbering around 400, are eligible.

The plan, effective as of January 1, 2014, provides for the payment of benefits based on years of service within the beneficiary category (at least five years of service are required to be eligible for the

benefits, and up to ten years are taken into account in determining entitlement) and benchmark compensation (corresponding to the average compensation in the 36 months preceding retirement).

The benefits payable are capped at three times the annual social security ceiling in France. The combined amount of benefits under all pension regimes cannot exceed 35% of the benchmark compensation.

A total of €40 million in past service costs is recorded as an off-balance sheet commitment and will be recognized over the remaining life of the plan.

### Retirement termination benefits

This heading includes obligations in respect of statutory termination benefits due on retirement and supplementary payments required by the collective bargaining agreement for the metallurgy industry.

The Group also signed a three-year agreement starting in 2012 increasing retirement termination benefits for the over 50s.

## Note 11 • Bond issue

On November 26, 2009 Safran issued €750 million worth of five-year bonds to French and international investors. The bonds mature on November 26, 2014 and pay fixed-rate interest of 4% (3.31% after taking account of interest rate hedging instruments in 2013).

## Note 12 • USD senior unsecured notes issue

On February 9, 2012, Safran issued USD 1.2 billion of senior unsecured notes on the US private placement market (i.e., €870.1 million in 2013), which included:

- USD 155 million of notes due February 2019 at a 3.70% coupon (Tranche A);
- USD 540 million of notes due February 2022 at a 4.28% coupon (Tranche B);
- USD 505 million of notes due February 2024 at a 4.43% coupon (Tranche C).

A USD interest rate hedge (floating-rate swap on six-month US Libor) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively. Tranche A has been kept at a fixed rate.

The issue's initial fixed-rate interest came out at 2.47% in 2013 after taking account of interest rate derivatives.

The funds raised by the bond issue allowed Safran to diversify its sources of financing and extend the average maturity of its borrowings. They have also provided the Group with the means to pursue its development going forward.

## Note 13 • Accrued expenses

Accrued expenses are included in the following headings on the liabilities side of the balance sheet:

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
Loans and borrowings	13.7	11.4
Trade payables	63.8	99.6
Taxes and payroll costs (other liabilities)	50.7	56.1
<b>TOTAL</b>	<b>128.2</b>	<b>167.2</b>

## Note 14 • Breakdown of revenue

<i>(in € millions)</i>	Dec. 31, 2012	Dec. 31, 2013
General assistance	121.7	136.0
Administrative and financial services	41.1	56.4
R&T services	65.5	96.9
Group projects	8.4	2.8
IT services	54.2	79.6
Seconded employees	13.3	13.2
Real estate income	2.5	0.3
Other	7.1	2.9
<b>TOTAL</b>	<b>313.8</b>	<b>388.1</b>

## Note 15 • Transfer of charges

Transfers of charges totaled €6.8 million in 2013 and mainly concerned expenses rebilled to Group subsidiaries.

## Note 16 • Financial income and expenses

Dividends received totaled €502.1 million in 2013 versus €574.1 million in 2012. A breakdown of dividends received is presented in the table of subsidiaries and associates.

Charges to provisions for financial items and impairment for the period (€29.6 million) relate mainly to the write-down taken against shares in Myriad (€2.3 million), Safran UK (€1.8 million) and to the provision for foreign exchange losses (€24.5 million).

Reversals of provisions for financial items and impairment in the period (€24.8 million) relate to the reversal of the provision for foreign exchange losses (€20.2 million) and of impairment taken against Sagem Mobiles (€1.7 million), and treasury shares (€2.9 million).

For the purpose of providing a meaningful comparison, foreign exchange gains and losses are presented on a single line of the income statement for the same fiscal year.

## Note 17 • Non-recurring items

Net non-recurring expenses on non-capital transactions (€0.9 million) mainly result from the impact of a trade dispute.

Net non-recurring expenses on capital transactions (€3.7 million) mainly reflect:

- €0.9 million in non-recurring income from disposals of assets including property;
- €4.7 million in net non-recurring expenses from treasury share transactions, including the settlement of the free share plan for employees of European companies.

Provision reversals relate to accelerated tax depreciation (€3.1 million) and transfers of charges (€3.8 million), including the settlement of the free share plan for employees of European companies.

Charges to provisions totaling €28.8 million mainly concern accelerated tax depreciation (€23.6 million).

## Note 18 • Related-party transactions

The following items concern fully consolidated companies as well as other entities in which Safran SA holds an equity investment:

<i>(in € millions)</i>	<b>Related-party amounts</b>
Equity investments	6,432.1
Loans to equity investments	434.7
Trade receivables	106.1
Other receivables	1,682.7
Other liabilities	3,805.0
Investment income	502.1
Other financial income	36.2
Financial expenses	5.7

## Note 19 · Income tax and statutory employee profit-sharing

### Income tax benefit arising from tax consolidation

#### ■ 2013 Group relief

Income tax due to Safran by subsidiaries included in the tax consolidation group totaled €55.3 million after deducting tax credits (mainly research tax credits) and represented a tax benefit for Safran.

The tax consolidation group's overall income tax expense came to €166.3 million. After offsetting €173.9 million in tax credits, Safran recorded a net tax benefit of €7.6 million.

The total income tax benefit for Safran arising from Group relief in 2013 therefore amounted to €62.9 million.

#### ■ Other impacts

Safran also recorded a €13 million tax charge of which €14.1 million in respect of the additional contribution due on dividend payouts introduced by the amending Finance Law for 2013 (the 3% tax is calculated based on the dividend paid in 2013).

#### ■ Provisions set aside to cover income taxes of loss-making subsidiaries

Charges to provisions set aside to cover the risk of Safran having to redistribute the tax savings arising due to the use of tax losses of subsidiaries in the tax consolidation group amounted to €19.3 million in 2013, while reversals totaled €4 million. Net reversals to provisions were also recognized in respect of the deneutralization of intragroup capital gains for €4.5 million.

No statutory employee profit-sharing expense was incurred either in 2013 or 2012.

### Information regarding expenses disallowable for tax purposes

These expenses totaled €0.1 million and correspond to the portion of depreciation and lease payments on vehicles that are not deductible for tax purposes.

## Note 20 · Average headcount and management compensation

### Breakdown of average employee numbers

	2012	2013
Supervisors	1	1
Technicians	98	108
White-collar employees	147	170
Engineers and managerial-grade staff	839	932
<b>TOTAL</b>	<b>1,085</b>	<b>1,211</b>

The increase in the average number of employees results from the growth in business of the holding company over the period, due mainly to the creation of shared services within Safran.



## Management compensation

After the change in corporate governance at April 21, 2011, management executives comprised members of the Board of Directors and Executive Management, as well as any persons with the power to take management decisions with regard to the Company's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Company.

<i>(in € millions)</i>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2013</b>
Short-term benefits <sup>(1)</sup>	11.1	9.7
Post-employment benefits <sup>(2)</sup>	0.2	0.2
Other long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.

(2) Data measured in accordance with CNC Recommendation 2003-R-01 authorizing the application of the corridor method (see section 3.3, Note 1.) which differs from the measurement method used in the IFRS consolidated financial statements subsequent to the mandatory application of the amended IAS 19 from January 1, 2013 (the corridor method is no longer permitted under IFRS).

All compensation and benefits awarded to members of the Supervisory Board/Board of Directors and to members of the Executive Board and Executive Management are shown on a gross basis, including the fixed portion of compensation and the provision for the variable portion to be paid in the subsequent year.

The Group's total post-employment commitments in respect of management executives amounted to €11.4 million at December 31, 2013 and €2.9 million at December 31, 2012.

## Note 21 · Individual training entitlement

In accordance with French Law 2004-391 of May 4, 2004 governing professional training and with the industry-wide agreement of July 20, 2004, Safran grants its employees the right to individual training. Employees are entitled to at least 20 training hours per calendar year, which can be carried forward and accumulated up to a maximum total of 120 hours.

## Note 22 · Off-balance sheet commitments

### Commitments given

<i>(in € millions)</i>	<b>2012</b>	<b>2013</b>
Commitments given to third parties	1,046.8	940.1
Customs bonds	69.4	65.7
Actuarial gains and losses on end-of-career bonus obligations	7.1	58.2
Other commitments given	379.0	381.2
<b>TOTAL<sup>(1)</sup></b>	<b>1,502.3</b>	<b>1,445.2</b>
<i>(1) Of which related parties</i>	<i>1,301.4</i>	<i>1,333.0</i>

Commitments given to third parties relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers), in which Safran provides a joint and several guarantee that its subsidiaries will perform their duties under their contractual obligations. These guarantees are given in respect of research, design, development, manufacturing, marketing and product support programs in place at Group subsidiaries. They are generally granted for the term of the program concerned, and are capped at a certain amount.

## Commitments received

Commitments received totaled €394.7 million at December 31, 2013 versus €417.2 million at end-2012 and primarily relate to commitments for the financing of civil programs as well as a commitment received from a Group subsidiary concerning portfolio securities.

### ■ Warranties received from SNPE

Under the terms of the SME share transfer agreement between SNPE and Safran, SNPE granted Safran a specific warranty for a period of 30 to 40 years concerning environmental liabilities due to past operations at eight SME sites. This warranty is capped at €240 million for 15 years and at €200 million thereafter. Safran is liable for 10% of the costs. The agreement provides for specific warranty sublimits totaling €91 million for cleanup during operations and €40 million for pollution resulting from the use of ammonium and sodium perchlorates, which is to be managed within the framework of the Perchlorate Plan. Safran will be liable for 10%

of the cleanup costs and 50% of the Perchlorate Plan costs. The plan was jointly drawn up by Safran and SNPE within 18 months of the acquisition date in order to define, reduce and/or restrict the sources of ammonium perchlorate pollution, and must be executed over a period of five years. These warranties granted by SNPE to Safran are counter-guaranteed by the French State for €216 million.

The share transfer agreement also provides for other warranties granted by SNPE which are capped at €25 million and have time limits of three to ten years depending on their nature.

## Foreign currency instruments

Safran SA holds derivative financial instruments including forward contracts, swaps and options which are used for the purposes of all Group companies to hedge (i) highly probable future transactions, determined on the basis of the order backlog and budget forecasts, and (ii) the net balance sheet position of foreign-currency denominated trade receivables and payables of subsidiaries.

The portfolio of foreign currency instruments breaks down as follows:

	Dec. 31, 2012				Dec. 31, 2013			
	Fair value <sup>(1)</sup>	Notional amount	Less than 1 year	1 to 5 years	Fair value <sup>(1)</sup>	Notional amount	Less than 1 year	1 to 5 years
<i>(in millions of currency units)</i>								
<b>Forward exchange contracts</b>	<b>193</b>				<b>596</b>			
Short USD position	157	13,323	5,764	7,559	620	12,348	8,317	4,031
<i>Of which against EUR</i>	157	12,979	5,560	7,419	593	11,855	8,091	3,764
Long USD position	28	(700)	(250)	(450)	(31)	(2,808)	(2,631)	(177)
<i>Of which against EUR</i>	28	(700)	(250)	(450)	(31)	(2,808)	(2,631)	(177)
Short CAD position against CHF	5	81	81	-	4	6	6	-
Short GBP position against EUR					1	75	75	-
Long GBP position against EUR								
Long EUR position against CHF	(7)	(78)	(28)	(50)	(3)	(56)	(32)	(24)
Long PLN position against EUR	2	(225)	(85)	(140)	1	(210)	(70)	(140)
Long MXN position against USD	8	(4,135)	(1,395)	(2,740)	4	(5,040)	(1,540)	(3,500)
<b>Currency option contracts</b>	<b>182</b>				<b>122</b>			
USD put purchased	75	2,750	2,350	400	82	8,000	7,900	100
USD put sold	(19)	(1,200)	(1,200)	-	(3)	(400)	(400)	-
USD call sold	(60)	9,607	5,224	4,383	(75)	18,083	15,583	2,500
USD call purchased	5	(350)	(350)	-	2	(1,983)	(1,983)	-
EUR put purchased	-	-	-	-	1	45	45	-
EUR call sold	-	-	-	-	-	90	90	-
Accumulators – sell USD <sup>(2)</sup>	167	9,020	2,778	6,242	110	5,299	4,181	1,118
Accumulators – buy USD <sup>(2)</sup>	13	(1,132)	(965)	(167)	-	(751)	(751)	-
Accumulators – sell GBP <sup>(2)</sup>	3	219	219	-	-	-	-	-
Accumulators – sell CAD <sup>(2)</sup>	(2)	341	-	341	5	73	73	-
<b>TOTAL</b>	<b>375</b>				<b>718</b>			

(1) Fair values are expressed in millions of euros; notional amounts are expressed in millions of currency units.

(2) Notional amounts for accumulators represent the maximum cumulative amount until the instrument is unwound.

As mentioned in Note 1, only premiums paid and received on options are recorded in Safran SA's balance sheet. The Company does not recognize the fair value of derivative instruments in its balance sheet, except for those set up to hedge the net position of foreign-currency denominated operating receivables and payables of subsidiaries covered by a Safran SA foreign exchange guarantee.

### ■ Financial instruments specific to fixed income markets

#### Exposure to euro interest rate risk

The interest rate payable on the €750 million bond issue, which had been converted to a floating rate using floating-rate borrower/fixed-rate lender swaps, was converted back to a fixed rate in 2011. As a result, besides the floating-rate borrower/fixed-rate lender swaps for a total of €750 million with a residual maturity of one to three years, the Company also held fixed-rate borrower/floating-rate lender swaps for the same maturity and amount. Interest rate swaps with a residual maturity of less than one year expired in 2012. The notional amount of each leg of the swaps was €250 million.

In 2012, a fixed-rate borrower/floating-rate lender interest rate swap maturing in 2016 was taken out for €75 million, with the aim of fixing the interest rate on a portion of the financing for the employee savings plan as of January 1, 2013. The swap was unwound in the first six months of 2013.

#### Exposure to USD interest rate risk

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market has also been partially converted to a floating rate. At their inception, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million was maintained at a fixed rate.

### ■ Management of commodity risk

Since 2009, the Group's policy has been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel and platinum). Oil was included in the Group's commodity hedging policy in 2012, as was gold in 2013. The policy seeks to protect the Group's economic performance from commodity price volatility.

Commodity hedges aiming to reduce uncertainty factors have been contracted for a term of five to six years. To hedge commodity prices, the Group uses forward purchases of commodities on the London Metal Exchange (LME).

These forward purchases are then used to hedge highly probable flows arising in Group companies and resulting from purchases of semi-finished parts with a major commodity component. These cash flows are determined based on the backlog and budget forecasts.

The notional amount of nickel forward purchase contracts at December 31, 2013 represented 3,671 tons of nickel (2,783 tons at December 31, 2012), including contracts for 975 tons maturing in less than one year (755 tons at end-2012) and 2,696 tons in one to five years (2,028 tons at end-2012).

The notional amount of platinum forward purchase contracts at December 31, 2013 represented 5,808 ounces (7,068 ounces at December 31, 2012), including contracts for 1,692 ounces maturing in less than one year (1,260 ounces at end-2012) and 4,116 ounces in one to five years (5,808 ounces at end-2012).

The notional amount of oil forward purchase contracts at December 31, 2013 represented 718,000 barrels (532,000 at December 31, 2012), including contracts for 67,000 barrels maturing in less than one year (33,000 at end-2012), 651,000 barrels in one to five years (350,000 at end-2012) and nil in more than five years (149,000 at end-2012).

The Group had no gold forward purchase contracts at December 31, 2013.

These instruments had a negative fair value of €9 million at end-2013.

### ■ Credit lines

Undrawn confirmed liquidity facilities at December 31, 2013 totaled €2,550 million and comprised two syndicated credit lines for €1,600 million and €950 million, maturing in December 2015 and October 2016, respectively.

## Note 23 • Disputes and litigation

Except for the matters described below, Safran SA is not, or has not been, notably during the last 12 months, party to any governmental, legal or arbitration proceedings that are likely to have, or have had, in the recent past, a significant effect on its financial position or profitability. A provision is only booked to cover the expenses that may result from such proceedings when the expenses are probable and their amount can be either quantified or reasonably estimated. The amount of the provisions booked is based on an evaluation of the level of risk for each case, and does not primarily depend on the status of the proceedings, although the occurrence of events during the proceedings can nonetheless lead to a reassessment of the risk. Safran believes that it has set aside adequate provisions to cover the risks of general or specific proceedings, either in progress or possible in the future.

- At the end of 2008, proceedings were brought against three employees of a Group subsidiary in connection with the alleged payment by Sagem SA of commissions to local intermediaries between 2000 and 2003. These payments were allegedly made in an attempt to corrupt employees of the Nigerian government with the aim of being awarded the State's electronic ID card contract. Safran was also placed under judicial investigation in connection with this case in February 2009. In a written statement dated January 18, 2011, the public prosecutor of Paris requested the partial dismissal of the claim in favor of Safran and one of the three employees indicted, and referral of the case of the other two employees to the Correctional Court. In an order dated February 28, 2011, the investigating judge decided to refer the case of Safran and the two employees to the Correctional Court. The third employee was acquitted. The case was heard before the Paris Correctional Court in June 2012. In a ruling on September 5, 2012, the Court acquitted the two employees involved in the case but declared Sagem SA guilty of corrupting foreign government officials. As a result, Safran was ordered to pay a fine of €500,000. The Company has appealed this decision. The proceedings are pending before the Paris Court of Appeals, along with the procedural timetable. In September 2009, a tax collection notice was issued for €11.7 million further to a tax deficiency notice sent at the end of 2006. The amount of the tax adjustment was contested in a claim filed by Safran SA with the tax authorities in 2011. This claim was rejected by the authorities on June 20, 2012. Safran referred the case to the Montreuil Administrative Court on August 3, 2012 and the dispute is currently pending before this Court.
- In 2009 and 2010, Safran received several requests for information from the European Commission's Directorate General for Competition as part of an inquiry into activities previously carried out by Sagem SA. The activities concerned by the inquiry were sold to General Cable at the end of 2005. On July 5, 2011, Safran received a statement of objections from the European Commission. General Cable, which also received a statement of objections from the Commission in the same case, has filed a claim with Safran under the sale agreement in order to protect its rights in the event that an unfavorable decision against the entity sold is fully or partially covered by the vendor's warranty. Safran had access to the case file and replied to the objections in October 2011. The Commission is continuing its investigations and sent Safran a new questionnaire in May 2013. Safran was able to present its comments on the case during hearings organized by the European Commission in June 2012. Based on an analysis of all aspects of this case known to date, the Group's exposure to this risk is not considered material.
- The €14 million tax adjustment notified in respect of the rules governing the allocation of tax expense between the parent company Snecma and its consolidated subsidiaries up to the end of 2004 was contested in 2007 before the tax authorities who rejected this claim on June 24, 2011. Safran filed a statement of claim with the Administrative Court. In a ruling handed down on July 4, 2013, the Montreuil Administrative Court ruled partially in Safran's favor by granting relief from the €7.2 million in additional tax payments. Safran appealed against this decision before the Versailles Administrative Court as regards the surplus. No provision has yet been set aside in respect of this dispute.

## Note 24 · Other information

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In accordance with the disclosure requirement set out in Decree no. 208-1487 of December 30, 2008, fees billed by the Company's Statutory Auditors for their audit of the 2013 financial statements totaled €1,689,000, while fees billed for audit-related work came to €224,000.

## Note 25 · Subsequent events

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None.

## LIST OF SUBSIDIARIES AND ASSOCIATES

Disclosures provided in accordance with article R.123-197.2 of the French Commercial Code

<i>(in € millions)<sup>(1)</sup></i> Company	Business line	Share capital	Equity other than share capital and profit	% voting rights	% share capital held
<b>A. Detailed information on subsidiaries and associates whose gross carrying amount exceeds 1% of Safran's share capital (i.e., €0.8 million)</b>					
<b>1. Subsidiaries (more than 50%-owned)</b>					
a) French companies					
• Aircele	Aircraft Equipment	56.7	51.4	88.5	88.5
• Établissements Vallaroche	Holding company	15.6	1.9	100.0	100.0
• Herakles	Propulsion	34.7	98.1	100.0	100.0
• Hispano-Suiza	Aircraft Equipment	36.8	43.3	100.0	100.0
• Labinal	Aircraft Equipment	19.3	(6.8)	100.0	100.0
• Messier Bugatti Dowty	Aircraft Equipment	83.7	434.7	100.0	100.0
• Sagem Mobiles	Communications	6.5	9.7	100.0	100.0
• Sagem	Defence Security	372.9	71.8	95.5	95.5
• Snecma	Propulsion	154.1	171.3	97.4	97.4
• SnecmaSat	Holding company	0.2	0.0	100.0	100.0
• Turbomeca	Propulsion	38.8	153.8	100.0	100.0
• Technofan	Aircraft Equipment	1.3	11.5	95.2	95.2 <sup>(4)</sup>
b) Foreign companies					
• Morpho USA	Security	0.0 <sup>(2)</sup>	1,402.3	97.6	97.6
• Safran Beijing Enterprise Management Co.	Holding company	2.5	0.4	100.0	100.0
• Safran Power UK	Aircraft Equipment	275.5	0.0	100.0	100.0
• Safran Servicios de Suporte de Programas Aeronauticos	Aircraft Equipment	1.5		100.0	100.0
• Safran UK Ltd	Holding company	19.5	1.1	100.0	100.0
• Safran USA Inc.	Holding company	0.0 <sup>(2)</sup>	1,465.6	100.0	100.0
• Techspace Aéro	Propulsion	54.9	163.3	67.2	67.2
<b>2. Associates (10%- to 50%-owned)</b>					
a) French companies					
• Arianespace Participation <sup>(3)</sup>	Holding company	3.9	10.4	10.6	10.6
• Corse Composites Aéronautiques <sup>(3)</sup>	Aircraft Equipment	1.7	3.7	24.8	24.8
• Eurotradia International <sup>(3)</sup>	Aircraft Equipment	3.0	29.7	11.2	11.2
• FCPR Aerofund II	Investment fund	75.0		16.6	16.6
• FCPR Aerofund III	Investment fund	167.0		18.0	18.0
• Mobiwire	Communications	1.9		10.6	10.6
• Régulus	Propulsion	0.6	11.9	40.0	40.0
<b>B. Summary information concerning other subsidiaries and associates</b>					
<b>1. Subsidiaries (more than 50%-owned)</b>					
(a) French companies					
(b) Foreign companies					
<b>2. Associates (10%- to 50%-owned)</b>					
(a) French companies					
(b) Foreign companies					

(1) For foreign companies, share capital, equity, revenue and profit amounts were translated into euros at the official exchange rate prevailing at December 31, 2013.

(2) Additional paid-in capital of US-based entities is shown under "Equity other than share capital and profit".

(3) Position at December 31, 2012.

(4) Theoretical voting rights.

Carrying amount of investments		Outstanding loans and advances granted	Guarantees and endorsements given by the Company	2013 revenue	2013 profit (loss)	Dividends received by Safran in 2013	Receivables	Liabilities
gross	net							
924.2	924.2		501.4	932.4	(8.8)		254.2	39.9
62.8	62.8			0.0	52.2		0.0	59.3
360.7	360.7		23.5	495.0	38.2	26.3	4.4	163.2
163.8	163.8		47.8	297.7	17.3	12.0	5.2	52.4
185.6	185.6		352.0	442.3	17.9		32.8	3.5
560.5	560.5		2.1	1,372.6	26.3	17.0	219.7	19.2
401.1	17.9			0.0	1.7		0.0	26.1
595.0	595.0		7.0	1,221.5	82.1	53.4	83.8	140.1
199.4	199.4		105.8	5,914.8	253.8	279.4	50.9	2,413.6
9.3	0.2			0.0	0.0		0.0	0.2
539.0	539.0		2.6	1,187.5	53.8	68.1	190.0	11.8
33.7	33.7			77.3	5.9	3.5	1.4	12.6
315.5	315.5			0.0	15.5	19.2	43.3	0.1
2.5	2.5			12.6	0.3		1.7	0.4
275.1	275.1			137.9	5.8		0.9	1.9
1.5	1.5							
40.0	20.9			0.5	0.4		0.0	7.4
1,484.6	1,484.6		290.0	7.9	24.4		1.0	41.6
115.6	115.6			506.9	65.2	12.8	1.8	254.7
40.1	1.3			0.0	1.6			
1.0	1.0			36.8	0.5			
2.1	2.1			45.2	2.0	0.2		
15.0	15.0							
30.0	29.7							
1.0	0.0							
20.6	20.6			38.8	2.8	0.6		
0.5	0.5					8.4	0.0	27.7
1.5	0.7							
0.4	0.4					0.7		



## 3.4 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS (YEAR ENDED DECEMBER 31, 2013)

*This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.*

*The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders.*

*This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2013 on:

- the audit of the accompanying financial statements of Safran;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2013 and of the results of its operations for the year then ended in accordance with French accounting principles.

### II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

As indicated in Note 1.d to the financial statements, the book value of financial fixed assets is determined either:

- on basis on the average market price of the last month before the closing, for listed companies;
- depending on the proportionate share of net equity, adjusted where applicable for significant unrealized capital gains net of taxes;
- depending on the intrinsic value of equity, corresponding to the present value of expected future cash flows (enterprise value), less if any debt.

Our work consisted in assessing the data and assumptions on which the estimates are based and in reviewing the calculations made by the Company. As part of our assessment of the estimates used for the account closing, we have assured ourselves of the reasonableness of these estimates.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits

received by the Directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders has been properly disclosed in the management report.

Courbevoie and Paris-La Défense, March 26, 2014

The Statutory Auditors

French original signed by

**MAZARS**

Thierry Colin

Gaël Lamant

**ERNST & YOUNG et Autres**

Vincent de La Bachelerie

Jean-Roch Varon



# 4 | RISK FACTORS

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## Identified risk factors

The following section presents the major risks identified as of the date the Registration Document was filed.

### Risks relating to Group business sectors

#### Technological risks

#### Partnership and supplier risks

#### Commodity risks

#### Acquisition and restructuring risks

#### Human resources risks

#### Market and derivative risks

#### Legal risks

#### Environmental risks

#### Data confidentiality risks

Other risks not yet identified, or not currently considered material for the Group, could have a negative impact on Safran's activities, financial position or results.

## General risk management policy

Safran adopts a "Comprehensive Risk Management" approach which has been validated by the Group Risk Committee composed of the Chairman and Chief Executive Officer and the three Deputy Chief Executive Officers. It is headed up by the Group Risk Management and Insurance Director and its duties include:

- approving the risk management policy;
- validating the Group risk map and the corresponding control measures;
- ensuring that the risk management process functions correctly;
- ensuring that employees are sufficiently risk-aware;
- ensuring that the crisis management procedure functions effectively;
- validating the cross-functional action plans drawn up by the Risk Department.

## Insurance

The key accident risks are covered by worldwide multi-risk policies spanning several years, negotiated with leading insurance companies.

Local insurance programs are subscribed across the globe either to cover specific risks or in response to local insurance regulations.

## 4.1 IDENTIFIED RISK FACTORS

The following section presents the major risks identified as of the date the Registration Document was filed.

Other risks not yet identified, or not currently considered material for the Group, could have a negative impact on Safran's activities, financial position or results.

### 4.1.1 RISKS RELATING TO GROUP BUSINESS SECTORS

The risks relating to Group business sectors arise from a series of complex, interdependent factors which could impact Group results.

#### Changes in economic conditions

The macroeconomic and aeronautical program assumptions determined by the Group take into consideration the economic conditions observed as of the date of the Registration Document and are taken into account when preparing the budget and the medium-term business development plan.

The scenarios built around these assumptions are derived from action plans supervised by Executive Management, functional departments and the Group Risk Committee.

A difficult economic climate would have a negative impact on the level of Group business. Changes in global economic performance have a direct impact on passenger demand for air transport, which in turn determines market demand for commercial aircraft intended for passenger transport. Manufacturers may adjust their output rates in line with changes in demand for aircraft by airline companies, which would have a direct impact on the OEM business of Aircraft Equipment and engine suppliers such as Safran. The decrease in air traffic as a result of a deteriorating economic environment could also impact the volume of Group services, including maintenance and repair activities and spare part sales.

Should the economic climate deteriorate, the assumptions and action plans would be adjusted accordingly in line with a defined process. In order to deal with this risk, specific steering committees have been set up covering customers, suppliers and the market. They meet regularly and constantly reassess the action plans in light of the prevailing economic climate.

#### Impact of the aviation cycle

Aircraft orders tend to be cyclical in nature and linked to passenger traffic, which is itself affected by changes in the economic climate, as well as the rate of ageing and renewal of aircraft fleets and the investment decisions and financial capacity of airline companies. Safran believes that these cycles could impact business levels and therefore its future revenue and profits.

The Group's capacity to ramp up production to deal with an increase in the backlog will depend on its ability to manage the internal and external Supply Chain. Even though investment programs and action plans have been deployed for this very purpose, problems with Supply Chain management could still arise.

Exceptional events such as terrorism, pandemics, aviation disasters and adverse weather conditions could cause a sharp temporary drop in air traffic and hence impact the civil aircraft engine and equipment market.

In 2013, over 60% of adjusted consolidated revenue was generated by civil aviation activities. Safran has a large fleet of engines in service, including close to 26,000 CFM56 engines which have equipped most of the single-aisle aircraft with over 100 seats delivered to airline companies for more than 30 years. The increase in the age of the installed base of engines and associated equipment enables the Group to generate service revenue amounting to over 41% of Aerospace revenue.

The Safran+ plan and Group strategy (see sections 1.10 and 1.2, respectively) are used to diversify the portfolio of businesses with a view to limiting the impacts of risks related to the aviation cycle.

#### Uncertainty regarding returns on investments

Safran's Aerospace businesses require considerable investment, in particular in research and development and contributions to aircraft manufacturers' costs. These investments only produce returns in the long term. The market and profitability assumptions determined by the Group may not prove accurate, and the products for which the investments are made may not enjoy sufficient commercial success to ensure a return on the initial investment. Capitalized R&D assets (excluding goodwill and programs) recognized in the balance sheet at December 31, 2013 totaled approximately €2.1 billion, investments in property, plant and equipment (mainly industrial plant) amounted to approximately €2.7 billion. These amounts are net of accumulated depreciation, amortization and impairment loss provisions.

Investment decisions are coordinated at Group level, based on clear guidelines and numerous evaluation criteria. The Safran Innovation Department (see section 1.5) oversees the phase between technological demonstrations and marketing. The Group

also leverages the scientific and technical expertise provided by its partners (see section 1.5.2) and enters into partnership arrangements to develop certain programs (see section 1.3). All of these actions help to mitigate the risks related to the Group's investments.

### Dependence on public procurement contracts

Safran generates a significant portion of its revenue from government defence and security contracts, mainly in France and the rest of Europe and in North America. Government spending is subject to trade-offs that are contingent on the geopolitical environment and ever-stricter budgetary constraints. These decision processes may lead to delays, reductions or even cancellation of certain government expenditure programs that could impact the Group's business and earnings.

In 2013, approximately 28% of adjusted consolidated revenue was derived from Government contracts, mainly in relation to the Defence and Security businesses. Most of this business takes place outside France in a large number of very different markets. Thanks to the Group's efforts to diversify the customer base, some of these contracts consist of partnerships, particularly in emerging markets, and this limits the risk of over-dependency on public procurement contracts.

### Competition

Safran faces intense competition in all markets where it operates, both from international players and specialized competitors in certain markets. This competitive pressure could impact the Group's positions in its business sectors. To manage this risk, Safran seeks to maintain and sharpen its technological edge at all times, thanks to sustained R&D spending with a particular focus on markets where the product development cycle is unusually long.

The Group continues to deploy its strategy (see section 1.2) with a view to diversifying the portfolio of businesses and R&D investments (see section 1.5) as well as developing partnership arrangements for certain programs (see section 1.3).

Some of these partnerships take the form of joint venture (JV) arrangements such as those currently being pursued with GE (for the CFM and LEAP programs), Albany (Safran Albany Composite – 3D woven carbon composite fan blades JV), NPO Saturn (PowerJet JV) and Honeywell (electric green taxiing system).

As part of the strategy of achieving a breakthrough in electric aircraft systems (acquisition of Goodrich Electrical Power Systems in 2013), in early 2014 Safran announced that it was reorganizing all of its electrical power system activities around one business to be known as Labinal Power Systems. This new business includes Labinal<sup>(1)</sup> (world leader in electrical wiring interconnection systems), Safran Power (a specialist in onboard power systems) and Aerosource

(MRO services for airborne electrical equipment). It also includes Safran Engineering Services (specialist in engineering services, especially for electrical systems) and Technofan (ventilation systems and electric motors).

Safran also announced that it had signed a definitive agreement to acquire the Aerospace Power Distribution Management Solutions and the Integrated Cockpit Solutions business of Eaton Aerospace. This acquisition will also reinforce Labinal Power Systems, which consolidates the Group's electrical power activities.

### Program delays and development

Aircraft manufacturers may encounter difficulties in meeting their program schedules. Delays in production schedules for new aircraft may lead to the postponement of Safran equipment deliveries and impact the Group's Aerospace revenue. In certain cases, this may cause Safran to incur penalties, notably where the Group accepts responsibility for the delays. Delays can also distort cash collection forecasts, therefore impacting cash flows and even profitability at Group level and leading to the recognition of write-downs on the value of the assets corresponding to the delayed programs. Safran supplies Airbus with equipment for the A350 and A320neo aircraft, and it supplies Boeing with equipment for the 737 MAX. It is also supplier to Comac for the C919 aircraft and to Cessna and Dassault respectively, for the Citation Longitude and Falcon 5X jets.

Safran continued to deploy the PROMPT program (see section 1.9) designed to provide project teams with a framework as well as methods and applications for enhancing program management processes. PROMPT is based on five "golden rules": keeping the Program Management Plan (PMP) up to date, meeting expectations of all stakeholders, planning and meeting technical objectives, steering performance and managing risks.

### Political uncertainties

Certain Aerospace, Defence and Security contracts are closed to foreign competition or are awarded based on national security and independence considerations. These may limit access to certain markets. If these restrictions continue to prevail in the future, Safran may not be able to penetrate some of these markets, which would reduce the Group's revenue and profit growth potential.

The development of Safran's activities and sites worldwide sometimes exposes the Group to political risks specific to certain countries. These may impact its activities and profits.

### Aircraft accidents

Safran products are integrated in high-tech equipment with a high unit price, especially civil and military aircraft, satellites and

(1) Labinal has been renamed Labinal Power Systems. Since January 2, 2014, it is also the new name of the Group's electrical activities business comprising Labinal Power Systems (world leader in electrical wiring interconnection systems), Safran Power (a specialist in onboard power systems) including the acquired businesses of Goodrich Electrical Power Systems and Aerosource, Inc., Safran Engineering Services (specialist in engineering services, especially for electrical systems) and Technofan (ventilation systems and electric motors).



helicopters. Safran may be held liable for the loss or accident of an aircraft, the death of passengers, or the loss of operating capability by an airline or helicopter operator.

In order to limit the impact of such risks, Safran focuses on factoring quality into all of its processes (see section 1.9) in line with the Group's quality strategy comprising dedicated progress plans that include the application and increasing maturity of Safran's project management practices. The Group has also taken out insurance policies to provide an appropriate level of cover (see section 4.3).

## Products and services

The Group applies very strict quality and safety standards in the design and manufacture of complex products and services with a very high technological component.

Shortcomings in quality or in Safran's equipment, systems or technology could result in costly claims for damages from customers, partners or third parties (product recalls, upgrade campaigns or retrofits) resulting in lost revenue. Safran's commercial position and image may also be adversely affected. In order to limit the impact of this risk, Safran has deployed a range of quality-centric initiatives (see section 1.9).

## 4.1.2 TECHNOLOGICAL RISKS

Aerospace, Defence and Security markets typically undergo far-reaching technological changes. Safran designs, develops and manufactures products and services renowned for their innovative and technological superiority. The Group is exposed to the risk of competitors developing products that offer a better technical performance, are more competitive or are marketed earlier than those developed by the Group. This could affect Safran's activities or financial position.

The actions taken by the Group to limit the impact of this risk are outlined in section 1.5, "Research and development". The Group also leverages the scientific and technical expertise provided by its partners (see section 1.5.2).

Safran has announced that it is opening two new R&D facilities at Safran composites in Itteville (150 specialists in composite materials and organic chemistry) and the Group's research center in Saclay which will be up and running in 2014 (300 scientists and technologists).

## 4.1.3 PARTNERSHIP AND SUPPLIER RISKS

Generally speaking, Safran works in cooperation with partners and suppliers in the majority of its businesses. Events likely to affect these partnerships could have an impact on Safran's business activities.

Supplier difficulties or default could impact the worldwide Supply Chain, resulting in additional costs or production delays that would affect the Safran Group.

In order to contain such risks, Safran has designed a purchasing strategy (see section 1.8) and pooled facilities at a Shared Services Centre responsible for all purchasing processes (excluding production) in line with the Group's objectives of excellence, competitiveness and sustainable development.

Production will have to increase over the next few years based on the structure of the current backlog and Safran's ability to ramp up its future production will depend on both internal and external factors. Problems related to any one of these factors could trigger production delays or cost overruns for a given program.

A substantial proportion of Safran's revenue – particularly in the aviation sector – depends on certain key products developed and produced in cooperation with GE. Safran estimates that these programs (CFM and high thrust engines) account for between 30% and 35% of its consolidated revenue.

In July 2008, GE and Safran signed an agreement to extend their civil Aerospace Propulsion partnership until 2040. They also entered into an agreement for the development, production and support of engine nacelles for future short- and medium-haul aircraft.

Safran is also involved in a number of partnerships (Powerjet, 50/50 owned by Snecma and NPO Saturn [Russia]; AVIC [China] and Honeywell [US], MTU and Thales [Sofradir and Optrolead]). If these programs were suspended or if Safran's partners ceased to fulfill their role in the development or marketing of the products in question, the Group's Aerospace and Defence business revenue could be affected.

The Group's other partnerships have no material impact.

## 4.1.4 COMMODITY RISKS

The Group is exposed to commodity risks, notably in respect of titanium, nickel alloys, composite fibers, ammonium perchlorate and oil. The Group manages commodity risks by negotiating medium-term procurement contracts with suppliers, building up its inventories or hedging exposure to changes in the price of certain listed commodities.

Hedges contracted by the Group are analyzed in section 4.1.7, "Market and derivative risks" under "Commodity risk management".



## 4.1.5 ACQUISITION AND RESTRUCTURING RISKS

As part of its growth strategy, Safran may acquire, merge and/or set up companies or enter into joint-venture-type strategic arrangements. The Group has devised procedures and controls to contain the risks inherent in such operations and it rounded out these processes in 2013 with the creation of an Integration Department tasked with overseeing the structures in question to ensure that synergies and earnings are in line with those forecast. However, even though a stringent procedure exists for monitoring

such transactions, they may have a negative impact on the Group's business, expected results or its image, should Safran fail to integrate the operations and employees of the acquired entities, unlock the expected synergies and cost savings, or maintain good commercial or labor relations within the acquired entities following changes in management or control. Safran's management procedures were deployed in the US proxy business MorphoTrust during the period with due regard to the specific regulatory constraints.

## 4.1.6 HUMAN RESOURCES RISKS

The Group's different activities harness a wide range of employee expertise and skills across many different sectors. The Group may experience difficulties in finding the appropriate skills at the right time and in the right place that it needs to deploy its strategy and carry out its programs effectively. In order to limit this risk, it continually strives to acquire, retain, redeploy and renew the skills that it will need in the future. Safran has developed partnerships with top business and engineering schools and scientific universities to recruit employees for its core businesses and it has also worked

on promoting the Safran employer brand. In addition, professional and geographical mobility programs, systems that detect high potential employees, training, monitoring and career development are all used to boost the Group's attractiveness as an employer. Employee profit-sharing and equity and savings incentive schemes also rally employees around Safran's objectives by giving them a stake in the Company's capital. The Group's human resources policy is outlined in section 5.3.

## 4.1.7 MARKET AND DERIVATIVE RISKS

The main risks hedged using the Group's financial instruments are foreign currency risk, interest rate risk, listed commodity price risk, equity risk, counterparty risk and liquidity risk.

Shareholders' equity is also exposed to the risk of fluctuations in the EUR/USD exchange rate on the Group's investments in US businesses which are disclosed in section 3.1 of this Registration Document (Note 33, "List of consolidated companies").

### Foreign currency risk management

Most Aerospace Propulsion and Aircraft Equipment revenue is denominated in US dollars, which is virtually the sole currency used in the civil aviation industry. The net excess of revenues over operating expenses for these activities totaled USD 5.6 billion for 2013 (USD 5.0 billion in 2012).

To protect its earnings, the Group implements a hedging policy (see below) with the aim of reducing uncertainty factors affecting profitability and allowing it to adapt its cost structure to an unfavorable monetary environment.

The Group's earnings are exposed to the risk of fluctuations in the EUR/USD exchange rate as a result of its US dollar-denominated assets and liabilities which are disclosed in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

### HEDGING POLICY

Two basic principles underscore the foreign currency risk management policy defined by Safran for most of its subsidiaries:

- to protect the Group's economic performance from random fluctuations in the US dollar;
- to optimize the quality of hedging whenever possible, without jeopardizing the Group's economic performance (first principle).

Protecting economic performance means setting a minimum USD exchange rate parity over an applicable term. Minimum parity corresponds to a USD exchange rate that allows Safran to meet its operating profit targets. Hedging arrangements have been made accordingly, over a four-year timeframe.

Foreign currency risk on the Group's investments in US businesses is hedged using net investment hedges of some of these entities, as disclosed in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

## MANAGEMENT POLICY

The hedging policy is based on managing the financial instrument portfolio so that the exchange rate parity does not fall below a pre-defined minimum threshold.

In building up its hedging portfolio, the Group primarily uses forward sales, accumulators and options (EUR call/USD put).

Optimization measures are also used with a view to improving the minimum exchange rate parity, and seek to protect the Group's economic performance at all times. They are based on products that allow the Group to take advantage of any improvement in the underlying exchange rate parities, without calling into question the original minimum threshold.

These products consist chiefly of forward purchases, accumulators, and purchases and sales of options (USD call/EUR put).

## HEDGING PORTFOLIO

The Group's hedging strategy is described in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

The Group has hedged its entire USD exposure for 2014 and 2015 at 1.26 and has also launched portfolio optimization measures for these years designed to improve the minimum exchange rate parity.

The Group has continued its progressive hedging strategy for its 2016 exposure. At February 17, 2014, the hedge book for 2016 comprises USD 2.1 billion in forward hedges at an average rate of 1.28, and USD 2.2 billion in optional hedges at an average rate of 1.27. The Group has set up USD 0.6 billion in accumulators, enabling it to supplement day-to-day its hedging operations at an average rate of 1.22, provided that the EUR/USD exchange rate remains below 1.38 in 2014. If the EUR/USD exchange rate were to climb above 1.38, the positions contracted at 1.22 would be maintained, but the accumulators would stop working until the spot exchange rate fell back below this threshold. Conversely, if the spot exchange rate were to fall below 1.22 (accumulator rate), the Group would not benefit from the improvement in the exchange rate and would be obliged to sell the USD at 1.22 (only for these products and only for the remaining hedging balance/term).

Based on the performance of these products, and given that the level at which accumulators are no longer effective is set at 1.38 for 2016, the Group aims to achieve a hedged rate of 1.25 in 2016.

In late 2013, the Group began hedging its projected 2017 exposure by setting up USD 4.0 billion in optional hedges at an average rate of 1.25 (including option premiums). These options have very short maturities of less than one year (expiring in 2014) as well as knock-out barriers, which are placed at 1.40 for half of the covered amount and at 1.42 for the other half. The barriers are active for short durations only (generally between one and four months spread over the year).

The knock-out barrier expires if the spot exchange rate climbs above the knock-out rate, during the window in which the option is active and the value of the hedge book is reduced to the notional value of the disabled option.

For the record, the estimated annual exposure of approximately USD 5.8 billion for 2014 depends on budgeted sales figures, and is regularly reviewed for each year covered by the foreign currency risk management policy.

A one-cent change in the EUR/USD exchange rate parity on the hedged rate has an impact of €36 million on adjusted profit from operations.

## SENSITIVITY

The following tables present the sensitivity of the main income statement aggregates to a 5% increase or decrease in the EUR/USD exchange rate (average and closing exchange rates). The first table shows adjusted data, the second consolidated data. The sensitivity analysis takes account of:

- the translation effect, i.e., the impact of changes in the EUR/USD exchange rate on the translation into euros of the results of entities whose functional currency is the US dollar;
- the transaction effect, i.e., the impact of changes in the EUR/USD exchange rate on USD transactions conducted by entities whose functional currency is the euro, and on the value of the EUR/USD hedging portfolio.

The sensitivity of equity to a 5% increase or decrease in the EUR/USD closing exchange rate affecting the net investment hedge of some of its US entities is presented in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

### Adjusted data (in € millions)

	2012		2013	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
Average exchange rate	1.29		1.33	
Average exchange rate used for sensitivity analysis	1.22	1.35	1.26	1.39
Closing rate	1.32		1.38	
Closing exchange rate used for sensitivity analysis	1.25	1.39	1.31	1.45
Revenue	281	(254)	284	(257)
Profit (loss) from operations	11	(10)	11	(10)
Financial income (loss)	17	(15)	19	(17)
Profit (loss) before tax	28	(25)	30	(27)

**Non-adjusted consolidated data**  
(in € millions)

	2012		2013	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
Average exchange rate	1.29		1.33	
Average exchange rate used for sensitivity analysis	1.22	1.35	1.26	1.39
Closing rate	1.32		1.38	
Closing exchange rate used for sensitivity analysis	1.25	1.39	1.31	1.45
Revenue	480	(434)	506	(458)
Profit (loss) from operations	207	(187)	229	(208)
Financial income (loss)	(814)	643	(599)	475
Profit (loss) before tax	(608)	456	(370)	267

**Interest rate risk management**

The Group's exposure to fluctuations in interest rates covers two types of risk:

- price risk in respect of fixed-rate financial assets and liabilities. Interest rate fluctuations impact the market value of these assets and liabilities;
- cash flow risk in respect of floating-rate financial assets and liabilities. Interest rate fluctuations have a direct impact on the Group's profit or loss.

Within the framework of its general risk management policy, the Group arbitrates between these two types of risks using financial instruments specific to fixed-income markets (interest rate swaps and options, etc.).

**EURO INTEREST RATE RISK**

The interest rate payable on the €750 million bond issue, which had been converted to a floating rate using floating-rate borrower/fixed-rate lender swaps, was converted back to a fixed rate in 2011. As a result, besides the floating-rate borrower/fixed-rate lender swaps for €750 million with a residual maturity of one to three years, the Group also held fixed-rate borrower/floating-rate lender swaps for the same maturity and amount. The interest rate swaps with a residual maturity of less than one year expired in 2012. The notional amount of each leg of the swaps was €250 million. The other interest rate swaps will expire in November 2014, on the date the bond issue matures.

Exposure to euro interest rate risk is presented in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

**USD INTEREST RATE RISK**

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market has also been partially converted to a floating rate. Floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million has been maintained at a fixed rate.

These swaps are eligible for fair value hedge accounting.

Exposure to USD interest rate risk is presented in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

**SENSITIVITY**

A 1% rise in interest rates would increase the cost of debt by €2 million (versus a decrease of €1 million in 2012).

**Commodity risk management**

Since 2009, the Group's policy has been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel and platinum). Oil was included in the Group's commodity hedging policy in 2012, as was gold in 2013. The policy seeks to protect the Group's economic performance from commodity price volatility.

Commodity hedges aiming to reduce uncertainty factors have been contracted for a term of five to six years. To hedge commodity prices, the Group uses forward purchases of commodities on the London Metal Exchange (LME).

These forward purchases are then used to hedge highly probable flows arising in Group companies and resulting from purchases of semi-finished parts with a major commodity component. These cash flows are determined based on the backlog and budget forecasts.

Commodity hedges, together with the fair value of the related hedging instruments, are disclosed in section 3.1 of this Registration Document (Note 27, "Management of market risks and derivatives").

**Equity risk management**

Safran is exposed to fluctuations in the stock market price of Embraer and Myriad shares, which are the only listed securities classified as available-for-sale financial assets that it holds.

A 5% decrease in the price of these shares would have a net negative impact of €3 million on equity at end-2013 (€3 million at end-2012).

### Counterparty risk management

The Group is exposed to counterparty risk on the following:

- short-term financial investments;
- derivatives;
- trade receivables;
- financial guarantees granted to customers.

Financial investments are diversified and consist of blue-chip securities that are traded with top-tier banks.

The sole purpose of the Group's derivative transactions is to reduce the overall exposure to foreign currency, interest rate and commodity risks resulting from its ordinary business activities. Transactions are either carried out on organized markets or over-the-counter with top-tier intermediaries.

The counterparty risk taken into account in pricing derivatives is not material (section 3.1 of this Registration Document – Note 1 W “Derivatives and hedge accounting”).

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their wide geographic spread.

The Group may be exposed to delayed payment risk for civil and military government contracts and this may adversely impact its free cash flow targets.

The maturity schedule for trade and other receivables is set out in section 3.1 of this Registration Document (Note 16, “Trade and other receivables”).

### Liquidity risk management

Treasury management is centralized within the Group. Where permitted by local legislation, all surplus cash is invested with, and financing requirements of subsidiaries met by, the parent company on an arm's length basis. The central cash team manages the Group's current and forecast financing requirements, and ensures it has the ability to meet its financial commitments while maintaining a level of available cash funds and confirmed credit facilities commensurate with its scale and debt repayment profile.

Surplus cash is managed with two principles in mind:

- safeguarding the amounts invested at all times;
- optimizing investment yields whenever possible, without jeopardizing the safety of the investments themselves.

Since some of the Group's liquidity lines have not been drawn, Safran is relatively insensitive to liquidity risk.

A number of financial covenants apply to the EIB borrowings set up in 2010.

The following two ratios apply:

- net debt/EBITDA <2.5;
- net debt/total equity <1.

Undrawn confirmed liquidity facilities at December 31, 2013 totaled €2,550 million and comprised two syndicated credit lines for €1,600 million and €950 million, maturing in December 2015 and October 2016, respectively. These two facilities must comply with a net debt/EBITDA ratio of less than 2.5.

This covenant also applies to the senior unsecured notes issued on the US private placement market.

The terms “net debt”, “EBITDA” and “total equity” used in connection with the EIB borrowings, US private placement and syndicated credit lines are defined as follows:

- net debt: borrowings (excluding borrowings subject to specific conditions) less marketable securities and cash and cash equivalents;
- EBITDA: the sum of profit (loss) from operations and the net charge to depreciation, amortization and provisions for impairment of assets (calculated based on adjusted data);
- total equity: equity attributable to owners of the parent and non-controlling interests.

The maturity schedule for financial liabilities (excluding derivatives with a negative fair value) is set out in section 3.1 of this Registration Document (Note 23, “Interest-bearing financial liabilities”).

## 4.1.8 LEGAL RISKS

In the same way as other industrial groups, Safran is exposed to technical and commercial risks as a result of its activities. From a legal standpoint, Safran is particularly exposed to the risk of non-compliance with commercial regulations and anti-trust law. To address such ethical risks, Safran has deployed an action plan entitled “Perpetuating the integrity culture” outlined in section 5.2 and focusing in particular on containing the impact of non-compliance risks.

Aside from the main risks identified in this respect and disclosed in section 3.1 of this Registration Document in Note 30 (“Off-balance sheet commitments”) and in Note 31 (“Disputes and litigation”), based on an analysis of the legal risks to which the Group is exposed, no other probable or material risks were identified.

## 4.1.9 ENVIRONMENTAL RISKS

All industrial activities generate risks, particularly Health, Safety and Environmental (HSE) risks. Safran's HSE policy is implemented within the framework of an improvement drive which aims to bolster its strategy of anticipating and preventing potential risks in all of its activities.

Chapter 5 on Corporate Social Responsibility presents a range of HSE programs and initiatives, and the analyses performed by the Group have not identified any uncontrolled risks.

## 4.1.10 DATA CONFIDENTIALITY RISKS

Safran's Defence business as well as its advanced innovation and product technology expose it to the risk of breaches of security in relation to its premises or data processing systems (illegal attempts to gain access to confidential information, threats to the physical security of installations, etc.).

In order to limit the impact of this risk, the Group has devised a general safety and security policy (compliant with national regulations and subject to audits and inspections by regulators) that includes an information systems security policy and defines the assets most at risk. Group safety officers also organize awareness-raising initiatives for employees.

# 4.2 GENERAL RISK MANAGEMENT POLICY

The Group adopts a "Comprehensive Risk Management" approach which has been validated by the Group Risk Committee.

## 4.2.1 GROUP RISK COMMITTEE

The Group Risk Committee is made up of the Chairman and Chief Executive Officer and the three Deputy Chief Executive Officers, and is headed up by the Group Risk Management and Insurance Director.

Its duties include:

- approving the risk management policy;
- validating the Group risk map and the corresponding control measures;

- ensuring that the risk management process functions correctly;
- ensuring that employees are sufficiently risk-aware;
- ensuring that the crisis management procedure functions effectively;
- validating the cross-functional action plans drawn up by the Risk Department.

The Risk Committee met twice in 2013.

## 4.2.2 RISK AND INSURANCE DEPARTMENT

The Group Risk and Insurance Department reports to the Deputy Chief Executive Officer, Finance. This department is responsible for implementing the Group's risk management policy. Its duties include:

### 1) Mapping group risks

The Risk and Insurance Department summarizes risk appraisal results at Group level and presents a risk map to the Group Risk

Committee for validation. Each risk is assessed in terms of its direct and indirect impact over the selected timeframe, assuming a worst-case scenario. Determining the degree of control is also essential in characterizing risk.

The Risk and Insurance Department ensures that action plans are put in place to improve risk management and recommends a compromise between the risk exposure retained by the Group and the exposure transferred to the insurance and/or reinsurance markets, as appropriate.

## 2) Rolling out the risk management policy

In order to achieve optimal risk coverage, the risk management policy is based on:

### FIRST-TIER ENTITIES

Each first-tier entity appoints a Risk Manager who prepares a risk map for his/her entity that is subsequently reviewed during the entity Risk Committee meetings. In all instances, risk management draws on a common methodology using risk analysis as the starting point. A risk owner is assigned for each risk identified and is responsible for drafting an action plan and ensuring its implementation. The objective is to provide continuous risk oversight to ensure optimal treatment.

Each quarter, the Risk Manager of each first-tier entity submits a series of indicators to the Risk Department (major risk map and the corresponding degree of control, maturity of the risk management process). Once a year, the Risk Manager also draws up a report on the organization of the risk management process in the entity concerned. The Risk Department also meets with the Risk Manager of each first-tier entity in order to assess the maturity of risk management in that entity.

First-tier entity Risk Managers are tasked with implementing the risk management process in the subsidiaries and joint ventures included in their reporting scope.

The Risk and Insurance Department requires first-tier entities to roll out risk management processes in newly-acquired entities and to organize Risk Committee meetings at least twice a year.

The Group Risk Management and Insurance Director regularly attends these Committee meetings.

The Risk and Insurance Department coordinates the Risk Manager network. Regular meetings are held to share best practices and identify nascent risks. Task forces are set up on the basis of priorities approved annually by the Group Risk Committee.

### FUNCTIONAL DEPARTMENTS AND PROCESSES

The Risk Department prepares a mapping of major risks by Group functional and central department based on interviews. These maps are then approved by functional departments. For each identified risk, a risk owner is appointed and is responsible for drawing up an action plan. These action plans are presented to the Group Risk Committee.

Risk management is also supported by the Audit and Internal Control Department (see section 6.5.5).

## 3) Developing risk management guidance, analyzing and recommending improvements to the risk management system

The Risk and Insurance Department develops methodological techniques and processes to ensure consistent handling of risks between companies, assists with their use and encourages the sharing of best practices. The Group has a risk manual organized by process, level of impact, frequency, probability and control. Detailed guidance is also prepared for the analysis of certain risks.

## 4) Promoting risk awareness and a strong risk culture across the Group

A "Risks and management" training module, launched in 2007 and organized jointly by the Risk Department and Group Risk Managers in liaison with Safran University, has promoted risk awareness among almost 1,000 managers within the Group, including 115 in 2013. New modules introduced in 2013, including Business Continuity Plans (BCP) and "crisis and management" are also helping to foster a culture of risk management.

## 5) Implementing the crisis prevention and management system

This system is based on the implementation of coordinated procedures for managing warnings and crises, at the level of the Group, companies or individual sites.

## 6) Implementing the Preventive Safran's document Integrity Program (PSIP)

The aim of this program is to help manage documentation and legal liability risks resulting from the Group's products and/or services. The program is also designed to protect employees from the consequences of an accident due partly or wholly to the Group's products and/or services.

Over 2,000 employees received PSIP-related training in 2013.

## 7) Taking out insurance coverage

The Risk and Insurance Department identifies the accident risks to which Group entities are exposed and, after careful consideration, takes out the necessary insurance coverage using either insurers in the market or a Group self-insurance arrangement.

It coordinates all Group insurance-related matters for damage caused either to or by the Group, with the exception of personal insurance and loan insurance.

## 4.3 INSURANCE

The key accident risks are covered by worldwide multi-risk policies spanning several years, negotiated with leading insurance companies:

- a “comprehensive industrial risks” policy covering all Group entities for damage to industrial installations (buildings, machines, inventories, etc.). The maximum payout under the policy is €300 million, or up to €800 million for certain individual sites, excluding market-imposed sub-limits for certain risks such as flooding, earthquakes and natural disasters. It includes business interruption insurance.
- “Product third-party liability” policies covering the financial consequences of product failure in the event of an accident following delivery to a third party:

- Aviation products

The policies provide coverage totaling USD 2 billion per annum that can be used during the year for aviation products. Coverage for helicopter products is capped at USD 1 billion, while coverage for terrorism totals USD 1 billion.

- “Land” products (excluding aviation businesses)

The policies provide coverage of €250 million per annum that can be used during the year.

Total premiums paid by the Group under all policies in 2013 represented 0.13% of adjusted consolidated revenue for that year.

Soreval, a Luxembourg-based captive reinsurance company, participates in the risk coverage scheme within the framework of property damage and civil aviation liability insurance programs.

Local insurance programs are subscribed across the globe either to cover specific risks or in response to local insurance regulations.





# 5 | CORPORATE SOCIAL RESPONSIBILITY

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**66,289** ☒

employees worldwide  
at December 31, 2013

**8,454** ☒

new hires worldwide in 2013

including **3,249**

job creations

**40%**

lower frequency rate of occupational  
accidents resulting in lost worktime  
in 2013 compared to 2008

**42%**

fewer occupational accidents  
resulting in lost worktime  
per 1,000 employees  
compared to 2008

**More than  
10,000**

employees received on-site training  
worldwide on business compliance  
and export control since 2010

## Corporate social responsibility (CSR)

Safran's social responsibility program features six strategic focuses based on the main guidelines of the ISO 26000 standard:

- developing innovative products and processes with a lower environmental impact;
- always aiming for excellence in safety and the protection of individuals and property;
- developing human potential;
- involving our suppliers and partners;
- perpetuating the Group's integrity culture;
- guaranteeing better relations with stakeholders.

The CSR policy is overseen by the Deputy Chief Executive Officer, Corporate Office, and implemented by an internal representative.

This representative coordinates and implements CSR policy at Group level, working with an internal steering committee made up of representatives from the different departments involved (human resources, European and international relations, sustainable development, purchasing, foundations, legal, communication and sponsorship, etc.).

## Ethical and social engagement

Safran has a set of values and ethical standards that are espoused by all of its employees. The Group has a duty of vigilance that is integrated into all Company functions and guides the development of its businesses in accordance with the highest international standards of business ethics, integrity and professionalism. These values and ethical behavior enable the Group to remain worthy of the trust placed in it by all of its stakeholders.

## Safran's human resources policy

The Group's human resources (HR) policy focuses on four strategic areas:

- grooming the best talent to serve innovation;
- promoting social responsibility;
- driving international expansion;
- taking a proactive approach to the Group's transformation.

## Health, Safety and Environment (HSE)

Safran ambitiously aims for excellence in the field of occupational health and safety and the environment, as well as for its products and services. This reflects the Group's own values and is consistent with its sustainable development commitments.

## CSR monitoring methodology and Statutory Auditors' report

Safran has elected to have all its labor, environmental and social indicators and the entirety of its report reviewed by the Statutory Auditors, Ernst & Young Audit and Mazars, in accordance with the CSR reporting requirements set out in article 225 of the Grenelle 2 Act and its implementing legislation. The Statutory Auditors obtained reasonable assurance for 10 of the social indicators (identified by the symbol ☒ in this section) and limited assurance for a selection of 8 HSE indicators and eight social indicators, as well as reviewing 11 themes. The nature and scope of the work of the Statutory Auditors, and their conclusions, are presented in the Statutory Auditors' report in section 5.7.2.

## 5.1 SAFRAN'S CORPORATE SOCIAL RESPONSIBILITY POLICY

Operating in the Aerospace, Defence and Security industries and boasting strong innovative capacities, Safran prepares for the future by developing increasingly efficient products. As such, the Group meets its customers' economic requirements while addressing labor, environmental and social issues. Safran has incorporated the fact that companies are no longer judged solely based on their economic performance or product quality, but also on their CSR ambitions.

Safran must integrate a social responsibility policy into its strategy to meet the expectations of its stakeholders: employees, partners, customers, shareholders, suppliers and all the communities affected by its business.

This corporate social responsibility policy is based on values and ethical standards shared by all employees: civic responsibility, people development and recognition, meeting commitments and teamwork are core values in Safran's corporate culture. The creation of Safran in 2005 from the merger of Sagem<sup>(1)</sup> and Snecma provided the opportunity to formally define and roll out these values.

Safran's corporate responsibility shows in its commitments:

- rolling out the Group's far-reaching health, safety and environmental policy designed to develop a culture of anticipation and prevention in managing risks for all of its stakeholders;
- developing Group businesses in full accordance with the highest standards in business ethics;
- developing a strong HR policy focused on anticipating needed expertise, preserving the health of employees and fostering sound employer-employee relations;

- implementing ambitious projects that promote diversity: Safran advocates integrating and maintaining employees with disabilities in the workforce, develops sustainable youth employment, capitalizes on the experience of seniors, involvement for social inclusion – especially of young people from underprivileged neighborhoods – and encourages equality between women and men;
- Safran's Foundations, one that promotes the integration of vulnerable young adults and the other that supports promising young musicians;
- sponsorship programs led preferably with public or private partners that promote equal opportunity.

Safran's Executive Management laid down a formal CSR strategy and governance system in 2012, and pursued the initiative in 2013, including by signing the United Nations Global Compact, as proof of its commitment to adhere to and uphold the ten universal principles, which cover human rights, labor standards, the environment and the fight against corruption.

For the third consecutive year, the Group consolidated all labor, environmental and social information into a single section. In so doing, Safran aims to highlight its commitments and contributions in the area, display the consistency of its initiatives and incorporate social responsibility as a strategic factor in the Group's future and growth. This practice follows on from the proactive approach initiated by the Group in 2011 and meets the requirements of article 225 of the Grenelle 2 Act and its implementing legislation.

Most of the information set out below is consolidated to cover the Group worldwide. However, for greater reliability and due to some legislative requirements, some human resources information is restricted to a smaller scope, encompassing only France or Europe<sup>(2)</sup>.

### 5.1.1 STRATEGIC CSR FOCUSES

Safran's social responsibility policy features several strategic focuses based on the main guidelines of ISO 26000 and recognizes:

- opportunities inherent to Group strategy: economic performance, innovation and internationalization;
- a number of existing measures and commitments;
- the needs and interests of Group stakeholders.

Based on these criteria, Safran defined the following six strategic CSR focuses:

- developing innovative products and processes with a lower environmental impact;
- always aiming for excellence in safety and the protection of individuals and property;
- developing human potential;

(1) Sagem is the trading name of Sagem Défense Sécurité.

(2) See the Methodology Note on the reporting of social and Health, Safety and Environmental (HSE) indicators in section 5.7.1.

- involving our suppliers and partners;
- perpetuating the Group's integrity culture;
- guaranteeing better relations with stakeholders.

Each focus has its own action plan along with objectives and monitoring indicators. An internal steering committee composed of representatives from the main divisions involved in CSR monitors these objectives.

## 5.1.2 CSR GOVERNANCE

The CSR policy is overseen at the Executive Management level by the Deputy Chief Executive Officer, Corporate Office, and implemented by an internal representative.

This representative coordinates and implements CSR policy at Group level, working with an internal steering committee representing the different departments involved (human resources, European

and international relations, sustainable development, purchasing, foundations, legal, communication and sponsorship, etc.).

The representative is also backed by CSR delegates, regional and subsidiary human resources directors in the companies and regions in which Safran operates.

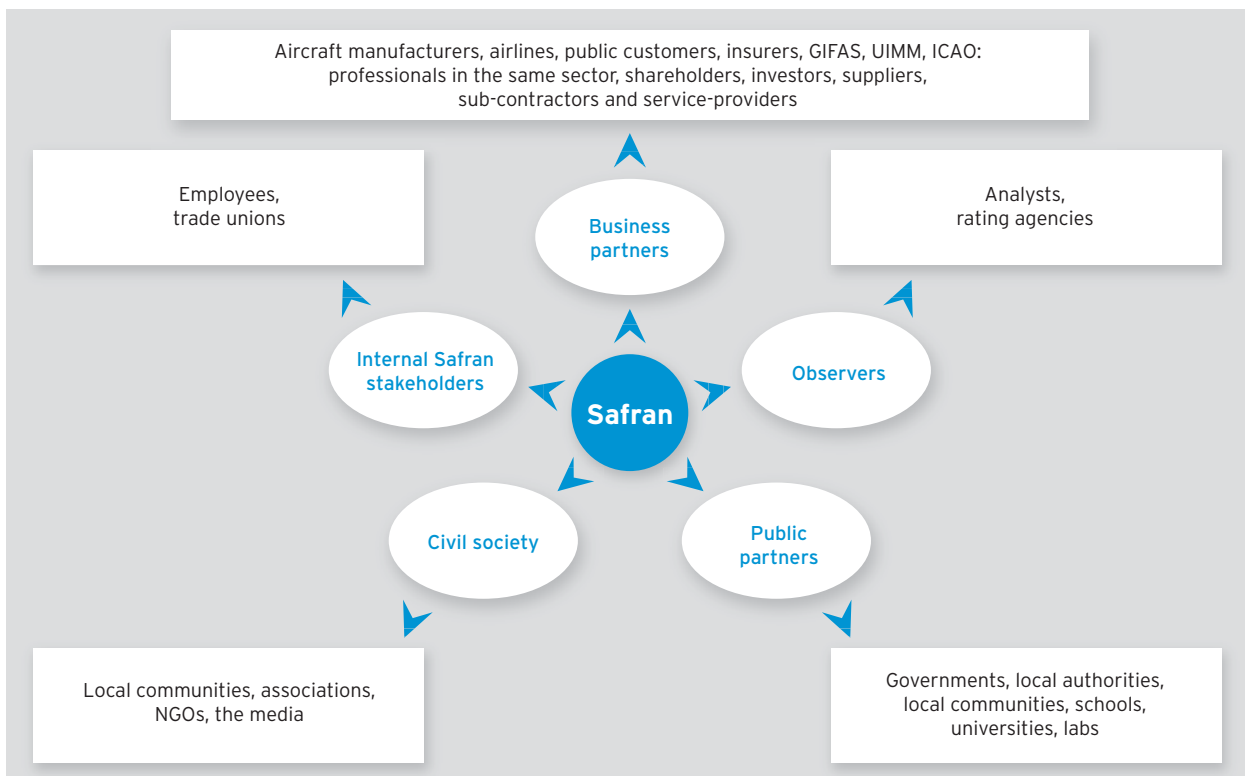
## 5.1.3 GUARANTEEING BETTER RELATIONS WITH STAKEHOLDERS

As a major economic player, Safran must act responsibly towards its stakeholders: business partners, internal stakeholders, civil society, observers and public partners.

Its CSR policy must therefore promote transparency in communication and dialogue with Group stakeholders. Safran develops proactive communication with its stakeholders through numerous materials and tools, for employees (guidelines on ethics, diversity and mobility), shareholders (shareholders' guide), customers and business partners (annual report and CSR report).

To meet its stakeholders' expectations, Safran also posts information on its website concerning commitments relating to its HSE policy, its innovation initiatives and projects and its labor relations model. In its public partnerships with schools and universities, Safran presents its CSR policy on topics such as human resources policy, diversity, innovation and sustainable development.

### STAKEHOLDER MAP



## 5.2 PERPETUATING THE INTEGRITY CULTURE

### 5.2.1 COMMITMENTS: ETHICAL GUIDELINES AND GROUP VALUES

Safran has a set of values and ethical standards that are espoused by all of its employees. It is corporate policy to ensure that all activities are carried out in accordance with the highest standards of honesty, integrity and professionalism. These values and ethics enable the Group to remain worthy of the trust placed in it by its customers, employees, shareholders, suppliers and all of its partners.

#### Group values

Safran operates according to seven core values, which provide the foundation of its identity and its image in the eyes of its stakeholders.

These values, promoted at each Group site, are:

- focus on customers;
- meeting the commitments set out in the Ethical Guidelines;
- innovation;
- responsiveness;
- teamwork;
- people development and recognition;
- civic responsibility.



#### Group ethics

##### ETHICAL GUIDELINES

In 2005, Safran introduced Ethical Guidelines setting forth the principles and standards common to the Group as a whole, to be used as a basis for employee conduct under all circumstances. The guidelines, which are summarized below, are not intended to replace or revise the laws and regulations in force, but to provide points of reference and guidance for the conduct of professional activities.

##### Behaviour outside the Group

###### ■ Upholding the law

In all the countries in which the Group operates, its personnel must uphold the law. Care should be taken, as it may be difficult to understand the law in a legal and cultural environment that is very different than that in which the employee has previously worked. When there is a question or there is any doubt, the employee should immediately consult with a superior or the Legal Department.

Personnel working in a subsidiary jointly owned by a Group company and a foreign company must uphold the law of the country in which the subsidiary is based, and the country or countries in which it operates and where its shareholders are based.

Integrity, honesty and transparency should guide each of the Group's employees in their work. Employees are expected to deal with customers, suppliers and other business partners in the Group's interest and in compliance with laws and regulations.

All personnel must take particular care to uphold laws on anti-corruption, competition, export and re-export control, labor and employment, safety, health and environmental protection.

###### ■ Engaging in proper business practices

##### Zero tolerance of corruption

Safran, its companies and employees do not tolerate any form of corrupt practices, be they active or passive, direct or indirect, for the benefit of those in the public or private sector.

The Group's companies apply all international conventions on combating corruption and the anti-corruption laws in force in the countries where they do business.

The Group, its companies and its employees never use a third party to perform any task that they are ethically or legally forbidden to perform themselves. Engaging a third party for the purpose of bribing a person or a legal entity violates anti-corruption laws. Prior to entering any contractual relationship with a business partner, the Group's companies must follow a methodical and documented procedure.

##### Gifts and hospitality

Business courtesies, such as gifts and hospitality, given to or received from customers, suppliers and other partners are commonly used to build goodwill and acknowledge appreciation in business relationships. However, these courtesies must not exceed a nominal value and may not influence, or give the appearance of influencing, any business decision. Good judgment, discretion and prudence should always guide the Group in these situations. Business courtesies are prohibited by law under certain circumstances and in certain countries. The Group's personnel must comply with the policies and laws that apply in each country where Safran does business.

##### Complying with export laws

As a global company, Safran purchases goods and services from a diverse group of suppliers. The Group also provides goods and



services to customers all over the world. It is therefore critical that the Group strictly complies with all applicable regulations that govern its export activities.

Before engaging in any export activity, Group employees must verify the eligibility of both the delivery location and the recipient. They must also obtain, when applicable, all required licenses and permits, including government authorizations and approvals for government-controlled products or technologies. These authorizations can be obtained from the relevant management in cooperation with Safran's export control organization.

Import activities are also subject to various laws and regulations, and it is the responsibility of the Group's employees to comply with all of the applicable standards. Any breach of these regulations on imports and exports has serious consequences for the Group. It is the Group's responsibility to know and comply with the laws and regulations that apply to its activities.

#### Competing fairly

As part of its commitment to fair competition, the Group must strictly comply with applicable competition laws in the countries where it does business. In general, these laws prohibit agreements or practices likely to restrain or alter competition or trade. Examples of prohibited agreements include: price fixing, abusive behaviour, bid rigging, allocating markets, territories or customers amongst competitors, or boycotting or discriminating among certain customers or suppliers unless legally justified.

The exchange or disclosure of commercially sensitive information relating to competitors, customers or suppliers may also violate applicable laws.

#### ■ Behaviour towards customers

Each employee must uphold the principles of fairness and integrity in his or her dealings with customers.

The business of the Group, to a large extent, concerns air transport safety; no compromise can be tolerated for any reason. Any situation that may seem questionable to an employee must immediately be referred to a superior or the Quality manager.

#### ■ Relations with shareholders

The Group ensures that its shareholders receive, on a timely basis, and in an effective manner, complete, relevant, accurate and precise information that is consistent with previous published information. It takes particular care to implement international corporate governance standards and principles.

#### ■ Relations with suppliers

The Group selects suppliers on the basis of objective criteria and demands high performance from them, in order to ensure that the Group's expectations and those of its customers are fully met. Under no circumstances will the Group use suppliers that make use of child or forced labor. In 2010, the Group signed a charter governing relations between major contractors and SMEs, drawn up on the initiative of the French Ministry of Economic Affairs, Industry and Employment.

#### ■ Integrity

Under no circumstances may employees damage the reputation of the Group or compromise the integrity of its assets or its information systems.

Paid work of any kind that employees may perform outside the scope of their employment with the Group must not cause conflicts of interest with their duties within the Group.

Similarly, considerable caution is required when purchasing shares, directly or via an intermediary, in companies doing business with the Group. Such restrictions do not apply to listed companies, unless confidential information is used, which may be construed as insider trading.

#### ■ Sustainable development

Today more than ever, protecting the environment is a critical concern for all Group employees, starting with product design and running through to the industrial process as a whole.

#### ■ Political and religious activities

The Group does not finance any political parties and any political activities must be carried out exclusively outside the workplace and working hours.

Any religious practices in which employees may be involved must be practiced exclusively outside the workplace and working hours, except in the case of a legal obligation.

#### Behaviour inside the Group

##### ■ Information control

Employees must ensure the protection of information acquired in the course of or in connection with the performance of his or her duties. Employees are to pay particular attention to respect the internal rules of protection and applicable requirements during both written and verbal communication.

##### ■ Protecting the confidential nature of certain information

In the course of their duties, all employees have access to confidential information, which represents a key asset of the Group. Confidential or classified information is sensitive information which must not be disclosed or communicated outside of the Group. Similarly, Group employees may have information concerning the national security of the country in which the Group company is located. Care must therefore be taken to ensure that such information is protected from third parties.

Any information that could influence the value of Safran's stock price must remain confidential, until it has been communicated by the Group to the public. Any personal use of such information would constitute insider trading and could expose the employee to both civil and criminal liability.

### ■ Respect for other people

The safety and health of individuals are prime objectives for the Group.

The Group is an equal opportunity employer. Recruitment and promotion are based exclusively on professional qualities and performance. The Group respects the dignity and private life of each of its employees. Furthermore, one of the Group's key values is to create the necessary conditions for all employees to achieve fulfillment in their chosen profession. All Group companies comply with the rules of protection of personal data known as the "Binding Corporate Rules" (BCR), applicable to the treatment and transfer of data outside of the European Union.

### ■ Compliance with the Ethical Guidelines

Each employee is required to review, understand and comply with the Group's Ethical Guidelines.

In the event of a question or any doubt regarding appropriate conduct, it is the responsibility of the employee to immediately contact a superior or the Group's Legal Department.

Each employee has an affirmative obligation to comply with these Ethical Guidelines.

## 5.2.2 ZERO TOLERANCE OF CORRUPTION

### Definition

Safran defines corruption as offering, promising or giving any undue pecuniary or other advantage, whether directly or through intermediaries, to a third party, in order that said third party act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of business.

Jean-Paul Herteman, Safran's Chairman and Chief Executive Officer, has set out this unequivocal commitment to rejecting corruption.

*"Safran firmly believes that lasting growth requires full dedication from each employee in complying with the Group's Ethical Guidelines and business integrity policy. Safran's ethical excellence extends beyond moral considerations or regulatory compliance. It derives from individuals' outstanding professional behaviour in any circumstances and with all stakeholders."*

### Safran conducts business in compliance with anti-corruption laws.

In order to ensure the application of the Ethical Guidelines, Safran has defined common requirements in the form of business-compliance related procedures applicable to all Group companies. These requirements comply with international conventions and all national regulations that apply to Safran's activities:

- the OECD Convention on Combating Bribery of Foreign Public Officials in international business transactions (1997);
- European conventions against corruption: The European Community Convention against corruption involving officials of the European Communities or officials of Member States of the European Union (1997), The European Criminal Law Convention on Corruption against active and passive corruption of foreign officials (1999) and The European Civil Law Convention on Corruption (1999);
- the United Nations Convention against Transnational Organized Crime (Italy, 2000);

- the United Nations Convention against Corruption (2003);
- all these conventions have been transposed into French criminal law: Law No. 2000-595 of June 30, 2000, amended by Law No. 2007-1598 of November 13, 2007, to combat active and passive corruption in the public and private sectors;
- the US Foreign Corrupt Practices Act (FCPA-1977) which became the International Anti-Bribery and Fair Competition Act in 1998 when the United States signed the OECD convention on bribery;
- the African Convention (2003);
- the UK Bribery Act (2010);
- and all laws of the countries where Safran companies operate.

Safran's anti-corruption procedures also comply with the guidelines laid down by the International Chamber of Commerce, the French employer's association MEDEF, the United Nations Global Compact (which Safran signed in 2013) and the World Economic Forum's Partnering Against Corruption Initiative (PACI), etc.

Safran and all Group companies have signed the Common Industry Standards for Anti-Corruption developed by the Aerospace and Defence Industries Association of Europe (ASD), which promote and reinforce integrity among its members.

Safran is a member of the Strategy Committee of the IFBEC (International Forum of Business Ethical Conduct). This organization is made up of leading US and European companies in the Aerospace and Defence sectors, and promotes industry-wide ethical standards and good business practices through the Global Principles on Business Ethics, which have been signed by Jean-Paul Herteman, Safran's Chairman and Chief Executive Officer.

All Safran's procedures are broken down into a series of specific operational procedures for each Group subsidiary, and are adjusted to take account of the regulations applicable to each subsidiary's specific organization, products and markets.



## An anti-corruption program that meets the strictest international standards

Following an audit conducted between September 1 and December 15, 2012, Safran obtained anti-corruption certification from the French Agency for the Diffusion of Technological Information (*Agence pour la diffusion de l'information technologique* – ADIT). This certification is based on standards approved by France's Central Service for the Prevention of Corruption (*Service central de prévention de la corruption*), an interministerial body under the Minister of Justice, and is valid until December 2015.

Anti-corruption certification recognizes the effectiveness of Safran's business compliance program, thereby validating the Group's efforts over the past several years to bring its rules and procedures in line with the highest international standards. The certification will apply to all the Group's tier-one companies by the end of 2017: Sagem and Morpho in progress; Snecma, Turbomeca and Microturbo before the end of 2014; Messier-Bugatti-Dowty and Herakles in 2015; Labinal Power Systems and Techspace Aero in 2016, Aircelle and Hispano-Suiza in 2017.

Safran has defined a rigorous continuous improvement program to prevent corruption and foster a culture of integrity and fairness while addressing two main concerns: i) promoting responsible behaviour among employees and management, and ii) protecting Group assets through risk management.

The program falls under the responsibility of the Executive Vice-President, European and International Relations, as part of a dedicated structure, the Business Compliance and Export Control Department.

As a member of the Group's fraud committee (made up of the Chief Legal Adviser, Director of Human Resources, the Head of Audit and Internal Control and the Head of Security), the Group Compliance Officer coordinates the anti-corruption program at Group level and participates in national and international anti-corruption initiatives to promote best practices and dialogue between companies and civil society: the French Aerospace Industries Association (GIFAS), Aerospace and Defence Industries Association of Europe (ASD), International Forum on Business Ethical Conduct (IFBEC), International Chamber of Commerce (ICC), the French employer's association MEDEF, the European Business Ethics Network, the 10th principle of the United Nations Global Compact and the World Economic Forum's Partnering Against Corruption Initiative (PACI), etc.

## Raising employee awareness

All Group employees and Executive Committee members, both directly and indirectly concerned, receive regular, adapted information: more than 50 documents per year, including a trade compliance report every two months, an information bulletin on ethical trade, country regulation guides, dedicated intranet service, etc.

A program of on-site instructional training courses was developed for Group companies worldwide. Preventing corruption was a

topic incorporated into several Safran University training programs, aimed specifically at staff involved in purchasing. An e-learning course is being rolled out to train new Group hires. These courses are designed to give every employee adequate knowledge of regulations applicable to their businesses and full understanding of Group procedures and how they are applied at their company.

## Supporting the program: organization, procedures and control

### A NETWORK OF 85 COMPLIANCE OFFICERS

The 34 Trade Compliance Officers (TCOs) are appointed at all the Group's independent companies. The TCOs, delegated by their company's Chairman and Chief Executive Officer, are responsible for guaranteeing the strict compliance of business transactions with Group procedure and instructions in relation to anti-corruption. TCOs report to the Group Compliance Officer, who is responsible for providing them with the support and information necessary and useful to their work.

TCOs work with a network of 51 Trade Compliance Managers or Correspondents (TCMs or TCCs) who ensure that measures are applied at each subsidiary or division of their company. TCOs must be accredited by the Group Compliance Officer to lead training courses at their companies and subsidiaries.

The TCOs and TCMs/TCCs must ensure that the persons exposed to and concerned by such risk within their organizations (business, marketing, legal, financial, human resources, supply chain) receive information and training on Safran's business compliance program and carry out any necessary reviews to ensure compliance with procedures.

TCOs must notify the Group Compliance Officer of any deviation from procedure as soon as it is detected.

TCOs and TCMs/TCCs meet each year to harmonize their knowledge, exchange good practices and contribute to improving the business compliance program and related procedures.

### PROCEDURES ON SELECTING AND VALIDATING BUSINESS PARTNERS – GIFTS, HOSPITALITY, DONATIONS AND TRAVEL

These procedures clearly and precisely describe the roles of employees and the rules to apply in performing their duties. They are updated regularly and widely distributed among managers and the employees concerned. The Group's external partners also receive these procedures.

- The international business compliance procedure lays down strict rules on managing contractual relations with the business partners of Group companies, including those engaged in offset agreements and acquisitions: consultants, service providers, distributors or investment or venture capital partners. The procedure is updated each year following a review in order to improve and take account of any changes to anti-corruption regulations and disseminate best practices identified.

It describes rigorous standards applied by the Group worldwide with respect to the selection, qualification, ethical evaluation, tracking and compensation of business partners. More specifically, it defines a validation process for business partners that is centralized by the European and International Relations Department independently and without business pressure. All business partners of Group companies are systematically subject to internal and external due diligence.

- The procedure includes approving, managing and monitoring lobbyists, which must comply with Safran's lobbying guidelines.
- The procedure for "gifts, hospitality and travel" given to or received from customers, suppliers and other stakeholders stipulates that they must be used exclusively to acknowledge appreciation in business relationships and in no way give rise to a conflict of interest or influence a professional decision.
- A clause on ethics is included in Safran's general purchasing terms and conditions signed by all Group suppliers.

- A compliance process is set out in shareholders' agreements for joint ventures.

### APPROPRIATE CONTROLS

Monitoring Group companies' implementation of and compliance with current procedures is carried out by means of regular reviews by the European and International Relations Department relating to the compliance of business partners' files and audits carried out by the Group's Audit and Internal Control Department. These audits aim to ensure that accounting procedures are being complied with (in particular that bills issued by the business partners are properly checked), that all payments made to them correspond to actual services and that the amounts paid do not exceed market rates.

As part of their audit, in 2012 the Statutory Auditors reviewed Safran's procedure for the selection and management of international consultants, and ensured that it had been deployed in a sample of cases in 2013.

## 5.2.3 COMPLYING WITH EXPORT LAWS

Group companies purchase goods and services from different suppliers. They also provide goods and services to customers all over the world. It is therefore critical that Safran complies, without exception, with all applicable regulations that govern its activities in the export and import of military or dual-use technology.

Safran has defined procedures that guarantee strict compliance with legislation governing export control.

### Compliance standard

A Safran compliance standard sets out the Group's requirements with regard to the control of exports and re-exports to third countries. It is structured around nine key compliance issues:

- implementation of a dedicated organizational structure;
- development of an internal export control program by each Group company;
- training and awareness-raising;
- identification of export restrictions;
- establishment of license/agreement application;
- compliance with the terms and conditions of approved licenses;
- monitoring and audit of the export control program;
- monitoring of technology transfers (data and software);
- treatment of any cases of non-compliance.

This compliance standard was especially useful for companies obtaining certification from the French Directorate General of Weapons Procurement as of the application of the transposition law of the European Directive on intra-Community transfers of defence equipment (June 30, 2012). Since it was implemented, Messier-Bugatti-Dowty was the second French company certified by the Directorate. Certification is in progress for Microturbo and Sagem. Snecma, Turbomeca and Herakles will follow in 2014.

### Organization

Commitment by the Group's Executive Management to complying with the laws in force has enabled Safran to implement a dedicated compliance structure. This structure includes:

- the Business Compliance and Export Control Department, under the responsibility of the Executive Vice-President, European and International Relations, assisted by a global network of Export Control Officers. They work together to ensure that the Group's compliance standard is applied consistently. The Business Compliance and Export Control Department defines overall policy, ensures that each company is applying Group standards, assists Group companies in their transactions, and represents the Group before the relevant government and professional bodies. It is involved in a number of working groups with national authorities in France and in all countries from which the Group exports. The impacts of US export control reform affecting both Safran's US subsidiaries and other Group companies that import US-made products were analyzed in 2013. GIFAS continued its collaboration with the French Directorate General of Weapons Procurement on the transposition of the European Directive on intra-EU transfers and the French reform to switch to a single licensing system. The ADS export control committee also advanced in its own work on these projects. The Group plans to continually improve its compliance standard and take part in debates on the topic;
- 68 Empowered Officials (members of the Management Committee) appointed at all of the Group's legal entities that import or export products. These officials are appointed by the Chairman and Chief Executive Officer of Group companies and are personally liable for the compliance of their company's exports with the Company's commitments in this respect;

- 68 Export Control Officers (ECO) appointed at each company by that company's Chairman and Chief Executive Officer to assist the Empowered Official. This person is assisted by a network of 350 Export Control Managers (ECM) in the main operational departments concerned;
- a Group Export Compliance Committee, responsible for recommending to the Executive Management team any actions, organizational methods and directives that would enable it to ensure the Group's compliance with the relevant national and international laws and regulations. The Committee also keeps Executive Management up to date on the progress of the actions in place and of any risks or problems that have arisen.

### Training and awareness-raising

The European and International Relations Department notifies all Group employees exposed to and concerned by exports of any regulatory developments and any breaches of these regulations.

Safran organizes targeted training sessions for project managers and buyers, offered by Safran University, and provides its companies with training materials that they can adapt to the regulations applicable to their company structure, products and market. More than 5,000 employees in France and the US have received this training since 2010.

Safran's very first international export control seminar was held in Paris in 2013. About one hundred of the Group's export Directors, managers and correspondents of over ten different nationalities attended the event to discuss the importance of export control for Safran and relevant issues in an increasingly regulated international market.

Safran has developed a unique export control intranet and an e-learning tool that is being rolled out for new Group hires to help raise employee awareness, bring practical assistance to employees worldwide and ensure that they comply with French, European and non-European regulations regarding the export of military and dual-use goods. The site notably provides users with rapid access to lists of countries subject to embargoes and persons or entities with whom trade is forbidden, along with a register of all export control representatives and all applicable procedures.

### Control

The Audit and Internal Control Department performs frequent audits of Group companies to obtain evidence that the compliance standard is being applied. In certain crucial cases, Safran calls on independent firms to carry out additional audits. All of the Group's main companies have been audited since 2010, and improvement plans are systematically defined and put in place. To monitor their progress, Safran has provided companies with an export control self-assessment.

In complex cases, Safran also ensures that its companies detect, assess and account for any cases of non-compliance and that they take all the necessary precautions to prevent similar cases arising in the future.

The Group's companies or Safran informs the relevant authorities in each case of non-compliance. To date, none of the cases brought to the attention of the authorities have been subject to penalties, which demonstrates their faith in the control system put in place by Safran.

## 5.3 DEVELOPING HUMAN POTENTIAL

### 5.3.1 PRESENTATION OF STRATEGIC FOCUSES

To keep in line with its growth and ambitions, the Group must attract the best talent and guide its employees in meeting the challenges they face.

Safran's HR policy focuses on four strategic areas:

- grooming the best talent to serve innovation;
- promoting corporate social responsibility;
- driving international expansion;
- taking a proactive approach to the Group's transformation.

The human resources (HR) function began implementing major reforms in 2010 to meet these goals, which include pooling HR activities, overhauling department organization, training teams and improving processes. These improvements aim to boost the

collective performance of the HR function, thus offering managers and employees greater support, more solutions and a better understanding of the organization.

### Grooming the best talent to serve innovation

Safran's rapid growth in a highly competitive international market has led to the recruitment of young graduates trained in new technologies and renowned experts in cutting-edge fields to prepare for its future projects.

Recruiting the best profiles and offering them attractive career paths is the focus of Safran's HR policy.

Meeting its recruitment needs has become a strategic priority for Safran. In 2012, the Group began boosting its reputation and launched its employer branding campaign to highlight its appeal as a choice employer in the eyes of its top recruitment targets.

Its communications campaigns powered a new Group tagline, "Key missions, Key technologies, Key talents", to include the women and men of Safran, who make up one of the Group's fundamental pillars.

Safran puts forth extensive efforts to develop talent and support professional integration by training young people under work-study programs and internships at various levels of qualification. It initiated an action plan to improve the number of young hires trained within the Group. Steps were taken with the GIFAS to devise shared apprenticeship schemes between Safran and its SME sub-contractors.

These measures reflect Safran's endeavors to attract the best talent and offer rewarding professional development through its Group-wide HR policy:

- a skills management scheme coordinated by operational managers and the Human Resources Department to anticipate and prepare for major business developments;
- a Group-wide career management plan to mark out career paths for managers or technical experts in the Aerospace, Defence and Security sectors;
- an active recruitment and mobility program that simplifies transfers between Group companies;
- professional training programs with identified business areas: technical, programs, sales, purchasing, finance, etc.;
- leadership and talent development programs offered through Safran University to guide the transition to managerial positions.

### Promoting corporate social responsibility

Respect for other people and a special focus on employment are fundamental values in the Group's social responsibility policy, which complies with the conventions of the International Labour Organization (ILO). Social cohesion is therefore a major stake underpinning the harmonious growth of the Group.

This objective is based on the application of Group-wide management methods, namely:

- employee profit-sharing plans adapted to the specific context of the country;
- employee shareholding plans associating employees with Group targets;
- processes designed to develop employer-employee relations internationally with the setting up of a European Works Council and the signing of European agreements (professional integration of young people in 2013, current negotiations on skills development and career management);

- the prevention of accidents in the workplace and the preservation of the physical and mental health of employees feature among Safran's ethical commitments. This took concrete form with:

- the rollout of the agreement on occupational stress prevention signed in 2011 and the agreement on the prevention of bullying and the protection of workers from harassment and violence signed in June 2013,
- comprehensive weekly and monthly reports of accidents resulting in lost worktime included in the reporting submitted to Executive Management,
- company agreements on the prevention of dangerous or arduous work signed at several Group companies;

It's noted that absenteeism in France fell from 4% in 2012 to 3.8% ☒ in 2013;

- similarly, the promotion and management of diversity and equal opportunity are considered factors that bolster Group cohesion and performance. In France, these goals fostered a new Group agreement to promote the employment of workers with disabilities signed in 2012 and an agreement on the employment of both young people and seniors, the "Generation contract", in September 2013.

### Driving international expansion

The international nature of the Group requires the implementation of an appropriate HR policy.

By appointing regional HR Directors (Europe/Africa, North America, India and Asia), the Group's HR policies can be applied more consistently.

This involves:

- including international managers in the Executive Management scheme, with career committees and manager reviews to identify high potential candidates extended to international subsidiaries. Developing international Safran University programs enables culture-sharing and a better understanding by managers of the true international nature of the Group;
- enhancing international mobility, with the creation of a Group Mobility Charter and an international job pool;
- improving and harmonizing expatriate support and developing other ways of working abroad;
- implementing health and welfare plans to accompany all forms of international mobility;
- rolling out new employee shareholding plans abroad: the international Group employee savings plan, free share plans, etc.

The Group's many sites across the globe and the diversity of its businesses and products offer vast opportunities for geographic mobility.

With operations in over 50 countries, the Group gives some of its employees the option of gaining professional experience abroad.

It will continue enriching the international dimension of its teams by employing a growing number of international employees at its French companies, developing career opportunities at its subsidiaries worldwide and promoting intercultural exchange in implementing strategic projects.

### Taking a proactive approach to the Group's transformation

In 2009, the Group embarked on large-scale initiatives to upgrade its management techniques and processes. These initiatives are designed to install more efficient operating procedures and to accompany the creation of a consolidated group, within which the different companies share common procedures.

These modernization projects fostered cross-business organizations, including Shared Services Centres (payroll, recruitment, non-production purchasing, accounting, IT, finance, etc.) which were brought together at a single site in the spring of 2013.

One of the main objectives of these Shared Services Centres is to serve the entire Group, building on their high level of skills and expertise.

Safran set up a special department of Shared Services Centres in 2012 to consolidate its gains from modernizing its management systems and further their international rollout.

The Group intends to pool the best practices from each cross-business organization on productivity, HR development and the quality of service provided for companies.

The HR function is also fully involved in this move to create a unified group and has adapted its own organizational structure through the creation of three new departments focused on (i) recruitment, careers and mobility, (ii) talent and (iii) employee relations. In France, the administrative management, payroll and recruitment service centres provide their services for all Group companies.

A worldwide human resources information system is being implemented. It is designed to support the rollout of HR policies and processes on a global scale.

In a group that is constantly evolving, accompanying change represents a major challenge for HR teams, which need to:

- provide the necessary legal support to strengthen the required procedures;
- define and negotiate the status of employees affected by these changes;
- organize, coordinate and monitor staff mobility related to these changes.

### The HR Department committed to employees and managers

The Human Resources Department has given its strategic focuses greater meaning and clarity by expressing them in commitments to the managers and employees of the entire Group. These six HR commitments were announced in May 2013 and now represent the backbone of the HR contribution to the Group:

- recruitment: attracting the best people and opening up to new talent;
- training: developing employees' skills for today and for tomorrow;
- career management: providing the means to take a proactive approach to one's career;
- mobility: offering access to a world of opportunities;
- work environment: guaranteeing teams' well-being in the workplace in an ethically sound and environmentally friendly Group;
- labor model: caring about individuals in order to succeed together.

These six commitments will stand as the reference for the human resources teams over the years to come, symbolizing their contribution to the development of the Group and its employees.

## 5.3.2 HEADCOUNT

### Breakdown by business

The Group had 66,289 ☒ employees (excluding special contracts) at December 31, 2013.

The following table presents a breakdown of employees by business at that date:

	France	International	Total
Aerospace Propulsion	20,076	4,435	24,511
Aircraft Equipment	10,328	14,167	24,495
Security	1,516	6,887	8,403
Defence	6,338	857	7,195
Holding company and other	1,309	376	1,685
<b>2013 GROUP</b>	<b>39,567 <input checked="" type="checkbox"/></b>	<b>26,722 <input checked="" type="checkbox"/></b>	<b>66,289 <input checked="" type="checkbox"/></b>



## Regional breakdown

The Group's expansion continued apace both in France and abroad. In the first quarter of 2013, two entities joined the Group under the names Safran Power UK, based in Pitstone, United Kingdom, and Safran Power USA, based in Twinsburg, Ohio in the United States.

Globe Motors, Inc., a US subsidiary of the Group that employs 500 people in the United States, Mexico and Portugal, was sold to Allied Motion Inc. on October 18, 2013.

At end-2013, the Group's workforce had grown 6% since the previous year and represented more than 26,700 employees working outside France in over 50 countries.

The following table presents a breakdown of employees by geographic area at December 31, 2013:

		2013 Group	% of total
<b>Europe</b>	France	39,567 ✓	59.7% ✓
	Other	7,379 ✓	11.1% ✓
<b>Africa and the Middle East</b>		2,596 ✓	3.9% ✓
<b>Americas</b>		13,174 ✓	19.9% ✓
<b>Asia and Oceania</b>		3,573 ✓	5.4% ✓
<b>TOTAL</b>		<b>66,289 ✓</b>	<b>100.0% ✓</b>

### OTHER INFORMATION ON HEADCOUNT

At December 31, 2013, 39% ✓ of Group employees were engineers or managers.

More than 25% ✓ of Group employees and 21% of engineers and managers worldwide are women (22% in France). Almost 34% of new hires were women in 2013.

Over 21% of employees are involved in research and development activities.

Excluding acquisitions, the Group boasts net job creation for 2013, thanks to brisk external recruitment and stable departures. Over 12 months, the Group hired 8,454 ✓ people, including 3,249 job creations. Safran hired over 1.62 ✓ employees for each departure, and 38% of new hires were for newly created positions.

The Group also recorded 5,205 ✓ departures, including 891 ✓ redundancies.

More specifically in France, jobs were mostly created in the R&D and Production Departments. Temporary employment remained very limited, concerning:

- 1% of the workforce on fixed-term employment contracts;
- 5% of the workforce excluding work-study contracts. Temporary staff was used primarily in the Aircraft Equipment and Defence businesses, which make use of this type of labor due to significant fluctuations in business levels.

## 5.3.3 HR POLICIES

### Recruitment and integration

Safran continued to recruit in 2013 in order to bring in the fresh skills needed to maintain its leading position in the innovation of new generations of aircraft and new technologies related to the Group's businesses, with 3,111 ✓ new hires in France. Among the new hires, 59% were for managerial-grade positions and almost 25% ✓ were women. Young graduates accounted for 47% of our managerial-level hires. Safran recruited 5,343 ✓ employees abroad, of which nearly 29% were managers.

Virtually 75% of engineering and managerial-level new hires had a scientific or technical background, mainly in the following areas of R&D and production:

- mechanical engineering;
- systems architecture;
- methods;
- quality;
- software development (onboard software);

- materials;
- electronics and automation;
- supply chain.

In pursuing its innovation policy, the Group is seeking to diversify its recruitment channels. While a large portion of its intake in the scientific and technical sectors is made up of engineers, it also targets academics with a master's degree or PhD.

Recruiting the best profiles and offering them attractive career paths is the focus of Safran's HR policy.

The Group put forth extensive resources to back its policy to attract talented employees and offer them genuine career opportunities. It extended its recruitment communication campaign (in the press and online) and developed its outreach on professional social media (LinkedIn® and the French site Viadeo®) and non-professional social networks (Facebook®, Twitter® and Youtube®). Central to this communication campaign is the Group's recruitment portal, [www.safran-talent.com](http://www.safran-talent.com), which boosts the visibility and appeal of its areas of expertise, conveys a powerful image of Safran's corporate

culture and advertises its job offers. An opportunity feasibility study of the international rollout of the jobs and application management tool was conducted in 2013, and an ad hoc project was initiated as a result. At the same time, Safran continued to step up its presence at target schools and universities worldwide through a number of events designed to offer students guidance in building their career path (conferences, career round tables, visits to industrial sites, forums, the setting up of Chairs, etc.). Today, a network of over 250 Safran ambassadors is proactively working with students to share with them about the Group's business lines and opportunities. Safran also strengthened its partnerships, furthering its involvement in educational programs and participating in the target schools' management bodies.

Upstream operations to hire engineers and managerial-grade staff on permanent employment contracts in France are handled by Talent Search. Working with the departments seeking to hire, this Shared Services Centre handles the sourcing and preselection of candidates on behalf of Group companies.

### Developing career prospects

To expand career prospects, the Group-wide career management plan encourages mobility, training and retraining opportunities. Safran University is also involved, through courses preparing managers to take over new responsibilities.

A Group-wide career management plan was defined to align career-related bodies (career committees and business line committees) and meetings (individual interviews, career interviews, progress reports, etc.) according to a timetable applicable to all Group companies. The program was deployed at most Group companies in 2013. Rollout will be complete in 2014. Some employee categories receive guidance at the central Group level (Experts, Black Belts and Master Black Belts, expatriates). Equivalent specific processes will be integrated into the Group's global career management plan in 2014. The Group has also adopted a centralized system to optimize the management of its Executive Managers and high-potential managers. The aim is to identify, train and retain internal talent for succession planning purposes.

### Mobility

In 2013, over 1,300 employees benefited from an internal transfer between Group companies or establishments in France.

To improve the mobility process, a centralized team of mobility and career advisors anticipates and offers guidance through business line development, applying the HR initiatives of business line committees. In collaboration with company business line Directors and HR Departments, they design and coordinate individual mobility and recruitment initiatives.

The new information system e.Talent was created to manage jobs and applications in 2013 (2014 for the United States), allowing

employees to submit applications online or send a mobility request specifying the sector and employment pool. A Mobility Charter and practical guidelines designed for employees and managers will be published alongside the improved job exchange platform. Special mobility meetings are organized at Group level for each business line and employment pool to increase the visibility of employees being relocated internally. One-off "Time to connect", networking initiatives for employees and managers, were also introduced in mid-2013.

Gaining international experience is an important part of the Safran career path. At December 31, 2013, the Group had 459 expatriates in 51 countries.

Over the year, more than 100 employees were expatriated and about the same number returned from abroad.

These 459 expatriates provide commercial and technical services primarily in Europe, the Middle East and Africa (40%), North America (26%) and Asia-Pacific (21%). Standard contractual arrangements and expatriation packages have been defined at Group level and deployed in all entities to facilitate mobility.

The set-up of a Shared Services Centre was initiated in 2012 and completed in 2013 to merge the management of expatriates from France, boosting the transparency and consistency of mobility processes. This structure also improves the Group's capacity to deploy expatriates and meet future challenges as it moves into new international markets.

International mobility expertise is being coordinated across the different regions to standardize policies and practices for transfers of employees from any country.

At December 31, 2013, the Group had 102 international volunteers under the French VIE (*Volontariat international en entreprise*) program. Safran promotes this program for the international experience gained for young potential future Group employees.

### Career and skills management program

The analysis of the quantitative and qualitative developments needed in the business lines helps define the actions to be put in place to accompany strategic developments within the Group related to new markets, new technologies and customer requirements.

In 2013, this analysis was used to define initiatives in certain priority areas and more general actions which primarily involved the integration of new hires and the definition of career paths:

- in R&D: systems architecture, software and electrical engineering;
- in production: methods, testing and supply chain;
- in programs/customer relations: sales/marketing, after-sales and customer service and programs;
- in support functions: quality and purchasing in their role of assisting suppliers and human resources.



These initiatives cover all the main aspects of human resources management, namely:

- training by creating and developing programs, allowing employees to build their skills, manage professional change and improve their employability;
- mobility and career management with greater visibility and support through developments and transitions between businesses and improved employee information;
- more targeted recruitment of Group employees and relations with schools to better attract talent.

This information was shared with the trade unions at a career and skills management program committee meeting. It demonstrates the efforts of employee representatives to integrate the program as a key part of the Group's HR policy, providing all employees with a clear view of the development of the Group's business lines and the possibility of planning their career in line with the future needs of the Group.

## Training – Safran University

By developing Safran University, the Group has given itself the means to achieve its cultural, technological and organizational transformation. Designed as a cultural melting pot, the university is at the heart of international development and exercises a fundamental influence on all Group members, customers and partners.

The purpose of Safran University is to provide the knowledge, expertise and people skills necessary to guide the Group's development and growth. The establishment is open to all Group employees. Its role is to promote shared corporate culture and values, and thereby steer training to respond to the Group's strategic requirements and priorities in terms of employee expertise. Safran invests an average 4.4% of payroll costs in training (in France, excluding Herakles).

Nearly 77% of French employees receive training at least once a year.

Safran University covers all of the business lines, offering training in 17 different areas and representing approximately 1.5 million training hours worldwide in 2013, including 1 million hours in France.

A substantial portion of training efforts is focused on developing the technological skills required by major projects.

The development of managerial skills in an international context represents a second major priority.

The quest for customer satisfaction and enhanced economic and industrial performance are the growth drivers that underpin the training program.

In line with the Group's international expansion, Safran University is active on the three continents where Safran has the strongest foothold (Europe, North America and Asia). Programs are available in about ten countries, in French, English or the local language.

With the local university teams, training is adapted to the region's cultural aspects and relevant needs at the Group sites. This diversity also provides an opportunity to integrate local experience into the

programs taught worldwide and enhance the Group's knowledge of its markets.

These exchanges represent an important force in the local response to the training needs of Safran's companies and partners.

At the Dallas campus opened to cover North America (United States, Mexico and Canada), nearly 80 sessions were organized in 2013, representing about 17,000 hours of training.

The Safran Campus is currently under construction and due to open in 2014 as the university's main hub. The Campus will provide a proper base for the university, which has been a cultural melting-pot since its creation. The 13-hectare site located in Massy, near Paris, France, will feature a maximum capacity of 600 participants for employee training programs or seminars all year long. Safran's major events (orientation days, seminars, conferences, etc.) and meetings with customers and Group partners will be held there, with access to an amphitheater seating more than 400.

The university's goal is to implement an ambitious Group training policy and to use the resources and efforts involved to meet strategic challenges in order to support the development of the Group's business, technology and international presence. One of the keys to the success of this training system is the commitment of Group management executives, managers and experts to designing and leading these programs.

Safran University addresses three major challenges that apply to the Group:

- **Improving employee skills and professionalism in all of the Group's business lines**

Business programs allow employees to develop their skills in relation to a particular business throughout their professional career. Safran University provides this skills development for all employees and contributes to building the Group's human capital, adapting it to tomorrow's businesses and ensuring its continued growth. Such programs are now available and being rolled out at all business lines.

Some of the courses offered by Safran University will allow employees to obtain a certificate or a diploma. These courses are common to all Group companies in order to encourage the sharing of ideas and best practices.

- **Aiming for excellence in management and leadership**

The Leadership programs provide the necessary career training for senior executives and more generally, for all Group leaders and managers. These programs are designed to help develop common management practices within the Group and to offer managers every chance of success in their assignments, as they manage change and build the Group of tomorrow.

Nearly 3,000 Green Belts and Black Belts have been trained since 2010, reflecting the university's campaign to implement the Lean Sigma approach.

Safran's leadership guidelines lay the groundwork for all programs and reflect five managerial priorities:

- embarking on a shared vision;
- leading by example;
- daring to innovate;

- scoring as a team;
- empowering people.

- **Enhancing the employability of workers**

Transitional programs aim to assist employees whose jobs are likely to change considerably in order to help them develop new skills or change career paths.

Additional specially adapted training programs and specific procedures, involving the assessment of skills, the validation of professional experience, etc., will be put in place to accompany these career changes and developments and prepare employees for tomorrow's jobs.

These programs represent a key component of the employee policy and the career and skills management program.

## 5.3.4 COMPENSATION AND BENEFITS

### Compensation trends

For the third time since the Group was created in 2005, all French companies signed salary agreements in 2013. These agreements provided for an average increase in compensation of between 3% and 3.15% of payroll, depending on the Company, and comprised general and individual increases for line workers, employees and technicians, and specific increases for managerial-grade staff.

In addition, several Group companies set aside budgets to promote gender equality and diversity as part of their annual compensation policy.

### Involving employees in Group performance

#### STATUTORY EMPLOYEE PROFIT-SHARING

In France, statutory profit-sharing is paid under the terms of the Group statutory employee profit-sharing agreement signed on June 30, 2005. A new calculation method was developed in application of an amendment signed on June 29, 2012 to guarantee a more appropriate correlation between profit-sharing and Group earnings. The agreement, which is based on the principle of solidarity, provides for the pooling of statutory profit-sharing reserves generated by each Group company in France. For a given year, all employees receive an identical percentage of their salary, regardless of their company's earnings. However, the salary used in the calculation is at least 1.2 times the annual social security ceiling (i.e., €44,438.40 for a full-time employee working for the full year in 2013). The salary floor ensures solidarity between the different pay levels.

For the extended scope of consolidated companies (as defined in Note 33 of section 3.1), the total statutory profit-sharing expense recorded for the last two years is as follows:

(in € millions)	Statutory employee profit-sharing
2012	73
<b>2013</b>	<b>91</b>

#### PROFIT-SHARING BONUS FOR EMPLOYEES

In both 2013 and 2012, since the dividends per share paid by Safran were up on the average dividend paid in the previous two years, the Group paid its employees a profit-sharing bonus. In 2013, this bonus was determined in accordance with the Group's new profit-sharing agreement signed in 2012. Based on the analysis that the profit-sharing bonus mechanism introduced by the Law of July 28, 2011 is also a form of profit redistribution, the Group's profit-sharing agreement states that an additional amount is payable if dividends increase (starting from dividends payable in 2013 in respect of 2012 profit).

The total profit sharing bonus expense recorded in the consolidated financial statements (Note 6 of section 3.1) for the last two years is as follows:

(in € millions)	Employee profit-sharing bonus
2012	8
<b>2013</b>	<b>4</b>

#### OPTIONAL EMPLOYEE PROFIT-SHARING

All French entities have optional profit-sharing plans based primarily on economic performance criteria supplemented, where appropriate, by other operational company performance indicators.

The total amount of optional profit-sharing payments may not exceed 5% of payroll, although this percentage may be increased to 7% or even 8% in the event of exceptional company performance.

For the extended scope of consolidated companies (as defined in Note 33 of section 3.1), total optional profit-sharing payments, including payments by Group companies outside France, for the last two years are as follows:

(in € millions)	Optional employee profit-sharing
2012	131
<b>2013</b>	<b>142</b>

## EMPLOYEE SAVINGS PLANS

Group employees in France benefit from a comprehensive employee savings plan that allows them to contribute to a Company savings plan:

- the Safran collective retirement savings plan (PERCO), set up under a Group agreement signed in 2012, allows employees to contribute to a retirement savings plan via six corporate mutual funds (FCPE) with different management strategies. An additional Company contribution of up to €500 per employee per year was included in this plan for 2013. A bonus contribution is planned for employees in their final two years of service at the Company prior to retirement;
- the Group employee savings plan, implemented by a Group agreement in 2006, features medium-term savings via a range of five FCPEs with different management strategies. The Group employee savings plan endorses employee share ownership in particular, by allocating up to €2,000 per year and per employee in Company contributions to an FCPE invested in Safran shares.

For its employee savings and collective retirement savings plans, the Group recorded a total Company contribution expense of €48 million in 2013.

Rapidly after the Group was created, employee share ownership broadened to an international dimension with the international Group employee savings plan set up under a Group agreement signed in 2006. It provides employer financial support to employees of foreign subsidiaries who wish to contribute to a savings plan based on Safran shares (Company contribution of up to €2,000 per year per employee).

In 2013, over 15,600 employees in some 50 Group companies in Belgium, Canada, Germany, Mexico, the UK and the US had access to this international plan, which will be progressively rolled out to other countries.

Over the past seven years, the total amount allocated to statutory and optional employee profit-sharing programs, Company contributions and the corporate social contribution has been equivalent to the amount of dividends paid to shareholders.

## EMPLOYEE SHAREHOLDERS

Safran boasts one of the highest proportions of employees participating in share ownership plans of all CAC 40 companies, achieved through:

- one-off operations, such as the employee shareholding offer rolled out across 15 countries in 2012 (2012 Leveraged Plan) or the grant of 100 free shares to employees of the Group's European companies in 2009;
- long-term schemes such as the Group employee savings plan and the international Group employee savings plan.

The French government sold a portion of Safran capital on two occasions in 2013 (see section 7.3.4.1). In application of the 1986 privatization law and to involve more current and former Safran employees in its growth, they will be presented with a special share offer in 2014.

## Employee insurance and retirement plans

### WELFARE

A single mandatory welfare plan was set up for Group employees in France in 2009 (covering short- and long-term disability, death and healthcare) offering generous benefits for employees and their dependents. Employer contributions finance more than half of the plan.

Safran expatriates around the world benefit from special healthcare plans that guarantee and maintain high-quality healthcare for the duration of their foreign posting.

### REPATRIATION BENEFITS

To guarantee the safety and health of its employees who are expatriated or on professional assignment, Safran has taken out a medical assistance and repatriation policy that is available anytime and anywhere in the world.

### RETIREMENT PLANS

Most of the Group's companies in France and abroad offer supplementary defined contribution pension plans in addition to any statutory plans provided.

At the end of 2013, the Board of Directors of Safran authorized a supplementary defined benefit pension plan in France for which executive managers within the Group, currently numbering around 400, are eligible.

The plan, effective as of January 1, 2014, provides for the payment of benefits based on years of service within the beneficiary category (at least five years of service are required to be eligible, and up to 10 years are taken into account in determining entitlement) and benchmark compensation (corresponding to the average salary in the 36 months preceding retirement).

The additional benefits payable are capped at three times the annual social security ceiling ("PASS") in France. Total benefits under all regimes cannot exceed 35% of the benchmark compensation.

Another highlight in 2013 was the growing success of the collective retirement savings plan set up in France in 2012 through collective bargaining agreements, which has enabled over 29,000 Group employees to save through an additional retirement plan backed by Company contributions. Plan assets totaled nearly €60 million at the end of 2013.

## 5.3.5 EMPLOYEE POLICY

### Working hours

Safran complies with all legal requirements governing working hours at each site.

In France, most Group companies have signed an agreement on working hours with the following provisions:

- workers: an average of 35 to 39 hours worked per week over the year with compensatory time allotted;
- managerial-grade staff: a system of a set number of hours or days worked over the year with compensatory time allotted;
- senior executives, who are not subject to the legal requirements on work time, conventionally benefit from additional days off.

Different Group sites have introduced special systems to organize employee work time, such as shift work, including night shifts, and flexible time.

The Group believes that working hours should respect the balance between employees' professional and personal lives.

In France, approximately 5% of Group employees worked part-time as at December 31, 2013.

### Employer-employee relations

Main events in this area in 2013 for the Safran Group in France and in Europe were:

- the signature of Group-wide agreements:
  - in June, on preventing bullying and violence in the workplace,
  - in September, on the "Generation contract";
- the signing of a European-level framework agreement to promote the professional integration of young people;
- the commitment to participate in European-level negotiations on a framework agreement on skills development and career management;
- continued negotiations on professional training;
- meetings with the Group's union representatives to discuss various issues (statutory bargaining round, training, etc.);

- meetings of the Group and European Works Councils in ordinary and extraordinary sessions.

Each Group company also pursues a dynamic negotiation policy based on its economic and social profile. Salary agreements were signed at all Group companies in 2013 in the statutory bargaining round.

### Relations with the local community

The Group's entities maintain close relations with their local and regional communities and help to raise the Group's profile through active participation in social and economic initiatives at the local level.

The Group devotes considerable resources to training young people under work-study programs and internships at various levels of qualification. In France in 2013, Safran welcomed 2,844 young people under work-study contracts (apprenticeship and professional training contracts) and 2,976 internships.

In 2013, as a result of Safran's efforts led by GIFAS to offer SMEs incentives to hire people on work-study contracts, over 40 shared apprenticeship schemes were established, involving more than 30 Group SME subcontractors. Safran pools the payment of apprenticeship tax for qualification levels of "Bac+5" (five years' higher education) and above across all companies, given the national dimension of these qualifications, in order to ensure overall consistency with the Group's strategic focus. The payment of this tax for other qualification levels is entrusted to each company, as their better understanding of the local environment enables them to support the entities that train individuals whose expertise matches recruitment profiles within their employment pool.

Safran has developed partnership initiatives with French public research institutes (CEA, CNRS) in scientific and technology sectors, with engineering and business schools, as well as with scientific universities both in France and abroad. At end-2013, the Group had 151 industrial agreements for training through research (*Conventions industrielles de formation par la recherche* – CIFRE) and Diplomas of Technology Research (*Diplôme de recherche technologique* – DRT). This number is constantly rising.

### 5.3.6 DIVERSITY AND EQUAL OPPORTUNITIES

Promoting diversity is a top priority in Safran's human resources policy. Diversity brings performance and innovation. The steps taken to boost diversity aim to foster the integration of all types of talent and encourage each employee to attain his or her professional goals while fully adhering to equal opportunity. This led Safran to draft a Diversity Charter, which it signed in November 2010 and applies to all Group companies.

The Group seeks to ensure equal opportunity and promote diversity in all its HR processes and therefore set up a diversity department that oversees, coordinates and officially lays down all initiatives taken to promote equality and diversity and to prevent discrimination.

In 2013, the Group pressed ahead with its commitment to diversity, broken down into the following four areas:

- integrating and maintaining employees with disabilities in the workforce;
- promoting professional equality between women and men;
- integrating young people;
- developing opportunities for young people and seniors within the Group.

Awareness-raising and communication initiatives, along with the specific targets in place, reflect Safran's determination to boost its social responsibility in this area and report on advances made.

#### Integrating and maintaining employees with disabilities in the workforce

Measures taken to promote the employment of workers with disabilities at Group subsidiaries differ from country to country, as national legislation varies considerably. Safran is dedicated to complying with all laws, regulations and any local recommendations that apply to employing workers with disabilities.

In France at December 31, 2013, the Group had 1,465 ☒ workers with disabilities (excluding special employment contracts), i.e., nearly 4% ☒ of the French workforce. The 2013 employment rate came to almost 4.5%.

To encourage the professional integration of young people and adults with disabilities, the Group rolled out ambitious work-study programs that brought in 36 people on work-study contracts and 27 internships in 2013.

Safran signed a three-year Group agreement with all trade unions in April 2012 to promote the employment of workers with disabilities, applicable from 2012 to 2014.

Through this agreement approved by the Paris regional directorate for enterprises, competition, consumer affairs, labor and employment (*Direction régionale des entreprises, de la concurrence, de la consommation, du travail et de l'emploi*), the Group continued its mobilization, with concrete steps to recruit more employees with disabilities and improve their professional development, their working conditions and in some cases their job retention.

The action taken in application of the agreement in 2012 and maintained in 2013 focuses on five areas:

- a three-year plan to hire at least 72 workers with disabilities: the target was surpassed at December 31, 2013, with 82 workers with disabilities recruited since January 1, 2012;
- the development of integration and training programs by hiring at least 100 people on work-study contracts and 65 interns: at December 31, 2013, 73 people on work-study contracts and 44 interns had been signed since January 1, 2012;
- the introduction of a formal Group process on the retention of employees with disabilities and career guidance;
- the development of the Group's collaboration with companies that employ only people with disabilities and provide them with special facilities and support: at December 31, 2013 the Group had generated almost €3.8 million in net revenue (revenue less the cost of raw materials and sales expenses) with these companies and has set a net revenue target of €8 million for 2014;
- disability communication and awareness-raising initiatives for all those involved with the Company.

#### Promoting professional equality between women and men

Employee diversity and variety in profiles foster innovation and are key drivers in Safran's performance and development. Safran has long been committed to promoting gender equality among its employees. Initiatives focus mainly on ensuring equal compensation, a discrimination-free recruitment policy and career opportunities at all levels of the hierarchy. In France, the Group has signed equal pay and career opportunity agreements in its main subsidiaries that include objectives, progress indicators and progress reviews.

Worldwide in 2013, over 25% ☒ of Group employees were women, with 21% among managers. Given the Group's high proportion of production- or technical-based jobs, women continue to be underrepresented. The Group is engaged in a proactive policy to attract women, develop gender balance in teams and provide women with access to high-level positions.

The Group works far upstream to attract female employees, who remain too much of a minority. For example, Safran is a member of the organization Women on the move (*Elles bougent*), which aims to encourage young female high school and university students to take up professions in engineering and technical fields. The Safran Vice President for Human Resources was appointed Honorary President in February 2013. This organization gives Safran the means to help young women learn about its technical and scientific jobs as early as possible in their education. The Group hopes to stimulate interest and meet its target of recruiting over 25% women in the years to come.



Safran's film "Women's Viewpoint", which spotlights the talented women working at Safran, won the award for best corporate film at the fourth annual "Des Étoiles et des Ailes" (Of Stars and Wings) festival in Toulouse in November 2013. Through this short film, Safran stakes out its position in favor of increasing the number of women working in industry.

The Group also took steps to provide access for women to high-level positions through initiatives that promote women's career opportunities in industry and recognize the value of their achievements in the workplace, and in these sectors in particular. These initiatives include Safran's support of the Women in Industry awards (*Trophée des Femmes dans l'Industrie*) launched by the French magazine *Usine Nouvelle* in 2012. And it was a Group employee who won the first Innovation prize, which recognizes women responsible for a major scientific, technical, economic, financial or human innovation. Sylvaine Picard, head of the biometric vascular pattern research team at Morpho, won the award for her work on Finger On The Fly, the world's first contactless biometric recognition detector.

The Group also participates in the Women's Forum for the Economy and Society, which is held every year in Deauville. This event has honored women of influence in a variety of sectors since 2005. Safran organizes specific workshops at the meeting and invites several employees, both men and women, to take part in the discussions and presentations.

In addition, the Group helped set up the "Women in Engineering" network launched during the 2013 Paris Air Show by three women executives from Altran in partnership with fellow female high-flyers from Safran and PSA. This is the first network to provide a significant voice for international women executives in the world of engineering. Its primary goal is to enhance the appeal of a sector driven by innovation and competitiveness.

Safran has been a sponsor of the IAWA (International Aviation Women's Association) since 2012. This organization is made up of women of achievement in the aviation industry and promotes their international advancement through a worldwide network of aviation professionals. Safran joined the association in celebrating its 25th anniversary in Panama in November 2013. Several of the Group's high-level female employees took part in round tables and workshops focused on the aviation market in Latin America and women's contributions to growth in the Aerospace industry.

Some of these women hold top positions, such as subsidiary CEO or head of some of the Group's most important research programs.

## Integrating young people

Safran's diversity program focuses on an active and cohesive employment policy, which is geared to provide underprivileged groups with opportunities to learn about working at a company and offer them career guidance, professional training and recruitment.

On December 12, 2013, the Group signed the commitment agreement of the Business and Neighborhoods Charter with the Ministry of Urban Affairs. This agreement embodies Safran's commitment to provide access to training and employment and act for the economic development of priority neighborhoods designated by the Ministry in close cooperation with the local authorities.

In 2013, Safran also continued partnerships with locally active associations, namely "IMS – *Entreprendre pour la Cité*", a network of over 2,400 companies supporting corporate responsibility.

Through this partnership the Group is involved in local IMS clubs in regions where its subsidiaries operate and leads initiatives to help vulnerable populations.

Safran furthered the partnership forged with the Frateli Association, which develops mentoring programs between talented students from disadvantaged backgrounds and young professionals. About 40 employees are currently mentors. Safran also offers activities for young mentees from the association which include visits to production sites, coaching and speed interviewing sessions with Group recruitment specialists.

In 2013, Safran furthered its action with one of its partner schools, Supélec, to promote the social integration of high school students from low-income backgrounds from the Essonne department, by participating in a program entitled "A top school: why not me?" (*Une grande école: pourquoi pas moi?*), which aims to increase the chances for students from underprivileged neighborhoods to enroll in ambitious study programs. The Group has also created initiatives that present Safran's business lines and the various career and academic paths of its employees or that offer visits to Group sites. These are designed to guide young people in their professional development.

The Group also partnered the "Aerospace of the heart" (*Aéronautique du cœur*) project, initiated by Boeing, which works to integrate individuals from the "Integration projects" (*Chantiers de l'insertion*) program launched by the "Restaurants of the heart" (*Restos du Cœur*) organization through internships. Since the project launch in September 2011, the Group has hired 18 interns.

Safran joined the "Filming the pros in action" (*Ma caméra chez les pros*) program as a founding member. The purpose of this program is to help students from disadvantaged backgrounds produce a documentary on the future growth businesses of companies in their region. Group subsidiaries Snecma near Paris and Messier-Bugatti-Dowty in Alsace have been involved in this initiative since September 2013, working with middle schools near their facilities.

## Policy to develop employment opportunities for young people and seniors

Of the Group's worldwide workforce, young people under 30 represent 19% and employees aged 50 or more over 29%. Sustainably integrating young people into the professional world, maintaining older employees in the workforce and transferring knowledge and skills within the Group are top priorities at Safran.

Safran and the European labor union IndustriAll signed a European framework agreement for the professional integration of young people on March 28, 2013. It is the first agreement of this type in Europe for Safran, and the first in France.

The three-year agreement will meet two main objectives:

- emphasize in-service training for young people in Europe, by improving the conditions of apprenticeship and internship positions, increasing the number of student researchers at the Group and expanding relations and partnerships with European schools and universities;
- ensure that the Group develops and updates its expertise by continuing to hire significant numbers of qualified young people and to give special focus to young employees trained at the Group and by promoting gender balance and equal opportunity.

This agreement applies to all companies in countries included in the European Works Council and Switzerland and will be adapted into local action plans for each country.

It highlights best practices:

- for apprentices at Messier-Dowty, Ltd. in the United Kingdom. Both their technical and relational skills are developed under the supervision of a department manager and an HR representative;
- at Techspace Aéro in Belgium, employees meet high school and university students to present the aviation businesses by offering site visits, speaking at schools and attending business forums.

To address intergenerational issues, Safran signed an agreement in France on the "Generation contract" with the French labor unions CFDT, CFE-CGC and FO on September 17, 2013. This agreement applies, in France, the European framework agreement to promote the professional integration of young people while also extending the Group agreement on the employment of seniors.

The three-year agreement aims to define concrete measures to:

- help young people into work: the agreement sets a target of at least 40% of new hires under 30 on permanent contracts out of the total number of new hires at the Group in France. In 2013, the Group hired 1,655 employees under 30, representing 53% of new hires in France. Other measures are planned to integrate young people and develop work-study programs and internships;

- promote the recruitment of senior employees and maintain them in the workforce: the agreement sets targets of recruiting at least 4% of employees of 50 and over on permanent contracts while maintaining the proportion of employees aged 55 and over at 15% of the Group's total headcount;
- organize the transfer of knowledge and skills: the agreement defines measures to maintain Group skills over the long term, an essential issue for Safran, and develop a tutoring system;
- optimize the pre-retirement period: the agreement offers employees with at least 10 years of service a part-time system to work 80% of the week at 90% pay under certain terms before they retire;
- promote diversity and equal treatment and opportunity: the agreement lays down Group measures to support non-discrimination, gender balance and social and professional integration.

The ambitious targets and variety of measures offered in this agreement address important issues that are key in meeting Safran's goals for performance and development.

## 5.4 AIMING FOR EXCELLENCE IN HEALTH, SAFETY AND ENVIRONMENT

### 5.4.1 OCCUPATIONAL HEALTH AND SAFETY AND ENVIRONMENTAL POLICY (HSE)

As an international leader in technology, Safran aims for excellence in the field of occupational health and safety and the environment, as well as for its products and services. This reflects the Group's own values and is consistent with its sustainable development commitments.

In line with one of its seven values – civic responsibility – Safran is committed to developing a culture of anticipation and prevention for managing occupational health and safety and environmental risks that benefits its employees, partners, suppliers and customers as well as all communities affected by its operations wherever Safran is present. Safran is dedicated to strengthening relations with all of its stakeholders while upholding transparency and reliability.

The objectives defined in this policy, put forward by the Sustainable Development Department and validated by the Chairman and Chief Executive Officer, are in line with the Group's strategic CSR focuses presented in section 5.1.1:

- always aiming for excellence in safety and the protection of individuals and property;

- developing innovative products and processes with a lower environmental impact.

In 2013, the Group's Sustainable Development Department continued to spearhead the occupational health and safety and environmental policy and the implementation of policy fundamentals defined in 2008 in line with the Group's strategic CSR focuses:

- management of risks and their impacts;
- compliance with Group HSE requirements;
- integration of HSE into day-to-day actions;
- demonstration of HSE leadership;
- consideration of HSE issues in any changes made;
- measurement of HSE performance;
- experience sharing;
- shared supervision.



### 5.4.1.1 Organization

In 2013, the Group defined an HSE structure with two major units:

- a Steering unit that comprises three regions (Americas; Europe–North Africa; Asia–Oceania–Middle East–Sub-Saharan Africa), thus encompassing all of Safran's sites and activities worldwide. In order to develop local synergies, each region is broken down into divisions covering several geographic sites that may belong to different companies;
- a Segments/Programs/Expertise unit providing assistance on all Group programs and applications and for external requests from its partners and stakeholders.

The Sustainable Development Department also calls on local division coordinators, company specialists, site prevention officers, occupational health services and a network of decentralized experts.

The Department's health advisor covers the entire Group and coordinates occupational health services and prevention and ergonomics programs.

At Group level, the Sustainable Development Department liaises with other departments in coordinating overall HSE policy. At division level, the prevention officers, in conjunction with the local HSE Departments, ensure that improvement programs are implemented to reduce HSE risks, and also oversee employee training and awareness-raising programs. Each company appointed an HSE specialist in charge of guiding and assisting its management executives. Over 358 prevention officers contribute to rolling out and improving HSE policy with all Group employees and stakeholders.

### 5.4.1.2 Objectives

The Group's HSE policy is underpinned by the international rollout of Safran HSE risk management programs and guidelines:

- implementing common HSE objectives for all entities aimed at reducing risks and reinforcing operational control;
- coordinating and improving HSE synergies, which requires the commitment and involvement of Group and company departments. Each Chairman adapts the Group's HSE policy and is involved in its implementation. Each manager initiates prevention programs adapted to his or her business in order to achieve the progress objectives.

The Group's HSE objectives are rolled out across Group entities by the operating divisions, advised and assisted by the relevant HSE prevention officers. The HSE objectives for 2013 cover the following areas:

#### OCCUPATIONAL HEALTH

- Psychosocial risks: based on research conducted with the University of Liège and in application of the agreement on preventing stress in the workplace signed in 2011 by all employee representatives, targeted action plans were developed and monitored to boost Group performance in this area.

- Ergonomics: the Group assessed its requirements in order to allocate resources accordingly. A Group-wide Ergonomics program was introduced and an ergonomics specialist hired. The internal ergonomics network has been strengthened and the required tools rolled out so that ergonomics is systematically and formally factored into any study to set up or transform industrial or tertiary operations.
- The Everest (Assessment of Occupational Health) health observatory program: data sets on the work and health of employees are collected and monitored over several years. Indicators are monitored annually, and specific areas are subject to quantitative analysis. This helps better understand the relationship between employee health and work.

#### OCCUPATIONAL SAFETY

- The frequency rate of occupational accidents resulting in lost worktime: the Group sets a target to improve its performance every year. The occupational safety target is adapted to each company in line with its businesses and past performance and is one factor that determines the variable portion of compensation for executive and senior management. Each manager is appraised based on an HSE target, especially in more hazardous business sectors (production, testing, laboratory, customer support at remote sites, travel, etc.).
- Risk analysis: the Group system used to analyze HSE risks continues to be rolled out abroad.
- Commuting accidents: special measures were taken at the sites with the greatest exposure to this risk.

#### ENVIRONMENTAL PROTECTION

- Climate: an assessment of greenhouse gas emissions was consolidated between 2008 and 2012. In application of French regulations, the system for measuring and defining emissions reduction plans was implemented by the sites concerned. An overview of these plans was reported to the competent authorities and published on the Company websites.
- Protection of natural resources: each company draws up a natural resource conservation plan with measurable targets.
- Chemical risk: chemical selection committee, Safran guidelines and the Group's system improve safety in introducing new chemicals.

Each company has also set a three-year target to improve its environmental performance, with the approval of the Sustainable Development Department. This target involves one of the five following topics:

- reducing risks related to the use of chemicals;
- combating global warming;
- protecting natural resources;
- reducing the amount of waste and its impact;
- combating long-standing and potential pollution.

### 5.4.1.3 Guidelines and certifications

#### GUIDELINES

Structuring risk management and enhancing performance by applying the Safran HSE guidelines:

- in 2013, the guidelines included the HSE manual that covers ISO 14001 and OHSAS 18001 requirements and the list of 27 HSE standards setting out Safran's specific requirements. A maturity matrix is used to assess performance (maturity level) for each standard and set specific improvement targets;
- the Safran HSE guidelines were validated by a third party, demonstrating their equivalence to the ISO 14001 and OHSAS 18001 standards.

#### CERTIFICATION AUDITS

Internal HSE auditors, whose certification is kept up to date and validated by the Sustainable Development Department, conduct

reviews of the Group's facilities in accordance with the schedule presented at the beginning of the year.

Audit reports are reviewed by a Group Certification Committee chaired by the head of sustainable development with the participation of a third-party representative.

The certificate delivered by the Committee indicates the standards (ISO 14001 and/or OHSAS 18001) met by the site and the overall maturity level reached for each of Safran's HSE standards.

### 5.4.1.4 Scope

In 2013, the scope of HSE reporting included all entities whose businesses and products may present HSE risks. It covers some 64,139 employees<sup>(1)</sup> working at 136 entities worldwide. The Group has used a single HSE reporting tool since 2005.

## 5.4.2 AIMING FOR EXCELLENCE IN SAFETY AND THE PROTECTION OF GOODS AND PEOPLE

### 5.4.2.1 Preserving the health of the women and men who contribute to the Group's activities

Based on a reporting scope of 64,139 employees<sup>(1)</sup>, the total number of occupational illnesses reported in 2013 stood at 135. The ratio was two illnesses per thousand employees in 2013 (1.9 in 2012 and 2.75 in 2011). Similar to previous years, 70% of reported occupational illnesses were attributed to musculoskeletal symptoms (MSS), in line with the nationwide statistics for France. Twelve percent of the reported occupational illnesses were attributed to past exposure to asbestos.

Group expatriate employees are very closely monitored and have special medical assistance.

Following the different pandemic alerts (bird flu, swine flu), Safran devised a health crisis management plan that is updated on a regular basis. Company crisis manuals and Business Continuity Plans (BCP) were also created. Campaigns are regularly organized to raise awareness about crisis management.

Wherever possible, occupational health services roll out the Everest health observatory program. Widely used in French-speaking European countries, Everest allows the Group to compile data on employee occupational health over time and determine areas for improvement. Indicators used to monitor quality of life in the workplace (workload, recognition and mental health) are published regularly based on the resulting data.

For several years, the Group has worked actively to prevent psychosocial risks in general and occupational stress in particular. In a number of entities it has rolled out a stress prevention policy based on a diagnostic review followed by an action plan.

Since the Group was formed, a methodology has been applied based on a four-step approach to analyzing psychosocial risks (stress):

- setting up an analysis of ways to prevent psychosocial risks, securing the involvement of site and line managers as well as trade unions and forming a steering committee to supervise this initiative;
- training the steering committee members in psychosocial risks and raising employee awareness;
- performing diagnostic reviews of psychosocial risks using the Working Conditions and Control Questionnaire® (WOCCQ). A framework agreement was signed with the University of Liège, a pioneering figure in this area and the brains behind the WOCCQ. Sites with few staff that do not have the resources to roll out such tools can draw on internal questionnaires or the Everest health observatory for their diagnostic reviews;
- performing analyses and implementing action plans. These may be global, cross-functional or by sector and result from the work of sector-based focus groups.

On January 19, 2011, the Group signed an agreement on stress prevention in the workplace with five trade unions representing the Group's employees in France. This agreement plans to:

- roll out the occupational stress prevention program to all Group facilities;
- round out the approach with:
  - awareness-raising and/or training for all those involved as well as managers,
  - initiatives to detect and care for employees suffering from stress.

(1) Number of employees used as a basis at December 2013 (see section 5.7.1.1 HSE Indicators), which represents 97% of the Group's workforce.

This agreement also provides for an extension of existing measures to protect employee health and assistance with changes in the organization as part of a change enablement program. This agreement is assessed regularly with employee representatives.

In 2013, the sites that used the WOCCQ covered over 35,000 employees in Europe. Similar studies were conducted at sites in other regions of the world by adapting the methodology. The action plans established based on the findings of this questionnaire are regularly monitored in Internal Audits.

More than 3,000 managers have benefited from awareness-raising campaigns or training on occupational stress management since the program was initiated in 2011. Over 1,700 employees were involved in awareness-raising campaigns in application of the Group agreement in 2012, and nearly 900 employees in 2013.

A Group agreement was also signed in 2013 on preventing bullying and violence in the workplace.

#### 5.4.2.2 Preserving the safety of the women and men who contribute to the Group's activities

##### ACCIDENT ANALYSIS AND PREVENTION

The frequency rate of occupational accidents resulting in lost worktime changed little between 2005 and 2008, falling within a narrow range of 6 to 7. Safran set a target to improve its performance substantially between 2009 and 2013.

Based on a safety reporting scope covering 64,139<sup>(1)</sup> Group employees, the number of occupational accidents resulting in lost worktime stood at 410 in 2013. The frequency rate of occupational accidents resulting in lost worktime came out at 3.7 (down 40% since 2008), while the severity rate was 0.12.

A detailed weekly report on accidents resulting in lost worktime was added to the regular report submitted to Executive Management in 2013. An in-depth analysis of the most significant accidents is also submitted to Executive Management on a regular basis.

Safran deplores three job-related deaths in 2013.

	2011	2012	2013
Frequency rate	5.0	3.5	3.7
Severity rate	0.18	0.14	0.12

*Frequency rate: Number of accidents resulting in more than 24 hours of lost worktime per million hours worked.*

*Severity rate: Number of days' sick leave as a result of occupational accidents per thousand hours worked.*

In 2013, the Group's new HSE progress initiative "ExcellenSSE" was designed and prepared for deployment as of 2014.

##### RISK ASSESSMENT

Safran has a tool to appraise workstation risk and track employee exposure. This represents an important step to improving the understanding, analysis, use and traceability of HSE data.

The Group's international development continued in 2013. The methodology used to assess safety, chemical and environmental risks was reviewed and updated to reflect changes in regulations (in particular on dangerous and arduous work) and standardize assessments across all Safran sites.

##### ERGONOMICS

Ergonomics is a scientific discipline that seeks to understand interactions between humans (with their physical, cognitive, social and organizational factors) and the different elements of a work system such as equipment (machines, tools, devices, etc.), the workplace, work organization and the work environment. Experts in the field apply theoretical principles, data and methods to optimize well-being and overall system performance.

Safran's Ergonomics program focuses on occupational health and safety in the human-system interface, in order to:

- reduce occupational accidents: half of the Group's occupational accidents in 2013 were related to problems operating machines or devices;
- reduce occupational illnesses: over two out of three of the Group's occupational illnesses involved musculoskeletal disorders in 2013.

Ergonomics is integrated into the work system to improve its performance and transform work situations:

- either by correcting existing situations deemed to be ill-adapted following the risk assessment;
- or by designing specific methodologies (e.g., simulations) as part of a preventive approach to creating safer workstations from scratch.

Ergonomics is covered in the Safran HSE guidelines to be factored into the various steps from the risk assessment to its integration in design.

After implementing tools to analyze the ergonomics of workstations (risk assessment) in 2013, the Group developed training certified by the INRS (*Institut national de recherche et sécurité* – National Institute for Research and Safety) and set up training courses, beginning with French sites, to increase the focus on ergonomics in the analysis of workstation risk and reduce any arduousness or danger at workstations.

Two other types of ergonomics training courses were developed and implemented in France to:

- ensure the long-term application of ergonomics skills at each Group industrial site through ergonomics representatives;
- build the ergonomics expertise of designers to integrate ergonomics into the Group's design and investment projects.

The Ergonomics program is coordinated at Group level and was rolled out mainly in France in 2013. It will continue to be applied in 2014 by strengthening the Group's partnerships with local universities. Ergonomics is one of the Group's top priorities in HSE objectives and areas for development.

<sup>(1)</sup> Number of employees used as a basis at December 2013 (see section 5.7.1.1 HSE Indicators) which represents 97% of the Group's workforce.

### FIRE PROTECTION AND PREVENTION

Since 2007, the Sustainable Development Department has been working with an international fire protection and prevention firm to update the Group's fire risk map, under a multi-annual contract that was renewed for 2013. It covers 105 of the Group's main sites worldwide.

This assistance applies to existing fire protection and prevention initiatives and to new investments in buildings or the construction of new facilities to equip them with automatic sprinklers.

The IT application for managing this risk allows each site, company and the Group via consolidation, to:

- identify, assess and understand potential risks and damage;
- identify and assess the remedial and preventive measures taken to manage these risks;
- address any recommendations made;
- manage improvements;
- define the strategy for mitigating identified risks.

### TRAINING

A number of general and/or technical training programs are dispensed in all areas of HSE and available to all categories of employees. In 2013, over 18,000 employees took HSE training, totaling more than 150,000 hours (over 14% of the total number of training hours). Over 130 Group-wide HSE training programs were available through Safran University in 2013.

Several initiatives were also undertaken in 2013:

- training for Directors and their team managers on the ongoing HSE improvement drive;
- a two-day forum brought over 150 HSE prevention officers together to share their experience.

## 5.4.3 DEVELOPING INNOVATIVE PRODUCTS AND PROCESSES WITH A LOWER ENVIRONMENTAL IMPACT

### 5.4.3.1 Research and development: innovation at the heart of all Group products

In response to environmental challenges such as climate change, resource shortages or the use of chemicals, Safran is mobilized to promote sustainable development in the Aerospace, Defence and Security sectors. Seventy percent of Safran's R&D budget goes to reducing the impact of air transport on the environment. The Group has teamed up with its customers to develop more environmentally friendly products by taking action in large-scale French and European programs such as the CORAC (*Conseil pour la recherche aéronautique civile* – Civil Aviation Research Council), set up under France's Grenelle 2 environmental regulations to coordinate measures taken in France, or the Clean Sky research program financed by the European Commission and industrial groups.

### 5.4.3.2 Products and processes

Safran handles all environmental and health risks as part of its ongoing HSE improvement drive. These include risks related to industrial production as well as risks resulting from the use of its products on the market. Risks are assessed at every stage of the products' life cycle from design to end-of-use and/or decommissioning. Safran enforces a continuous improvement policy to protect the environment and manage environmental risks.

Rules governing the choice and use of chemical substances are defined in Group procedures and are sent to all Group suppliers. Since 2009, the Group has been harmonizing its procedures in line with its guidelines on the selection of chemical substances in order to devise a list of processes applicable to any new program. A committee was set up to approve and oversee Group policy on the introduction and use of chemicals. Eco-design is covered in the Safran HSE guidelines to integrate safety requirements and product reliability along with the development of eco-friendly products.

In 2013, each company set an environmental target taken from one of the Group objectives (see section 5.4.1.2).

### 5.4.3.3 Eco-design

Integrating health, safety and environmental factors into design to reduce negative impacts is crucial in leading this Group campaign. Now, after establishing a guide that combines eco-design and life cycle analysis, the Group can evolve towards products with a significantly lower environmental impact.

This eco-design program is part of Safran's ongoing improvement drive. The Group's priorities are to:

- limit impacts on the environment and on health;
- stimulate technological innovation;
- anticipate regulatory and stakeholder requirements;
- anticipate obsolescence;
- foster synergies within the Group;

- stand out from the competition;
- strengthen the Group's brand image.

Safran focuses on five relevant eco-design criteria for its businesses:

- toxicology and ecotoxicology;
- use of non-renewable natural resources;
- energy consumption;
- noise;
- air emissions.

The Turbomeca TM800 is a concrete example of this approach. The TM800, a future, new generation helicopter engine, is the culmination of extensive R&D efforts to develop a new, more efficient architecture, choose new, more health- and environmentally friendly materials and substantially reduce fuel consumption and noise pollution. Other products derived through eco-design include: ever more fuel efficient engines developed over the past 40 years, the LEAP engine to replace the CFM56 as the future engine for single-aisle jets, thrust reversers, Aircelle nacelles and Morpho's new SIM card, SIMply Green. Noise reduction is also factored into product design such as the "honeycomb" structured lining in the nacelles developed by Aircelle. Turbomeca participates in "Silencer", a research project formed to design materials that reduce engine noise. In application of the eco-design guidelines, the end-of-life phase of Safran products must be managed sustainably: recovery of alloys in the dismantling phase and the closed-loop recycling of machining chips reused as raw materials. Life cycle analyses were run on products at a number of Group companies, in particular Turbomeca, Sagem and Herakles. Recycling end-of-life products is one of the processes included in eco-design.

Environmental factors are integrated not only into product design, but also upstream in the construction of new buildings (Coriolis in Montluçon and César in Buchelay) and in improvements to existing processes. Examples include Snecma's foundry which reduces the arduousness of assembly operations, the "ring cutter" by Labinal Power Systems featuring a more ergonomic design to decrease the risk of cuts and Aircelle's hoist shackle which eliminates the risk of reversers falling.

#### 5.4.3.4 Hazardous substances

For several years, the reduction and elimination of hazardous substances in the products and processes implemented in Group companies has been a key area for progress in the Group's HSE policy. A specific structure and resources were deployed in 2008 to ensure compliance with new regulations relating to dangerous substances.

In 2010, in addition to work on compliance with REACH regulations, the measures taken included:

- designing and deploying guidelines on the use of dangerous chemical substances that incorporate different regulations and techniques in the Aerospace, Defence and Security sectors;
- preparing the standard relating to the most critical substances from a Group perspective, using original, rigorous methodology;
- consolidating the database (Reaching) for all substances used by the Group;
- requesting information from suppliers on the chemical content of products they deliver to Safran;
- developing and rolling out replacement solutions for substances deemed as critical in liaison with the different departments involved: the Materials and Procedures, Purchasing, Quality and Technical Departments, etc.

European CLP (Classification Labelling Packaging) regulations concerning dangerous substances and mixtures came into force in 2010, and the Group prepared a multi-annual action plan for training employees and raising their awareness of chemical hazards. Applications have been updated, communication initiatives have been stepped up and the necessary changes have been identified and implemented. In 2010, the different Group companies notified the European Chemicals Agency (ECHA) of substances placed on the market pursuant to regulatory requirements. Since 2012, Safran has focused on consolidating all the measures initiated in 2010 and updating them to incorporate any regulatory changes, particularly in REACH regulations.

The Group set up a committee on the introduction of chemicals in 2012.

A "REACH Group" project team (Registration, Evaluation, Authorisation and restriction of Chemical substances) draws on the Product Environment Correspondent network to coordinate all the Group initiatives in this area.

In 2013, the Group continued its work to apply REACH regulations and substitute certain substances.

#### 5.4.3.5 Reducing greenhouse gas emissions

##### 5.4.3.5.1 GREENHOUSE GAS EMISSIONS ALLOWANCES

Four Group companies, classified as combustion facilities (boilers for industrial use and heating installations, cracking furnaces) with a rated thermal input exceeding 20MW, were concerned by the allocation of greenhouse gas emissions allowances for the 2013 to 2020 period.

The decline in emissions at Snecma (Villaroche) reflects the reduced use of its co-generation facility. In 2013, Snecma's Gennevilliers site was integrated into the ETS (Emissions Trading System) for Phase III of the French National Allocation Plan. Messier-Bugatti-Dowty's direct CO<sub>2</sub> emissions relate to its carbon-based materials manufacturing processes and not chiefly to combustion processes. The greenhouse gas emissions produced by Herakles (Saint-Médard-en-Jalles) come from the industrial heating systems used in utility processes.



Company	Location	Activity	CO <sub>2</sub> emissions reported in 2011 (metric tons)	2008-2012 annual allowance (metric tons)	CO <sub>2</sub> emissions reported in 2012 (metric tons)	2013-2020 annual allowance (metric tons)
Snecma	Villaroche (France)	Manufacture of engines	11,586	27,918	9,589	9,785
	Gennevilliers (France)	Forging, casting and machining of aircraft parts				13,226
Messier-Bugatti-Dowty	Villeurbanne (France)	Manufacture of carbon brakes	11,393	22,722	14,824	15,658
Herakles	Saint-Médard-en-Jalles (France)	Manufacture of propellants	14,716	17,370	16,038	8,339
<b>TOTAL</b>			<b>37,695</b>	<b>33,782</b>	<b>40,451</b>	<b>47,008</b>

#### 5.4.3.5.2 SCOPE 1 AND SCOPE 2 GREENHOUSE GAS EMISSIONS

In accordance with its aim of fighting global warming, Safran measures its carbon footprint and energy consumption in Scopes 1 and 2<sup>(1)</sup>.

This process, in place since 2009, has shown that the materials purchased to manufacture Group products represented 50% of greenhouse gas emissions. The Group activities that leave the largest carbon footprint are (in decreasing order of importance) energy consumption, freight and employee travel, which comes under Scope 3<sup>(2)</sup>.

In 2010, an initiative was launched to reduce greenhouse gas emissions, and each site was asked to propose and define formal action plans.

A new carbon footprint campaign was launched in 2012 to improve data management and prepare the Group to meet France's Grenelle 2 environmental requirements. Based on the same scope of consolidation, the 2011 measurement showed that greenhouse gas emissions from energy consumption had dropped 18% compared with the 2008 benchmark.

Each company has initiated a three-year action plan for Scopes 1 and 2 to focus on optimizing heating, lighting, and office systems and processes and on improving building energy efficiency. Cooling systems are covered in separate monitoring and reduction plans.

	SCOPE 1 (Eq. t CO <sub>2</sub> /employee)	SCOPE 2 (Eq. t CO <sub>2</sub> /employee)
Safran 2011 (World) <sup>(1)</sup>	4.3	3
Safran 2012 (World) <sup>(2)</sup>	3.7	2.7
Safran 2013 (World) <sup>(3)</sup>	5.3	3.4

(1) Headcount covered: 47,983 employees.

(2) Headcount covered: 53,169 employees.

(3) Headcount covered: 64,139 employees. (Data published for reference only)

Two significant initiatives were also undertaken in 2013:

- the Group's "Weekend for the earth" initiative consisted in measuring energy consumption at 50 European establishments before and after the weekend of March 23 and 24. All equipment

not necessary for production or to guarantee the safety of staff or facilities was completely shut down or switched to standby on Saturday and Sunday. Compared to the same measurement of energy consumption over the previous weekend, the energy saving represented the consumption of a town of 1,200 inhabitants or 850 metric tons of CO<sub>2</sub> emissions avoided over the full year. The Group estimates a 2% reduction in energy consumption if this procedure is repeated whenever possible;

- Safran initiated a partnership with the organization "Pur Projet" (Pure Project) to protect ancient woodland and encourage employees to reduce their own greenhouse gas emissions. The Group is active in the San Martin project which aims to protect over 300,000 hectares of forest in the Peruvian Amazon. Employees are encouraged to participate in this initiative at an individual level to increase its impact.

#### 5.4.3.6 Adapting to climate change

The Group believes that its business activities and the location of its operations do not expose it to climate change risks and has therefore not defined a specific strategy on adapting to climate change. However, climate change is covered in the Safran guidelines as discussed in section 5.4.3.13.

#### 5.4.3.7 Asbestos

The Group is concerned by asbestos legislation, in terms of both the protection of users of its products and the protection of employees and service providers.

Replacement solutions have been implemented for products containing asbestos that are marketed by Group companies.

With respect to the presence of materials containing asbestos in buildings, since 1997 several specialized firms have investigated and assessed asbestos risks, according to the nature and condition of such materials.

Additional investigations on equipment were carried out to check for asbestos-based materials. Any necessary replacement is handled in accordance with current legislation and standards. All risks identified have either been treated by direct removal or are

(1) Scope 1 and 2 refer to direct emissions (Scope 1) and indirect emissions from energy consumption (Scope 2).

(2) Scope 3 covers other indirect emissions.

subject to monitoring programs, in accordance with regulations in the countries in which the facilities are located.

This issue is tracked in the Safran HSE guidelines applicable to all Group sites.

#### 5.4.3.8 Condition of soil and groundwater

The Group has enlisted independent experts to perform studies and analyses to assess any potential risk of soil and groundwater pollution at its industrial facilities. Preventive or rehabilitation measures are implemented wherever necessary.

In connection with the acquisition of SME, Safran entered into an environmental guarantee agreement with SNPE for the treatment of pollution resulting from past operations at the Bouchet Research Center, Saint-Médard-en-Jalles and Toulouse facilities (all France). The agreement provides for two scoping and analysis phases over 18 months, and a five-year work phase. The French Directorate General for Health (*Direction générale de la santé* – DGS) and the French Agency for Food, Environmental and Occupational Health and Safety (*Agence nationale de sécurité sanitaire de l'alimentation, de l'environnement et du travail* – ANSES) issued a recommendation setting the threshold for ammonium perchlorate in water at 4 ppb/liter. To remain below the threshold, some water supply sources around the Saint-Médard-en-Jalles site were shut

down. In application of additional local legislation in 2012, the Saint-Médard-en-Jalles and Toulouse entities drafted water management plans in line with France's national methodology for polluted sites and soil. The Saint-Médard-en-Jalles facility collects wash water and process wastewater for biological treatment.

Major work to increase biological treatment and confine wastewater has been initiated in the regions concerned. The Toulouse site operates a perchlorate production unit that recycles process wastewater and where shop flooring was waterproofed.

The Sustainable Development Department carries out environmental reviews of buildings, activities, soil and groundwater at each site and contributes to the due diligence for disposals and acquisitions of assets. These reviews also encompass the HSE risk appraisal procedure.

#### 5.4.3.9 Waste

Waste resulting from industrial or tertiary activities is classified into two main categories: ordinary or non-hazardous industrial waste and hazardous industrial waste. Waste may be recycled and transformed, stored or incinerated. In 2013, most companies reduced the amount of hazardous industrial waste generated. At Group level, the percentage of waste recycled or transformed into energy increased and the percentage sent to landfill decreased.

Waste (metric tons/employee)	2011	2012	2013
Ordinary waste <sup>(1)</sup>	0.37	0.34	0.37
Hazardous industrial waste <sup>(2)</sup>	0.40	0.45	0.31
Transformed ordinary waste	0.17	0.15	0.19
Transformed hazardous industrial waste	0.07	0.08	0.07

(1) Headcount covered: 64,139 employees.

(2) Headcount covered: 64,139 employees.

Waste (% of total processed)	2011	2012	2013
Percentage recycled	38	31	40
Percentage transformed into energy	44	38	38
Percentage sent to landfill	18	30	22

#### 5.4.3.10 Water consumption, measures for improvement and aqueous discharges

The majority of Safran industrial processes (excluding Herakles) have little or no impact on water quality. Processing effluents that could represent a risk are discharged into surface water via treatment plants that are constantly monitored. In the absence of a treatment plant, they are collected and treated as industrial waste. Several French sites are governed by legislation and covered by additional local regulations concerning the discharge of hazardous substances into water.

Most of the Group's facilities mainly use drinking water.

Large volumes of water are used to produce carbon-carbon brake disks and pads, resulting in high ratios for Messier-Bugatti-Dowty in Villeurbanne (France) and Messier-Bugatti USA in Walton (United States).

The largest water consumers in 2013 were Turbomeca in Bordes and Herakles in Toulouse (both in France), a direct result of their production processes (cooling test cells, perchlorate manufacturing).



<b>Water<sup>(1)</sup></b> <i>(cu.m/employee)</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Water supply network	26	26	25
Surface water	26	82	83
Groundwater	32	28	20
<b>TOTAL SAFRAN GROUP</b>	<b>84</b>	<b>136</b>	<b>128</b>

(1) Headcount covered: 64,139 employees.

#### 5.4.3.11 Energy consumption, measures for improvement and energy efficiency

Electricity is the prime energy source, representing almost half of total energy consumption, followed by natural gas used mostly for heating. Hydrocarbons are used less and less for heating and are now reserved for engine testing and backup equipment.

The following table does not include the energy impact of transporting goods.

The conversion factor used for electricity consumption (1 MWh = 0.0859 metric tons of oil equivalent) is taken from "The new methodology for preparing energy consumption reports in France" published in February 2002.

The Safran Group's per-employee energy intensity remained stable or fell between 2012 and 2013, despite higher business volumes.

<b>Energy</b> <i>(metric tons of oil equivalent/employee)</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Electricity <sup>(1)</sup>	1.38	1.30	1.34
Gas <sup>(1)</sup> excluding use as a raw material and in industrial processes	1.16	0.92	0.85
Gas <sup>(1)</sup> used in industrial processes	-	0.24	0.13
Fuel <sup>(1)(2)</sup> (kerosene)	0.34	0.25	0.23

(1) Headcount covered: 64,139 employees.

(2) Not including transport.

#### 5.4.3.12 Classified facilities

##### SEVESO FACILITIES (HIGH-HAZARD THRESHOLD)

Eight of Safran's facilities in France fell within the high-hazard threshold of the Seveso Directive in 2013: Snecma (Vernon), Messier-Bugatti-Dowty (Molsheim, Bidos), Herakles (Saint-Médard-en-Jalles, Toulouse, the Bouchet Research Center, St Hélène and Candale). These sites comply with and apply prevailing legislation: Security Management System (*système de gestion de la sécurité* – SGS), Internal Operations Plan (*plan d'opération interne* – POI), Technological Risk Prevention Plans (*plans de prévention des risques technologiques* – PPRT), etc.

##### FACILITIES CLASSIFIED FOR ENVIRONMENTAL PROTECTION (*INSTALLATIONS CLASSÉES POUR L'ENVIRONNEMENT* – ICPE)

A number of entities operate facilities that are subject to authorization, declaration or registration requirements in line with French legislation.

In accordance with French laws, financial guarantees were given to local authorities at the end of 2013 to ensure the compliance of some of these facilities (under Seveso or ICPE classifications) with safety standards if the business is discontinued.

#### 5.4.3.13 Natural risks

The Safran HSE guidelines cover these natural risks in the environment/permit/neighborhood standard. Maturity Level 2 requires entities to assess the impact of these risks (see section 5.4.1.3).

#### 5.4.3.14 Biodiversity

The Group has made a commitment to comply with the environmental regulations in effect for all of its development projects. Safran occasionally carries out analyses to determine the impact of its activities on local biodiversity for the purpose of obtaining its license.

#### 5.4.3.15 Land use

Although it seeks to optimize their use, Safran is not directly involved in extracting natural resources.

Moreover, the Group takes into consideration the issue of artificial land use in its development.

## 5.4.4 CONCLUSIONS

In 2013, Safran stabilized its results in accident analysis and prevention, reducing the frequency rate of occupational accidents resulting in lost worktime\* by approximately 40% since 2008.

The Group did not record any significant environmental accidents with an impact on health or the environment in 2013. Environmental factors improved or stabilized, despite higher business volumes. This demonstrates the effectiveness of the plans and initiatives implemented by the Group over the past few years and its steadfast commitment to the sustainable development of its businesses. In addition to the examples mentioned above, other measures include intercompany travel plans, recycling carbon fiber scraps, biodegradation of propellants, an electricity-saving project, replacing equipment and optimizing energy use at sites and recycling end-of-life aircraft with other partners.

Safran continues to be involved in several major initiatives outside the Group:

- Safran is a founding member of the International Aerospace Environmental Group (IAEG), whose prime objectives include setting shared environmental standards for the international Aerospace industry and heightening the reliability of the logistics chain;
- Safran participates in a number of European programs (Clean Sky, SESAR, PAMELA, etc.) that aim to substantially improve the environmental performance of air transport over the full life cycle;
- Safran is involved in a number of strategic organizations such as the Civil Aviation Research Council (CORAC) and the Advisory Council for Aviation Research and Innovation in Europe (ACARE).

Safran is also a stalwart member of the French Aerospace Industries Association (GIFAS) which provides a forum for various professional associations and public institutions to:

- focus on the implementation and consequences of EU regulations such as REACH, CLP, RoHS\*\*, Seveso 3, Biocide, etc.;
- draft professional guides (namely on performing assessments of greenhouse gas emissions that cover radiation protection);
- find substitutes for chemicals;
- promote occupational safety (radiation protection, dangerous or arduous work, etc.).

Safran will pursue its HSE objectives in the years to come, especially:

- strengthening managerial involvement through the Group guidelines and the ExcellenSSE project;
- attaining required maturity levels based on site businesses;
- rolling out and consolidating the ergonomics program both in France and abroad;
- reducing the frequency rate of accidents resulting in lost worktime and work-related travel accidents;
- targeting environmental measures for each company.

\* Number of accidents resulting in more than 24 hours of lost worktime per million hours worked.

\*\* RoHS: Restriction of the use of certain Hazardous Substances.

## 5.5 INVOLVING OUR SUPPLIERS AND PARTNERS

### 5.5.1 SOCIALLY RESPONSIBLE PURCHASING

The Group's purchasing policy is perfectly in line with its industrial policy and CSR strategy.

It is rolled out:

- in compliance with the Group's Ethical Guidelines and best practices set out in its mediation guidelines;
- in compliance with Safran's commitments with public authorities, professional organizations and other partners. Safran joined the association Pacte PME in its commitment to supporting the development of French SMEs, in particular innovative companies. The Group is also a member of its Board of Directors;
- drawing on continuous cooperation among Group companies, Safran's purchasing network and culture, smooth coordination among all Group members in contact with suppliers and the purchasing team's involvement in all product life-cycle phases.

To optimize the process, Safran has developed:

- tools to assess the maturity of its purchasing structure to identify and deploy continuous improvement plans;

- career paths designed for its buyers to guarantee the application of responsible purchasing practices within the Group;
- Safran Suppliers' Day held in 2013 to mobilize the supply chain to prepare for the Group's future challenges, its growth outlook and its industrial objectives. The event featured four main topics: 1) sustainable, balanced relations with Safran, 2) cost-efficiency, quality, deadline requirements, 3) the success of new programs, and 4) innovation and preparing for the future;
- a targeted CSR self-evaluation questionnaire for its suppliers to assess their commitment to comply with Safran's responsible purchasing charter.

Safran has developed a process to identify in its products any conflict minerals (tin, tantalum, tungsten, gold) coming from the Democratic Republic of the Congo and its border countries, in response to its subsidiaries that supply US customers subject to the requirements of the Dodd-Frank Act in the United States.

### 5.5.2 SUB-CONTRACTING

Like other industrial groups, Safran uses sub-contractors. Sub-contracting generally comes in one of three forms:

- cooperation sub-contracting, consisting of activities entrusted to major partners at the request of the customer;
- specialty sub-contracting of activities for which the Group does not possess the necessary expertise, for technical or economic reasons;

- capacity sub-contracting, corresponding to maximum sizing of Group production and development and based around cyclical activities.

## 5.6 INVESTING THROUGH FOUNDATIONS AND CORPORATE SPONSORSHIP

Safran boasts an active corporate sponsorship policy that is implemented:

- either through one of its two corporate foundations: the Safran Corporate Foundation for Integration and the Safran Corporate Foundation for Music;
- or directly by the Group, through solidarity initiatives led with prestigious public and private partners.

Since 2005, Safran has supported nearly 450 projects through its mécénat policy.

All of its sponsorship programs champion two major issues: social cohesion and equal opportunities.

## 5.6.1 SAFRAN'S FOUNDATIONS

### 5.6.1.1 Safran Corporate Foundation for Integration

This Foundation, set up in 2005, is dedicated to the social and professional integration of young people with a physical, mental or social disability.

The Foundation's Board of Directors places the long-term results for those who benefit from initiatives as the prime focus in its choice of programs.

Most of the Foundation's action concerns France, although some high-leverage partnerships have also been established in other countries: in Morocco with the organization EMA which develops schools in underprivileged areas of Casablanca, in Brazil with the International Youth Foundation which promotes the employment of young high-risk individuals, and in India with the organization Namasté which promotes the professional integration of women with no income.

Safran employees are increasingly encouraged to further their involvement in the Foundation through projects implemented in collaboration with Group and company HR Departments. Two significant examples include:

- the program led with the Frateli Association to offer increasingly operational and diversified guidance to high-potential students

from underprivileged backgrounds through program mentors, who are highly experienced Safran employees;

- the multi-year project to design innovative wheelchairs, launched in the summer of 2011 in partnership with the Fondation Garches and engineering and design schools (Centrale Lyon, Strate College), with the involvement of Safran staff, essentially engineers. The short-term goal is to design one or more prototypes, after which the project's partners plan to produce and market one of the models.

### 5.6.1.2 Safran Corporate Foundation for Music

This Foundation was created in 2004 and supports young, particularly promising musicians in their training and professional development through scholarships in France or abroad, assistance in buying an instrument, financing music recording projects, etc.

The Foundation also participates in organizing music events and contests to win the "Safran Corporate Foundation for Music Award", which went to the cellist Victor Julien-Laferrière in 2013.

## 5.6.2 SOLIDARITY SPONSORSHIP

Since 2008, the Group has lent its support to a number of solidarity programs that are jointly implemented with the Sponsoring Department.

These programs feature two fundamental dimensions:

- combining both social and cultural aspects;
- encouraging sound, long-term partnerships with prestigious public and private establishments, such as:
  - the Ministry of National Education and the *Orchestre de l'Alliance* (Alliance Orchestra): annual concerts at the Salle Gaveau for around 700 students from schools in disadvantaged neighborhoods in the Paris region, accompanied by their teachers and senior management from the ministry,
  - the French Senate and the French Ministry for Urban Affairs: the *Talents des Cités* (Inner-City Talent) initiative sponsored by Safran since 2011 to support young entrepreneurs from underprivileged neighborhoods,
  - the French Embassy in the United States: a multi-year partnership formed in 2011 with the embassy's cultural departments to organize concerts to promote young virtuosos both at prestigious Washington D.C. venues and on tours at US universities,

- the Duke Ellington School for the Arts, a public high school in Washington, D.C.: support for the establishment's dual objective to foster excellence (exceptional talent) and solidarity (students from disadvantaged backgrounds),
- the Alliance Française and the University of Texas at Dallas: concerts to showcase young virtuosos,
- the Théâtre des Champs-Élysées: support for its programming.

Each initiative is promoted internally and externally through Safran's intranet and website, as well as other communication media.

A brochure in French and English is published annually, and updates on initiatives are provided several times a year in an electronic newsletter (in French and English), which is sent to the Group's staff and main external contacts.

Safran employees are increasingly involved in these programs, both in France and around the world.

## 5.7 CSR REPORTING METHODOLOGY AND STATUTORY AUDITORS' REPORT

### 5.7.1 METHODOLOGY NOTE ON LABOR AND HEALTH, SAFETY AND ENVIRONMENTAL (HSE) REPORTING

The labor and HSE indicators in this section have been defined by experts from the Group's support functions and businesses.

As part of its ongoing improvement drive, Safran is gradually introducing a set of labor and HSE indicators that meet legal obligations and follow changes in the Group and its businesses.

The indicators and reporting period presented herein cover the 2013 calendar year<sup>(1)</sup>, from January 1 to December 31, unless otherwise indicated.

Safran has elected to have all its labor and HSE indicators and the entirety of its report reviewed by the Statutory Auditors, Ernst & Young Audit and Mazars, in accordance with the CSR reporting requirements set out in article 225 of the Grenelle 2 Act and its implementing legislation.

The nature and scope of the work of the Statutory Auditors, and their conclusions, are presented in the Statutory Auditors' report in section 5.7.2.

#### 5.7.1.1 Reporting scope

##### LABOR INDICATORS

The labor reporting scope covers Safran and all of its subsidiaries in which the Group has more than 50% direct or indirect control, excluding joint ventures (companies controlled jointly by Safran and another group), unless otherwise indicated below.

The labor indicators at December 31, 2013 cover all subsidiaries from all business lines included in the reporting scope.

Indicators on training, work-study programs, internships, disabled workers and absenteeism only pertain to France, except for the "% of payroll allocated to training" indicator, which does not include Herakles.

The Group is working to expand the reporting scope of these indicators.

##### HSE INDICATORS

The HSE reporting scope encompasses Safran and some of its subsidiaries in which the Group has more than 50% direct or indirect control. The scope covers the health and safety issues of 136 entities, totaling 64,139, or 97% of Group employees. Adjustments may have been made to the scope of each indicator in line with its relevance for the entity and the entity's ability to provide data.

##### CHANGES IN SCOPE OF CONSOLIDATION

Changes in scope are due to acquisitions, the set-up of new companies, disposals, liquidations or changes in subsidiary investments. The following rules were defined for labor and HSE indicators:

- acquisition: data on the acquired entity are included in the consolidation scope at the date on which control is acquired by the Group;
- set-up: data on the new entity are included in the scope as of the inception date, except Herakles, which for technical reasons cannot consolidate the "% of payroll allocated to training" indicator before the second quarter of 2014;
- disposal/liquidation: data on the entity sold or liquidated are excluded from the consolidation scope at the actual disposal or liquidation date.

Reporting systems must be implemented for set-ups and acquisitions. Additional time may therefore be required for consolidated reporting.

#### 5.7.1.2 Data collection

Labor and HSE indicators are based on several data collection systems used by the Group. Each system falls under the responsibility of a specific department.

##### LABOR INDICATORS

Global employee data are reported on a quarterly basis, while for France reporting is monthly and includes absenteeism.

Employee data are collected at each subsidiary controlled directly by Safran (tier-one entities). These tier-one entities are responsible for collecting the employee data from their respective subsidiaries in which they have over 50% control. Data reported in the scope of France derive from the same reporting system, Cognos RH, which is updated through a common pay system used by most subsidiaries. International employee data are collected using a standard model. The Group's Human Resources Department consolidates employee data for French and international companies based on the information reported by tier-one entities, following consistency checks.

##### HSE INDICATORS

Safety indicators are reported on a monthly basis, while health and environmental indicators are reported on a quarterly or annual basis.

(1) They do not include the new organization of Labinal Power Systems as of January 2, 2014.

Health and safety data published for 2013 correspond to the data available at the end of the year.

Environmental data are published on a rolling year basis from October 1, 2012 to September 30, 2013. Scope 1 and 2 data on greenhouse gas emissions cover operations worldwide. For 2013, Scope 1 and 2 data are restricted to energy for worldwide operations (figures provided for information).

Data are entered by representatives appointed at each entity in the Group's special data collection system. Data are validated and checked under the supervision of the head of the entity. The Group's Sustainable Development Department is responsible for consolidating data. Indicators are defined in the Group's reporting tool which was rolled out in 2005.

### 5.7.1.3 Details on certain indicators

The definitions of labor indicators, presented below, are provided in the model used worldwide and available for representatives.

The definitions and calculation methods of HSE indicators are provided in the reporting system available for representatives. The main assumptions are presented below by group.

#### HEADCOUNT

The headcount includes all employees under permanent or fixed-term employment contracts covered in the scope. Employees are counted in terms of individuals and at the end of the month. Headcount excludes other types of contracts such as work-study contracts, industrial agreements for training through research (*Conventions industrielles de formation par la recherche* – CIFRE), Diplomas of Technology Research (*Diplôme de recherche technologique* – DRT) or seasonal employment contracts.

The data on the employee age pyramid cover over 96% of Safran's workforce, as some subsidiaries qualify this information as confidential.

#### MANAGERIAL-GRADE STAFF (MANAGERS AND ENGINEERS)/EMPLOYEES

Employees identified as managerial-grade staff, i.e., managers and engineers:

- coordinate a set of resources (equipment, human, financial) placed under their charge, with the degree of independence and responsibility required to achieve targets. Management may oversee a team, projects, a process, a technique or a customer or supplier portfolio;
- and/or hold an engineering degree from a university or specialized selective higher-education establishment. Engineers are essentially responsible for solving technological issues related to the design, manufacture or application of products, systems or services, primarily in R&D and production.

All other employees who are not identified as managerial-grade (managers or engineers) fall into the "Employees" category.

#### EXTERNAL RECRUITMENT

External recruitment refers to hiring new employees from outside the Group on fixed-term or permanent employment contracts.

It does not include acquisitions or other types of contracts (work-study contracts, CIFRE, DRT or seasonal employment contracts).

#### PERMANENT DEPARTURES

A permanent departure (dismissal, resignation, retirement, end of fixed-term contract and other) refers to any employee who leaves the Group scope, excluding disposals of businesses and the termination of other types of contracts (work-study contracts, CIFRE, DRT or seasonal employment contracts).

#### REPLACEMENT RATE

The replacement rate is determined by dividing external new hires by permanent departures.

#### ABSENTEEISM

As defined by the social performance assessment, absenteeism corresponds to the total number of paid or unpaid hours absent (illness, occupational accidents, work-related travel accidents, maternity leave, contractual leave for family events, parental leave, leave for sick children, absence due to other causes, strikes, etc.) divided by the theoretical number of hours worked and multiplied by 100.

Data pertain to France for the 2013 calendar year.

#### WORKERS WITH DISABILITIES

This indicator includes, for France, employees declared as workers with disabilities as defined by article L.5212-13 of the French Labor Code (*Code du travail*) and articles 394 and 395 of the French Code of Military Pensions (*Code des pensions militaires*). It does not cover other types of contracts (work-study, CIFRE, DRT or seasonal employment contracts).

#### WORK-STUDY CONTRACTS AND INTERNSHIPS

This indicator includes work-study contracts (apprenticeships and professional training contracts) and internships established in 2013 in France.

#### TRAINING

The indicator on training hours covers all types of training in France, including individual training entitlements (*droit individuel à la formation* – DIF).

#### ACCIDENT ANALYSIS AND PREVENTION

The frequency rate of occupational accidents equals the number of accidents resulting in the equivalent of one day or more of lost worktime per million hours worked.

The severity rate corresponds to the number of days' sick leave as a result of occupational accidents per thousand hours worked.

The hours worked used for the calculation correspond to the hours worked reported by sites: theoretical hours for the Cognos RH scope and theoretical or actual hours for the non-Cognos RH scope.

**CO<sub>2</sub> EMISSIONS**

Emissions refer to Scope 1 and 2 as defined in article 75 of the Grenelle 2 Act, covering 53,169 employees in 2012. In 2013, the scope was restricted to energy, and covered 64,139 employees.

**TRAINING ON OCCUPATIONAL STRESS**

The figure of 3,000 managers trained on occupational stress management was estimated based on the number of conferences, each attended by 50 to 80 participants, and the number of training sessions, each attended by 10 to 15 participants, since the program was launched in 2011. Some of these data are derived from the Foederis program.

**WASTE**

Categories of waste are defined according to local regulations. In order to harmonize reporting practices across the Group, non-contaminated metallic chips are reported separately.

**WATER**

Reported water consumption involves three types of sources:

- the water supply network refers to water supplied through a public or private operator;
- surface water refers to water pumped directly from the surface of the natural environment (river, lake, etc.);
- groundwater refers to water pumped directly from the water table.



## 5.7.2 STATUTORY AUDITORS' INDEPENDENT THIRD-PARTY REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

*(This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.)*

### Year ended December 31, 2013

To the shareholders,

In our quality of Statutory Auditors', designed independent third-party of which the admissibility of the application for accreditation has been accepted by the COFRAC, we present you our report on the consolidated social, environmental and societal information established for the year ended on the December 31, 2013, presented in chapters 2 and 5 of the management report and included in chapter 5 of the reference report (hereafter referred to as the "CSR Information"), pursuant to the provisions of the article L.225-102-1 of the French Commercial Code (*Code de commerce*).

### Responsibility of the Company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R.225-105-1 of the French Commercial Code (*Code de commerce*), in accordance with the protocols used by the Company (hereafter referred to as the "Criteria"), available on request from the Company's environment and performance evaluation department, HR performance Department and Health and Safety Department and of which a summary is included in the reference report.


### Independence and quality control

Our independence is defined by regulatory requirements, the code of ethics of our profession as well as the provisions in the article L.822-11 of the French Commercial Code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

### Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R.225-105 of the French Commercial Code (*Code de commerce*) (Attestation of presence of CSR Information);

- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria (Fairness report regarding CSR Information);
- to express, at the request of the Company, a reasonable assurance conclusion that the information selected by the Company and identified by the symbol  in chapter 5 of the reference report, has been established, in all material aspects, in accordance with the Criteria.

Our verification work was undertaken by a team of around ten people between September 2013 and February 2014 for an estimated duration of 20 weeks. We requested the assistance of our CSR experts to conduct this verification work.

We conducted the work described below in accordance with the professional standards applicable in France and the Order of May 13, 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000<sup>(1)</sup>.

### 1. ATTESTATION OF PRESENCE OF CSR INFORMATION

We obtained an understanding of the Company's CSR issues, based on interviews with the management of relevant departments, a presentation of the Company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the Company and its societal commitments, as well as, where appropriate, resulting actions or programs.

We have compared the information presented in the management report with the list as provided for in the Article R.225-105-1 of the French Commercial Code (*Code de commerce*).

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R.225-105-1, paragraph 3, of the French Commercial Code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial Code (*Code de commerce*) with the limitations specified in the Methodological Note presented in chapter 5.7 of the reference report.

Based on this work, and given the limitations mentioned above we confirm the presence in the management report of the required CSR information.

<sup>(1)</sup> ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

## 2. LIMITED ASSURANCE ON CSR INFORMATION

### Nature and scope of the work

We undertook interviews with around 15 people responsible for the preparation of the CSR Information in the different departments in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important (detailed in the annex of our report):

- at the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- at the level of the representative selection of entities that we selected<sup>(1)</sup>, based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented 62% of the headcount and between 18% and 32% of quantitative environmental information.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the Company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion. An assurance of a higher level would have required more extensive verification work. Due to the use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

### Qualification expressed

Indicators related to the production of hazardous and non hazardous waste, as well as the breakdown by destination (material or energy recovery, landfilling) revealed anomalies for several sites. These anomalies are either related to difficulties to understand Group definitions, a lack of knowledge of local waste treatment schemes, or errors using the reporting tool, and could not be all corrected during consolidation work. This entails a potentially significant uncertainty on the data reported at Group level.

### Conclusion

Based on our work, and under this qualification, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

## 3. REASONABLE ASSURANCE ON A SELECTION OF CSR INFORMATION

### Nature and scope of work

Regarding the information selected by the Company and identified by the sign ☒ in chapter 5 of the reference report, we undertook work of the same nature as those described in paragraph 2 above for the CSR Information considered the most important, but in a more in-depth manner, in particular in relation to the number of tests.

The sample selected represents on average 62% of the headcount.

We consider that this work allows us to express a reasonable assurance opinion on the information selected by Company and identified by the sign ☒ in chapter 5 of the reference report.

### Conclusion

In our opinion, the information selected by the Company and identified by the ☒ sign in the reference report has been established, in all material aspects, in compliance with the Criteria.

Courbevoie and Paris-La Défense, March 26, 2014

The Statutory Auditors

#### MAZARS

Gaël Lamant  
Partner

Emmanuelle Rigaudias  
Partner, CSR and Sustainable  
Development Department

#### ERNST & YOUNG ET Autres

Jean-Roch Varon  
Partner

Christophe Schmeitzky  
Partner, Sustainable  
Development Department

<sup>(1)</sup> Social information : Techspace Aero (Belgium), Labinal (Morocco), Messier-Bugatti-Dowty Montréal (Canada), Snecma (France), Sagem Défense Sécurité (France), Turbomeca (France), Messier-Bugatti-Dowty (France), Labinal (France), Herakles (France), Aircelle (France). Health, Safety and Environment information : Snecma (Gennevilliers), Turbomeca Bordes (France), Messier-Bugatti-Dowty Bidos (France), Messier-Bugatti-Dowty Molsheim (France), Famat Saint-Nazaire (France), Herakles Saint-Médard (France), Aircelle Burnley (Royaume-Uni), Messier-Bugatti-Dowty Montréal (Canada), Labinal Chihuahua 1 (Mexico), Techspace Aero Millmort (Belgium).

## ANNEX OF THE STATUTORY AUDITORS' INDEPENDENT THIRD-PARTY REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

### List of CSR Information considered as the most important<sup>(1)</sup>

#### SOCIAL INFORMATION

- Headcount as of December 31, 2013 and breakdown by country, by gender, by total number of managers and other employees;
- Number of external recruitments during the year;
- Number of permanent departures during the year of which number of dismissals;
- Replacement rate for permanent departures;
- Absenteeism rate (France);
- Number of employees trained on safety;
- Frequency rate of work accidents;
- Severity rate of accidents;
- Number of work-related illnesses;
- Number of employees assigned to HSE in terms of FTE >50%;
- Number of training hours in France;
- Share of payroll spent on training in France;
- Number and percentage of recruited women;
- Number and percentage of disabled workers (France);
- Remunerations and their evolution;
- Current international social dialogue;
- Ongoing agreements and agreements under negotiation;
- Number of employees benefiting from stress awareness campaign;
- Implementation of the TESSE program;
- Anti-discrimination policy.

#### ENVIRONMENTAL INFORMATION

- Generated non-hazardous waste;
- Generated hazardous waste;
- Recovered non-hazardous waste;
- Recovered hazardous waste;
- Water consumption and breakdown (network water, surface water, underground water);
- Electricity consumption;
- Natural gas and LPG consumption;
- CO<sub>2</sub> emissions (Scope 1 and 2);
- Ecodesign initiatives.

#### SOCIETAL INFORMATION

- Partnership and sponsorship initiatives;
- Social and environmental issues in the procurement policy;
- Commitments and actions supporting CSR issues in relations with subcontractors and suppliers;
- Surveillance of corruption.

(1) Nature and scope of the work undertaken on this CSR information, as well as the conclusion of this work are described above in chapter 5.



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**15 members**

including

**4 representatives  
of the French  
State**

**7 independent  
members**

**2 employee  
shareholder  
representatives**

## Membership structure of the Board of Directors

The Board of Directors is composed of the following members:

- Jean-Paul Herteman, Chairman and Chief Executive Officer;
- Christian Streiff, Vice-Chairman of the Board of Directors (independent);
- Marc Aubry, Director representing employee shareholders;
- Giovanni Bisignani, Director (independent);
- Jean-Lou Chameau, Director (independent);
- Monique Cohen, Director (independent);
- Odile Desforges, Director (independent);
- Jean-Marc Forneri, Director (independent);
- Patrick Gandil, Director representing the French State;
- Christian Halary, Director representing employee shareholders;
- Xavier Lagarde, Director;
- Elisabeth Lulin, Director (independent);
- Astrid Milsan, Director representing the French State;
- Thierry Pérard, Director representing the French State;
- Laure Reinhart, Director representing the French State.

## BOARD ADVISOR

- Caroline Grégoire-Sainte Marie.

## Composition of Executive Management

- Jean-Paul Herteman, Chairman and Chief Executive Officer;
- Stéphane Abrial, Deputy Chief Executive Officer, Corporate Office;
- Ross McInnes, Deputy Chief Executive Officer, Finance;
- Marc Ventre, Deputy Chief Executive Officer, Operations.

## REFERENCE CORPORATE GOVERNANCE CODE

Safran abides by the "Corporate Governance Code of Listed Corporations", drawn up jointly by the French employers' associations, AFEP<sup>(1)</sup> and MEDEF<sup>(2)</sup>, with reference to the version revised and made public on June 16, 2013. The Code and the guidelines for enforcement published in January 2014 can be consulted at [www.afep.com](http://www.afep.com) (in French and English for the Code, and in French for the guidelines for enforcement).

Where certain recommendations included in this Code, or guidelines adopted subsequently for its enforcement, are not implemented, this is justified in the report of the Chairman of the Board of Directors (see section 6.5.3 – Application of the AFEP/MEDEF Corporate Governance Code).

## 6.1 BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

On April 21, 2011, the Shareholders' Meeting approved a governance structure with a Board of Directors, replacing the former structure composed of a Supervisory Board and an Executive Board. This type of governance was deemed more appropriate given the economic, financial and competitive environment in which the Company is evolving – requiring even greater responsiveness, particularly in terms of decision-making. It is the best structure to meet the new challenges that the Group faces.

### 6.1.1 BOARD OF DIRECTORS

#### Members of the Board of Directors

Since April 21, 2011, the Board of Directors of Safran has consisted of fifteen members – including four representatives of the French State and two employee shareholder representatives – appointed by the Ordinary Shareholders' Meeting.

Jean-Paul Herteman was appointed as Chairman at the Board of Directors' meeting of April 21, 2011 for a term that expires at the

close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2014. The Board of Directors' meeting of May 28, 2013 appointed Christian Streiff as Vice-Chairman for a term that expires at the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2017,

Since May 28, 2013, Board membership has been as follows:

Members of the Board of Directors	Duties on the Board of Directors	Date of first appointment Expiration of term of office	Number of Safran shares held	Main position Address
<b>Jean-Paul Herteman</b> 63 years (French national)	<b>Chairman of the Board of Directors and CEO</b>	April 21, 2011 2015 AGM	20,682 <sup>(3)</sup>	Chairman and CEO of Safran, 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Christian Streiff</b> 59 years (French national)	<b>Vice-Chairman of the Board of Directors</b> (independent) Chairman of the Strategy and Major Projects Committee and member of the Appointments and Compensation Committee	May 28, 2013 2018 AGM	500	Vice-Chairman of the Board of Directors of Safran, 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Marc Aubry</b> 51 years (French national)	<b>Director representing employee shareholders</b> Member of the Audit and Risk Committee	April 21, 2011 2016 AGM	1,875 <sup>(4)</sup>	Design engineer for space engine turbopumps at Snecma's Vernon site, Forêt de Vernon, BP 802 27208 Vernon Cedex, France
<b>Giovanni Bisignani</b> 67 years (Italian national)	<b>Director</b> (independent) Member of the Appointments and Compensation Committee and the Strategy and Major Projects Committee	April 21, 2011 2017 AGM	500	De Vere Gardens 12 14 London W8 5AE, UK

(1) AFEP: Association française des entreprises privées.

(2) MEDEF: Mouvement des entreprises de France.

(3) Indirectly via units in the Group Corporate Mutual Fund (FCPE) (conversion based on the Safran share price as of February 28, 2014).

(4) Including 1,835 shares via units in the Group Corporate Mutual Fund (FCPE) (conversion based on the Safran share price as of February 28, 2014).



Members of the Board of Directors	Duties on the Board of Directors	Date of first appointment Expiration of term of office	Number of Safran shares held	Main position Address
<b>Jean-Lou Chameau</b> 61 years (French and American national)	<b>Director</b> ( <i>independent</i> )	April 21, 2011 2015 AGM	1,000	President of King Abdullah University of Science & Technology Administration Building #16, Room #4002, 4700, Thuwal 23955-6900, Saudi Arabia
<b>Monique Cohen</b> 58 years (French national)	<b>Director</b> ( <i>independent</i> ) Member of the Audit and Risk Committee	May 28, 2013 2018 AGM	500	Executive Partner of Apax Partners Midmarket SAS 45, avenue Kléber, 75784 Paris Cedex 16, France
<b>Odile Desforges</b> 64 years (French national)	<b>Director</b> ( <i>independent</i> ) Chairman of the Audit and Risk Committee Member of the Strategy and Major Projects Committee	April 21, 2011 2017 AGM	500	3, rue Henri Heine, 75016 Paris, France
<b>Jean-Marc Forneri</b> 54 years (French national)	<b>Director</b> ( <i>independent</i> ) Chairman of the Appointments and Compensation Committee	April 21, 2011 2018 AGM	1,062	Chairman of Bucéphale Finance, 17, avenue George V, 75008 Paris, France
<b>Patrick Gandil</b> 58 years (French national)	<b>Director representing the French State</b> Member of the Strategy and Major Projects Committee	May 28, 2013 2018 AGM	None	Director General of Civil Aviation Directorate General for Civil Aviation (DGAC) 50, rue Henry Farman 75015 Paris, France
<b>Christian Halary</b> 60 years (French national)	<b>Director representing employee shareholders</b>	April 21, 2011 2016 AGM	15,164 <sup>(5)</sup>	Head of the renovation calculator business in the Safran Electronics division of Sagem <sup>(6)</sup> , 21, av. du Gros-Chêne, 95610 Éragny-sur-Oise, France
<b>Xavier Lagarde</b> 66 years (French national)	<b>Director</b> Member of the Strategy and Major Projects Committee	April 21, 2011 2017 AGM	155,634 <sup>(7)</sup>	Chairman of Club Sagem, 77, rue Leblanc, 75015 Paris, France
<b>Elisabeth Lulin</b> 47 years (French national)	<b>Director</b> ( <i>independent</i> ) Member of the Audit and Risk Committee	April 21, 2011 2017 AGM	501	Chief Executive Officer of Paradigmes et cætera, 23, rue Lecourbe, 75015 Paris, France
<b>Astrid Milsan</b> 42 years (French national)	<b>Director representing the French State</b> Member of the Audit and Risk Committee, the Appointments and Compensation Committee, and the Strategy and Major Projects Committee	July 8, 2011 2018 AGM	None	Deputy Director General of the State Investments Agency (APE), French Ministry of Economic Affairs, Finance and Employment, 139, rue de Bercy, 75012 Paris, France
<b>Thierry Pérard</b> 48 years (French national)	<b>Director representing the French State</b> Member of the Appointments and Compensation Committee, and the Strategy and Major Projects Committee	May 28, 2013 2018 AGM	None	Director of the helicopter weapons operations management units Operations department of the French Directorate General of Weapons Procurement (DGA) 7-9 rue des Mathurins 92220 Bagneux
<b>Laure Reinhart</b> 58 years (French national)	<b>Director representing the French State</b> Member of the Strategy and Major Projects Committee	April 21, 2011 2018 AGM	500	Head of Partnerships Bpifrance Financement's Innovation Department 6/8, boulevard Haussman 75009 Paris, France

(5) Including 3,114 shares via units in the Group Corporate Mutual Fund (FCPE) (conversion based on the Safran share price as of February 28, 2014).

(6) Sagem is the trade name of Sagem Défense Sécurité.

(7) Including 50,046 shares via Club Sagem and via units in the Group Corporate Mutual Fund (FCPE) (conversion based on the Safran share price as of February 28, 2014).

Under the twentieth resolution of the Extraordinary Shareholders' Meeting of April 21, 2011, the shareholders appointed **Caroline Grégoire-Sainte Marie** as a Board Advisor (*censeur*) for a four-year term, i.e., until the close of the Annual General Meeting that will be held in 2015 to approve the financial statements for 2014.

**Francis Mer**, whose term as Director and Vice-Chairman of the Board of Directors expired at the close of the Annual General Meeting of May 28, 2013, was appointed Honorary Chairman of Safran, at the Board of Directors' meeting of March 21, 2013.



## Information on members of the Board of Directors

### Jean-Paul Herteman

#### Chairman and Chief Executive Officer of Safran

##### Expertise and experience

Born in 1950, Jean-Paul Herteman is a graduate of *École Polytechnique* and *École Nationale Supérieure de l'Aéronautique et de l'Espace*.

He began his career with the French Defence Procurement Agency (*Délégation générale pour l'armement*) in 1975, where he was firstly a test engineer, then head of the Materials Department in the Toulouse Aviation Testing Center.

In 1984, he joined Snecma as head of the Materials and Process research programs. He was appointed Assistant Director of Quality at Snecma in 1987, then Director of Quality two years later. On this basis he chaired the Quality commission of the French Aerospace Industries Association (GIFAS) from 1990 to 1993.

Head of the technical design office at Snecma in 1993, he became Deputy Technical Director the following year. In 1995 and 1996, he was the CFM56 Programs Director and Vice-President of CFM International. In mid-1996, he became Technical Director at Snecma, and then took over as CEO of the Rocket Engine Division (formerly *Société européenne de propulsion*) in 1999. He was appointed as Chairman and CEO of Snecma Moteurs (now Snecma) in 2002.

In 2004, Jean-Paul Herteman was appointed Executive Vice-President of the Snecma group and Executive Vice-President of the Aerospace Propulsion business. Upon the creation of Safran in 2005, he was confirmed in his duties. In 2006, he became Executive Vice-President, responsible for the Defence Security business.

He was appointed Chairman of Safran's Executive Board in July 2007 and carried out the duties of this position between September 2007 and the change of the Company's governance structure in 2011, when he was appointed Chairman and Chief Executive Officer of Safran.

From 2009 to July 2013, he was President of GIFAS and in that capacity, acted as Chairman of the French Defence Industries Advisory Council (CIDEF) from the beginning of 2010 to the end of 2011.

In November 2009, he was appointed as a member of the Board of Directors of the French Center for Scientific Research (CNRS).

Previously, he was chief weapons engineer (reserve corps) and pilot with the technical corp.

He has been Vice-Chairman of the advisory authority on French Defence Agency issues (*Conseil général de l'armement*) since March 2010.

He was elected President of the Aerospace and Defence Industries Association of Europe (ASD) on October 12, 2012.

##### Current offices

###### Safran Group:

- Chairman and CEO: Safran
- Director: Snecma

###### Non-Group:

- Vice-Chairman: *Conseil général de l'armement*
- President: ASD (Belgium)
- Director: CNRS

##### Offices that expired in the last five years

###### Safran Group:

- Chairman of the Executive Board: Safran, up to April 2011
- Director: Sagem Sécurité, up to October 2009
- Permanent representative of Safran on the Board of Directors: Sagem, up to February 2010

###### Non-Group:

- President/Chairman: GIFAS, up to July 2013; CIDEF, up to December 2011

## Christian Streiff

**Director – independent**

**Vice-Chairman of the Board of Directors**

**Member and Chairman of the Strategy and Major Projects Committee**

**Member of the Appointments and Compensation Committee**

### Expertise and experience

Born in 1954, Christian Streiff started working for the Saint-Gobain group as Department Engineer of the Pipe Division at Halbergerhütte (Germany) from 1979 to 1982. He then served as Vice President of Planning and Strategy of the Fiber Reinforcements Division from 1982 to 1985, Manager of the Herzogenrath plant between 1985 and 1988, General Manager of Vetrotex Deutschland (formerly Gevetex) (Germany) between 1989 and 1991, General Manager of Vetri SpA (Italy) from 1992 to 1994, General Manager of Saint-Gobain Emballage from 1994 to 1997, Vice-President, Pipe Division and Chairman and Chief Executive Office of Pont-à-Mousson SA from 1997 to 2001, Head of Abrasives and Ceramics & Plastics Divisions (Paris and Boston – USA), Group Chief Operating Officer from 2001 to 2004 and Deputy Chief Executive Officer from 2004 to 2005.

In 2006, Christian Streiff was appointed Chief Executive Officer of Airbus and member of the Managing Board of EADS (European Aeronautic Defense and Space Company).

From 2007 to 2009, Christian Streiff was Chairman of the Executive Board of PSA Peugeot-Citroën.

He is the author of a novel, Kriegspiel (Editions La Nuée Bleue, 2000).

### Current offices

#### Safran Group:

- Vice-Chairman of the Board of Directors: Safran, since May 2013

#### Non-Group:

- Chairman: CS Conseil
- Member of the Supervisory Board: Thyssen Krupp AG<sup>(1)</sup> (Germany)
- Director: TI-Automotive (UK); Crédit Agricole SA<sup>(1)</sup> (also a member of the Compensation Committee)
- Member of the European Advisory Board: Bridgepoint (UK)

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Chairman of the Board of Directors: Automobiles Peugeot, up to March 2009
- Chairman and CEO: Automobiles Citroën, up to March 2009
- Chairman of the Executive Board: Peugeot SA<sup>(1)</sup>, up to March 2009
- Vice-Chairman: Dongfeng Peugeot Citroën Automobiles Company Ltd (People's Republic of China), up to March 2009
- Director: Finmeccanica SpA<sup>(1)</sup> (Italy), up to July 2013; Faurecia<sup>(1)</sup>, up to April 2009; Banque PSA Finance, up to March 2009; Peugeot Citroën Automobiles, up to March 2009; Gefco, up to March 2009; PCMA Holding BV (Netherlands), up to March 2009; Continental AG<sup>(1)</sup> (Germany), up to February 2009

<sup>(1)</sup> Listed company.

## Marc Aubry

**Director – representing employee shareholders**

**Member of the Audit and Risk Committee**

### Expertise and experience

Born in 1963, Marc Aubry is an engineer from *École Nationale Supérieure d'Hydraulique et de Mécanique de Grenoble* (ENSHMG) (major in water resources and planning) and has a post-graduate degree (DEA) in environment and engineering geophysics (major in hydrology).

Marc Aubry has worked with the Group for nearly 25 years. Since 1990, he has occupied the position of Design Engineer in charge of the development of dynamic sealing for space engine turbopumps.

He is central CFDT trade union delegate of Snecma and CFDT trade union coordinator of the Group.

### Current offices

#### Safran Group:

- Director representing employee shareholders: Safran

#### Non-Group:

None

### Offices that expired in the last five years

- Vice-Chairman of the Supervisory Board of the Safran Investissement corporate mutual fund, up to December 2013

## Giovanni Bisignani

**Director – independent**

**Member of the Strategy and Major Projects Committee**

**Member of the Appointments and Compensation Committee**

### Expertise and experience

Born in 1946, Giovanni Bisignani graduated from the Sapienza University of Rome (law, economics and business) where he later became assistant professor. He also attended the International Teachers Program at the Harvard Business School in Boston, United States.

Giovanni Bisignani started his career at First National Citibank. He then returned to Italy and, from 1976 to 1989, held several high-level positions at the energy company ENI and with the Italian industrial conglomerate IRI. From 1994 to 1998, he was President of Tirrenia di Navigazione, and from 1998 to 2001, he was CEO of SM Logistics – a member of the Serra Merzario group, partially owned by GE.

He subsequently served as Administrative Director, then CEO and Managing Director, of Alitalia from 1989 to 1994, Chairman of the Association of European Airlines (AEA) in 1992 and Chairman of Galileo International from 1993 to 1994. In 2001, he launched Opodo, the first European travel portal, owned by Air France, British Airways and Lufthansa.

Giovanni Bisignani was Director General and CEO of the International Air Transport Association (IATA) between 2002 and 2011. From 2002 to 2013 he was a Director of UK NATS (air navigation service provider).

He is a member of the World Economic Forum's Global Agenda Council on Aviation, Travel & Tourism (Switzerland).

Since 2012, Giovanni Bisignani has been a visiting Professor at the School of Engineering at Cranfield University (UK) where he received the honorary "Doctor honoris causa" degree.

### Current offices

#### Safran Group:

- Director: Safran

#### Non-Group:

- Director: Aircastle Limited<sup>(1)</sup> (US) (also a member of the Nominating and Governance Committee)

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Director General and CEO: IATA (Canada), up to June 2011
- Director: UK NATS (UK), up to June 2013

(1) Listed company.

## Jean-Lou Chameau

## Director – independent

## Expertise and experience

Born in 1953, Jean-Lou Chameau obtained an engineering diploma at *École Nationale Supérieure d'Arts et Métiers* in 1976, and then continued his studies at Stanford University, where he graduated with a Master's in civil engineering in 1977, followed by a PhD in seismic engineering in 1980.

Jean-Lou Chameau started his teaching career at Purdue University, where he taught from 1980 to 1991, before joining Georgia Tech as professor and head of the School of Civil and Environmental Engineering. He left this position in 1994 to become Chairman of the international geotechnical engineering company, Golder Associates Inc. He returned to teach at Georgia Tech two years later, where he became dean of the College of Engineering. In 2001, he was promoted to the position of provost, which he occupied up to 2006.

From 2006 to June 2013, Jean-Lou Chameau was the President of the California Institute of Technology (Caltech).

Jean-Lou Chameau is a member of the National Academy of Engineering in the United States and of the Académie des Technologies in France.

He has been President of King Abdullah University of Science and Technology (KAUST) (Saudi Arabia) since July 2013.

## Current offices

## Safran Group:

- Director: Safran

## Non-Group:

- President: King Abdullah University of Science & Technology (KAUST) (Saudi Arabia), since July 2013
- President Emeritus: California Institute of Technology (Caltech) (US), since July 2013
- Director: MTS Systems Corporation<sup>(1)</sup> (US) (also a member of the Audit Committee and the Governance and Nominating Committee)
- Other office: Academic Research Council of Singapore (Singapore)

## Offices that expired in the last five years

## Safran Group:

None

## Non-Group:

- President and Director: Caltech (US), up to June 2013
- Director: John Wiley & Sons<sup>(1)</sup> (US), up to September 2013 (also a member of the Audit Committee)
- Member of the Council on Competitiveness (US), up to June 2013
- Member of the Advisory Committee: Interwest (US), up to March 2013
- *École Polytechnique, Internet2*

(1) Listed company.

## Monique Cohen

**Director – independent**

**Member of the Audit and Risk Committee**

### Expertise and experience

Born in 1956, Monique Cohen is a graduate of *École Polytechnique* (1976) and has a Master's degree in mathematics. She started her career at Paribas as Assistant Finance Manager from 1980 to 1987.

At Paribas, which later became BNP Paribas, she successively held the positions of Administrative Officer of Courcoux Bouvet – a brokerage firm and subsidiary of Paribas – between 1987 and 1990, Head of equity syndication and brokerage activities from 1990 to 1999, and Global Head of Equity Business from 1999 to 2000.

Since 2000, she has been an Executive Partner of Apax Partners France, which focuses on investments in the business and financial services sector.

She has been a member of the Board of Directors of the French financial markets authority (*Autorité des marchés financiers* – AMF) since June 2011.

### Current offices

#### Safran Group:

- Director: Safran, since May 2013

#### Non-Group:

- Chair of the Board of Directors: Wallet SA (Belgium); Wallet Investissement 1 SA (Belgium); Wallet Investissement 2 SA (Belgium); Proxima Investissement (Luxembourg)
- Chair: Trocadéro Participations II SAS
- Chair and member of the Supervisory Board: Texavenir II SAS

- Director: Société de financement local (SFIL); Altran Technologies SA<sup>(1)</sup> (also a member of the Investments and Acquisitions Committee); Financière MidMarket SAS; Apax Partners MidMarket SAS; BuyWay Personal Finance Belgium SA (Belgium); BuyWay Tech SA (Belgium); SEP Altitude
- Member of the Supervisory Board: JC Decaux<sup>(1)</sup> (also a member of the Audit Committee); Global Project SAS; Trocadero Participations SAS
- Deputy Chief Executive Officer: Altamir Amboise Gérance SA
- Managing Partner: Société Civile Fabadari

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Chair: Trocadéro Participations SAS, up to 2012
- Director: B\*Capital SA, up to 2013; Equalliance SA up to 2011; Finalliance SAS up to 2011; Global Project SA up to 2009
- Manager: Société Civile Equa, up to 2011
- Member of the Supervisory Board: Financière Famax SAS, up to 2010
- Manager (class C): Santemedia Group Holding Sarl (Luxembourg), up to 2012

(1) Listed company.

## Odile Desforges

**Director – independent**

**Member and Chair of the Audit and Risk Committee**

**Member of the Strategy and Major Projects Committee**

### Expertise and experience

Born in 1950, Odile Desforges graduated with an engineering diploma from *École Centrale de Paris*.

She began her career as a Research Analyst at the French Transport Research Institute (*Institut de recherche des transports*). In 1981, she joined the Renault group as planning officer for the Automobile Planning Department before becoming product engineer on the R19, then M1 segment (1984-1986). In 1986, she moved to the Purchasing Department as Head of the Exterior Equipment Department. She was later appointed Director of Body Hardware Purchasing for the joint Renault Volvo Purchasing Organization in 1992, and for Renault alone in 1994. In March 1999, she became Executive Vice-President of the Renault VI-Mack group, in charge of 3P (Product Planning, Product Development, Purchasing Project). In 2001, she was appointed President of AB Volvo's 3P Business Unit.

In 2003, Odile Desforges became Senior Vice-President, Renault Purchasing, Chair and CEO of the Renault Nissan Purchasing Organization (RNPO) and member of the Renault Management Committee.

From 2009 to June 2012, she was Director of Engineering and Quality, and a member of Renault's Executive Committee.

She retired on August 1, 2012.

### Current offices

#### Safran Group:

- Director: Safran

#### Non-Group:

- Director: Sequana<sup>(1)</sup> (also a member of the Appointments and Compensation Committee); Dassault Systèmes<sup>(1)</sup>, since May 2013 (also a member of the Audit Committee); Johnson Matthey plc<sup>(1)</sup> (UK) (also a member of the Audit Committee, the Nomination Committee and the Management Development and Remuneration Committee), since July 2013
- Vice-President: Alumni Association of *École Centrale de Paris*

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Chair: Renault Nissan Purchasing Organization (RNPO), up to February 2009
- Director: GIE REGIENOV, up to January 2013; Renault España SA (Spain), up to December 2012; RNTBCI, up to June 2012; Renault Nissan BV (Netherlands), up to June 2012

(1) Listed company.



## Jean-Marc Forneri

**Director – independent**

**Member and Chairman of the Appointments and Compensation Committee**

### Expertise and experience

Born in 1959, Jean-Marc Forneri graduated from *École Nationale d'Administration* (ENA), before obtaining a Master's in Business Law and completing the French bar (CAPA) exam, at the Aix-en-Provence School of Political Science (IEP).

He began his career at the General Finance Inspectorate in 1984. Then in 1987, he became an Advisor to the Minister of Finance and rapporteur for the Commission on Estate Taxes (French Ministry of Finance).

Between 1988 and 1994, he was Director and CEO of Skis Rossignol.

He was then appointed Managing Partner of Worms et Cie, where he was responsible for the investment bank.

In 1996, he was appointed Chairman of Credit Suisse First Boston France and Vice-Chairman of Credit Suisse First Boston Europe, where he was an advisor on major mergers and acquisitions projects.

In 2004, he founded Bucéphale Finance, a corporate finance advisory services firm, where he became Chairman.

### Current offices

#### Safran Group:

- Director: Safran

#### Non-Group:

- Chairman: Bucéphale Finance SAS
- Chairman of the Supervisory Board: Grand Port Maritime de Marseille (GPMM)
- Member of the Supervisory Board: Société Casino Municipal d'Aix Thermal; Euronext NV (Netherlands)
- Director: Balmain; Intercontinental Exchange, Inc.<sup>(1)</sup> (US)
- Manager: Perseus Participations

### Offices that expired in the last five years

#### Safran Group:

- Member of the Supervisory Board: Safran, up to April 2011

#### Non-Group:

None

<sup>(1)</sup> Listed company.

## Patrick Gandil

**Director – representing the French State**

**Member of the Strategy and Major Projects Committee**

### Expertise and experience

Born in 1956, Patrick Gandil holds an engineering degree from *École Nationale des Ponts et Chaussées* and is a graduate of *École Polytechnique*.

He started his career in 1979 at the French Ministry for Public Works, where he worked for 15 years taking on a variety of responsibilities.

From 1995 to 1997, he served as Deputy Director of the Office for the Minister of Civil Service, State Reform and Decentralization.

From 1997 to 1999, he was the Head of the Department responsible for airbases at the Directorate General for Civil Aviation (DGAC).

Then from 1999 to 2003, he joined the French Ministry for Public Works, Housing, Transportation and Tourism as Director of Road Service.

In 2003, he became the Director of the Office of the Minister for Public Works, Housing, Transportation, Tourism and the Sea, then Secretary-General of this ministry in 2005, as well as Advisor to the Minister.

He has been Director General of Civil Aviation at the Ministry for Ecology, Energy, Sustainable Development and Land-Use Planning since 2007.

### Current offices

#### Safran Group:

- Director representing the French State: Safran, since May 2013

#### Non-Group:

- Director representing the French State: Société de Gestion de Participations Aéronautiques (Sogepa), since March 2013; Paris Air and Space Museum (*Musée de l'Air et de l'Espace*)
- Government commissioner: Aéroports de Paris<sup>(1)</sup>

### Offices that expired in the last five years

#### Safran Group:

- Member of the Supervisory Board representing the French State: Safran, up to April 2011

#### Non-Group:

- Director representing the French State: ONERA (French National Aerospace Research Office), up to October 2013
- Temporary Chairman of the Board: Eurocontrol (Belgium), up to December 2013

<sup>(1)</sup> Listed company.

## Christian Halary

**Director – representing employee shareholders**

### Expertise and experience

Born in 1953, Christian Halary holds a post-graduate degree (DEA) in microwave frequency technology. He has been a Group employee for 35 years. He began his career in 1979, first as a Research Engineer, then as Engineer responsible for product development, at Sagem SA.

In 2005 he was appointed Engineer responsible for product development at Sagem.

Since 2009 he has been Head of the Renovation Calculator business in the Safran Electronics division of Sagem.

### Current offices

#### Safran Group:

- Director representing employee shareholders: Safran
- Chairman of the Supervisory Board of the corporate mutual funds Partifond; Interfond; Avenir Sagem
- Member of the Group's CFE-CGC Coordination Committee

#### Non-Group:

- Member of the Management Committee: Club Sagem

### Offices that expired in the last five years

#### Safran Group:

- Member of the Supervisory Board representing employee shareholders: Safran, up to April 2011
- Chairman of the Supervisory Board of the Safran Investissement corporate mutual fund, up to December 2013

#### Non-Group:

None

## Xavier Lagarde

### Director

### Member of the Strategy and Major Projects Committee

#### Expertise and experience

Born in 1948, Xavier Lagarde is an engineer from *École Nationale Supérieure d'Ingénieurs de Constructions Aéronautiques* (ENSICA), which became *Institut Supérieur de l'Aéronautique et de l'Espace* (ISAE) in 2007 following its link-up with *École Nationale Supérieure de l'Aéronautique et de l'Espace* (ENSAE). He also obtained a Master of Sciences in Aeronautics from the California Institute of Technology (Caltech).

He joined Sagem in 1974 as a Research Engineer at the Avionics R&D Unit at the Pontoise Center. He later became Head of development for new generation inertial navigation systems. In 1981, he became the head of this unit.

In 1986, Xavier Lagarde became Deputy Director of the Sagem R&D Center in Argenteuil, specialized in inertial technologies and optronics, navigation, observation and weapon aiming equipment and systems primarily dedicated to naval and ground applications. In 1987, he became Director of the R&D Center in Éragny dedicated to missile guidance systems and equipment, disk memories for civil applications and bubble memories for military and space applications. From 1989 to 2001, he was Director of Human Resources of the Sagem group and, from 1999 to 2000, also Executive Director of Société de Fabrication d'Instruments de Mesure (SFIM).

In 2001, Xavier Lagarde was appointed Industrial and Quality Director of Sagem. In 2005, he held the position of Quality Director at Safran. The following year, he became Executive Vice-President of the Communications branch of Safran, which was sold in 2008. Then, from 2009 to 2011, he was Executive Vice-President of the Group's Quality, Audit and Risk Department. He was a member of the Executive Board of Safran between 2007 and 2011 before becoming a member of the Board of Directors of Safran.

Xavier Lagarde has also served on the Labor Relations Tribunal in Paris since 2005.

#### Current offices

##### Safran Group:

- Director: Safran
- Chairman: Sagem Mobiles, since June 2013

##### Non-Group:

- Chairman: Club Sagem

#### Offices that expired in the last five years

##### Safran Group:

- Member of the Executive Board: Safran, up to April 2011
- Chairman of the Board of Directors: Soreval (Luxembourg), up to May 2012
- Chairman and CEO: Sagem Mobiles, up to June 2013; Sagem Télécommunications, up to August 2012
- Director: Safran Consulting, up to June 2012; Aircelle, up to April 2011
- Permanent representative of Sagem Télécommunications on the Board of Directors: Sagem Industries, up to December 2011

##### Non-Group:

- Member of the Supervisory Board: Gores Broadband SA, up to January 2010

## Elisabeth Lulin

**Director – independent**

**Member of the Audit and Risk Committee**

### Expertise and experience

Born in 1966, Elisabeth Lulin is a graduate of *École Normale Supérieure*, *Institut d'Études Politiques de Paris* and *École Nationale d'Administration*. She also holds a degree in literature.

Elisabeth Lulin began her career at the General Finance Inspectorate (1991-1994) before joining the Prime Minister's office as Research Analyst, then Technical Advisor.

From 1996 to 1998, she served as Head of the Marketing and External Communication Unit at France's National Institute of Statistics and Economic Studies (INSEE).

Alongside these duties, Elisabeth Lulin has also held various teaching posts. She taught at *École Supérieure de Commerce de Paris*, and was a lecturer at the *Institut d'Études Politiques de Paris* (1998-1999) and at the *Conservatoire des Arts et Métiers* (1995-1999).

From September 2010 to March 2012, she served as senior advisor of Monitor group, a strategy consulting firm.

Elisabeth Lulin is currently Chief Executive Officer of Paradigmes et caetera, a research and consulting firm dedicated to benchmarking and innovation, which she founded in 1998.

### Current offices

#### Safran Group:

- Director: Safran

#### Non-Group:

- Chief Executive Officer: Paradigmes et caetera
- Director: Bongrain SA<sup>(1)</sup> (also Chair of the Strategy Committee); Ciments Français<sup>(1)</sup> (also a member of the Accounting Committee), since March 2013
- Chair of the Board of Directors of *École Nationale Supérieure de Création Industrielle* (ENSCI)

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Director: Société Générale<sup>(1)</sup>, up to May 2013 (also a member of the Audit, Internal Control and Risk Committee)
- Chair of the Executive Board: *Institut Aspen France*, up to May 2010
- Member of the Board of Directors of the *Institut Français des Administrateurs*, up to May 2012

(1) Listed company.

## Astrid Milsan

**Director – representing the French State**

**Member of the Audit and Risk Committee**

**Member of the Strategy and Major Projects Committee**

**Member of the Appointments and Compensation Committee**

### Expertise and experience

Born in 1971, Astrid Milsan studied at *École Nationale d'Administration*, before graduating from the *Institut d'Études Politiques de Paris* and obtaining a Master's in Law from the *Université de Droit de Paris II – Assas*.

She began her career as reporting counselor (*conseiller rapporteur*) at the Versailles Administrative Court of Appeal between 1996 and 1998.

Between 1998 and 2001, she worked as Project Finance and Privatization manager at Bankgesellschaft in Berlin, and then in London and Berlin. In 2003, she moved to HSBC in London where she worked in Corporate Finance, Mergers & Acquisitions (Europe and Asia) and in the Transport & Logistics team.

Later, in 2003, she joined the Finance division (legal and financial engineering for State market transactions) of the French State Investment Agency (APE).

In 2006, she was appointed Head of Corporate Finance and Development and Secretary General of the Interministerial Committee on Industrial Restructuring (CIRI) at the Treasury, within the French Ministry of Economic Affairs, Finance and Employment. The following year she became Deputy Director of Corporate Finance and Competitiveness (financial market regulation, Replacement Government Commissioner for the Board of Directors of the French financial markets authority (AMF) at the Treasury.

She was appointed Deputy Director of Energy and other investments at the State Investment Agency (APE) in 2009, and then Deputy Director of the Services, Aerospace and Defence sub-division of APE in 2011.

She was appointed Deputy Director General of APE in 2013.

### Current offices

#### Safran Group:

Director representing the French State: Safran

#### Non-Group:

- Director representing the French State: GDF Suez<sup>(1)</sup> (also a member of the Audit Committee, the Strategy and Investments Committee, and the Appointments and Compensation Committee), since July 2013; DCNS (also a member of the Audit, Accounts and Risk Committee; the Bids Committee; the Appointments and Compensation Committee; and the Strategy Committee); *Établissement Public de Financement et de Restructuration* (EPFR)

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Member of the Supervisory Board representing the French State: RTE, up to 2011; OSEO Financement, up to 2009
- Director representing the French State: Imprimerie Nationale, up to 2013; SNPE, up to 2013; Société de Gestion de Participations Aéronautiques (Sogepa), up to 2013; Sogéade Gérance SAS, up to 2013; Sogéade, up to 2013; Areva NC, up to 2011; la Française des Jeux, up to 2011; Eramet<sup>(1)</sup>, up to 2011; Laboratoire Français de Fractionnement et de Biotechnologies, up to 2011; OSEO, up to 2009; IDES, up to 2009; OSEO Innovation, up to 2009

(1) Listed company.

## Thierry Pérard

**Director – representing the French State**

**Member of the Strategy and Major Projects Committee**

**Member of the Appointments and Compensation Committee**

### Expertise and experience

Born in 1965, Thierry Pérard started his career in 1990 at the French Defence Procurement Agency (DGA), working in the area of military telecommunications. For some 12 years he held various positions handling operations for all armed forces in France and served as Director of the Innovation Program for the integrated network of automatic transmission (RITA). He also helped put in place the interoperability standard at the French Defence Procurement Agency Center for the Control of Information (DGA/MI) in Bruz, France.

In September 2002, he joined the Ballistics and Aerodynamics Research Laboratory (LRBA) that specializes in missile and guidance/navigation systems. He took on management responsibilities at the Laboratory and was responsible for strategy first as Division Head and then as Deputy Technical Director of the Center.

In September 2006, he was appointed Director of the Barracuda Nuclear Attack Submarine Program. He was responsible for launching construction for this program, handling the notification for the construction agreement and overseeing the development work up to the preliminary definition review. He managed the entire project, the delegated project management to the Atomic Energy and Alternative Energies Commission (CEA), as well as the responsibility as synthesis authority (*autorité de synthèse*) in charge of issues related to nuclear safety.

In March 2009, Thierry Pérard took over the Scorpion Program for the French Army, launching project development in April 2010.

In July 2012, he was appointed Head of the Industrial Affairs and Business Intelligence Department of the DGA with effect as of September 1, 2012.

### Current offices

#### Safran Group:

- Director representing the French State since May 2013

#### Non-Group:

- Director representing the French State: Défense Conseil International (DCI), since October 2013; DCNS, since July 2013; Nexter, since June 2013

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Director: SNPE, from June to December 2013



## Laure Reinhart

**Director – representing the French State**

**Member of the Strategy and Major Projects Committee**

### Expertise and experience

Born in 1955, Laure Reinhart studied at *École Normale Supérieure*. She obtained a degree in mathematics and a doctorate in applied mathematics from *Université de Paris VI*.

She began her career in 1979 at INRIA (French Research Institute for Computer Science and Automation) where she successively held the posts of Researcher in scientific computing, Head of industrial relations, and Director of industrial relations and technology transfer. In 1992, she became Director at the Rocquencourt research center where she was responsible for managing the center's research, research orientation and technology transfer activities.

In 1999, Laure Reinhart joined Thales as Head of operations at the central research and development laboratory, then Head of public research partnerships in France and Europe and of technical cooperation with companies in the R&D domain. She was also responsible for coordinating the Company's actions in the areas of competitiveness and technical communication.

In 2006, she was appointed Director of Strategy within the Directorate-General of Research and Innovation in the French Ministry for Higher Education and Research where she implemented the new strategy.

Between 2007 and 2008, she participated in the Committee working on France's white paper on defence and national security.

In October 2008, Laure Reinhart joined OSEO as Deputy CEO in charge of Innovation. In July 2013, she became the Head of Partnerships within Bpifrance Financement's innovation Department.

### Current offices

#### Safran Group:

- Director representing the French State: Safran

#### Non-Group:

- Head of Partnerships: Bpifrance Financement, since July 2013
- Director: INPI (*Institut National de la Propriété Industrielle*); INRIA (*Institut National de Recherche en Informatique et en Automatique*); IHEST (*Institut des Hautes Études pour la Science et la Technologie*)
- President of three associations: Ile de Science, the Scientipole Initiative and Scientipole Growth

### Offices that expired in the last five years

#### Safran Group:

None

#### Non-Group:

- Deputy CEO in charge of innovation: OSEO, up to July 2013

## Information relating to the Board Advisor

The role of the Board Advisor is to monitor the strict application of the bylaws, attend Board meetings and take part in decision making in a consultative capacity. The Board Advisor is also invited to all Audit and Risk Committee meetings.

### Caroline Grégoire-Sainte Marie

#### Advisor to the Board of Directors

##### Expertise and experience

Born in 1957, Caroline Grégoire-Sainte Marie is a graduate of *Institut d'Études Politiques de Paris* and of the *Université de Droit de Paris I*. She also took part in the international management programs (INSEAD – IMD) organized by Hoechst/Roussel and Lafarge.

She began her career in 1981 at Rank Xerox France as Management Controller.

In 1987, she joined pharmaceutical company Hoechst where she occupied various financial/management positions, before being made Financial Director and member of the Executive Board of Albert Roussel Pharma GmbH in 1994.

In 1996, Caroline Grégoire-Sainte Marie was appointed Director of Finance and IT at Volkswagen France where she became a member of the Management Committee.

She then joined the Lafarge group in 1997, as Financial, Legal and Development Officer and a member of the Management Committee of Lafarge Specialty Products. In 2000, she became Head of the Mergers & Acquisitions Department, a member of the Management Board of Lafarge Cement, a member of the International Operating Committee and a member of the Boards of Directors of Materis SA and Lafarge India. In 2004, she was appointed Chair and CEO of Lafarge Cement in Germany and the Czech Republic, and she became a member of the Board of Directors of Präsidium BDZ/VDZ.

From 2007 to 2009, she was Chair and CEO of Tarmac France and Belgium, part of the Anglo-American Plc group. She is also Vice-President and a member of the Executive Committee of the Fédération de l'Industrie du Béton (FIB).

Between 2009 and 2011, Caroline Grégoire-Sainte Marie was Chair of FransBonhomme, the French leading distributor of plastic pipes and fittings.

She has been an independent Director of Groupama since 2011 and of the FLSmidth and Eramet groups since 2012.

##### Current offices

###### Safran Group:

None

###### Non-Group:

- Director: FLSmidth & Co<sup>(1)</sup> (Denmark) (also a member of the Technology Committee); Eramet<sup>(1)</sup> (also a member of the Audit Committee); Groupama (also a member of the Audit and Risk Committee, Chair of the Compensation and Appointments Committee)

##### Offices that expired in the last five years

###### Safran Group:

None

###### Non-Group:

- Chair and CEO: FransBonhomme, up to 2011; Tarmac France and Tarmac Belgique, up to 2009

(1) Listed company.

## Directors whose term of office ended in 2013

### Francis Mer

#### Expertise and experience

Born in 1939, Francis Mer is a graduate of *École Polytechnique* and the *Corps des Mines* engineering school.

He joined the Saint-Gobain Pont-à-Mousson group in 1970 and was head of Corporate Planning for Saint-Gobain Industries in 1971, before becoming Director of Corporate Planning for Compagnie Saint-Gobain Pont-à-Mousson in 1973. He became CEO of Saint-Gobain Industries in 1974. In 1978, he was appointed as Executive Vice-President of Saint-Gobain and was responsible for industrial policy. In 1982, he went on to become Chairman and CEO of Pont-à-Mousson SA and Director of the Pipe and Mechanics Division of Saint-Gobain.

In 1986, the French government, acting as shareholder, decided to merge Usinor and Sacilor and appointed Francis Mer as Chairman of the new steel group. In 1995, Usinor Sacilor was privatized and Francis Mer was again appointed Chairman by the new Board of Directors. In 2002, he was appointed co-Chairman of the Arcelor group.

Between May 2002 and March 2004, Francis Mer was French Minister of the Economy, Finance and Industry.

Francis Mer was also Chairman of the French Steel Federation (FFA), from 1988 to 2002, Eurofer (Association of European Steel Manufacturers), from 1990 to 1997, the International Iron and Steel Institute, from 1997 to 1998, and the National Association of Technical Research (ANRT) from 1991 to 2002. In 2004, he was Chairman of the Foundation for Political Innovation.

Francis Mer was Chairman of the Supervisory Board of Safran between 2007 and the change in the corporate governance structure in 2011, when he was appointed Vice-Chairman of the Board of Directors.

In 2013, Francis Mer was appointed Honorary Chairman of Safran.

#### Offices held at May 28, 2013

##### Safran Group:

- Honorary Chairman: Safran, since March 2013

##### Non-Group:

- Director: LFB SA; Borusan Holding (Turkey)

#### Offices that expired in the last five years, at May 28, 2013

##### Safran Group:

- Chairman of the Supervisory Board: Safran, up to April 2011
- Vice-Chairman of the Board of Directors: Safran, up to May 2013 (also Chairman and member of the Strategy and Major Projects Committee and member of the Appointments and Compensation Committee)

##### Non-Group:

- Chairman of the Supervisory Board: Oenoholding, up to April 2008
- Director: Rhodia<sup>(1)</sup>, up to October 2011; Adecco<sup>(1)</sup> (Switzerland), up to April 2011

(1) Listed company.

## Christophe Burg

### Expertise and experience

Born in 1963, Christophe Burg is a graduate of *École Polytechnique* and *École Nationale Supérieure de l'Aéronautique et de l'Espace*.

He began his career as a Research Engineer for the Aircraft Manufacturing Division (Ministry of Defence) in 1987. In 1989, he became manager of "Front Sector Optronics" equipment for the Rafale, then head of the Rafale Weapons Systems unit at the Aircraft Manufacturing Division in 1992.

In 1996, he moved to the French Embassy in London to take up the post of Deputy Armament Attaché.

In 1999, he started working for the French Defence Procurement Agency (DGA), first as Assistant Deputy Director and Head of the Electronics Bureau (1999-2002), then as Deputy Director for the "Aeronautics-Missiles-Space" sector (2002-2004).

In 2004, he became implementation manager and, as of February 2005, Head of the European Cooperation and Development subdivision, at the DGA.

In 2006, Christophe Burg was appointed Head of Industrial Affairs and Economic Intelligence at the DGA.

Since 2012, he has been an advisor to the Strategy Department of the DGA.

### Offices held at May 28, 2013

#### Safran Group:

None

#### Non-Group:

- Director representing the French State: DCNS; Nexter; SNPE; Société de Gestion de Participations Aéronautiques (Sogepa); Sogéade Gérance SAS

### Offices that expired in the last five years, at May 28, 2013

#### Safran Group:

- Director representing the French State: Safran up to May 2013 (also a member of the Strategy and Major Projects Committee and member of the Appointments and Compensation Committee)
- Member of the Supervisory Board representing the French State: Safran, up to April 2011

#### Non-Group:

None

## Michel Lucas

## Expertise and experience

Born in 1939, Michel Lucas obtained an engineering diploma from *École Centrale de Lille*, then a degree in mathematical and physical science, before becoming a certified member of the French Institute of Actuaries in Paris and then graduating from the *Institut des Hautes Finances*, also in Paris.

He joined Crédit Mutuel de Strasbourg in 1971. Between 1971 and 1985, he worked as Advisor to the Chairman of Crédit Mutuel and, between 1973 and 1998, as Head of the IT Department of Crédit Mutuel.

In 1998, Michel Lucas became CEO of the Crédit Mutuel group, while retaining his existing functions.

That same year, he was also appointed Chairman of the Executive Board of CIC, and subsequently Chairman and CEO in 2011, following a change in the corporate governance system.

Michel Lucas is also Chairman of the Confédération Nationale du Crédit Mutuel, Chairman of the Fédération du Crédit Mutuel Centre Est Europe, Chairman of the Caisse Fédérale de Crédit Mutuel and Chairman and CEO of the Banque Fédérative du Crédit Mutuel.

## Offices held at May 28, 2013

## Safran Group:

None

## Non-Group:

- Chairman and CEO: Banque Fédératrice du Crédit Mutuel; Crédit Industriel et Commercial<sup>(1)</sup>; Carmen Holding Investissement
- Chairman of the Board of Directors: Confédération Nationale du Crédit Mutuel (BFCM); Fédération du Crédit Mutuel Centre Est Europe; Caisse Fédérale de Crédit Mutuel; Groupe des Assurances du Crédit Mutuel; Assurances du Crédit Mutuel Vie SA; Assurances du Crédit Mutuel IARD SA; Assurances du Crédit Mutuel Vie SAM; Banque du Crédit Mutuel Ile-de-France; International Information Developments; Direct Phone Services; Républicain Lorrain; Est Républicain<sup>(1)</sup>; Dernières Nouvelles d'Alsace; Liberté de L'Est
- Chairman of the Supervisory Board: Banque Européenne du Crédit Mutuel; Euro Information Production (GIE)

- Chairman: Crédit Mutuel Cartes de Paiements; Europay France
- Vice-Chairman of the Supervisory Board: CIC Iberbanco; Banque de Luxembourg (Luxembourg)
- Director: ACMN Iard; Astrée (Tunisia); Assurances Générales des Caisses Desjardins (Canada); Banque de Tunisie (Tunisia); Banque Marocaine du Commerce Extérieur; CIC Banque Transatlantique; Banque Transatlantique Belgium (Belgium); Caisse de Crédit Mutuel "Grand Cronenbourg"; CRCM Midi-Atlantique; CIC Lyonnaise de Banque; Dauphiné Libéré; Est Bourgogne Média; Le progrès SA
- Member of the Supervisory Board: CM-CIC Asset Management; Manufacture Beauvillé; CM-CIC Services (EIG), CM-CIC Capital Finance
- Member of the Management Committee: Euro Information; Euro Information Développement; EBRA
- Permanent representative of BFCM on the Management Committee of: Sofredis

## Offices that expired in the last five years, at May 28, 2013

## Safran Group:

- Director: Safran, up to May 2013 (also Chairman and member of the Appointments and Compensation Committee)
- Vice-Chairman of the Supervisory Board: Safran, up to April 2011

## Non-Group:

- Chairman of the Executive Board: Crédit Industriel et Commercial<sup>(1)</sup>, up to May 2011
- Chairman of the Supervisory Board: Fonds de Garantie des Dépôts
- Member of the Supervisory Board: CIC Investissements; Société Alsacienne de Publications "L'Alsace"
- Vice-Chairman of the Supervisory Board: Mastercard Europe Région (Belgium)
- Chief Executive Officer: Confédération Nationale du Crédit Mutuel; Fédération du Crédit Mutuel Centre Est Europe; Caisse Fédérale de Crédit Mutuel
- Member of the Board of Directors: CIC Information; Crédit Mutuel Paiements Électroniques; Sofredis

(1) Listed company.

## Michèle Rousseau

### Expertise and experience

Born in 1957, Michèle Rousseau graduated with an engineering diploma from *École des Mines de Paris*. She began her career in 1983 as Head of the Environment Division at DRIRE, Nord-Pas-de-Calais.

Subsequently, she worked as Head of the industrial environment division at the French Ministry for the Environment between 1987 and 1990, before moving to the General Directorate of Industrial Strategies at the French Ministry for Industry, where she was Deputy Head of industrial IT and professional electronics between 1990 and 1995. In 1995, she was appointed Assistant Director of Safety of Nuclear Installations and was responsible for supervising EDF's network of nuclear plants.

In 1999, she joined the French innovation agency, ANVAR (*Agence Nationale pour la Valorisation de la Recherche*), as Deputy Director General, responsible for conducting policy on assisting innovative projects set up by SMEs.

In 2001, Michèle Rousseau was appointed Head of gas, electricity and coal at the General Directorate of Energy and Raw Materials within the French Ministry of Economic Affairs, Finance and Industry. In the same year she went on to become Head of demand and energy markets and the General Directorate of Energy and Raw Materials. She was also appointed as Government Commissioner for EDF and GDF. In 2004, she represented the French State on the independent commission charged with evaluating EDF's financing needs.

In 2005, she was appointed Secretary General of the Ministry for Ecology, Energy and Sustainable Development, then in 2008, Assistant Director to the Commissioner General for Sustainable Development.

Since 2011, she has served as Chief Executive Officer at *Agence de l'Eau Seine-Normandie*.

### Offices held at May 28, 2013

None

### Offices that expired in the last five years, at May 28, 2013

#### Safran Group:

- Director representing the French State: Safran, up to May 2013 (also a member of the Audit and Risk Committee)

#### Non-Group:

- Director representing the French State: *Institut Français du Pétrole*, up to January 2013; *Aéroports de Paris*<sup>(1)</sup>, up to May 2012; *Agence Européenne de l'Environnement*, up to 2011

(1) Listed company.

## Other persons participating in Board of Directors' meetings

### THE GOVERNMENT COMMISSIONER

**Louis-Alain Roche, Controller-General of the French Armed Forces,**

appointed Government Commissioner to Safran and its subsidiaries by decision of the Ministry of Defence of August 27, 2009 in accordance with the laws and regulations applicable to companies supplying military equipment under public contracts or more generally engaged in the manufacturing or trading of such equipment.

### THE REPRESENTATIVES OF THE CENTRAL WORKS COUNCIL

**Isabelle Besson:** executive in the Communications Department of Safran,

**Nabil Grine:** account manager of Safran's establishment located at 2, boulevard du Général Martial-Valin, 75015 Paris, France, appointed by the Central Works Council on April 26, 2012 as its representatives on Safran's Board of Directors in accordance with article L.2323-65 of the French Labor Code (*Code du travail*).

## Roles and responsibilities of the Board of Directors

The roles and responsibilities of the Board of Directors are described in sections 6.5.1 and 7.1.2.1.

### Board of Directors' Internal Rules

The Board of Directors' meeting of April 21, 2011 approved the Internal Rules that govern the operating procedures and organization of the Board of Directors. On March 20, 2014, the Board of Directors adopted amended Internal Rules, in order to take into account changes made to the AFEP/MEDEF Corporate Governance Code with reference to the version published on June 16, 2013.

The Internal Rules are available on the Company's website (<http://www.safran-group.com>, in the Finance section).

## Other information

### INFORMATION ON SERVICE CONTRACTS BETWEEN THE MEMBERS OF THE BOARD OF DIRECTORS OR EXECUTIVE MANAGEMENT AND THE COMPANY OR ONE OF ITS SUBSIDIARIES

There are no service contracts between the members of the Board of Directors or Executive Management and Safran or any of its subsidiaries providing for the award of benefits.

### DISCLOSURE OF FAMILY TIES AND THE ABSENCE OF CONVICTIONS INVOLVING MEMBERS OF THE BOARD OF DIRECTORS OR EXECUTIVE MANAGEMENT

To the best of the Company's knowledge:

- there are no family ties between members of the Board of Directors or Executive Management;
- no member of the Board of Directors or Executive Management:
  - has been convicted of fraud,
  - has been a manager in a company when it filed for bankruptcy or was placed in receivership or liquidation,
  - has been officially charged and/or received sanctions from a legal or regulatory authority, or
  - has been prohibited by a court of law from being a member of an administrative, management or supervisory body, or from participating in the management or performance of a company's business.

### CONFLICTS OF INTEREST AT BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT LEVEL

The Company has not been notified of any:

- potential conflicts of interest between the duties, with respect to Safran, of any of the members of the Board of Directors or Executive Management and their private interests and/or other duties;
- arrangements or agreements with the principal shareholders, customers, suppliers or other parties for the appointment of members of the Board of Directors or Executive Management.



The management of conflicts of interest within the Board of Directors is organized as follows (Articles 7.2 to 7.5 of the Board of Directors' Internal Rules):

- all members of the Board of Directors must inform the Board of Directors of any actual or potential conflicts of interest between themselves (or any other individual or corporation with which they have a business relationship) and the Company, or any of the companies in which the Company invests, or any of the companies with which the Company is planning to conclude an agreement of any sort;
- in the event that a member of the Board of Directors suspects the existence of a conflict of interests, or a potential conflict of interests, he/she must immediately inform the Chairman of the Board of Directors whose responsibility it is to decide whether or not to inform the Board of Directors and thus to instigate the conflicts of interest management process;
- in the event that the member of the Board of Directors discussed in the previous paragraph is the Chairman of the Board of Directors him/herself, then he/she should inform the Vice-Chairman of the Board of Directors or, failing that, the Board of Directors;
- the member of the Board of Directors concerned must abstain from voting on decisions relating to the conclusion of the agreement in question and from taking part in any discussions preceding the vote;
- in addition, the Chairman of the Board of Directors, the members of the Board of Directors, the CEO and, where appropriate, the Deputy CEO(s) will not be obliged to transmit, to any member(s) of the Board of Directors whom they have serious reason to suspect may be subject to conflicts of interest, information or documents relating to the agreement or operation causing the conflict of interest in question, and they will inform the Board of Directors of the non-transmission.

## 6.1.2 COMMITTEES OF THE BOARD OF DIRECTORS

In its meeting of April 21, 2011, the Board of Directors set up three permanent Committees:

- an Audit and Risk Committee;
- an Appointments and Compensation Committee; and
- a Strategy and Major Projects Committee.

The Board of Directors may, in its sole discretion, set up further Board Committees.

The role, organization, operating procedures and work of each Committee are set out in section 6.5.1.

## 6.1.3 EXECUTIVE MANAGEMENT

### Structure of Executive Management

At its meeting on April 21, 2011, the Board of Directors opted to combine the positions of Chairman of the Board of Directors and Chief Executive Officer and appointed Jean-Paul Herteman to take on these functions and the title of Chairman and Chief Executive Officer.

This unified management structure ensures that operating procedures are flexible, efficient and responsive as regards oversight and management of the Group, while providing a proper balance of powers, and creates a direct and close relationship between management and shareholders.

It is also used to ensure greater cohesion between the powers of the Board and the powers of Executive Management, between strategy and operational functions. It respects good governance guidelines and the roles of various governing bodies (Shareholders' Meeting, Board of Directors and Executive Management), particularly as regards oversight of the Group's activities.

Three elements help ensure the balance of powers. The Board of Directors appointed a Vice-Chairman who oversees any conflicts of interest that may arise between the Chairman and Chief Executive Officer and the Board. The Vice-Chairman chairs the Strategy and Major Projects Committee and is a member of the Appointments and Compensation Committee. The Board also appointed three Deputy Chief Executive Officers, each with the same powers as the Chief Executive Officer and the powers to ask the Chairman to call a meeting of the Board of Directors to discuss a specified subject. The Chairman is bound by such requests and must convene the meeting of the board.

Finally, major operations require the prior approval of the Board, as set out in section 7.1.2.1.

The Board's Internal Rules and the presence of independent Directors on the Board ensure that this management structure functions properly. This has made it possible to establish good dialog between the Chairman and Chief Executive Officer and the Directors, while ensuring strong, stable leadership and independent oversight of the Group's management.

## Composition of Executive Management

Jean-Paul Herteman was appointed Chairman and Chief Executive Officer for the duration of his term as Director, i.e., until the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2014.

The three members of staff appointed by the Board of Directors as non-Director Deputy Chief Executive Officers are:

- Stéphane Abrial, since July 1, 2013<sup>(1)</sup>;
- Ross McInnes, since April 21, 2011;
- Marc Ventre, since April 21, 2011.

Their offices will end at the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2014.

Stéphane Abrial, Deputy Chief Executive Officer, Corporate Office, is responsible for the Corporate Office, which deals with: Social Affairs, Human Resources, Property and Legal Affairs, Institutional Affairs, Corporate Communication (excluding financial communication), Health & Safety, Sustainable Development and Industrial Protection. He is also responsible for audit and internal control.

Ross McInnes, Deputy Chief Executive Officer, Finance, is in charge of the Finance Department (Management Control, Accounting, Financial Communication, Cash Management, Financing, Tax Issues), and the Risk and Insurance Department.

Marc Ventre, Deputy Chief Executive Officer, Operations is responsible for managing the Group's operations, i.e., its industrial, commercial and after-sales support activities and its programs.

Members of Executive Management	Functions	Date of first appointment Expiration of term of office	Number of Safran shares held	Main position Address
<b>Jean-Paul Herteman</b> 63 years	<b>Chief Executive Officer</b>	April 21, 2011 2015 AGM	20,682 <sup>(*)</sup>	Chairman and Chief Executive Officer of Safran 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Ross McInnes</b> 60 years	<b>Deputy Chief Executive Officer, Finance</b>	April 21, 2011 2015 AGM	2,660 <sup>(*)</sup>	Deputy Chief Executive Officer of Safran 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Stéphane Abrial</b> 59 years	<b>Deputy Chief Executive Officer, Corporate Office as of July 1, 2013</b>	July 1, 2013 2015 AGM	98	Deputy Chief Executive Officer of Safran 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Marc Ventre</b> 63 years	<b>Deputy Chief Executive Officer, Operations</b>	April 21, 2011 2015 AGM	9,701 <sup>(*)</sup>	Deputy Chief Executive Officer of Safran 2, bd du Général Martial-Valin, 75015 Paris, France
<b>Dominique-Jean Chertier</b> 63 years	<b>Deputy Chief Executive Officer, Corporate Office, up to June 30, 2013</b>	April 21, 2011 June 30, 2013	5,778 <sup>(*)</sup>	Advisor to the Chairman and CEO of Safran 2, bd du Général Martial-Valin, 75015 Paris, France

(\*) Indirectly via units in the Group Corporate Mutual Fund (FCPE) (conversion based on the Safran share price as of February 28, 2014).

(1) The Board of Directors' meeting of March 21, 2013 noted the resignation of Dominique-Jean Chertier as Deputy Chief Executive Officer with effect from June 30, 2013 and decided to appoint Stéphane Abrial to replace him with effect from July 1, 2013.

## Information on the Deputy Chief Executive Officers

### Stéphane Abrial

#### Expertise and experience

Born in 1954, Stéphane Abrial is an engineer from *École de l'Air de Salon-de-Provence* (Class of 1973). He holds degrees from *École Supérieure de Guerre Aérienne*, and the United States Air Force's Air War College in Montgomery, Alabama (1992), and the *Institut des Hautes Etudes de Défense Nationale*.

Stéphane Abrial started his career as a fighter pilot in 1977.

In 1981, he was assigned to a squadron of the German Luftwaffe in Neuburg on the Danube, first as a fighter pilot, then as flight commander.

Returning to France in 1984, he was appointed Deputy Commander then Commander of a fighter squadron in Dijon. In 1988, he led the Mirage 2000 conversion team for the Greek Air Force's first squadron, based in Tanagra. He was subsequently appointed Deputy Commander, then Commander of the Fifth Fighter Wing in Orange, which he led in the war to free Kuwait in 1991.

In 1992, Stéphane Abrial was assigned to the Office of the Chief of Staff of the Air Force in Paris, then, in 1995, to the Office of the Chief of Defence.

In 1996, he was assigned to NATO's International Military Staff in Brussels, in charge of the transformation of the integrated military structure. He was appointed Deputy to the French President's Chief of Staff in Paris in 2000, then became Head of the Prime Minister's Military Office in 2002.

In 2005, he was assigned as Commander of Air Defence and Air Operations, then in 2006, he was selected to become Chief of Staff of the Air Force with the rank of general.

In September 2009, the 28 NATO nations appointed Stéphane Abrial as Supreme Allied Commander Transformation, located in Norfolk, Virginia, United States. He was the first non-American Officer to be selected as one of the two NATO Strategic Commanders. He held this position until September 28, 2012 and left the military in October of the same year.

He joined Safran on January 2, 2013 as Advisor to Jean-Paul Herteman, Chairman and Chief Executive Officer of Safran, before being appointed Deputy Chief Executive Officer, Corporate Office on July 1, 2013.

He was appointed as a Director of the Atlantic Council in April 2013, member of the Advisory Board of *Institut Aspen France* in December 2013 and Chairman of the Board of Directors of the Paris Air and Space Museum (*Musée de l'Air et de l'Espace*) in February 2014.

#### Current offices

##### Safran Group:

- Deputy Chief Executive Officer: Safran
- Chairman: Établissements Vallaroche, since July 2013
- Director: Messier-Bugatti-Dowty, since October 2013; Sagem, since October 2013; Safran Human Resources Support, Inc., since June 2013; Safran Mexico S.A. DE C.V., since June 2013
- Permanent representative of Sagem on the Board of Directors: Morpho, since July 2013

##### Non-Group:

- Chairman of the Board of Directors: Paris Air and Space Museum (*Musée de l'Air et de l'Espace*), since February 2014
- Member of the Advisory Board: *Institut Aspen France*, since December 2013
- Director: Atlantic Council (US), since April 2013

#### Offices that expired in the last five years

None

## Ross McInnes

### Expertise and experience

Born in 1954, Ross McInnes has dual French and Australian nationality and is a graduate of Oxford University. He started his career in 1977 with Kleinwort Benson bank, first of all in London then in Rio de Janeiro. In 1980, he joined Continental Bank (now Bank of America) in which he held several positions as Vice-President in the corporate finance arm, in Chicago and then in Paris.

In 1989, he chose to move to large multinational corporations and became Chief Financial Officer of Ferruzzi Corporation of America. This group owned, in particular, Eridania Beghin Say, of which he was appointed Chief Financial Officer in 1991, then a member of the Board of Directors in 1999. The following year, Ross McInnes joined Thomson-CSF (now Thales) as Executive Vice-President and Chief Financial Officer and assisted in the group's transformation, up to 2005. He then moved to PPR (Pinault-Printemps-La Redoute) as Senior Vice-President for Finance and Strategy, before joining the Supervisory Board of Générale de Santé in 2006. At the request of the Supervisory Board, he served as acting Chairman of the Management Board of Générale de Santé from March to June 2007. He then held the position of Vice-Chairman of Macquarie Capital Europe, specialized in particular in infrastructure investments.

In March 2009, Ross McInnes joined Safran as special Advisor to the Chairman of the Executive Board, before becoming Executive Vice-President, Economic and Financial Affairs in June of that year. He was a member of the Executive Board of Safran between July 2009 and April 2011.

On April 21, 2011, he was appointed Deputy Chief Executive Officer, Finance.

### Current offices

#### Safran Group:

- Director: Aircelle; Turbomeca; Messier-Bugatti-Dowty; Morpho; Snecma; Safran USA, Inc. (US)
- Permanent representative of Établissements Vallaroche on the Board of Directors: Soreval (Luxembourg)

#### Non-Group:

- Director: Faurecia<sup>(1)</sup> (also Chairman of the Audit Committee); Financière du Planier; Eutelsat Communications<sup>(1)</sup> (also Chairman of the Audit Committee)
- Permanent representative of Santé Europe Investissements Sarl on the Board of Directors of: Générale de Santé SA<sup>(2)</sup> (also a member of the Audit Committee); Santé SA (Luxembourg)

### Offices that expired in the last five years

#### Safran Group:

- Deputy Chief Executive Officer: Safran
- Member of the Executive Board: Safran, up to April 2011
- Permanent representative of Safran on the Board of Directors: Établissements Vallaroche, up to April 2013; Messier-Dowty SA, from January 2011 to April 2011
- Director: Globe Motors, Inc. (USA), from October 9, 2013 to October 18, 2013; Sagem, up to July 2013; Vallaroche Conseil up to April 2013; SME from April to September 2011; Messier-Dowty SA up to January 2011

#### Non-Group:

- Chairman: Chartreuse & Mont-Blanc SAS, up to May 2009
- Vice-Chairman: Macquarie Capital Europe Ltd (UK), up to May 2009
- Director: Limoni SpA (Italy), up to February 2013; Santé SA (Luxembourg), up to May 2010; Macquarie Autoroutes de France SAS, up to May 2009; Eiffarie SAS, up to June 2009; Société des Autoroutes Paris-Rhin-Rhône, up to June 2009; AREA – Société des Autoroutes Rhône-Alpes, up to June 2009; Adélac SAS, up to June 2009; Chartreuse & Mont-Blanc Global Holdings SCA (Luxembourg), Chartreuse & Mont-Blanc GP Sarl (Luxembourg), Chartreuse & Mont-Blanc Holdings Sarl (Luxembourg), up to May 2009; Bienfaisance Holding, up to June 2009
- Member of the Supervisory Board: Générale de Santé<sup>(1)</sup>, up to May 2010; Pisto SAS up to May 2009
- Permanent representative of Établissements Vallaroche on the Board of Directors: La Financière de Brienne, up to January 2010
- Board Advisor: Générale de Santé<sup>(1)</sup>, up to June 2011

(1) Listed company.

(2) Ross McInnes resigned from his duties as permanent representative at the Board of Directors' meeting of March 27, 2014.

## Marc Ventre

### Expertise and experience

Born in 1950, Marc Ventre is a graduate of *École Centrale de Paris* and holds a Master of Science from the Massachusetts Institute of Technology. He joined Snecma in 1976, where he held various positions related to materials science, in the Quality Department at the Corbeil site. From 1979 to 1980, he worked at General Electric Aircraft Engines in Cincinnati in the United States, where he represented Snecma in connection with the development of the CFM56 engine, produced jointly by the two joint venture partners.

From 1981 to 1988, after an assignment at the site in Villaroche, Marc Ventre became head of the Quality Department at the Snecma plant in Gennevilliers.

He was Deputy Director of Production at Snecma from 1988 until 1991 when he was appointed as Director of the Snecma plant in Gennevilliers. In 1994, he took up the position of Director of Production and Procurement at Snecma thus covering all the industrial sites and procurement of all supplies by Snecma during the restructuring of Snecma's industrial plants and the ramp-up of CFM56 engine production.

In 1998, he became Chairman and Chief Executive Officer of Hispano-Suiza, then of Snecma Services (a company created specifically to develop airplane engine maintenance services) from 2000 to 2003, before being appointed Chairman and Chief Executive Officer of Snecma. At the end of 2006, he joined Safran as Executive Vice-President of the Aerospace Propulsion business including the activities of Snecma, Turbomeca, Microturbo, Snecma Propulsion Solide and Techspace Aero.

He was Chairman of the Governing Board of Clean Sky from February 2008 to December 2010.

He was a member of the Executive Board of Safran between July 2009 and April 2011.

From January 2011 to June 2013, he was in charge of the Civil Aviation Research Council (CORAC). He also served as President of the Alumni Association and remains a Director of *École Centrale de Paris*.

Marc Ventre is also a member of the office and Board of the French Aerospace Industries Association (GIFAS) and has been Vice-Chairman of GIFAS since July 2013.

On April 21, 2011 he was appointed Deputy Chief Executive Officer, Operations of Safran by the Board of Directors.

### Current offices

#### Safran Group:

- Deputy Chief Executive Officer: Safran
- Director: Techspace Aero (Belgium)
- Permanent representative of Safran on the Board of Directors: Snecma; Turbomeca; Aircelle; Herakles; Labinal Power Systems (formerly Labinal); Hispano-Suiza and Messier-Bugatti-Dowty

#### Non-Group:

- Chairman: Groupe des Industries Métallurgiques de la Région Parisienne (GIM), since October 2013
- Vice-Chairman of GIFAS, since July 2013
- Director: Ortec Expansion, since March 2013; *École Centrale de Paris*
- Member of the Supervisory Board: Radial<sup>(1)</sup>

### Offices that expired in the last five years

#### Safran Group:

- Member of the Executive Board: Safran, up to April 2011
- Director: Nexcelle, LLC (US), up to June 2013; Snecma Services, up to February 2009
- Permanent representative of Safran on the Board of Directors: Snecma Propulsion Solide, up to April 2012; Europropulsion, up to July 2011

#### Non-Group:

- Chairman: Civil Aviation Research Council (CORAC), up to June 2013
- Permanent representative of Safran on the Board of Directors: Arianespace Participation and Arianespace SA, up to September 2011

(1) Listed company.

## Deputy Chief Executive Officer whose term of office ended in 2013

### Dominique-Jean Chertier

#### Expertise and experience

Born in 1950, Dominique-Jean Chertier has a post-graduate degree (DEA) in the arts and is a graduate of the School of Information Sciences and Communication (Celsa). He started his professional career in 1976 as Assistant to the Director, Administration Services and Personnel at Renault International, where his duties included conducting audit assignments in the subsidiaries outside France and assignments regarding the establishment of Renault in the United States and Portugal.

In 1982, he joined Sacilor as Head of Employee Management Relations in the Group, to negotiate and implement personnel restructurings related to the French Steel Plan. He became Director of Human Resources at Air Inter in 1986. He was responsible, in particular, for personnel management related to the renewal of the aircraft fleet and the launch of the Airbus A320, a complete overhaul of the employee classification grid, as well as the development of contractual policy. During the period between 1992 and 2002, as Director General of the French national association for employment in trade and industry (Unédic), Dominique-Jean Chertier managed a large number of transformations including reforms of the unemployment insurance information systems and the treasury system, putting in place of statutory audits of the accounts and launching of the reorganization of the unemployment authorities' (Assedic) networks.

In March 2002, he joined the Snecma group as Vice-President, Human Resources but left this position in May to become an advisor to the French Prime Minister on social affairs. He returned to Snecma in October 2003 as Executive Vice-President, responsible for Social and Institutional Affairs, where he coordinated the definition of the employment policy and internal and external communications for the whole group. He also developed the group's relations with public institutions. In May 2005, when Safran was created, he became Executive Vice-President, responsible for Social and Institutional Affairs. He was also a member of the Executive Board between 2007 and April 2011.

He was a member of the Economic and Social Council (CES) up to September 2010 and also Chairman of the Board of Directors of Pôle Emploi (the French unemployment agency) up to December 2011. He is a member of the Employment Policy Council (COE). He has been on the Board of Directors of Air France since September 15, 2004 and a member of Air France's Audit and Accounting Committee since November 23, 2004.

In April 2012, he was appointed Director and member of the Audit Committee of Adecco (Switzerland).

On April 21, 2011 he was appointed Deputy Chief Executive Officer, Corporate Office of Safran. His term as Deputy Chief Executive Officer ended on June 30, 2013.

#### Offices held as of June 30, 2013

##### Safran Group:

- Chairman: Établissements Vallaroche

##### Non-Group:

- Director: Air France; Adecco<sup>(1)</sup> (Switzerland)

#### Offices that expired in the last five years

##### Safran Group:

- Deputy Chief Executive Officer: Safran
- Chairman and CEO: Établissements Vallaroche, up to April 2013
- Member of the Executive Board: Safran, up to April 2011
- Director and Chairman of the Board of Directors Safran Employment Services, Inc. (US) up to December 2011; Safran Human Resources Support, Inc. (US), up to October 2010
- Director: Safran Consulting (formerly Safran Conseil), up to November 2009
- Permanent representative of Établissements Vallaroche on the Board of Directors: Safran Consulting (formerly Safran Conseil), up to June 2012; Vallaroche Conseil, up to April 2013

##### Non-Group:

- Chairman of the Board of Directors: Pôle Emploi, up to December 2011

(1) Listed company.



## 6.2 EXECUTIVE CORPORATE OFFICER COMPENSATION

### 6.2.1 PRINCIPLES AND RULES FOR DETERMINING THE COMPENSATION OF EXECUTIVE MANAGEMENT

This section was prepared with the assistance of the Appointments and Compensation Committee.

#### Fixed and variable compensation, benefits-in-kind

Since May 2011, the compensation of the Chief Executive Officer and Deputy Chief Executive Officers, set by the Board of Directors, upon the recommendation of the Appointments and Compensation Committee has comprised a fixed and a variable component. Two-thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. Management executives receive a company car as a benefit-in-kind.

#### FIXED COMPENSATION

The Executive Corporate Officers' fixed annual compensation for 2013 was as follows:

- Jean-Paul Herteman (Chairman and Chief Executive Officer): fixed annual compensation of €730,000 (up to January 1, 2014), set by the Board of Directors at its meeting of May 26, 2011. At its meeting of December 11, 2013, the Board of Directors decided to maintain his fixed compensation at €730,000 until the end of his term of office, i.e., until the Ordinary Shareholders' Meeting to be held in 2015;
- Ross McInnes (Deputy Chief Executive Officer, Finance): fixed annual compensation of €500,000 (up to January 1, 2016), set by the Board of Directors at its meeting of December 12, 2012;
- Marc Ventre (Deputy Chief Executive Officer, Operations): fixed annual compensation of €500,000 (up to January 1, 2016), set by the Board of Directors at its meeting of December 12, 2012;
- Stéphane Abrial (Deputy Chief Executive Officer, Corporate Office since July 1, 2013): fixed annual compensation of €400,000 set by the Board of Directors at its meeting of July 25, 2013;
- Dominique-Jean Chertier (Deputy Chief Executive Officer, Corporate Office until June 30, 2013): fixed annual compensation of €480,000 (up to January 1, 2014), set by the Board of Directors at its meeting of May 26, 2011.

#### VARIABLE COMPENSATION

The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.

Individual objectives (four to five maximum) are determined by the Board of Directors for each year. These objectives are not based on the responsibilities related to the Executive Corporate Officers' position but on specific objectives relative to key performance criteria.

#### Variable compensation for 2013

For 2013, the Board of Directors determined the financial performance criteria based on the following components:

- weighting:
  - EBIT: 60%,
  - working capital: 10%, and
  - free cash flow: 30%;
- threshold levels (based on annual budgets):
  - 80% of EBIT target,
  - 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and
  - 65% of free cash flow target.

The calculation methods, based on the threshold and maximum applied, were as follows:

- the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);
- if an objective was exceeded, the variable compensation allocated in respect of this objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130%, which applied irrespective of the extent to which the objective was exceeded, as follows:
  - if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,
  - if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and
  - if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.



Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated.

These methods are based on the decisions of the Board of Directors' meeting of December 12, 2012, as regards Jean-Paul Herteman, Ross McInnes, Marc Ventre and Dominique-Jean Chertier, and the Board meeting of July 25, 2013, as regards Stéphane Abrial.

At these meetings, the Board of Directors also determined the executive management's individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They cannot be disclosed in this Registration Document for reasons of strategic and competitive sensitivity.

At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to the management executives for 2013, after consultation with the Appointments and Compensation Committee.

As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above.

The achievement rate of the variable compensation objectives set for 2013 resulted in the following variable compensation payments:

- Jean-Paul Herteman (Chairman and Chief Executive Officer): €803,000;
- Stéphane Abrial (Deputy Chief Executive Officer, Corporate Office since July 1, 2013): €200,000 for the period from July 1 to December 31, 2013;
- Ross McInnes (Deputy Chief Executive Officer, Finance): €550,000;
- Marc Ventre (Deputy Chief Executive Officer, Operations): €550,000;
- Dominique-Jean Chertier (Deputy Chief Executive Officer, Corporate Office until June 30, 2013): €244,000 for the period from January 1 to June 30, 2013.

#### Variable compensation for 2014

At its meeting of December 11, 2013, the Board of Directors determined the financial performance criteria for 2014 based on the following components, which are the same as those used for 2013:

- weighting:
  - EBIT: 60%,
  - working capital: 10%, and
  - free cash flow: 30%;
- threshold levels (based on annual budgets):
  - 80% of EBIT target,
  - 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and
  - 65% of free cash flow target.

The calculation methods, based on the threshold and maximum levels applied, are as follows:

- the threshold level of each performance metric results in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);
- if an objective is exceeded, the variable compensation allocated in respect of this objective increases beyond 100% in proportion to the extent to which the objective is exceeded, capped at a maximum of 130%, which applies irrespective of the extent to which the objective is exceeded, as follows:
  - if 130% (or more) of the EBIT target is achieved, the maximum 130% of variable compensation will be payable for this metric,
  - if 65% (or less) of the working capital target is achieved, the maximum 130% of variable compensation will be payable for this metric, and
  - if 130% (or more) of the free cash flow target is achieved, the maximum 130% of variable compensation will be payable for this metric.

At its meeting of December 11, 2013, the Board of Directors also determined individual objectives for each Executive Corporate Officer that were not solely financial and whose achievement is measurable. These objectives mainly relate to the Group's main strategic challenges in terms of management, programs, competitiveness, and external growth. They cannot be disclosed in this Registration Document for reasons of strategic and competitive sensitivity.

Total variable compensation can reach 100% of fixed compensation if all of the objectives are achieved and up to 130% if the performance, assessed based on both individual objectives and in proportion to the Group's performance for the financial objectives, is exceeded and substantiated.

This variable compensation structure applies, using adapted methods, to eligible executive managers throughout the Group.

#### PENSION PLAN

No specific supplementary pension plan has been set up for Executive Management.

As part of the Group's human resources management, on October 31, 2013, the Board of Directors of Safran decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which executive managers within the Group, currently numbering around 400, are eligible (see section 5.3.4).

On December 11, 2013, the Board of Directors decided to extend this plan to the four Executive Corporate Officers, namely the Chairman and Chief Executive Officer (Jean-Paul Herteman) and the Deputy Chief Executive Officers (Stéphane Abrial, Ross McInnes and Marc Ventre).

The methods used to calculate the benefits that would be paid to these Corporate Officers are exactly the same as those used for the other executive managers who benefit from the plan, namely:

- the amount of the benefits will be calculated based on the average compensation over the previous three years and will take into account the seniority of the beneficiary concerned within the category of top executives (*hors statut*) and Officers

(with at least five years of service), and will be equal to 1.8% of this reference compensation per year of service, capped at 18%;

- the total replacement rate (all basic, additional and supplementary retirement benefits) shall not exceed 35% of the reference compensation;
- the annual amount of the supplementary retirement benefits is capped at three times the annual social security ceiling in force at the date that the general social security retirement pension is paid (in 2013 the ceiling was €37,032);
- the payment of these supplementary retirement benefits is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

Accordingly, the potential annual benefits to which each Executive Corporate Officer would be entitled, subject to their fulfilling the aforementioned conditions, will be capped at three times the annual social security ceiling, i.e., €111,096 per year, based on the ceiling in 2013.

Pursuant to article L.225-42-1 of the French Commercial Code, the commitments made by the Board to the Executive Corporate Officers will be submitted to the Annual General Meeting of May 27, 2014 in accordance with article L.225-40 of the French Commercial Code (see sections 8.2.1 and 8.2.2 of this Registration Document).

In the case of Jean-Paul Herteman, this commitment supersedes the commitment approved by the Board of Directors at its meeting of April 21, 2011, pursuant to which, in the event that a supplementary defined benefit pension plan is set up for all the Group senior executives, the Chairman and Chief Executive Officer would be covered by this plan if performance conditions are met. Shareholders voted against the resolution dealing with this related-party commitment at the May 31, 2012 Ordinary and Extraordinary Shareholders' Meeting.

## OTHER

As Company employees, the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers were previously covered by supplementary personal risk insurance and defined contribution pension plans for managerial-grade staff.

At its meeting of July 27, 2011, the Board of Directors decided to authorize Jean-Paul Herteman, Chairman and Chief Executive Officer, and Ross McInnes, Marc Ventre, Dominique-Jean Chertier, Deputy Chief Executive Officers, to continue to be covered by these supplementary personal risk insurance and defined contribution pension plans in accordance with the provisions of article L.225-42-1 of the French Commercial Code (*Code de commerce*), in the same conditions as the personnel concerned. The contributions are based on the compensation (fixed and variable) that they receive for their role as Chief Executive Officer and Deputy Chief Executive Officer.

Shareholders voted against the resolution dealing with this related-party commitment at the May 31, 2012 Ordinary and Extraordinary Shareholders' Meeting.

The Company continued to meet these commitments which were validly authorized by the Board of Directors in accordance with article L.225-41 of the French Commercial Code.

At its meeting of July 25, 2013, the Board of Directors decided to authorize Stéphane Abrial, Deputy Chief Executive Officer, to continue to be covered by supplementary personal risk insurance and defined contribution pension plans in accordance with the provisions of article L.225-42-1 of the French Commercial Code, as he previously did as an employee and in the same conditions as the personnel concerned. The contributions are based on the compensation (fixed and variable) that he receives for his role as Deputy Chief Executive Officer. This related party commitment will be submitted to the Annual General Meeting of May 27, 2014 in accordance with article L.225-40 of the French Commercial Code (see sections 8.2.1 and 8.2.2 of this Registration Document).

## Compensation or benefits paid in respect of the termination of office or a change of duties

According to the Board of Directors' decision of April 21, 2011, taken pursuant to article L.225-42-1 of the French Commercial Code, in the case of early termination of the term of office of Jean-Paul Herteman as Chairman and Chief Executive Officer, for any reason whatsoever, save serious or gross misconduct (including the consequences of a merger with another company or absorption by another company, a health incident or strategic differences with the other Board members), he was entitled to a termination payment equal to two years of fixed and variable compensation.

The reference compensation was equal to the average fixed and variable compensation received during the three years preceding his termination.

This payment would have been made only if the variable compensation received over the three fiscal years preceding his termination is equal to or higher than 80% of the target variable compensation.

Otherwise, the amount of the termination payment would have been reduced or eliminated as decided by the Board of Directors.

Shareholders voted against the resolution dealing with this related-party commitment at the May 31, 2012 Ordinary and Extraordinary Shareholders' Meeting.

Following the Board's decision of December 11, 2013 to render Jean-Paul Herteman, Chairman and Chief Executive Officer, eligible for the supplementary defined benefit pension plan whose implementation was decided at the Board of Directors' meeting of October 31, 2013, he irrevocably waived his right to benefit from the commitments made to him in 2011, including eligibility for this termination benefit: this was duly noted by the Board of Directors' meeting of December 11, 2013.

## Summary tables showing the individual compensation of Executive Management

### JEAN-PAUL HERTEMAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Summary of compensation, stock options and shares granted	2012	2013
Compensation due for the year	€1,480,748	€1,577,399
(broken down in the table below)	incl. a fixed component of €730,000	incl. a fixed component of €730,000
Value of options granted during the year	No options granted	No options granted
Value of performance shares granted during the year	No performance shares granted	No performance shares granted

Summary of compensation (gross)	2012		2013	
	Amounts due for the year	Amounts paid during the year	Amounts due for the year	Amounts paid during the year
Fixed compensation	€730,000	€730,000	€730,000	€730,000
Variable compensation	€706,000	€708,100 <sup>(1)</sup>	€803,000	€706,000
Extraordinary compensation	None	None	None	None
Attendance fees	€40,657	€28,293 <sup>(2)</sup>	€40,657	€40,657
Benefits-in-kind <sup>(3)</sup>	€4,091	€4,091	€3,742	€3,742
<b>TOTAL</b>	<b>€1,480,748</b> <b>incl. a fixed</b> <b>component of</b> <b>€730,000</b>	<b>€1,470,484</b> <b>incl. a fixed</b> <b>component of</b> <b>€730,000</b>	<b>€1,577,399</b> <b>incl. a fixed</b> <b>component of</b> <b>€730,000</b>	<b>€1,480,399</b> <b>incl. a fixed</b> <b>component of</b> <b>€730,000</b>

(1) As Chairman of the Executive Board, up to April 21, 2011 and as Chairman and Chief Executive Officer from April 21, 2011.

(2) From April 21, 2011 to December 31, 2011, for his terms of office as Director and Chairman of the Board of Directors.

(3) Company car.

### STÉPHANE ABRIAL, DEPUTY CHIEF EXECUTIVE OFFICER, CORPORATE OFFICE FROM JULY 1, 2013

Summary of compensation, stock options and shares granted	2012	2013 <sup>(1)</sup>	
		In respect of his employment contract, for the period from January 1 to June 30	In respect of his corporate office, for the period from July 1 to December 31
Compensation due for the year	-	€361,709	€401,709
(broken down in the table below)		<b>incl. a fixed</b> <b>component of</b> <b>€200,000</b>	<b>incl. a fixed</b> <b>component of</b> <b>€200,000</b>
Value of options granted during the year	-	No options granted	No options granted
Value of performance shares granted during the year	-	No performance shares granted	No performance shares granted

(1) As an employee of Safran until June 30, 2013 and as Deputy Chief Executive Officer from July 1, 2013 (employment contract suspended since this date).

Summary of compensation (gross)	2012		2013 <sup>(1)</sup>			
	Amounts due for the year	Amounts paid during the year	Amounts due for the year		Amounts paid during the year	
			In respect of his employment contract, for the period from January 1 to June 30	In respect of his corporate office, for the period from July 1 to December 31	In respect of his employment contract, for the period from January 1 to June 30	In respect of his corporate office, for the period from July 1 to December 31
Fixed compensation	-	-	€200,000	€200,000	€200,000	€200,000
Variable compensation	-	-	€160,000	€200,000	None	None
Extraordinary compensation	-	-	None	None	None	None
Attendance fees	-	-	None	None	None	None
Benefits-in-kind <sup>(2)</sup>	-	-	€1,709	€1,709	€1,709	€1,709
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>€361,709 including a fixed component of €200,000</b>	<b>€401,709 including a fixed component of €200,000</b>	<b>€201,709 including a fixed component of €200,000</b>	<b>€201,709 including a fixed component of €200,000</b>
<b>TOTAL</b>			<b>€763,418 including a fixed component of €400,000</b>		<b>€403,418 including a fixed component of €400,000</b>	

(1) As an employee of Safran until June 30, 2013 and as Deputy Chief Executive Officer from July 1, 2013 (employment contract suspended since this date).

(2) Company car.

## ROSS MCINNES, DEPUTY CHIEF EXECUTIVE OFFICER, FINANCE

Summary of compensation, stock options and shares granted	2012	2013
Compensation due for the year	€865,091	€1,054,091
(broken down in the table below)	incl. a fixed component of €420,000	incl. a fixed component of €500,000
Value of options granted during the year	No options granted	No options granted
Value of performance shares granted during the year	No performance shares granted	No performance shares granted

Summary of compensation (gross)	2012		2013	
	Amounts due for the year	Amounts paid during the year	Amounts due for the year	Amounts paid during the year
Fixed compensation	€420,000	€420,000	€500,000	€500,000
Variable compensation	€441,000	€459,583 <sup>(1)</sup>	€550,000	€441,000
Extraordinary compensation	None	€9,056 <sup>(2)</sup>	None	None
Attendance fees	None	None	None	None
Benefits-in-kind <sup>(3)</sup>	€4,091	€4,091	€4,091	€4,091
<b>TOTAL</b>	<b>€865,091 incl. a fixed component of €420,000</b>	<b>€892,730 incl. a fixed component of €420,000</b>	<b>€1,054,091 incl. a fixed component of €500,000</b>	<b>€945,091 incl. a fixed component of €500,000</b>

(1) As Executive Vice-President, Economic and Financial Affairs, up to April 21, 2011 and as Deputy Chief Executive Officer, Finance, from April 21, 2011.

(2) Payments for the period from January 1 to April 21, 2011 under statutory and optional profit-sharing schemes; 2012 Company contribution.

(3) Company car.

## MARC VENTRE, DEPUTY CHIEF EXECUTIVE OFFICER, OPERATIONS

Summary of compensation, stock options and shares granted	2012	2013
Compensation due for the year	€824,003	€1,054,003
(broken down in the table below)	incl. a fixed component of €400,000	incl. a fixed component of €500,000
Value of options granted during the year	No options granted	No options granted
Value of performance shares granted during the year	No performance shares granted	No performance shares granted

	2012		2013	
Summary of compensation (gross)	Amounts due for the year	Amounts paid during the year	Amounts due for the year	Amounts paid during the year
Fixed compensation	€400,000	€400,000	€500,000	€500,000
Variable compensation	€420,000	€447,500 <sup>(1)</sup>	€550,000	€420,000
Extraordinary compensation	None	€7,056 <sup>(2)</sup>	None	None
Attendance fees	None	None	None	None
Benefits-in-kind <sup>(3)</sup>	€4,003	€4,003	€4,003	€4,003
<b>TOTAL</b>	<b>€824,003</b> <b>incl. a fixed component of €400,000</b>	<b>€858,559</b> <b>incl. a fixed component of €400,000</b>	<b>€1,054,003</b> <b>incl. a fixed component of €500,000</b>	<b>€924,003</b> <b>incl. a fixed component of €500,000</b>

(1) As Executive Vice-President, Aerospace Propulsion business, up to April 21, 2011 and as Deputy Chief Executive Officer, Operations, from April 21, 2011.

(2) Payments for the period from January 1 to April 21, 2011 under statutory and optional profit-sharing schemes.

(3) Company car.

## DOMINIQUE-JEAN CHERTIER, DEPUTY CHIEF EXECUTIVE OFFICER, CORPORATE OFFICE, UNTIL JUNE 30, 2013

Summary of compensation, stock options and shares granted	2012	2013 <sup>(1)</sup>
Compensation due for the year	€996,846	€486,423
(broken down in the table below)	incl. a fixed component of €480,000	incl. a fixed component of €240,000
Value of options granted during the year	No options granted	No options granted
Value of performance shares granted during the year	No performance shares granted	No performance shares granted

(1) Until June 30, 2013.

Summary of compensation (gross)	2012		2013 <sup>(4)</sup>	
	Amounts due for the year	Amounts paid during the year	Amounts due for the year	Amounts paid during the year
Fixed compensation	€480,000	€480,000	€240,000	€240,000
Variable compensation	€512,000	€465,600 <sup>(1)</sup>	€244,000	€512,000
Extraordinary compensation	None	€9,056 <sup>(2)</sup>	None	None
Attendance fees	None	None	None	None
Benefits-in-kind <sup>(3)</sup>	€4,846	€4,846	€2,423	€2,423
<b>TOTAL</b>	<b>€996,846</b> incl. a fixed component of €480,000	<b>€959,502</b> incl. a fixed component of €480,000	<b>€486,423</b> incl. a fixed component of €240,000	<b>€754,423</b> incl. a fixed component of €240,000

(1) As Executive Vice-President, Social, Institutional and Legal Affairs, up to April 21, 2011 and as Deputy Chief Executive Officer, Corporate Office, from April 21, 2011.

(2) Payments for the period from January 1 to April 21, 2011 under statutory and optional profit-sharing schemes; 2012 Company contribution.

(3) Company car.

(4) Until June 30, 2013.

#### SUMMARY TABLE OF EMPLOYMENT CONTRACTS, SUPPLEMENTARY PENSION PLANS AND TERMINATION BENEFITS OF THE EXECUTIVE MANAGEMENT TEAM

Name	Position	Employment contract	Supplementary pension plan	Compensation or benefits liable to be due for termination of office, change in duties, or non-competition agreements
Jean-Paul Herteman	Chairman and Chief Executive Officer	No <sup>(1)</sup>	Yes <sup>(6)</sup>	No <sup>(2)</sup>
Stéphane Abrial	Deputy Chief Executive Officer	Suspended <sup>(3)</sup>	Yes <sup>(6)</sup>	No
Ross McInnes	Deputy Chief Executive Officer	Suspended <sup>(4)</sup>	Yes <sup>(6)</sup>	No
Marc Ventre	Deputy Chief Executive Officer	Suspended <sup>(4)</sup>	Yes <sup>(6)</sup>	No
Dominique-Jean Chertier	Deputy Chief Executive Officer	Suspended <sup>(5)</sup>	- <sup>(7)</sup>	No

(1) His employment contract terminated on April 21, 2011.

(2) See section 6.2.1 – Principles and rules for determining the compensation of Executive Management.

(3) Employment contract suspended since July 1, 2013.

(4) Employment contract suspended since April 21, 2011.

(5) Employment contract suspended from April 21, 2011 to June 30, 2013.

(6) No pension plan has been set up specifically for Executive Management. They are covered by supplementary personal risk insurance and defined contribution pension plans, in the same conditions as the rest of Group's managerial-grade staff (see sections 6.2.1 and 8.5.1) and, following the Board of Directors' decision of December 11, 2013, the new supplementary defined benefit pension plan implemented as of January 1, 2014 for Group executive managers (see sections 6.2.1 and 8.5.1).

(7) The supplementary defined benefit pension plan was put in place after Dominique-Jean Chertier's corporate office ended.

## 6.2.2 PRINCIPLES AND RULES FOR DETERMINING THE COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS

### Compensation, attendance fees

Only the two Directors representing employee shareholders have an employment contract with subsidiaries of the Company.

The other members of the Board of Directors, except for the Chairman and Chief Executive Officer, Jean-Paul Herteman, only receive attendance fees as compensation.

Attendance fees are provided for in Article 17 of the Company's bylaws. The total amount of attendance fees was set by the Shareholders' Meeting of May 28, 2013 at €670,000 for 2013.

The methods of allocation of the total amount of attendance fees are set by the Board of Directors' Internal Rules.

In accordance with legal provisions, attendance fees allocated to representatives of the French State are paid to the French Treasury.

The Internal Rules, prior to being amended on March 20, 2014 provided for the following allocation method, which was applied for attendance fees allocated for fiscal year 2013: the Directors waived their right to a portion of their fees in favor of the Board Advisor(s), representing 4.5% of the total amount. A fixed portion of these fees, representing half of the balance (total amount minus the Board Advisors' portion), was split among the Directors based on the number of shares they owned, the Chairman and Vice-Chairman having each one and a half shares and the other Directors one share. The remaining half of the balance was allocated according to (i) committee membership and (ii) the rate of attendance by members at Board of Directors' meetings and the meetings of the committees to which they belonged.

At its meeting of February 19, 2014, the Board of Directors decided to allocate the attendance fees for 2013 pursuant to these rules.

The Internal Rules, as amended on March 20, 2014, provide for the following allocation method, which will be applied as from the allocation of attendance fees for 2014:

- a fixed portion is allocated amongst the Directors as follows:
  - two shares each for the Chairman and the Vice-Chairman of the Board of Directors,
  - one share for each of the other Directors and the Board Advisor(s);
- a variable portion, according to the Directors' attendance at meetings of the Board and its committees, is allocated amongst the members of the Board, with the exception of the Chairman, as follows:
  - all Directors and Board Advisors have a share corresponding to full attendance at all meetings at the beginning of the year and receive variable fees in proportion to their overall attendance, it being specified that this variable portion:
    - is increased to two shares for Directors residing outside of mainland France, and

- is increased by:
  - two shares for the Chairman of the Audit and Risks Committee,
  - one and a half shares each for the Chairman of the Appointments and Compensation Committee and the Strategy and Major Projects Committee,
  - one share for each membership of a committee (other than the committee Chairman).

The value of one share corresponds each year to the amount of the total fees set for the year by the Shareholders' Meeting divided by the theoretical maximum number of shares, as determined above.

Every year, the Board of Directors records the number of shares of each Director giving the right to attendance fees and decides whether or not to allocate any fees that have not been allocated due to less than full attendance at meetings.

### Stock options

None.

### Performance shares

None.

### Free share grants

Among the members of the Board of Directors, only the representatives of the employee shareholders benefited, in their capacity as employees of the Company's subsidiaries, from the grant of 100 existing Safran shares free of consideration, delivered in April 2011, in relation to the share grant plans set up by the Executive Board on April 3, 2009 to employees of Group companies within the scope of the European Works Council.



## Summary table of attendance fees paid to non-executive Directors

	Amount of attendance fees			
	2012		2013	
Non-executive Directors (excluding representatives of the French State)	Gross amount	Net amount paid in 2013	Gross amount	Net amount paid in 2014
Christian Streiff (Director as of May 28, 2013)	-	-	€36,531.51	€23,197.51 <sup>(1)</sup>
Marc Aubry	€30,659.48	€19,468.77 <sup>(1)</sup>	€35,558.93	€22,579.92 <sup>(1)</sup>
Giovanni Bisignani	€48,940.91	€34,258.64 <sup>(2)</sup>	€47,821.03	€33,474.72 <sup>(2)</sup>
Jean-Lou Chameau	€30,659.48	€21,461.64 <sup>(2)</sup>	€30,659.48	€21,461.64 <sup>(2)</sup>
Monique Cohen (Director as of May 28, 2013)	-	-	€23,211.14	€14,739.07 <sup>(1)</sup>
Odile Desforges	€39,800.19	€25,273.12 <sup>(1)</sup>	€46,589.43	€29,584.29 <sup>(1)</sup>
Jean-Marc Forneri	€44,370.55	€28,175.30 <sup>(1)</sup>	€43,530.65	€27,641.96 <sup>(1)</sup>
Christian Halary	€30,659.48	€19,468.77 <sup>(1)</sup>	€30,659.48	€19,468.77 <sup>(1)</sup>
Xavier Lagarde	€39,800.19	€25,273.12 <sup>(1)</sup>	€39,240.23	€24,917.54 <sup>(1)</sup>
Michel Lucas (Director until May 28, 2013)	€44,370.55	€28,175.30 <sup>(1)</sup>	€17,869.78	€11,347.31 <sup>(1)</sup>
Elisabeth Lulin	€39,800.19	€25,273.12 <sup>(1)</sup>	€39,240.26	€24,917.56 <sup>(1)</sup>
Francis Mer (Director and Vice-Chairman until May 28, 2013)	€63,508.92	€40,328.17 <sup>(1)</sup>	€25,577.57	€16,241.75 <sup>(1)</sup>
<b>TOTAL ATTENDANCE FEES PAID TO MEMBERS OF THE BOARD OF DIRECTORS EXCLUDING REPRESENTATIVES OF THE FRENCH STATE</b>	<b>€412,569.94</b>	<b>€267,155.95</b>	<b>€416,489.49</b>	<b>€269,572.04</b>
Payment to the French Treasury for State representatives	€186,622.91	€186,622.92	€182,703.37	€182,703.37
<b>Total attendance fees paid to non-executive Directors</b>	<b>€599,192.85<sup>(3)</sup></b>	<b>€453,778.86</b>	<b>€599,192.86<sup>(4)</sup></b>	<b>€452,275.41</b>

(1) After 21% withholding tax for natural persons tax-domiciled in France (in accordance with article 117 quater of the French Tax Code (Code général des impôts)) and social security contributions of 15.5%.

(2) After 30% withholding tax for natural persons tax-domiciled outside of France.

(3) Jean-Paul Herteman was paid attendance fees in a gross amount of €40,657.14, as executive Director, and Caroline Grégoire-Sainte Marie was paid attendance fees in a gross amount of €30,150 (€19,145.25<sup>(1)</sup> net), as Board Advisor, bringing the total amount of attendance fees to €670,000 for 2012.

(4) Jean-Paul Herteman was paid attendance fees in a gross amount of €40,657.14, as executive Director, and Caroline Grégoire-Sainte Marie was paid attendance fees in a gross amount of €30,150 (€19,145.25<sup>(1)</sup> net), as Board Advisor, bringing the total amount of attendance fees to €670,000 for 2013.

Marc Aubry received €70,353 in gross compensation in 2013 in respect of his employment contract with Snecma. He also received statutory and optional profit sharing as well as a Company contribution on the same basis and under the same terms as the other employees from the Group's companies.

Christian Halary received €121,669 in gross compensation in 2013 in respect of his employment contract with Sagem. He also received statutory and optional profit sharing as well as a Company contribution on the same basis and under the same terms as the other employees from the Group's companies.

## Summary table of free shares granted to members of the Board of Directors

Members	Date of share grant plan	Total number of free shares granted (due to their status as Safran employees)	Share value	Vesting date	Availability date
Marc Aubry	April 3, 2009	100	€7.54	April 3, 2011	April 3, 2013
Christian Halary	April 3, 2009	100	€7.54	April 3, 2011	April 3, 2013

## 6.3 SHARE TRANSACTIONS PERFORMED BY CORPORATE OFFICERS AND OTHER MANAGERS

The transactions performed in 2013 in Safran shares and related financial instruments by Safran's Corporate Officers, management executives, other managers and persons having close personal links with them, referred to in a) to c) of article L.621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), and of which the Company is aware, are as follows:

Person making the disclosure	Nature of the transaction	Value date	Number of shares <sup>(2)</sup>	Price per share
Marc Aubry	Sale	January 4, 2013	404	€33.18
Jean-Pierre Cojan	Acquisition <sup>(1)</sup>	February 22, 2013	245	€34.195
Yves Leclère	Acquisition <sup>(1)</sup>	February 22, 2013	245	€34.195
Philippe Petitcolin	Acquisition <sup>(1)</sup>	February 22, 2013	245	€34.195
Xavier Lagarde	Sale	February 25, 2013	1,444	€34.63
Marc Aubry	Acquisition <sup>(1)</sup>	February 28, 2013	65	€35.080
Xavier Lagarde	Sale	February 28, 2013	2,708	€35.080
Jean-Pierre Cojan	Acquisition <sup>(3)</sup>	March 28, 2013	134	€34.795
Yves Leclère	Acquisition <sup>(3)</sup>	March 28, 2013	134	€34.795
Philippe Petitcolin	Acquisition <sup>(3)</sup>	March 28, 2013	134	€34.795
Christian Halary	Acquisition <sup>(1)</sup>	April 26, 2013	106	€37.725
Marc Aubry	Sale	May 10, 2013	185	€39.245
Christian Halary	Sale	May 15, 2013	487	€39.62
Christian Streiff	Acquisition	May 30, 2013	500	€41.6513
Marc Aubry	Acquisition <sup>(5)</sup>	June 3, 2013	29	€40.36
Dominique-Jean Chertier	Acquisition <sup>(5)</sup>	June 3, 2013	89	€40.36
Jean-Pierre Cojan	Acquisition <sup>(5)</sup>	June 3, 2013	89	€40.36
Bruno Cotté	Acquisition <sup>(5)</sup>	June 3, 2013	19	€40.36
Christian Halary	Acquisition <sup>(5)</sup>	June 3, 2013	31	€40.36
Jean-Paul Herteman	Acquisition <sup>(5)</sup>	June 3, 2013	294	€40.36
Xavier Lagarde	Acquisition <sup>(5)</sup>	June 3, 2013	90	€40.36
Yves Leclère	Acquisition <sup>(5)</sup>	June 3, 2013	322	€40.36
Philippe Petitcolin	Acquisition <sup>(5)</sup>	June 3, 2013	217	€40.36
Ross McInnes	Acquisition <sup>(5)</sup>	June 3, 2013	42	€40.36
Marc Ventre	Acquisition <sup>(5)</sup>	June 3, 2013	152	€40.36
Marc Aubry	Sale	June 14, 2013	205	€40.96
Jean-Pierre Cojan	Acquisition <sup>(1)</sup>	June 14, 2013	204	€40.96
Yves Leclère	Acquisition <sup>(1)</sup>	June 14, 2013	204	€40.96
Philippe Petitcolin	Acquisition <sup>(1)</sup>	June 14, 2013	204	€40.96
Marc Aubry	Acquisition <sup>(4)</sup>	June 28, 2013	32	€40.125
Jean-Pierre Cojan	Acquisition <sup>(4)</sup>	June 28, 2013	46	€40.125
Christian Halary	Acquisition <sup>(4)</sup>	June 28, 2013	46	€40.125

(1) Optional employee profit-sharing.

(2) Or number of shares corresponding to units subscribed in the Group corporate mutual fund.

(3) Statutory employee profit-sharing.

(4) Company contribution.

(5) Investment of dividend and interim dividend in the Group employee savings plan.

## SHARE TRANSACTIONS PERFORMED BY CORPORATE OFFICERS AND OTHER MANAGERS

Person making the disclosure	Nature of the transaction	Value date	Number of shares <sup>(2)</sup>	Price per share
Yves Leclère	Acquisition <sup>(4)</sup>	June 28, 2013	46	€40.125
Philippe Petitcolin	Acquisition <sup>(4)</sup>	June 28, 2013	46	€40.125
Christian Halary	Sale	July 30, 2013	247	€43.716
Jean-Pierre Cojan	Acquisition <sup>(3)</sup>	October 18, 2013	2	€45.67
Xavier Lagarde	Sale	October 31, 2013	4,249	€47.075
Marc Aubry	Acquisition <sup>(5)</sup>	December 16, 2013	17	€49.00
Jean-Pierre Cojan	Acquisition <sup>(5)</sup>	December 16, 2013	57	€49.00
Bruno Cotté	Acquisition <sup>(5)</sup>	December 16, 2013	12	€49.00
Christian Halary	Acquisition <sup>(5)</sup>	December 16, 2013	17	€49.00
Jean-Paul Herteman	Acquisition <sup>(5)</sup>	December 16, 2013	181	€49.00
Xavier Lagarde	Acquisition <sup>(5)</sup>	December 16, 2013	56	€49.00
Ross McInnes	Acquisition <sup>(5)</sup>	December 16, 2013	26	€49.00
Marc Ventre	Acquisition <sup>(5)</sup>	December 16, 2013	94	€49.00

(1) Optional employee profit-sharing.

(2) Or number of shares corresponding to units subscribed in the Group corporate mutual fund.

(3) Statutory employee profit-sharing.

(4) Company contribution.

(5) Investment of dividend and interim dividend in the Group employee savings plan.

## 6.4 AUDIT FEES

Pursuant to article R.233-14, paragraph 17 of the French Commercial Code, the following table shows the amount of the fees paid to the Group's Statutory Auditors as included on the consolidated income statement for the fiscal year, a distinction being made between fees charged for the statutory audit of the consolidated financial statements and those charged for advice and services falling within the scope of assistance directly related to the statutory audit engagement with regard to the consolidated financial statements. The fees shown for subsidiaries are those consolidated according to the full consolidation method.

(in € millions)	Ernst & Young				Mazars				Total			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%		Amount (excl. VAT)		%	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
<b>Audit</b>												
1) Statutory audit, certification, review of parent company and consolidated financial statements												
1.a) Safran (issuer)	0.76	0.85	19%	20%	0.76	0.84	18%	19%	1.52	1.69	19%	19%
1.b) Subsidiaries	2.98	3.18	75%	73%	3.26	3.39	77%	77%	6.24	6.57	76%	75%
2) Other engagements and services directly related to the statutory audit engagement												
2.a) Safran (issuer)	0.07	0.14	2%	3%	0.07	0.08	2%	2%	0.15	0.22	2%	3%
2.b) Subsidiaries	0.15	0.16	4%	4%	0.13	0.09	3%	2%	0.28	0.24	3%	3%
<b>Sub-total</b>	<b>3.96</b>	<b>4.33</b>	<b>100%</b>	<b>100%</b>	<b>4.22</b>	<b>4.40</b>	<b>100%</b>	<b>100%</b>	<b>8.19</b>	<b>8.72</b>	<b>100%</b>	<b>100%</b>
<b>Other services rendered by the network to fully consolidated subsidiaries</b>												
3.a) Legal, tax, employee-related	-	-	-	-	-	-	-	-	-	-	-	-
3.b) Other (provide details if >10% of audit fees)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>3.96</b>	<b>4.33</b>	<b>100%</b>	<b>100%</b>	<b>4.22</b>	<b>4.40</b>	<b>100%</b>	<b>100%</b>	<b>8.19</b>	<b>8.72</b>	<b>100%</b>	<b>100%</b>

### Note 1 – Statutory audit, certification, review of parent company and consolidated financial statements

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These services include, but are not limited to, the engagements defined by applicable laws and regulations and set out in sections 2, 5 and 6 of the manual of professional standards drafted by the French institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes* – CNCC).

They mainly concern the professional services rendered by the Statutory Auditors and other persons responsible for audits, members of their networks, certifying the parent company and consolidated financial statements of the parent company and fully consolidated subsidiaries in France and other countries.

### Note 2 – Other engagements and services directly related to the statutory audit engagement

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Other engagements and services directly related to the audit engagement and rendered by the Statutory Auditor or a member of its network concern services entering into the scope of services usually rendered in conjunction with the statutory audit engagement (drafting of specific reports and statements, due diligence procedures on the acquisition or divestment of an activity or of companies to be included in or removed from the scope of consolidation).

### Note 3 – Legal and tax services

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The services concerned are assignments for the provision of legal or tax assistance in general on a non-recurring basis and by agreement. These engagements mainly concern assistance with fulfilling tax requirements not related to the statutory audit engagement and carried out in other countries.

### Note 4 – Other services

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These services cover all other specific assignments in general on a non-recurring basis and by agreement.

## 6.5 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

### REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING OF MAY 27, 2014, PURSUANT TO THE PROVISIONS OF ARTICLE L.225-37 OF THE FRENCH COMMERCIAL CODE

To prepare this report, the Chairman of the Board of Directors consulted the Audit and Internal Control Department and the Group Risk and Insurance Department. This report was reviewed by the Audit and Risk Committee on March 17, 2014 before being submitted to the Board of Directors, which approved it at its meeting on March 20, 2014.

#### 6.5.1 COMPOSITION, ORGANIZATION AND WORK OF THE BOARD OF DIRECTORS

##### The Company's corporate governance structure

Shareholders at the Ordinary and Extraordinary Shareholders' Meeting on April 21, 2011 approved the adoption of a governance structure with a Board of Directors and appointed its members.

##### REFERENCE CORPORATE GOVERNANCE CODE

Safran refers to the "Corporate Governance Code of Listed Corporations" drawn up jointly by two French employers' associations, AFEP<sup>(1)</sup> and MEDEF<sup>(2)</sup>, the last update of which was published on June 16, 2013.

Where certain recommendations included in this Code are not implemented, this is justified in section 6.5.3 "Application of the AFEP/MEDEF Corporate Governance Code" of this report.

##### Members of the Board of Directors

##### MEMBERSHIP STRUCTURE OF THE BOARD OF DIRECTORS

The composition of the Safran Board of Directors is subject to the provisions of French ordinary law applicable to *sociétés anonymes* (joint stock corporations). However, since the French State owns more than 10% of the share capital, pursuant to article 12 of French Law 49-985 of July 25, 1949, seats are reserved on the Board for the French State.

There are 15 members on the Board of Directors. They include four representatives of the French State appointed by Ministerial Decree and two representatives of employee shareholders.

One Board Advisor (*censeur*) appointed by shareholders in a General Shareholders' Meeting also attends Board of Directors' meetings in an advisory capacity, along with a Government Commissioner appointed by decision of the Ministry of Defence in accordance with the regulations applicable to the Company's activities, and two representatives of the Central Works Council in accordance with the French Labor Code (*Code du travail*).

The Statutory Auditors are invited to the Board meetings during which the annual and interim financial statements and the documents prepared for General Shareholders' Meetings are reviewed. They may also be invited to any other Board meeting.

In accordance with the Board of Directors' Internal Rules, depending on the matters discussed, the Chairman of the Board of Directors may invite any person to attend Board of Directors' meetings that he deems may be able to provide Board members with information on an agenda item.

As of December 31, 2013, the Board of Directors was composed of the following members:

- Jean-Paul Herteman (Chairman), a French national;
- Christian Streiff (Vice-Chairman, independent Director), a French national;
- Marc Aubry (representative of employee shareholders), a French national;
- Giovanni Bisignani (independent Director), an Italian national;
- Jean-Lou Chameau (independent Director), a French and American national;
- Monique Cohen (independent Director), a French national;
- Odile Desforges (independent Director), a French national;

(1) AFEP: Association française des entreprises privées.

(2) MEDEF: Mouvement des entreprises de France.

- Jean-Marc Forneri (independent Director), a French national;
- Patrick Gandil (French State representative), a French national;
- Christian Halary (representative of employee shareholders), a French national;
- Xavier Lagarde, a French national;
- Elisabeth Lulin (independent Director), a French national;
- Astrid Milsan (French State representative), a French national;
- Thierry Pérard (French State representative), a French national;
- Laure Reinhart (French State representative), a French national.

An advisor to the Board of Directors was appointed by the Ordinary and Extraordinary Shareholders' Meeting of April 21, 2011.

Francis Mer and Michel Lucas, whose terms of office expired at the close of the Ordinary and Extraordinary Shareholders' Meeting of May 28, 2013, were replaced as Directors by Christian Streiff and Monique Cohen, respectively. Following a decision by the Board of Directors meeting at the close of said Ordinary and Extraordinary Shareholders' Meeting, Christian Streiff was appointed Vice-Chairman of the Board of Directors.

Patrick Gandil and Thierry Pérard were appointed as Directors representing the French State by ministerial decree dated May 27, 2013, to replace Michèle Rousseau and Christophe Burg, whose terms of office also expired at the close of the Ordinary and Extraordinary Shareholders' Meeting of May 28, 2013.

#### **FEMALE REPRESENTATION ON THE BOARD OF DIRECTORS**

The Board of Directors has five female members. The proportion of women on the Board of Directors is one-third of the members. This is higher than the proportion recommended by the AFEP/MEDEF Code, which sets a target of at least 20% for female board members in 2013.

#### **DURATION OF THE TERMS OF OFFICE OF THE MEMBERS OF THE BOARD OF DIRECTORS**

The members of the Board of Directors are appointed by the Ordinary General Meeting for five-year terms.

By way of exception to the five-year term, the terms of office of the first Directors, appointed by the Annual General Meeting at the time of the change in corporate governance on April 21, 2011 (other than Directors representing employee shareholders whose term of office is five years) are set for different periods in order to make the staggered re-election of Directors possible.

#### **COMPULSORY SHAREHOLDINGS**

In accordance with Article 14.5 of the Company's bylaws, each Director – other than the representatives of the French State and Directors representing employee shareholders – shall be required to own a certain number of shares in the Company in accordance with the terms and conditions set down in the Board of Directors' Internal Rules.

Article 11.1 of the Board of Directors' Internal Rules established a shareholding obligation of at least 500 shares.

Article 14.8 of the bylaws specifies that each Director representing employee shareholders shall be required to hold – either individually or through a corporate mutual fund set up as part of the Group's employee share ownership program – at least one share or a number of units in the fund equivalent to at least one share.

#### **CONFIDENTIALITY TRANSACTIONS IN THE COMPANY'S SHARES**

Members of the Board of Directors and all individuals who attend Board meetings are under obligations of confidentiality and discretion with respect to information provided to them in this context.

#### **INDEPENDENCE OF THE MEMBERS OF THE BOARD OF DIRECTORS**

Independent Directors are those who do not have any relationship whatsoever with the Company, the Group or its Management that may compromise their freedom of opinion.

A Director is deemed independent when he meets all of the following conditions (Article 2.4 of the Board of Directors' Internal Rules and Article 9.4 of the AFEP/MEDEF Code); thus a Director cannot:

- have been during the five years preceding his/her first appointment as a Director of the Company, an employee or Executive Corporate Officer of the Company or one of the Group's companies, and be, at the time of his/her appointment, an employee of the Company or an employee or Executive Corporate Officer of one of the Group's companies;
- be an Executive Corporate Officer of a company in which the Company holds, directly or indirectly, a directorship or serves as a member of the Supervisory Board;
- be an Executive Corporate Officer of a company in which an employee appointed as such or an Executive Corporate Officer of the Company (currently or within the last five years) holds a Directorship or serves as a member of the Supervisory Board;
- be a significant client, supplier, investment bank, or financing bank of the Company or the Group, or for which the Company or the Group represents a significant portion of the activity;
- participate, for Directors who have duties in one or more banks, in (i) preparing or soliciting offers for services from one or more of these banks with the Company or one of the Group's companies, (ii) the work of one of these banks in event of the performance of a mandate entrusted to this bank by the Company or one of the Group's companies or (iii) voting on any resolution concerning a project in which the bank concerned is or could be involved in an advisory capacity;
- have any close family tie with a Corporate Officer of the Company or one of the Group's companies;



- have been the Statutory Auditor of the Company in the past five years;
- be a member of the Board of Directors or have been a member of the Company's Supervisory Board for over twelve years. However, members only lose their status as independent Directors at the end of the term of office during which they have exceeded the 12-year term;
- be the reference shareholder of the Company.

In accordance with the AFEP/MEDEF Code, Directors representing employee shareholders are not taken into account when calculating the percentage of independent Directors. In light of the above criteria, therefore, seven Directors (53.8% of the Board) were deemed to be independent, namely Christian Streiff, Giovanni Bisignani, Jean-Lou Chameau, Monique Cohen, Odile Desforges, Jean-Marc Forneri and Elisabeth Lulin.

## Organization and work of the Board of Directors

### BOARD OF DIRECTORS' INTERNAL RULES

In addition to the provisions of the law and the bylaws that govern its functioning, the Board of Directors has a set of Internal Rules that clarify certain conditions relating to its meetings, list the operations that require its prior approval, define the duties and the operating rules of its special committees and set out the rules for the allocation of attendance fees to Board members, based on the budget previously set by the Annual General Meeting.

These Internal Rules are available on the Company's website (<http://www.safran-group.com>, in the Finance section).

### POWERS OF THE BOARD OF DIRECTORS LIMITS IMPOSED ON THE POWERS OF EXECUTIVE MANAGEMENT

The Board of Directors exercises the rights granted by law and regulations, summarized in particular in section 7.1.2.1.

In addition, in accordance with Article 19.3 of the bylaws and Article 4 of the Board of Directors' Internal Rules, the following transactions have to be approved by the Board before they can be carried out by the Chief Executive Officer or a Deputy Chief Executive Officer, as required by the internal procedures of the Company and Group:

- decisions related to significant operations in France or abroad;
- decisions to withdraw from such operations in France or abroad;
- material operations likely to affect the Group's strategy or modify its financial structure or the scope of its activity.

The Board of Directors is always called upon to approve, in advance, each of the following transactions or decisions, if such transaction or decision leads to an investment, divestment or commitment for an amount equal to or more than €50 million, for the Company or one of the Group's companies:

- acquisition or disposal of property;
- acquisition or disposal of interests in any existing or future company, involvement in the creation of any company, group or organization, subscription to any issues of shares, partnership shares, or bonds, excluding ordinary treasury management transactions;
- any exchange, with or without balancing cash adjustments, relating to assets or securities, excluding ordinary treasury management transactions;
- in the event of litigation, signature of any agreement and transaction, acceptance of any settlement;
- creation of collateral on company assets.

The Board of Directors is always called upon to approve, in advance, each of the following transactions or decisions for an amount equal to or more than €150 million, for the Company or one of the Group's companies:

- granting or contracting of any loan, credit or advance;
- acquiring or disposing of any receivable by any means.

The Board of Directors is called upon to approve in advance any industrial or commercial project deemed significant by the Chief Executive Officer and presented as such by the Strategy and Major Projects Committee.

Furthermore, the following transactions will require prior authorization from the Board of Directors with at least one Director representing the French State voting in favor, provided that the French State owns more than 10% of the Company's share capital:

- any disposal by the Group of strategic military and aerospace assets which concern prime contractor, design, manufacture, integration and operational maintenance capacities with regard to space propulsion and French ballistic cruise and tactical missile propulsion and guidance;
- any sale by the Company of securities of Herakles, Microturbo, Europropulsion and Sagem;
- any decision to grant to a third party special management rights or rights to information over strategic military or aerospace assets which concern prime contractor, design, manufacture, integration and operational maintenance capacities with regard to space propulsion and French ballistic cruise and tactical missile propulsion and guidance;
- any decision to grant to a third party rights to be represented on the management bodies of Herakles, Microturbo, Europropulsion and Sagem.

Furthermore, in accordance with legal provisions, prior authorization must be given by the Board of Directors for guarantees, endorsements and sureties granted in the Company's name.

Each year, the Board sets a blanket ceiling up to which guarantees, endorsements and sureties may be granted by the Chairman and Chief Executive Officer; any commitment exceeding this ceiling must be specifically authorized by the Board.

For 2013, the blanket ceiling was set at €500 million (with no ceiling for the guarantees, endorsements and sureties for tax and customs authorities).

On December 11, 2013, the Board of Directors decided to renew the €500 million blanket ceiling for 2014 (with no ceiling for the guarantees, endorsements and sureties for tax and customs authorities).

## INFORMATION ON THE BOARD OF DIRECTORS

The agenda for Board of Directors' meetings is put forward by the Secretary of the Board to the Chairman and takes account of the work of the Board's special committees and proposals made by members of the Board of Directors.

Before each meeting, members of the Board of Directors receive the agenda and all documents necessary to inform them on the matters to be discussed during the meeting, as well as the draft minutes of the previous meeting.

Prior to the meeting, they may request any additional documents they consider useful.

In addition, the Chairman continually keeps the Board of Directors informed, by any means, of all significant events concerning the Group. Its members receive a copy of the Company's press releases and a press review, as well as a monthly stock market performance report on the Safran share.

## BOARD OF DIRECTORS' MEETINGS

A provisional timetable of meetings is approved at the end of each year for the following year.

The Board of Directors meets at least once every quarter.

Meetings may be convened by any means. The Board of Directors' Internal Rules state that Directors may participate in meetings by videoconference or other means of telecommunications.

The presence of at least half of the members is necessary in order to validate majority decisions. Decisions are voted by the majority of members present or their representatives; in the event of a split decision, the Chairman shall have the casting vote.

Under their responsibility, the members of the Board of Directors may be represented by another Board member, by means of a proxy, each member having only one such proxy.

Minutes are drawn up for each Board of Directors' meeting and forwarded to all members of the Board of Directors with a view to their adoption at the next meeting.

## ACTIVITIES OF THE BOARD OF DIRECTORS IN 2013

The Board of Directors met ten times in 2013, on February 20, March 13, March 21, April 22, May 27, May 28, July 25, September 5, October 31 and December 11, with an average attendance rate of 88%.

In accordance with the provisions of the Internal Rules, certain deliberations of the Board of Directors were prepared based on recommendations and proposals of special Board committees, within the scope of their remit. These committees reported on their findings and submitted their opinions and proposals to the Board.

The main activities of the Board of Directors in 2013 were as follows:

### In terms of corporate governance

On February 20, 2013, upon consultation with the Appointments and Compensation Committee, the Board of Directors determined the amount of variable compensation to be paid to Executive Corporate Officers, after reviewing the achievement of previously-set objectives.

On March 31, upon consultation with the Appointments and Compensation Committee, the Board of Directors examined the applications and selected the candidates for the positions of Director, who were proposed at the Ordinary and Extraordinary Shareholders' Meeting of May 28, 2013, as well as the appointment of Stéphane Abrial as Deputy Chief Executive Officer, Corporate Office, with effect from July 1, to replace Dominique-Jean Chertier. On July 25, on the recommendation of the Appointments and Compensation Committee, the Board of Directors set the compensation (fixed and variable) of Stéphane Aubrial in respect of his term of office as Deputy Chief Executive Officer.

At its meeting of December 11, 2013, the Board established the methods used for determining management compensation for 2014 and decided to grant management entitlement to the new supplementary pension plan set up for the Group's executive managers, upon consultation and recommendation of the Appointments and Compensation Committee.

### In terms of industrial and commercial matters

At each Board meeting, an update is provided on the Group's industrial and commercial situation as well as the progress on programs under development.

### In terms of strategy

At every Board of Directors' meeting, the Chairman provides an update on significant projects and programs being launched, progress made with regard to external growth plans, ongoing negotiations and the difficulties encountered.

Detailed presentations were given by the members of management involved in the specific acquisition projects at their various stages of development. These were then followed by discussions among the Board members, and where applicable, decisions, after the Chairman of the Strategy and Major Projects Committee reported on the work of this Committee and its recommendations.

### In terms of economic and financial matters

Throughout the year, the Board was briefed by the Chairman and the managers, notably at the quarterly business report presentations, on the business highlights, business conditions in the aviation industry, business trends, the Group's financial position, the financial guarantees granted to clients, and disputes and outstanding cases. Currency hedging was reported on regularly.

The Board approved the annual financial statements and the annual financial report, the half-year financial statements and the half-year financial report, the provisional budget documents and authorized the Deputy Chief Executive Officer, Finance to implement the new share buyback program authorized by the Annual General Meeting of May 28, 2013.

The Board also reviewed the Group's quality improvement program and the areas in which progress could be made, the status of the main indicators relating to the 2013 budget, the assumptions retained for the 2014 budget and the detailed review of this budget, as well as the medium-term plan and the audit plans.

The Statutory Auditors attended the Board of Directors' meeting of February 20, 2013, when they reported on their audit work on the parent company and consolidated financial statements for 2012 and presented their conclusions, before bringing the Board's particular attention to IFRSs applicable to impairment tests of the main programs, accounting for complex contracts, and developments in litigation issues. They also attended the Board of Directors' meeting of July 25, 2013 and presented their work on the 2013 half-year consolidated financial statements, with particular attention to the first-time application of the new IFRS – the amended IAS 19 on employee benefits, after which they certified the financial statements without qualification. During the Board meeting of December 11, 2013, the Statutory Auditors' presented their report on the interim dividend submitted to the Board.

### In terms of employee policy

As part of the Group's human resources management strategy, on October 31, 2013, the Board of Directors decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which executive managers within the Group, currently numbering around 400, are eligible.

The Deputy Chief Executive Officer, Corporate Office, also regularly kept the Board of Directors up-to-date on progress made with various projects to modernize the running of the Group and the Group's employee policy.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Internal Rules of the Board of Directors provide for the Board's decisions regarding certain matters to be prepared by special committees that review matters within their remit and submit their opinions and proposals to the Board.

The Board of Directors set up three permanent committees:

- an Audit and Risk Committee;
- an Appointments and Compensation Committee; and
- a Strategy and Major Projects Committee.

The role, organization and operating procedures of each committee are set out in the Board of Directors' Internal Rules.

In its area of expertise, each committee carries out in-depth work and analysis prior to the Board of Directors' discussions and is used to prepare the Board's decisions. It makes proposals and recommendations to the Board, and gives its opinion on the matters under review.

As such, each committee may propose to the Board of Directors to conduct internal or external studies that may be able to provide the Board of Directors with helpful information for its decisions.

Each committee may also call on one or more members of the Company's Executive Management.

At each Board of Directors' meeting, the Chairman of each committee – or any other committee member designated if the Chairman is unable to do so – reports to the Board on its work, proposals and recommendations.

## The Audit and Risk Committee

### ■ Composition

The Audit and Risk Committee has at least three members, including its Chairman. These members are selected from among the Directors, other than the Chairman of the Board of Directors, who do not have management duties with the Company.

The majority of members on this Committee, including its Chairman, must be independent Directors.

In addition, at least one of the Committee's independent members has specific financial or accounting skills.

The Audit and Risk Committee meets at least four times a year, and the Statutory Auditors are always invited to its meetings, except where a joint meeting is held with another Committee.

At December 31, 2013, the Audit and Risk Committee had five members, of which three-quarters were independent, over and above the Directors representing employee shareholders in accordance with Article 16.1 of the AFEP/MEDEF Code: Odile Desforges (Chairman, independent Director), Marc Aubry (Director representing employee shareholders), Monique Cohen (independent Director), Elisabeth Lulin (independent Director) and Astrid Milsan (Director representing the French State). Caroline Grégoire-Sainte Marie, Board Advisor and Louis-Alain Roche, Government Commissioner, are invited to all of the Audit and Risk Committee's meetings in an advisory capacity.

### ■ Duties and main activities in 2013

The Audit and Risk Committee's main duties involve examining the financial statements and addressing issues related to the preparation and auditing of accounting and financial information.

The Audit and Risk Committee is responsible for:

- reviewing the draft half-year and annual parent company and consolidated financial statements before they are submitted to the Board of Directors, and in particular:
  - ensuring that the accounting policies adopted to prepare the parent company and consolidated financial statements are relevant and are applied continuously, and
  - examining any problems encountered related to applying accounting policies;
- reviewing the financial documents issued by the Company in connection with the end of the annual and half-year reporting periods;
- reviewing draft financial statements prepared for the requirements of special transactions, such as contributions, mergers, spin-offs, or payments of interim dividends;
- reviewing the financial aspects of certain transactions proposed by Executive Management and submitted to the Board of Directors (certain of which for prior authorization), such as:
  - capital increases,
  - investments,
  - acquisitions or divestments;
- assessing the reliability of the systems and procedures used to prepare the financial statements and the validity of decisions taken to handle major transactions;

- ensuring the auditing of the full-year and consolidated financial statements, by the Statutory Auditors;
- reviewing the methods and procedures used for reporting purposes and for the restatement of accounting information from the Group's foreign companies.

The Audit and Risk Committee is also tasked with verifying the effectiveness of the Company's Internal Audit and risk management systems.

The Audit and Risk Committee is responsible for:

- assessing, with the people responsible for such activities, the Group's internal control systems;
- reviewing, with the people responsible for such activities at Group level and with the assistance of Internal Audit:
  - internal control objectives and contingency and action plans,
  - the findings of audits and actions carried out by the relevant managers within the Group, and
  - the recommendations made and follow-up of such initiatives and actions, by the relevant managers;
- reviewing Internal Audit methods and results;
- checking that the procedures used by Internal Audit lead to the preparation of Company financial statements that:
  - present a fair view of the Company, and
  - comply with accounting rules;
- reviewing the relevance of the risk analysis and monitoring procedures, ensuring the implementation of a procedure for identifying, quantifying and preventing the main risks brought about by the Group's businesses;
- reviewing and managing the rules and procedures applicable to conflicts of interest; and
- reviewing the draft report of the Chairman of the Board of Directors on the internal control and risk management procedures;

Lastly, the Audit and Risk Committee is tasked with verifying the effectiveness of the Company's external audit.

In this regard it is responsible for:

- issuing a recommendation on the Statutory Auditors proposed for appointment by the Company's Annual General Meeting;
- ensuring that the Company's Statutory Auditors are independent;
- reviewing the compensation of the Company's Statutory Auditors – which should not call into question their independence or objectiveness;
- reviewing each year with the Statutory Auditors:
  - the audit plans and their findings,
  - their recommendations and the follow-up thereof.

The Audit and Risk Committee reports to the Board of Directors on a regular basis on its work and immediately informs the Board of any problems that may arise. These reports are added to the minutes of the relevant Board of Directors' meetings or are included in an appendix to these minutes.

In 2013, the Audit and Risk Committee met seven times: on January 30 (joint meeting with the Strategy and Major Projects Committee), February 18, March 18, July 2, July 23, October 21

and December 9, with an average attendance rate of 100%, to address all the topics mentioned above. The Statutory Auditors, the Board Advisor, the Government Commissioner and the Head of Audit and Internal Control attended each of these meetings (except for the joint meeting with the Strategy and Major Projects Committee of January 30, which was not attended by the Statutory Auditors and the Head of Audit and Internal Control).

During the Audit and Risk Committee meetings of February 18 and July 23, 2013, the Statutory Auditors presented their work on the annual and interim financial statements respectively. On December 9, they presented the committee with their work on internal control and audit, as well as on the draft interim dividend submitted to the Board of Directors on December 11, 2013.

In general, the Committee focused on monitoring key topics for Safran:

- preparing the annual and half-year accounts, and proposing the appropriation of profit; preparing the medium-term plan;
- preparing forecast financial statements for the parent company;
- preparing the budget;
- preparing the Group's financing plans;
- preparing, monitoring and carrying out strategic projects, particularly acquisitions. However, joint meetings with the Audit and Risk Committee and the Strategy and Major Projects Committee can be held to discuss key strategic projects for the Group;
- foreign currency hedging;
- guarantees, endorsements and sureties;
- risk management;
- monitoring Internal Control and Internal Audit work, and directing their future work;
- monitoring the Statutory Auditors' work;
- preparing financial communications, in particular draft press releases.

## The Appointments and Compensation Committee

### ■ Composition

The Appointments and Compensation Committee has at least three members, including its Chairman. The majority of the members must be independent Directors.

At December 31, 2013, the Appointments and Compensation Committee had five members, including three independent Directors: Jean-Marc Forneri (Chairman, independent Director), Giovanni Bisignani (independent Director), Astrid Milsan (Director representing the French State), Thierry Pérard (Director representing the French State) and Christian Streiff (independent Director).

### ■ Duties and main activities in 2013

#### With respect to appointments

The Appointments and Compensation Committee has the following role:

- assisting the Board of Directors in its choice of:
  - members of the Board of Directors,
  - members of the Committees of the Board of Directors, and

- the Chief Executive Officer, as well as the Deputy Chief Executive Officer(s), where applicable;
- selecting potential members of the Board of Directors who meet the independence criteria and submitting the list of potential members to the Board of Directors;
- preparing succession plans for:
  - members of the Company's Executive Management, and
  - the Chairman and Vice-Chairman of the Board, the Chief Executive Officer, as well as the Deputy Chief Executive Officer(s), where applicable.

#### With respect to compensation

The Appointments and Compensation Committee is also responsible for making recommendations and proposals to the Board of Directors, for Board members concerned, as regards:

- the allocation of attendance fees;
- all other components of compensation, including the conditions applying at the end of their terms of office;
- possible compensation for the Board Advisor(s);
- any modifications or changes to pension and welfare plans;
- benefits-in-kind and various financial benefits; and
- where appropriate:
  - granting of stock options, and
  - free share grants.

More generally, the Appointments and Compensation Committee is also responsible for making recommendations to the Board of Directors as regards:

- the compensation policy for senior executives; and
- profit-sharing provisions, by any means, for the Company's employees and more generally the Group's companies, including:
  - employee savings plans,
  - supplementary pension systems,
  - the issue of securities carrying rights to shares reserved for employees,
  - granting of stock options, and free share grants and any other employee share ownership arrangements.

The Appointments and Compensation Committee is also responsible for making recommendations to the Board of Directors on the performance criteria to be used, where appropriate, when granting any stock options, as well as for any free share grants.

In 2013, the Appointments and Compensation Committee met five times: on February 15, March 21, June 25, October 29 and December 10, with an average attendance rate of 92% to address all the topics mentioned above. In accordance with the recommendations of the AFEP/MEDEF Code, Jean-Paul Herteman, Chairman and Chief Executive Officer, is not a member of this Committee. He is however involved in all issues associated with appointments. He was thus involved in the work of the Committee at its March 21, 2013 meeting regarding the appointment of candidates as Directors. Such appointments had been proposed at the Ordinary and Extraordinary Shareholders' Meeting of May 28, 2013.

## The Strategy and Major Projects Committee

### ■ Composition

The Strategy and Major Projects Committee has at least three members, including its Chairman.

At December 31, 2013, the Strategy and Major Projects Committee had eight members: Christian Streiff (Chairman, independent Director), Giovanni Bisignani (independent Director), Odile Desforges (independent Director), Patrick Gandil (Director representing the French State), Xavier Lagarde, Astrid Milsan (Director representing the French State), Thierry Pérard (Director representing the French State) and Laure Reinhart (Director representing the French State).

Louis-Alain Roche, Government Commissioner, is invited to all the meetings of this Committee.

### ■ Duties and main activities in 2013

The Strategy and Major Projects Committee analyzes and expresses its opinion on:

- the Company's and the Group's major strategic orientations (including the medium-term business plan);
- the Group's development policy;
- and the major industrial product development projects or programs that are planned to be carried out by the Company or one of the Group's companies;

presented by Executive Management to the Board of Directors.

The Strategy and Major Projects Committee examines and reviews:

- the proposed strategic and partnership agreements;
- the external growth transactions and transactions that impact Group structure; and more generally;
- any significant project of any kind whatsoever.

In addition, the Strategy and Major Projects Committee gives its opinion on any strategic issue that it is asked to address by the Board of Directors.

In 2013, the Strategy and Major Projects Committee met three times: on January 30 (joint meeting with the Audit and Risk Committee), June 7 and December 11, with an average attendance rate of 86%, to address all the topics mentioned above.

## TRAINING

Following the self-assessment carried out in 2012, the action plans decided by the Board of Directors at its meeting of October 24, 2012 included the implementation of training sessions and the participation of Directors in meetings covering key topics for the Group (strategy, HR, etc.). Accordingly, in 2013, the Directors were able to take part in various training sessions.

In June 2013, they were able to attend a presentation entitled "CFM spare parts forecasting model".

On July 2, 2013, a financial presentation was made to the members of the Audit and Risk Committee regarding the reconciliation between reported and adjusted data, foreign currency hedging and the impact of new IFRSs, in particular the recognition of revenue derived from contracts for the sale of engines and support service contracts.



On August 29, 2013, the members of the Board of Directors had the opportunity to participate in a Strategy seminar focusing on the Group's major strategic challenges. Six main themes were dealt with during this seminar, selected on the basis of the issues involved, their relevance, and their disruptive potential, taking account of several aspects of the activities performed by the Group's companies. In accordance with Directors' wishes, these topics were dealt with in a participatory manner. Several key managers, management executives or operational managers from the Group's companies were involved in this seminar, in particular by leading working groups within their area of expertise in order to shed light on the issues from the field.

In December 2013, two training sessions were offered to members of the Audit and Risk Committee: one on the management of IT-related risks and the other on the Safran+ plan (described in section 1.10).

#### ASSESSMENT OF THE WORK OF THE BOARD OF DIRECTORS

At its meeting of October 31, 2013, the Board of Directors decided to once more assess its own work and that of its Committees.

Based on this self-assessment, the Directors and other participants (referred to in section 6.1.1) at the Board of Directors' meetings of Safran, and the members of the three Committees, were able to assess the composition, operating procedures and work of the Board of Directors and of its Committees.

The analysis focused on the same three main areas used for the self-assessment performed in 2012:

- assessing the composition, duties and operating procedures of the Board of Directors and its three Committees;
- verifying that important issues are properly prepared and discussed;
- assessing each member's actual contribution to the Board's work based on his/her skills and involvement in the discussions, recommendations and decisions.

The Board of Directors reviewed the report on this self-assessment at its meeting of December 11, 2013. The Board decided to postpone making a decision on the action plans to be implemented until a future sitting.

## 6.5.2 PRINCIPLES AND RULES FOR DETERMINING THE COMPENSATION OF CORPORATE OFFICERS

### Members of Executive Management

The principles and rules for determining the compensation of members of Executive Management are described in section 6.2.1 of this Registration Document, along with information concerning their other benefits and commitments.

Having considered the advice and recommendations drawn up by the Appointments and Compensation Committee at its meeting of February 17, 2014, the Board of Directors met on February 19, 2014 to conduct a detailed review of the individual performances of the Executive Corporate Officers in 2013.

On this basis, and bearing in mind the Group's economic performance, the Board then proceeded to allocate variable compensation, and thus set the total amount of variable compensation to be awarded to each of the Executive Corporate Officers in respect of 2013, as indicated in section 6.2.1.

In its meeting of December 11, 2013, the Board of Directors determined individual targets for the members of Executive Management for 2014, upon consultation with the Appointments and Compensation Committee.

### Members of the Board of Directors

With the exception of the Directors representing employee shareholders, who were linked to the Company's subsidiaries by way of an employment contract in 2013, and of Jean-Paul Herteman, executive Director, the members of the Board of Directors received only attendance fees as compensation, as described in greater detail in section 6.2.2 of this Registration Document.

## 6.5.3 APPLICATION OF THE AFEP/MEDEF CORPORATE GOVERNANCE CODE

Safran abides by the "Corporate Governance Code of Listed Corporations" drawn up jointly by two French employers' associations, AFEP<sup>(1)</sup> and MEDEF<sup>(2)</sup>, with reference to the revised version published on June 16, 2013. The French and English versions of this Code can be consulted at [www.afep.com](http://www.afep.com).

(1) AFEP: Association française des entreprises privées.

(2) MEDEF: Mouvement des entreprises de France.

Where Code recommendations, or directives issued subsequently for application thereof, have not been implemented, reasons are given in the following table.

#### AFEP/MEDEF Code recommendations

##### **Duration of the terms of office of the members of the Board of Directors**

The duration of the Board members' terms of office, set by the bylaws, should not exceed a maximum of four years.

#### Safran practices – Reasons

The terms of office of the members of the Board of Directors are set by the current bylaws at five years, given the long-term nature of the Company's activities.

It was considered that the staggered re-election of Directors implemented in 2011 (see section 7.1.2.1) would result in frequent shareholders' decisions in line with the purpose and spirit of the recommendation of the AFEP/MEDEF Code.

##### **Requirement to retain shares**

The Chairman of the Board, the Chief Executive Officer and the Deputy Chief Executive Officers are required to hold as registered shares until the end of their term of office a significant number of shares periodically determined by the Board of Directors.

This requirement is deemed to be satisfied by indirect shareholding through a corporate mutual fund created under the Group's employee savings plan.

##### **Evaluation of the Board of Directors**

[...]

It is recommended that the non-Executive Directors meet periodically without the executive or "in-house" Directors. The Internal Rules of operation of the Board of Directors must provide for such a meeting once a year.

Due to the collegial nature of the Board of Directors, its Internal Rules do not provide for such a meeting.

## 6.5.4 PARTICIPATION OF SHAREHOLDERS IN GENERAL MEETINGS – INFORMATION REFERRED TO UNDER ARTICLE L.225-100-3 OF THE FRENCH COMMERCIAL CODE

### Participation of shareholders in General Meetings

The conditions for the participation of shareholders in General Meetings are governed by the legal provisions and regulations in effect and by Articles 30 *et seq.* of the Company's bylaws.

Any shareholder, regardless of the number of shares held, is entitled to attend General Meetings, on proof of identity and of his/her capacity as a shareholder, provided that the shareholder's shares are registered in his/her name in the Company's share register managed by BNP Paribas Securities Services, or in the securities accounts managed by the authorized intermediary, no later than midnight (CET) on the third business day preceding the meeting.

As regards voting rights, each shareholder shall have a number of votes corresponding to the number of shares held or represented by proxy, unless otherwise provided for in the applicable laws or the provisions concerning double voting rights stipulated in Article 31.8

of the bylaws. Fully-paid up shares that have been registered in the name of the same holders for at least two years as of the date of the General Meeting shall carry double voting rights.

Under Article 31.12 of the bylaws, no shareholder may exercise more than 30% of the total voting rights attached to all of the Company's shares. The voting rights exercised by a shareholder for this purpose shall include the voting rights exercised directly by the shareholder himself/herself and in the capacity as proxy for another shareholder that are attached to shares (i) that he/she holds directly or indirectly and (ii) that are owned by another shareholder for which he/she is acting as proxy. The conditions for applying this limit in the number of voting rights to which each shareholder is entitled are described in section 7.1.2.2.

The bylaws permit shareholders to use the e-voting system to vote at any Shareholders' Meeting (Article 30.2), by decision of the Board of Directors published in the notice of meeting.



## Information referred to under article L.225-100-3 of the French Commercial Code

Information referred to under article L.225-100-3 of the French Commercial Code concerns material that could have an effect in the event of a public offering, which should be stated in the management report.

The 2013 management report drawn up by Safran's Board of Directors, which is included in this Registration Document, meets this legal obligation. The required information can be found under the following headings in the Registration Document:

- agreement with the French State (section 7.1.4.2);
- breakdown of share capital and details of buyback program (sections 7.2.6 and 7.2.7);
- capping of voting rights (section 7.1.2.2).

## 6.5.5 INTERNAL CONTROL AND RISK MANAGEMENT

Operating a business involves incurring a level of risk; risk factors are described in section 4.1 of this Registration Document. Risk management is a key component in the management of the Group's activities.

The Safran framework for controlling the Group's information, activities, processes and assets includes all the appropriate resources, rules of conduct and procedures.

In addition to relying on management principles, organizations, quality approach, implemented information systems, it is also based on a general compliance framework (section 6.5.5.1), a specific structure for managing major risks (section 6.5.5.2), and an internal control system (section 6.5.5.3). Key players are involved in the internal control system (6.5.5.4).

### 6.5.5.1 General compliance framework

#### ETHICAL GUIDELINES

The Group's Ethical Guidelines have been distributed to employees worldwide. They are part of the Group's procedure manual, and each company is responsible for their implementation in day-to-day operations.

Safran is built around values shared by all of its employees. These values serve as a guide for all the Group's activities, providing high standards for honesty, integrity and professionalism, and compliance with applicable laws and regulations.

They ensure the Group remains worthy of the trust placed in it by customers, employees, shareholders, suppliers and other partners.

The Group emphasizes the importance of complying with applicable rules concerning:

- exports of military and dual-use goods;
- management of consultants;
- offering and accepting gifts and invitations;
- security of protected sites and activities;
- corporate social responsibility;
- safeguarding privacy.

For each of these facets, the Group has implemented specific procedures and arrangements.

#### PREVENTION AND DETECTION OF INTERNAL FRAUD

A sponsor of the anti-fraud system was appointed and an anti-fraud Committee was established. The Group has an anti-fraud policy validated by the Chairman and Chief Executive Officer, and a prevention, detection and assessment program for cases of potential internal fraud. A system for the centralizing of information on fraud or attempted fraud identified within Group companies is in place. This information is acted upon by the Group's Audit and Internal Control Department and Safety Department and necessary actions are taken. A fraud officer was appointed in 2013 and is tasked, among other things, with defining the terms and conditions of possible internal investigations and, where applicable, carrying them out. He reports to the anti-fraud Committee.

#### STANDARDS AND REGULATIONS

Standards and regulations are monitored and followed up by specialist central departments which, within their respective areas of expertise, lead and coordinate a network of counterparts in the various Group companies.

ISO 9000-compliant quality management systems in the industrial companies provide valuable support to the internal control system.

For most of its activities, in France and in other countries, the Group is subject to controls imposed by civil and military authorities as well as by its customers. These controls round out the Group's own arrangements in this area.

#### GROUP ORGANIZATIONAL STRUCTURE

Safran is an industrial group within which each subsidiary directly manages the operational side of its business activity and takes responsibility for the internal control system to be implemented in accordance with Group procedures and internal rules.

The organizational structure is based on:

- a parent company, Safran, the issuer, responsible for the Group's strategic management, organization and development. This company has adopted a governance structure with a Board of Directors;
- companies operating by business line, whose strategies are defined by the Board of Directors of the parent company. Executive Management of the parent company ensures that the strategic orientations defined for each business line are implemented and complied with at the operational level.

First-tier entities are responsible for overseeing the second-tier entities with which they have operational ties.

Under the authority of the Board of Directors, the primary duties of Safran, the parent company, are to:

- devise and pursue the Group's strategy, R&T policy, and the training or retraining opportunities offered by Safran University;
- define the corporate governance guidelines and the conditions of the control of Group companies. A certain number of rules laid down in procedures have been adopted concerning, in particular:
  - corporate governance in Group companies,
  - relations between subsidiaries and the parent company;
- provide services on behalf of all Group companies. The Group gradually sets up Shared Services Centres with responsibilities in the following areas: payroll administration and management, recruitment, non-production purchases, IT, and some accounting services;
- lead or coordinate actions to develop the Group's reputation and increase effectiveness.

#### PROCEDURES RELATING TO GROUP OPERATIONS

The main procedures governing Group operations are collated in a documentation system, accessible via the Group intranet. This manual is organized by major process.

It primarily includes:

- with respect to the management process:
  - corporate governance rules: delegation of authority, governance of Group companies, internal control principles and Ethical Guidelines,
  - risk management rules: risk management, crisis management, general safety, health, safety and environment, legal, and information systems,
  - quality management rules;
- with respect to the operational process: sales-related rules;
- with respect to the support process: rules on procurement and asset management.

Every month, a list of updates to the manual is published. Entities have a duty to keep their own manual up-to-date so that it complies with Group rules.

#### FINANCIAL AND ACCOUNTING PROCEDURES

Financial and accounting principles are grouped together in four different manuals:

- the Group IFRS accounting manual;
- rules for the preparation of consolidated financial statements and rules concerning inter-company transactions and quarterly consolidation instructions issued to all companies concerned;

- the consolidation package user guide. This package contains the controls necessary for ensuring consistency between the items used to draw up consolidated financial statements;
- other financial principles (available in a documentation system) related to tax, banking, cash and financing transactions.

In terms of accounting standards, the Group applies IFRS as adopted in the European Union.

#### REPORTING AND MANAGEMENT CONTROL ARRANGEMENTS

Each week, Safran's Executive Management receives a report from each entity summarizing the main events concerning its activity.

The entities prepare monthly budget and financial reports on their activities (overview and comments). The Group's Economic and Financial Affairs Department provides Executive Management with an economic and financial overview.

Budget and planning meetings are organized regularly by the Economic and Financial Affairs Department and the management team of the company concerned:

- final quarter review and validation of the budget;
- current-year budget forecast updates three times per year;
- second half review and validation of the medium-term business development plan.

In addition, performance-level meetings are held regularly with representatives from the Group's principal first-tier entities.

#### 6.5.5.2 Organization and coordination of Risk management

##### DEFINITION AND OBJECTIVES

The purpose of risk management, embedded in organizational processes, is to identify the Group's major risk exposures, quantify their impact on the achievement of objectives, ensure that adequate measures and actions are implemented to bring critical risks to an acceptable level. Risk management is not a separate independent activity; it is the responsibility of each department and forms an integral part of organizational processes, including strategic planning, project management and change processes.

##### POSITION IN THE ORGANIZATION

The Risk and Insurance Department, which reports to the Deputy Chief Executive Officer, Finance, oversees the risk management process.

##### FRAMEWORK, APPRAISAL PRINCIPLE

The Risk and Insurance Department summarizes risk appraisal results at Group level and presents a risk map to the Group Risk Committee for validation. Each risk is assessed in terms of its direct

and indirect impact over the selected timeframe, assuming a worst-case scenario. Determining the degree of control is also essential in characterizing risk. Risk appraisals lead to action plans that may include steps to be taken, additional controls to be implemented or investigations into financial transfers or transfers of liability.

Each first-tier entity appoints a Risk Manager, who prepares a risk map for the entity that is subsequently reviewed during the entity's Risk Committee meetings. In all instances, risk management draws on a common methodology using risk analysis as the starting point. A Risk Manager is assigned for each risk identified and is responsible for drafting an action plan and ensuring its implementation. The objective is to provide continuous risk oversight to ensure optimal treatment.

The Risk and Insurance Department develops methodological techniques and procedures, for the Group, to ensure consistent handling of risks between entities. The Group has a risk manual organized by process, level of impact, frequency, probability and control. Detailed guidance is also prepared for the analysis of certain risks.

Arrangements for crisis prevention and management are built on coordinated procedures implemented for managing warnings and crises, not only at Group but also at Company and facility level.

## MANAGEMENT

The Group Risk Committee – made up of the Chairman and Chief Executive Officer and the three Deputy Chief Executive Officers, led by the Head of Risk Management and Insurance – approves the risk management policy, the Group's risk mapping and risk mitigation, and the cross-sector action plans of the Risk and Insurance Department, and makes sure that the risk management process works effectively and that there is an adequate level of risk-awareness. This Committee met twice in 2013.

The Risk and Insurance Department sets risk management maturity objectives for first-tier entities. The Risk Department also meets with the Risk Manager of each first-tier entity in order to assess the maturity of risk management in that entity.

It coordinates the Risk Manager network. Regular meetings are held to share best practices and identify nascent risks. Task forces are set up on the basis of priorities approved by the Group Risk Committee.

Each quarter, the Risk Manager of each first-tier entity submits a series of indicators to the Risk and Insurance Department (major risk map with the corresponding degree of control, maturity of the risk management process). Once a year, the Risk Manager also draws up a report on the organization of the risk management process in the entity concerned. The Risk and Insurance Department also meets with the Risk Manager of each first-tier entity in order to assess the maturity of risk management in that entity.

The Risk and Insurance Department prepares the mapping of major risks by support/central departments of Safran, as parent company, based on interviews. These maps are then approved by the support/central departments of Safran. For each identified risk, a manager is appointed and is responsible for drawing up an action plan. These action plans are presented to the Group Risk Committee.

## AWARENESS AND TRAINING

Risk management leverages training and communication. A risk and management training course launched in 2007 and organized jointly by the Risk and Insurance Department and Group Risk Managers in liaison with Safran University has promoted risk awareness among close to 1,000 managers within the Group, including 115 in 2013. New training events such as "business continuity plans (BCP)" and "crisis and management", implemented in 2013, fully contribute to the development of the risk management culture.

The Risk and Insurance Department has also implemented the PSIP Program (Preventive Safran's documents Integrity Program). This program seeks to help mitigate documentary risk and legal accusations attributable to Group products/services while protecting employees from the consequences of an accident in which a product/service may be the target of an accusation.

### 6.5.5.3 Organization and coordination of internal control

#### DEFINITION AND OBJECTIVES

Safran implements its internal control system on the basis of general principles advocated by the AMF. Internal control is defined as a process implemented by its Board of Directors, management and personnel, to provide reasonable assurance as to the realization of the following objectives:

- compliance with applicable laws and regulations;
- application of instructions and strategies set by Executive Management;
- proper functioning of the Company's internal processes, particularly those contributing to the protection of its assets;
- reliability of financial information.

Internal control thus contributes to the safeguarding of the Company's assets, the management of its activities, the effectiveness of its operations, the efficient use of its resources and the prevention of any organizational dysfunctions. Nevertheless, as with all control systems, it can only provide reasonable assurance that the objectives described above are fully achieved.

#### POSITION IN THE ORGANIZATION

The internal control system is managed by the Audit and Internal Control Department, which reports to the Deputy Chief Executive Officer, Corporate Office.

#### INTERNAL CONTROL FRAMEWORK

The Audit and Internal Control Department defined an internal control framework built around:

- one process relating to the control environment;
- ten operating processes;
- two IT processes (general IT and IT system security checks);
- processes adapted to Shared Services Centres' risks.

For each process, the Audit and Internal Control Department and Group specialists in each of these areas has drawn up a list of check points and tests aimed at measuring for each entity:

- the conformity of its control procedures and activities with the framework's requirements; and
- the operational effectiveness of these procedures.

Around 200 check points have been listed. They serve to ensure the integrity of the financial and accounting information and the security of this information. Every year, internal control tests, based on objectives related to scope, content, and time limit for carrying out action plans are performed.

### APPRAISAL PRINCIPLE

The Group has upheld the principle whereby each entity appraises its own internal control arrangements in relation to the framework (conformity and effectiveness). A testing program (effectiveness) is devised annually; it investigates all of the processes over two years in first-tier entities and over three years in second-tier entities. In 2012, the Audit and Internal Control Department devised a questionnaire with about fifty check points to be implemented in very small entities, including a series of check points that must be formally tested annually regardless of the entity's size.

The Group can order Internal Audits to verify that the appraisals carried out by the subsidiaries comply with the rules and principles it has put in place.

Any disparity relative to the requirements of the internal control framework in the evaluation of the conformity and effectiveness of procedures generates an action plan, with a project leader designated and a deadline established. The progress of such action plans is monitored monthly within the reporting system described below.

The internal control system was up and running in 109 companies, representing 95% of the Group's consolidated revenue in 2013.

First-tier entities must assess the internal control system of newly acquired companies with which they have operational ties in relation to the Safran framework within three months of the finalization of the acquisition.

### MANAGEMENT

The central team that manages the internal control system is assisted by a network of internal control managers in each first-tier entity, with each manager supported by counterparts situated in second-tier entities.

Every month, the central team and internal control managers communicate important news. Methodological insights into the internal control system are also sent by the central team to internal control managers at their request.

Each first-tier entity has an Internal Control Committee, comprising members of its management, to review progress made in evaluations and analyze results, including for the related second-tier entities.

At least once a year, the central team brings together internal control managers to conduct a review of obstacles encountered, suggest enhancements to the framework and define areas in which progress can still be made. These meetings also serve as a forum for exchanging best practices in terms of the organization of internal control. Two meetings were held in 2013.

For 2014, the main areas for development identified by Safran are the relevance of the internal control frameworks, in particular in the Shared Services Centres, and the integration of such frameworks into the best practices of the operational managers.

### THE MONITORING TOOL

Group companies use the same reporting system for the results and conclusions of their internal control evaluations. It is documented by nearly 400 stakeholders and allows:

- direct access to the Group framework, methodology and the procedures to follow;
- monitoring of rectifications resulting from recognized disparities in relation to the framework.

### AWARENESS AND TRAINING

A training course on internal control has been set up within the framework of the Safran University since 2012, with a view to raising awareness of internal control issues among the financial and operating personnel. More than 150 individuals were trained in 2013.

### INTERNAL CONTROL QUALITY ASSURANCE

Every year, each Chairman and CEO of first-tier entities sends a representation letter to Safran's Chairman and Chief Executive Officer on the internal control system put in place in the entity and its subsidiaries in which he makes reference to the work carried out during the year in the internal control domain and in which he commits to a development plan for the year to come.

Every year, the Statutory Auditors examine the adequacy of the internal control system on a selection of processes contributing to the preparation of financial and accounting information (see section 6.5.5.4 below).

The central team conducts quality controls of the first-tier entities' self-assessments to ensure compliance with the methodology when a new process has been implemented in the internal control system or if a process has changed significantly.

The internal auditors strive to assess the adequacy of the internal control system on matters audited, the proper application of the relevant frameworks and the veracity of the related tests' results.

### INTERNAL AUDIT

The internal auditors from the Audit and Internal Control Department conduct compliance work and other work aimed at identifying ways to improve the efficiency of the Group, entities, programs, projects and processes.

The Internal Audit plan is prepared within the scope of an annual plan that is reviewed where appropriate and that is largely based on the mapping of Group risks.

Internal Audit has been certified compliant with the international standards of the Institute of Internal Auditors by the *Institut Français de l'Audit et du Contrôle Interne* (IFACI). Certification was renewed in 2013 by IFACI further to a recertification audit.

#### 6.5.5.4 Key players in internal control and risk management

##### BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

###### The Board of Directors

The Board of Directors defines the primary features of the system for internal control and risk management, upon consultation and recommendation of the Audit and Risk Committee. The Chairman and Chief Executive Officer delegates his authority to the Deputy Chief Executive Officer, Operations to direct and monitor the activities of the entities with regard to:

- setting objectives and monitoring results with the Economic and Financial Affairs Department;
- implementing decisions regarding strategic issues concerning Group companies;
- operational supervision.

The management executives of the first-tier entities assume full responsibility for the internal control systems implemented in their entities and, where appropriate, in related second-tier entities; the system implemented must comply with the internal control principles set out by the Group.

###### The Economic and Financial Affairs Department

The Economic and Financial Affairs Department centralizes and coordinates financing, treasury, taxation, the budget process, reporting, consolidation of accounts and risk management. It ensures compliance with the internal control procedures falling within the scope of its responsibilities. It also assists in carrying out any acquisitions and disposals decided by the Board of Directors.

###### The Corporate Office

The Audit and Internal Control Department reports to the Corporate Office.

##### DEPARTMENTS RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

###### Audit and Internal Control Department

The Audit and Internal Control Department contributes to the management of the Group's activities, the effectiveness of its operations, the efficient use of its resources and the appropriate consideration of material risks. Its main responsibilities are as follows:

- define and implement the annual audit plan;
- define, organize and coordinate the internal control system.

Taken together, these responsibilities aim at ensuring compliance with applicable laws and regulations, the application of instructions and strategies set by Executive Management, the proper functioning of internal processes, particularly those contributing to the protection of its assets, and the reliability of financial information.

###### Risk and Insurance Department

The Risk and Insurance Department is responsible for defining the methods and criteria to be used to organize risk management. Its main responsibilities are as follows:

- identifying risks that could affect the strategy, earnings or image of the Group;
- defining and organizing risk and crisis management within the Group;
- ensuring the implementation of the PSIP Program (Preventive Safran's documents Integrity Program);
- identifying and setting up insurance policies for the Group, with the exception of personal insurance and loan insurance.

##### INSPECTION BODIES

###### The Board of Directors' Audit and Risk Committee

This Committee reviews:

- the financial statements and accounting procedures presented by Executive Management;
- the results of audits and internal control procedures presented by the Audit and Internal Control Department;
- findings on the primary risks facing the Group presented by the Risk and Insurance Department;
- the results of the work carried out by the Statutory Auditors, whose independence it must also verify.

The report on internal control and risk management procedures is reviewed annually by the Audit and Risk Committee, then submitted to the formal approval of the Board of Directors.

The Group's Internal Control Guidelines are approved by the Chairman of the Audit and Risk Committee.

###### The Statutory Auditors

As part of the audit and certification of Safran's individual and consolidated financial statements, the Statutory Auditors examine the procedures of a certain number of company cycles contributing to the preparation of financial and accounting information. In particular, they base the work they conduct at selected entities on the Group's internal control framework.

They present their conclusions to the Board of Directors' Audit and Risk Committee.

The Statutory Auditors adopt the following approach:

- review of documentation on controls carried out by companies;
- tests to verify the operational effectiveness of the procedures implemented;
- review of completed action plans;
- review of results of tests performed by companies.



## 6.6 STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

### STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH THE ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE (*CODE DE COMMERCE*) ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

To the Shareholders,

In our capacity as Statutory Auditors of Safran and in accordance with article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code (*Code de commerce*) for the year ended December 31, 2013.

It is the Chairman's responsibility to prepare and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code (*Code de commerce*) in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management and relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code (*Code de commerce*), it being specified that it is not our responsibility to assess the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

#### Information concerning internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report.

These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman of the Board's report in accordance with article L.225-37 of the French Commercial Code (*Code de commerce*).

#### Other information

We attest that the Chairman's report set out the other information required by article L.225-37 of the French Commercial Code (*Code de commerce*).

Paris-La Défense and Courbevoie, March 26, 2014

The Statutory Auditors,  
French original signed by:

**ERNST & YOUNG et Autres**

Vincent de La Bachelerie

Jean-Roch Varon

**MAZARS**

Thierry Colin

Gaël Lamant

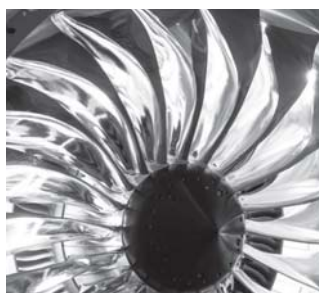
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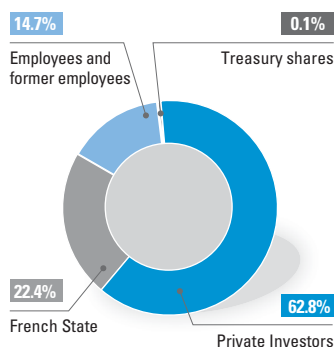
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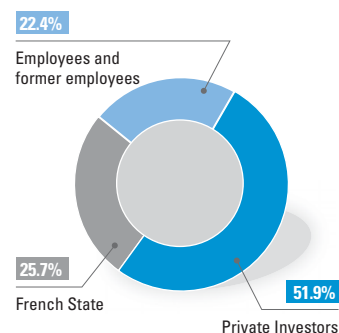


## Breakdown of share capital and voting rights (as of December 31, 2013)

### Share capital



### Exercisable voting rights



## General information

The Company is registered with the Paris Trade and Companies Registry under number 562 082 909. Safran's registered office is located at 2, boulevard du Général Martial-Valin, 75015 Paris, France.

### Share capital (as of December 31, 2013)

As of December 31, 2013, Safran's share capital amounted to €83,405,917, made up of 417,029,585 fully paid-up common shares with a par value of €0.20 each.

### Relations with shareholders

To ensure good relations with the financial community, the Financial Communications Department regularly organizes events to enable analysts and institutional investors to meet with Executive Management.

In addition to the Annual General Meeting, which is held in Paris every year, Safran organizes two meetings especially for individual shareholders, with a view to developing a close, trust-based relationship with them.

### Indices

Safran's share has been included in the CAC 40 index since September 19, 2011.

### Safran share price

Main stock market data over three years	2011	2012	2013
<b>Number of shares as of December 31</b>	<b>417,029,585</b>	<b>417,029,585</b>	<b>417,029,585</b>
<b>Safran share price (in €)</b>			
High	30.500	32.850	50.690
Low	20.180	22.755	32.760
Closing	23.205	32.595	50.510
Market capitalization as of December 31 (in € millions)	9,677	13,593	21,064

## 7.1 GENERAL INFORMATION AND BYLAWS

### 7.1.1 GENERAL INFORMATION

#### Corporate name

Safran.

#### Registered office

2, boulevard du Général Martial-Valin, 75015 Paris, France.

Tel.: +33 (0)1 40 60 80 80

#### Legal form

Safran is a French *société anonyme* (joint-stock corporation).

#### Registration

Safran is registered with the Paris Trade and Companies Registry under number 562 082 909.

#### Incorporation date and term

The Company was created on August 16, 1924.

The Company's term has been set at 99 years from the date of registration with the Trade and Companies Registry, i.e., expiring on August 28, 2023, unless said term is extended or the Company is wound up in advance.

#### Corporate purpose

Under Article 3 of the bylaws, the Company's purpose, in any and all countries, for its own account, on behalf of third parties, or

directly or indirectly in conjunction with third parties, is to carry out research, design, development, testing, manufacturing, sales, maintenance and support operations for high-technology activities, and notably for:

- all aviation and Aerospace activities for the civilian and military markets, particularly those related to:
  - aviation and Aerospace Propulsion solutions, including the operation of systems that produce or use energy, and equipment designed to be used with such systems, and
  - equipment and sub-systems used in aircraft, helicopters, launch vehicles and missiles;
- all air, land and naval defence activities, particularly those related to:
  - optronics, avionics and navigation solutions and services, and
  - electronics and critical software for aerospace and defence applications;
- all Security activities, particularly those related to:
  - multi-biometric identification solutions, identity management solutions, smart cards and secure transactions, and
  - detection solutions for explosives and illicit substances;

and generally, to conduct any and all transactions of a commercial, industrial or financial nature or involving moveable assets or real estate that relate directly or indirectly to the above corporate purpose or to anything incidental or conducive to the achievement of said corporate purpose.

#### Fiscal year

The fiscal year begins on January 1 and ends on December 31.

## 7.1.2 PRINCIPAL PROVISIONS OF THE BYLAWS

### 7.1.2.1 Board of Directors

#### MEMBERSHIP STRUCTURE

Under the terms of Article 14 of the bylaws, the Board of Directors has at least three and no more than 13 members, either individuals or legal entities, including any representatives of the French State appointed in application of Article 12 of Act 49-985 dated July 25, 1949. The maximum number of 13 Board members may be increased to allow for the inclusion of any Directors representing employee shareholders.

The Board of Directors elects a Chairman and, if applicable, a Vice-Chairman from among its members, who must be individuals.

#### SHAREHOLDING

Under Article 14.5 of the bylaws, each member of the Board of Directors shall be required to own a certain number of shares in the Company in accordance with the terms and conditions set down in the Board of Directors' Internal Rules. As a legal exception, this shareholding obligation shall not apply to representatives of the French State or to employee shareholder representatives. However, under Article 14.8 of the bylaws, each such Director shall be required to hold – either individually or through a corporate mutual fund set up as part of the Group's employee share ownership program – at least one share or a number of units in the fund equivalent to at least one share.

## TERM OF OFFICE – AGE LIMIT

Members of the Board of Directors are appointed by the Ordinary Shareholders' Meeting for a term of five years, ending at the close of the Ordinary Shareholders' Meeting held during the year in which their term of office expires in order to approve the financial statements for the previous year. Members of the Board of Directors may be re-elected, it being specified that:

- the number of Directors (both individuals and permanent representatives of legal entities) over the age of 70 may not exceed one quarter of the total number of Directors in office, rounded up to the nearest whole number where appropriate;
- no Director over the age of 70 may be elected if such election would raise the number of Directors over the age of 70 to more than one quarter of the total number of Directors in office, rounded up to the nearest whole number where appropriate;
- if the number of Directors over the age of 70 exceeds one quarter of the total number of Directors in office, and if no Director over the age of 70 resigns, the oldest Board member shall automatically be deemed to have resigned.

By way of an exception to the five-year term set out above, pursuant to the provisions contained in Article 16.4 of the bylaws, the following terms of office were set at the Annual General Meeting held on April 21, 2011 for the sole purpose of implementing a staggered election system for Board members:

- the terms of Directors who were members of the Company's Supervisory Board during the 12 months preceding the April 21, 2011 Annual General Meeting were set at two years. This term shall apply for individuals as well as permanent representatives of legal entities and State representatives, even in the event of a change in these representatives during the term of office concerned;
- the terms of Directors who were not members of the Company's Supervisory Board during the 12 months preceding the April 21, 2011 Annual General Meeting were set at four years for one third of these Directors and at six years for the remaining two thirds, with lots drawn to decide which term would apply for each Director.

Article 15 of the bylaws stipulates that the duties of the Chairman and Vice-Chairman shall end no later than at the close of the first Ordinary Shareholders' Meeting following the date on which they reach the age of 75.

## MEETINGS

Under the terms of Article 18 of the bylaws, the Board of Directors shall meet as often as required in the interests of the Company and at least four times a year. Meetings shall be called by the Chairman, or if he is unable to do so, by the Vice-Chairman.

If the Board has not met for more than two months, a group of at least one third of the Directors may ask the Chairman to call a meeting to discuss a specific agenda.

The Chief Executive Officer or the Deputy Chief Executive Officer(s) may also request that the Chairman call a Board meeting to consider a specific agenda.

In both of these cases the Chairman is bound by such requests and must call a Board meeting within seven days of receiving the request (or within a shorter timeframe in the event of urgency).

Board meetings shall only be validly constituted if at least half of the Directors are present.

Directors who participate in Board meetings by videoconference or any other telecommunications media that comply with the technical criteria set in the applicable laws and regulations shall be considered as being physically present for the purposes of calculating the quorum and voting majority, in accordance with the terms and conditions set out in the Board of Directors' Internal Rules.

Directors may give written proxy to another Director to represent them at Board meetings, provided that no Director holds more than one proxy at any single meeting.

## POWERS

Under Article 19 of the bylaws, the Board of Directors shall determine the Company's overall business strategy and oversee its implementation. Except for those powers directly vested in shareholders, the Board shall be responsible for dealing with all matters concerning the efficient running of the Company and for making all related decisions, within the scope of the Company's corporate purpose.

Subject to the applicable laws and regulations and the terms and conditions set out in the Board of Directors' Internal Rules, the roles and responsibilities of the Board of Directors shall include, but shall not be limited to:

- calling the Annual Shareholders' Meeting and drawing up its agenda;
- approving the Group's annual budget presented by the Chief Executive Officer as well as any amendments thereto;
- approving the Group's medium-term business plan;
- approving the financial statements of the Company and the Group and drawing up the annual management report;
- authorizing related-party agreements governed by Article L.225-38 of the French Commercial Code (*Code de commerce*);
- selecting the Company's management structure;
- appointing and removing from office (i) the Chairman of the Board of Directors, and the Vice-Chairman (if any), and (ii) the Chief Executive Officer and, on the recommendation of the Chief Executive Officer, the Deputy Chief Executive Officer(s) (if any);
- determining the powers of the Chief Executive Officer and, in agreement with the Chief Executive Officer, of the Deputy Chief Executive Officer(s) (if any);
- appointing Directors prior to ratification by shareholders;

- setting the compensation payable to the Chairman of the Board of Directors and the Vice-Chairman (if any), and the Chief Executive Officer and the Deputy Chief Executive Officer(s) (if any);
- appointing the members of the Audit and Risk Committee and the members of any other Board committees set up in accordance with the provisions of these bylaws and the Board of Directors' Internal Rules;
- allocating attendance fees among the Board members, in accordance with the Board of Directors' Internal Rules;
- approving the report of the Chairman of the Board of Directors on the organization of the Board's work and internal control and risk management procedures;
- deciding on issues of debt securities not carrying rights to shares;
- deciding whether to allocate compensation to any Board Advisors;
- giving the Chief Executive Officer authorization (which may be delegated) to grant guarantees and endorsements by setting an overall ceiling for each fiscal year and, where appropriate, a maximum amount per transaction;
- authorizing in advance any transactions that would result in exceeding the above-mentioned overall ceiling or maximum amount per transaction set by the Board.

In addition to the legal and regulatory requirements concerning prior authorizations that have to be obtained from the Board of Directors, a number of specific transactions also have to be approved by the Board before they can be carried out by the Chief Executive Officer or a Deputy Chief Executive Officer, as required by the internal procedures of the Company and Group. These transactions are listed in the Board of Directors' Internal Rules.

The Board of Directors shall perform any checks and controls that it deems appropriate. Each Director shall be provided with all the information required to carry out his duties and may request any documents he deems useful.

## ATTENDANCE FEES

Under Article 17 of the bylaws, at the Annual General Meeting, the Company's shareholders shall set an annual aggregate amount of attendance fees, effective for the current year and subsequent years until the shareholders decide otherwise.

The Board of Directors shall allocate the attendance fees among its members as it deems fit, in accordance with the rules set out in the Board's Internal Rules.

## BOARD ADVISORS

Under Article 20 of the bylaws, shareholders in an Ordinary General Meeting may elect up to two Board Advisors to attend Board meetings in an advisory capacity. However, if the French State's interest in the Company's capital falls below 10%, the French State would automatically be entitled to appoint a Board Advisor and the maximum number would be increased to three. Board Advisors are appointed for four years and may be re-elected. Any Board Advisor reaching the age of 70 shall be deemed to have resigned.

## EXECUTIVE MANAGEMENT

Under Article 21 of the bylaws, the Company's management shall be placed under responsibility of either:

- the Chairman of the Board of Directors; or
- another individual appointed by the Board, who shall hold the title of Chief Executive Officer and who may or may not be a Director.

Under Article 22 of the bylaws, the Chief Executive Officer shall have the broadest powers to act in all circumstances in the Company's name. The Chief Executive Officer shall exercise these powers within the scope of the Company's corporate purpose and subject to:

- the powers expressly vested by the applicable laws and regulations in Shareholders' Meetings and the Board of Directors; and
- any restrictions placed on his powers and any matters that require the prior approval of the Board of Directors in accordance with the Board of Directors' Internal Rules.

The Board of Directors shall determine compensation payable to the Chief Executive Officer and the length of his term of office. The age limit for the Chief Executive Officer is set at 65 years.

## DEPUTY CHIEF EXECUTIVE OFFICER(S)

Under Article 23 of the bylaws, at the proposal of the Chief Executive Officer, the Board of Directors may appoint up to three Deputy Chief Executive Officers (who may or may not be Directors) to assist the Chief Executive Officer in his duties.

In agreement with the Chief Executive Officer, the Board of Directors shall determine the scope and duration of the powers vested in the Deputy Chief Executive Officer(s). The Board of Directors shall also set their compensation, in accordance with Article 24 of the bylaws.

The Deputy Chief Executive Officer(s) shall have the same powers as the Chief Executive Officer with respect to third parties.

The age limit for holding office as Deputy Chief Executive Officer is set at 65 years.

## 7.1.2.2 General Shareholders' Meetings

### CONVENING AND PARTICIPATION

General Shareholders' Meetings shall be called in accordance with the applicable laws and regulations.

Under Article 30 of the bylaws, all shareholders shall be entitled to vote at General Shareholders' Meetings in accordance with the terms and conditions set down by the applicable laws and regulations.

Proxy/postal voting forms for General Shareholders' Meetings may be sent in paper form or, by decision of the Board of Directors published in the notice of meeting, by electronic mail in accordance with the applicable laws and regulations.

Where a shareholder electronically submits a proxy or postal voting form, the shareholder's signature must be a secure electronic signature or a reliable identification procedure to ensure signature security, for example by registering a unique identification code and password.



Shareholders who have not paid up the amounts due on their shares within 30 days of a notice to pay issued by the Company shall not be entitled to participate in General Shareholders' Meetings and the shares concerned shall be deducted from the total of the Company's outstanding shares for the purposes of calculating the quorum.

### EXERCISING VOTING RIGHTS – DOUBLE VOTING RIGHTS – RESTRICTION ON VOTING RIGHTS

Under Article 31 of the bylaws, each shareholder shall have a number of votes corresponding to the number of shares held or represented by proxy, unless otherwise provided for in the applicable laws or regulations.

The General Shareholders' Meeting of June 21, 1974 decided to allocate double voting rights in respect of all fully paid-up shares registered in the name of the same holder, under Article 31.8 of the bylaws, for at least two years.

In the event of a capital increase paid up by capitalizing retained earnings, profits or additional paid-in capital, the registered bonus shares allocated in respect of shares carrying double voting rights shall also carry double voting rights.

Double voting rights shall be forfeited if registered shares are converted into bearer shares or transferred. However, registered shares shall not be stripped of double voting rights and the qualifying period shall continue to run following a transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an inter vivos gift to a spouse or a relative in the direct line of succession.

Any merger or demerger of the Company shall have no impact on double voting rights, which may be exercised in the surviving company if its bylaws so provide.

In accordance with the law, double voting rights may not be abolished by the Extraordinary General Meeting unless this decision is first approved by a special meeting of holders of shares with double voting rights.

Under Article 31.12 of the bylaws adopted by the General Shareholders' Meeting of April 21, 2011, no shareholder may exercise more than 30% of the total voting rights attached to all of the Company's shares. The voting rights exercised by a shareholder for this purpose shall include the voting rights exercised directly by the shareholder himself and, in the capacity as proxy for another shareholder, that are attached to shares (i) that he holds directly or indirectly and (ii) that are owned by another shareholder for which he is acting as proxy.

For the purposes of these provisions:

- the total number of voting rights attached to the Company's shares taken into account shall be calculated as at the date of the General Shareholders' Meeting concerned and the shareholders shall be informed thereof at the start of the Meeting;
- the number of voting rights held directly or indirectly shall mean those voting rights attached to shares held by:
  - a private individual, either personally or as part of jointly-owned property, or
  - a company, group of entities, association or foundation;
- as well as voting rights attached to shares held by a company that is controlled – within the meaning of Article L.233-3 of the French Commercial Code – by a company, private individual, association, group of entities or foundation;

- the restrictions set out above shall not include voting rights exercised by the Chairman of a General Shareholders' Meeting when said voting rights are (i) attached to shares for which a proxy form has been returned to the Company without any named proxy, and (ii) do not individually infringe the specified restrictions.

The restrictions provided for above shall automatically become null and void, without the requirement for a new decision by shareholders in an Extraordinary General Meeting, in the event that an individual or entity – acting alone or in concert with one or more other individuals or entities – acquires an interest in the Company representing two-thirds of the Company's capital or voting rights following a public tender offer for all of the Company's shares.

### 7.1.2.3 Rights and restrictions attached to shares

Under Article 9 of the Bylaws, fully paid-up shares may be held either in registered or bearer form, at the shareholder's discretion, subject to compliance with the provisions of the applicable laws and regulations and the Board of Directors' Internal Rules concerning the form of shares held by certain categories of shareholder.

Under Article 12 of the bylaws, each share shall entitle its holder to a proportion of the Company's profits, net assets and any liquidation surplus equal to the proportion of capital represented by the share.

Where a shareholder must own a specific number of shares to exercise a particular right, notably in the event of an exchange or allocation of shares, a stock split, reverse stock-split, a capital increase or reduction, a merger, demerger, partial asset transfer, dividend payment or any other corporate action, any shares held that fall below the required number shall not confer any rights on their holders with respect to the Company, and the shareholders concerned shall be personally responsible for obtaining the necessary number of shares or rights, including through purchases or sales of shares or rights where required.

### 7.1.2.4 Conditions governing changes to share capital and shareholders' rights

The Company's bylaws do not require that the conditions to change share capital and shareholders' rights be more restrictive than prevailing legislation. These changes are subject to the approval of the shareholders at the Extraordinary Shareholders' Meeting deliberating in accordance with the rules of quorum and majority in accordance with the applicable laws and regulations.

### 7.1.2.5 Disclosure obligation in the event of exceeding the legal threshold for ownership

Under Article 13 of the bylaws, in addition to the disclosures required under the applicable laws and regulations when certain ownership thresholds are crossed, any person or legal entity, acting alone or in concert with others, that becomes the owner – directly or indirectly through one or more companies controlled by said person or entity within the meaning of Article L.233-3 of the French Commercial Code – of 1% or more of the Company's capital or voting rights or any multiple thereof, as calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial

Code and the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF), must notify the Company of the total number of shares and voting rights held as well as the total number of securities held that carry deferred rights to the Company's capital and the potential voting rights attached thereto.

Said notification shall be sent to the Company by registered letter with recorded delivery within four trading days of the relevant threshold being crossed.

The same disclosures are required – within the same timeframe and in accordance with the same conditions – in cases where a shareholder's interest falls below any of the thresholds referred to above.

The sanctions provided for by law in the event of a failure to comply with the disclosure requirements applicable when a legal threshold is crossed shall also apply if a shareholder does not comply with the disclosure requirements applicable in the bylaws, where requested

by one or more shareholders holding at least 5% of the Company's capital or voting rights (with said request duly recorded in the minutes of the relevant General Shareholders' Meeting).

### 7.1.2.6 Provisions that could delay, postpone or prevent a change in control of the Company

The provisions of the bylaws or other contractual documents related to the Company that could delay, postpone or prevent a change in the Company's control are as follows: (i) the granting of double voting rights to any shareholder owning fully paid-up shares which the shareholder must prove have been registered in the name of the same shareholder for at least two years, (ii) the restriction on voting rights provided for by Article 31.12 of the bylaws, (iii) a three-way agreement with the French State (see section 7.1.4.2).

## 7.1.3 INFORMATION ON INVESTMENTS

### 7.1.3.1 Direct and indirect investments as of December 31, 2013

The direct and indirect investments presented below meet the criteria defined by the European Securities and Markets Authority (ESMA) in its March 2011 recommendation, i.e., an investment carrying amount representing at least 10% of the consolidated net assets, or a net profit (loss) equal to at least 10% of the consolidated net profit (loss).

Company (in € millions)	Registered office	Business activity	% capital and voting rights (if different (direct and indirect investment)	Capital	Reserves and retained earnings before appropriation of net profit	Amount payable for shares held	Carrying amount of shares held (gross) <sup>(2)</sup>	Net profit (loss) for 2013	Dividends collected in 2013 <sup>(1)</sup>	Outstanding loans and advances granted and not repaid
<b>1° Main French subsidiaries and sub-subsidiaries – more than 50% of capital held</b>										
Snecma	Paris 75015	Propulsion	100%	154	171	-	225	254	287	-
Aircelle	Harfleur 76700	Aircraft Equipment	100%	57	51	-	964	(9)	-	-
Turbomeca	Bordes 64511	Propulsion	100%	39	154	-	539	54	68	-
<b>2° Main foreign subsidiaries and sub-subsidiaries – more than 50% of capital held</b>										
Safran USA	USA	Holding company	100%	-(3)	1,466	-	1,485	25	-	-
Morpho USA	USA	Security	100%	-(3)	1,402	-	1,498	16	19	-
MorphoTrust Inc.	USA	Security	100%	-(3)	748	-	794	(22)	5	134

(1) Dividends were paid to Safran or the shareholding company owned directly or indirectly by Safran.

(2) Direct and indirect investment.

(3) For the US companies "additional paid-in capital" is shown in the "reserves and retained earnings before appropriation of net profit" column.

### 7.1.3.2 Investments

In accordance with the provisions of Articles L.233-6 and L.247-1 of the French Commercial Code, in 2013 Safran did not acquire any material investments within the meaning of Article L.233-6, but acquired indirect control of Starchip through Morpho.



## 7.1.4 RELATIONS WITH RELATED PARTIES

The list of equity-accounted companies and proportionately consolidated companies is presented in Note 33 of section 3.1.

Quantified information is presented in:

- Note 14 of section 3.1 for equity-accounted companies;
- Note 28 of section 3.1 for proportionately consolidated companies.

Information on management compensation is presented in Note 29 of section 3.1 and in section 6.2.1.

Information on sales to related parties is presented in Note 29 of section 3.1.

### 7.1.4.1 Relations with the French State

In 2013, Safran generated adjusted revenue of €1,236 million with the French State and entities in which it has interests, primarily in military areas.

The Aerospace Propulsion business (see section 1.3.1) develops, manufactures and maintains aircraft engines for the French armed forces. It is the industrial prime contractor for this equipment in major aviation projects such as the Mirage F1, Mirage 2000, Rafale, Super Étendard, refueling tankers, helicopters, Transall, ATL 2, and A400M Atlas among others. It also powers missiles of the ocean-going strategic force (M45 and M51), long-range air-to-surface missiles such as the Scalp and the Apache, and the very short-range surface-to-air missile, the Mistral. Safran develops and assembles an important line of engines for tactical missile (Milan, MICA, AASM, etc.) through Roxel, a 50-50 joint venture with MBDA. Safran is also a major player in the rocket engine and space transport sector in which it is the prime contractor for propulsion systems and work to prepare the future.

The Aircraft Equipment business (see section 1.3.2), participates in the aforementioned major French military aviation programs, primarily in terms of landing gear, brake and wiring systems.

The Defence and Security businesses (see sections 1.3.3 and 1.3.4), apply advanced technology across all defence and security areas (national defence and the security of private individuals, assets, transport and information systems) on behalf of French government agencies:

- inertia, for independent positioning, navigation and guidance systems for all types of vehicles and engines;
- optronics and signal processing for monitoring, observation, day/night imaging, warning and guidance systems;
- information technologies and system integration;
- biometrics for police systems and border checkpoints (visas, passports, etc.).

Safran supplies Modular Air-to-Ground Weapons (AASM) for the Rafale, nuclear submarine periscopes, unmanned aerial vehicles, mission preparation systems, the FELIN infantry combat system (integrated equipment and communications infantryman), and a number of other systems to safeguard French territorial security

and citizen safety, including automatic radar systems under the road safety program.

### 7.1.4.2 Agreement with the French State relating to strategic assets and subsidiaries

In order to protect national interests and preserve national independence, and in the context of the proposed combination of Sagem and Snecma's businesses through the merger of these two companies, the French State informed these companies of its intention to exercise, in the context of the proposed transaction, its right to a "golden share" with regard to Snecma of the kind defined in Article 10 of Law 86-912 of August 6, 1986. In exchange for the waiver of this right to a "golden share", the French State required sufficient contractual rights to ensure national interests are protected.

In view of this, a three-way agreement in lieu of a "golden share" was entered into by Sagem and Snecma (now Safran) and the French State on December 21, 2004. The agreement, as amended or supplemented by the amendments of March 31, 2011, June 29, 2011 and December 16, 2011, provides, inter alia, that:

- the French State shall be entitled to appoint a non-voting representative to the Safran Board of Directors should its interest in the Company's share capital fall below 10%, as a result of which the provisions of Article 12 of the Law of July 25, 1949 authorizing the appointment of voting representatives to this Board would no longer apply;
- the French State shall be entitled to appoint a non-voting representative to the Boards of Directors of Safran's strategic subsidiaries (Herakles and Microturbo) and subsidiaries holding assets with a connection to French combat aircraft engines;
- the French State shall have a prior right to approve or refuse the sale of certain military and Aerospace assets identified as strategic, sensitive or defence, by entities of the Safran Group, as well as a number of strategic assets held by Roxel France, in which Herakles holds an indirect 50% stake (mainly corresponding to propellant chambers for statoreactors located in France and owned by Roxel France, for which the French State's contractual rights are limited to the rights held by Safran in connection with its indirect 50% interest in Roxel France<sup>(1)</sup>), the transfer of securities of Herakles, Microturbo, Europropulsion, Regulux (40% stake), Arianespace and the EIG G2P<sup>(2)</sup>, the acquisition of more than 33.33% or 50% of the capital or voting rights of companies in the Group holding strategic military or aerospace assets, and any projects granting special management rights or rights to information over the strategic military or aerospace assets or rights to be represented on the management bodies of Herakles and Microturbo, in which case, should the State not make known its decision within 30 business days, it shall be deemed to have approved the transaction;

(1) Roxel France sold its ramjet integration and testing activities to MBDA France in late 2012.

(2) The EIG G2P is currently undergoing liquidation proceedings following the merger of SME and Snecma Propulsion Solide, its two sole members.

- in the event a third party acquires more than 10% or a multiple of 10% of the capital or voting rights of Safran, and failing an agreement on other ways of protecting national interests in connection with the strategic military and aerospace assets, the State shall be entitled to purchase the securities and assets of the strategic subsidiaries Herakles and Microturbo at a price to be set by a panel of experts, in which case the parties shall enter into an agreement for the provision of services and the transfer of technology relating to the assets sold.

#### 7.1.4.3 Other related-party agreements

Related-party commitments authorized in 2013 are presented in section 6.2.1 as well as in the Statutory Auditors' special report provided in section 8.5.1.

The related-party agreements and commitments authorized in previous years and which had continuing effect during this period, are presented in the Statutory Auditors' special report in section 8.5.1.

Safran has not entered into any new related-party agreements between January 1, 2014 and the filing date of this Registration Document.

## 7.2 INFORMATION ON SHARE CAPITAL

### 7.2.1 SHARE CAPITAL

As of December 31, 2013, Safran's share capital amounted to €83,405,917, made up of 417,029,585 fully paid-up common shares with a par value of €0.20 each.

There were no changes to the amount or structure of the share capital during 2013 and up until the filing date of the Registration Document.

## 7.2.2 AUTHORIZATIONS GRANTED TO THE BOARD OF DIRECTORS

### 7.2.2.1 Authorizations granted by the Annual General Meeting to the Board Of Directors with respect to share capital increases

Type of authorization	Date of the authorization, term and expiration	Maximum nominal amount of capital increases and maximum principal amount of debt securities authorized	Amount used at December 31, 2013
Authorization for the Board of Directors to issue ordinary shares and/or securities carrying rights to shares of the Company, with pre-emptive subscription rights for existing shareholders	AGM of May 28, 2013 (11 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	€25 million <sup>(a)(c)</sup> €1.3 billion (debt securities) <sup>(b)</sup>	None
Authorization for the Board of Directors to issue ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, through a public offering	AGM of May 28, 2013 (12 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	€8 million <sup>(a)(c)</sup> €1 billion (debt securities) <sup>(b)(e)</sup>	None
Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, in the event of a public exchange offering initiated by the Company	AGM of May 28, 2013 (13 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	€8 million <sup>(a)(c)(d)</sup> €1 billion (debt securities) <sup>(b)(e)</sup>	None
Authorization for the Board of Directors to issue ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2-II of the French Monetary and Financial Code	AGM of May 28, 2013 (14 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	€8 million <sup>(a)(c)(d)</sup> €1 billion (debt securities) <sup>(b)(e)</sup>	None
Authorization for the Board of Directors to increase the number of securities included in an issue carried out with or without pre-emptive subscription rights	AGM of May 28, 2013 (15 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	15% of the original issue <sup>(f)</sup>	None
Authorization for the Board of Directors to issue ordinary shares in payment for another company's shares or securities carrying rights to shares, without pre-emptive subscription rights for existing shareholders	AGM of May 28, 2013 (16 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	10% of the Company's capital <sup>(c)</sup>	None
Authorization for the Board of Directors to increase the Company's capital by capitalizing reserves, retained earnings or additional paid-in capital	AGM of May 28, 2013 (17 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	€12.5 million <sup>(c)</sup>	None
Authorization for the Board of Directors to issue ordinary shares to employees who are members of a Safran Group employee savings plan, without pre-emptive subscription rights for existing shareholders	AGM of May 28, 2013 (18 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	1.5% of the Company's capital <sup>(c)</sup>	None
Authorization for the Board of Directors to grant stock options to employees of the Company and other companies in the Safran Group, with a waiver of shareholders' pre-emptive subscription rights	AGM of May 28, 2013 (20 <sup>th</sup> resolution) 26 months, i.e., until July 27, 2015	1.5% of the Company's capital <sup>(c)</sup>	None
Authorization for the Board of Directors to make free grants of existing or newly-issued Safran shares to employees of the Company and other companies in the Safran Group, with a waiver of shareholders' pre-emptive subscription rights	AGM of May 28, 2013 (21 <sup>st</sup> resolution) 26 months, i.e., until July 27, 2015	0.5% of share capital	None

Type of authorization	Date of the authorization, term and expiration	Maximum nominal amount of capital increases and maximum principal amount of debt securities authorized	Amount used at December 31, 2013
Blanket ceilings on authorizations to issue shares and/or other securities	AGM of May 28, 2013 (19 <sup>th</sup> resolution)	Sub-ceiling: €30 million for the 11 <sup>th</sup> , 12 <sup>th</sup> 13 <sup>th</sup> and 14 <sup>th</sup> resolutions of the AGM of May 28, 2013. Sub-ceiling: €1.3 billion (debt securities) for the 11 <sup>th</sup> , 12 <sup>th</sup> 13 <sup>th</sup> and 14 <sup>th</sup> resolutions of the AGM of May 28, 2013. Blanket ceiling of €50 million for the 11 <sup>th</sup> , 12 <sup>th</sup> 13 <sup>th</sup> , 14 <sup>th</sup> , 16 <sup>th</sup> , 17 <sup>th</sup> , 18 <sup>th</sup> and 20 <sup>th</sup> resolutions of the AGM of May 28, 2013.	None

(a) This amount is included in the sub-ceiling of €30 million for capital increases set by the Annual General Meeting of May 28, 2013 (19<sup>th</sup> resolution).

(b) This amount is included in the sub-ceiling of €1.3 billion for debt securities set by the Annual General Meeting of May 28, 2013 (19<sup>th</sup> resolution).

(c) This amount is included in the blanket ceiling of €50 million for capital increases set by the Annual General Meeting of May 28, 2013 (19<sup>th</sup> resolution).

(d) This amount is included in the ceiling of €8 million for capital increases without pre-emptive subscription rights set by the Annual General Meeting of May 28, 2013 (12<sup>th</sup> resolution).

(e) This amount is included in the ceiling of €1 billion for issues of debt securities without pre-emptive subscription rights set by the Annual General Meeting of May 28, 2013 (12<sup>th</sup> resolution).

(f) The sub-ceilings and ceilings applicable to the 11<sup>th</sup>, 12<sup>th</sup>, 13<sup>th</sup> and 14<sup>th</sup> resolutions of the Annual General Meeting of May 28, 2013 still apply if the option provided for in the 15<sup>th</sup> resolution is exercised.

The authorizations to increase share capital granted by the Annual General Meeting to the Board of Directors were not used in 2013 or up until the filing date of this Registration Document.

### 7.2.2.2 Authorizations submitted for approval at the Annual General Meeting of May 27, 2014

The authorizations submitted for approval at the Annual General Meeting of May 27, 2014 are presented in section 8.2.2 of this Registration Document.

## 7.2.3 THE COMPANY'S SECURITIES

### 7.2.3.1 Other securities not representing the Company's capital

Other securities issued by Safran not representing the Company's capital as of the date of this Registration Document are set out in section 3.1, Note 23, and in section 3.3, Notes 11 and 12.

### 7.2.3.2 Securities carrying rights to shares of the Company

As of December 31, 2013, there were no securities carrying immediate or deferred rights to shares of Safran.

## 7.2.4 HISTORY OF THE SHARE CAPITAL SINCE 2005

Date	Transaction	Safran share price (in €)	Amount of share capital (in €)	Number of outstanding shares	Additional paid-in capital (cumulative amount in € thousands)
Situation as of December 31, 2013		0.20	83,405,917	417,029,585	3,288,568
May 11, 2005	Merger of Snecma into Sagem SA, now Safran	0.20	83,405,917	417,029,585	3,288,568
March 17, 2005	Settlement-delivery of Sagem shares exchanged as part of the Sagem public exchange offer for Snecma shares	0.20	73,054,834	365,274,170	3,214,696
Situation as of January 1, 2005		0.20	35,500,000	177,500,000	163,366

## 7.2.5 PLEDGING OF SHARES

To the best of the Company's knowledge, 1,111,378 shares representing 0.27% of the share capital were pledged as of December 31, 2013, compared with 1,119,741 shares representing 0.27% of the share capital as of December 31, 2012.

## 7.2.6 TREASURY SHARES

### Situation as of December 31, 2013

	Number of shares	% share capital	Carrying amount as of Dec. 31, 2013 (in €)	Total nominal value (in €)
Treasury shares, held directly	581,104	0.14	16,832,210	116,220.80
Treasury shares, held indirectly	-	-	-	-
<b>TOTAL</b>	<b>581,104</b>	<b>0.14</b>	<b>16,832,210</b>	<b>116,220.80</b>

## 7.2.7 SHARE BUYBACK PROGRAMS

The Annual General Meeting of May 28, 2013 by its tenth resolution authorized the Board of Directors, for a period of 18 months, to set up a share buyback program with the following primary characteristics:

Purpose of the program:

- to maintain a liquid market in the Company's shares via a liquidity agreement entered into with an investment services firm and which complies with the AMF-approved Code of Ethics drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI);
- for allocation or sale to employees and/or corporate officers of the Company or of other Group companies, in accordance with the terms and conditions provided for by law, notably in connection with a profit-sharing plan, free share grant plan, stock option plan, the Group employee savings plan, or any company employee savings plan in place within the Safran Group;

- to deliver shares on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- to hold shares in treasury for subsequent delivery in payment or exchange for external growth transactions; and
- for cancellation in accordance with the authorization granted in the ninth resolution of the Annual General Meeting of May 31, 2012.

Maximum percentage of share capital to be bought back:

- 10% of share capital.

Maximum purchase price per share:

- €45.

Total maximum amount that may be invested in the share buyback program:

- €1.87 billion.

As of May 28, 2013, this program superseded the previous program authorized by the Annual General Meeting of May 31, 2012 (eighth resolution), with the same purpose, a maximum purchase price of €35 per share and a total maximum amount of €1,4 billion to be invested in the buyback program.

### 7.2.7.1 Treasury share transactions in 2013

#### LIQUIDITY AGREEMENT

The liquidity agreement has been managed by Oddo Corporate Finance since February 1, 2012.

#### SHARE BUYBACKS

In 2013, Safran purchased 2,957,646 treasury shares under a liquidity agreement (that complies with the AMAFI Code of Ethics) entered into with Oddo Corporate Finance:

- 1,256,154 shares were sold between January 1 and May 28, 2013, at an average price of €34.35;
- 1,701,492 shares were sold between May 29 and December 31, 2013, at an average price of €42.17.

#### SALES OF SHARES

In 2013, Safran sold 3,002,261 treasury shares under the abovementioned liquidity agreement:

- 1,254,239 shares were purchased between January 1 and May 28, 2013, at an average price of €34.43;
- 1,748,022 shares were purchased between May 29 and December 31, 2013, at an average price of €42.44.

#### CANCELATION OF SHARES

None.

#### DELIVERY OF FREE SHARES

In April 2013, 495,700 free shares were delivered to the beneficiaries of the Group's companies located outside of France, but within the scope of the European Works Council, under the free share plan decided by the Executive Board on April 3, 2009 (see section 7.3.7.1).

#### SITUATION AS OF DECEMBER 31, 2013

As of December 31, 2013, Safran directly held 581,104 of its own shares, representing 0.14% of its capital.

These treasury shares were held for the following purposes:

- allocating or selling shares to employees: 518,604 shares, or 0.12% of the share capital;
- maintaining a liquid market in the Company's shares under the liquidity agreement: 62,500 shares, or 0.02% of the share capital.

### 7.2.7.2 Description of the share buyback program to be approved by the Annual General Meeting of May 27, 2014

Under the ninth resolution, the Annual General Meeting of May 27, 2014, is invited to authorize a new share buyback program. Drafted in accordance with the provisions of Article 241-2 of the AMF's General Regulations, the program's description is presented below and will not be published separately pursuant to Article 241-3-III of said Regulations.

#### NUMBER OF SHARES AND PERCENTAGE OF SHARE CAPITAL HELD DIRECTLY OR INDIRECTLY BY THE COMPANY AS OF FEBRUARY 28, 2014

As of February 28, 2014, the Company directly held 578,604 Safran shares, representing 0.14% of its share capital.

These treasury shares were held for the following purposes:

- allocating or selling shares to employees: 518,604 shares, or 0.12% of the share capital;
- maintaining a liquid market in the Company's shares under the liquidity agreement: 60,000 shares, or 0.02% of the share capital.

#### OBJECTIVES OF THE SHARE BUYBACK PROGRAM

In accordance with EC Regulation 2273/2003 of December 22, 2003, in application of European Directive 2003/6/EC of January 28, 2003 and the AMF's General Regulations, the objectives of the share buyback program to be approved by the Annual General Meeting of May 27, 2014 are to purchase shares:

- to maintain a liquid market in the Company's shares via a liquidity agreement that complies with the Code of Ethics drawn up by the AMAFI, approved by the AMF, and entered into with an investment services firm;
- for allocation or sale to employees or officers of the Company or of other Group companies, in accordance with the law, notably in connection with a profit-sharing plan, share grant plan, stock option plan or an employee stock ownership plan;
- to deliver shares in connection with the exercise of rights attached to securities that give access to the Company's capital by reimbursement, conversion, exchange, presentation of a warrant or by any other means;
- to hold shares in treasury for subsequent delivery as payment or exchange for external growth transactions; and
- for cancellation subject to the approval of the twelfth resolution at the Shareholders' Meeting of May 27, 2014.

### **MAXIMUM PERCENTAGE OF SHARE CAPITAL, MAXIMUM NUMBER AND PURCHASE PRICE, AND CHARACTERISTICS OF THE SHARES THE COMPANY WISHES TO ACQUIRE**

The number of shares that may be bought back under the program may not exceed 10% of the Company's total shares. This ceiling is reduced to 5% for shares acquired for the purpose of being held in treasury for subsequent delivery as payment or exchange for external growth transactions. When shares are bought back for the purpose of maintaining a liquid market in the Company's shares via a liquidity agreement, the number of shares included for the calculation of the 10% ceiling corresponds to the number of shares purchased less any shares sold during the authorization period.

Under no circumstances may the use of this authorization have the effect of increasing the number of Safran shares held by the Company, either directly or indirectly, to more than 10% of its share capital.

As of December 31, 2013, the Company's capital was composed of 417,029,585 shares. Given the 581,104 shares already directly or indirectly held by the Company at this date, the maximum number of shares the Company could acquire in connection with this buyback program would be 41,121,854 shares.

Shares may not be purchased at a price of more than €65 per share and the maximum amount that may be invested in the program is €2.7 billion.

The maximum number of shares and the maximum purchase price as indicated above may be adjusted to reflect the impact on the share price of any share capital transactions carried out by the Company.

### **SHARE BUYBACK PROGRAM PROCEDURES**

Shares may be purchased, sold, or transferred in one or several transactions and by any method allowed under the laws and regulations applicable at the transaction date, including over-the-counter and through a block trade for all or part of the program, as well as via the use of derivative financial instruments.

The Board of Directors may use this authorization at any time subject to the limitations set down by the applicable regulations, including during a tender offer launched by the Company, subject to strict compliance with Article 231-41 of the AMF's General Regulations and Article L.225-209 of the French Commercial Code.

### **TERM OF THE SHARE BUYBACK PROGRAM**

This new share buyback program shall be valid for a period of 18 months as from the approval of the Annual General Meeting of May 27, 2014, i.e., until November 26, 2015 at the latest.



## 7.3 SHARE OWNERSHIP

### 7.3.1 BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

#### 7.3.1.1 Situation as of December 31, 2013

To the best of the Company's knowledge, Safran's share capital and voting rights were held as follows as of December 31, 2013:

Shareholders	Shares		Exercisable voting rights		Theoretical voting rights <sup>(3)</sup>	
	Number	% capital	Number	%	Number	%
Private investors	261,687,728	62.75	267,697,671	51.90	267,697,671	51.84
French State	93,440,227	22.41	132,440,227	25.68	132,440,227	25.65
Employees' corporate mutual fund (FCPE) <sup>(1)</sup>	32,570,174	7.81	58,273,279	11.30	58,273,279	11.28
Club Sagem <sup>(2)</sup>	16,804,407	4.03	33,608,814	6.51	33,608,814	6.51
Current or former employees	11,945,945	2.86	23,790,777	4.61	23,790,777	4.61
Treasury shares, held directly	581,104	0.14	0	0.00	581,104	0.11
Treasury shares, held indirectly	0	0.00	0	0.00	0	0.00
<b>TOTAL</b>	<b>417,029,585</b>	<b>100.00</b>	<b>515,810,768</b>	<b>100.00</b>	<b>516,391,872</b>	<b>100.00</b>

(1) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

(2) Club Sagem is a simplified corporation with variable share capital (société par actions simplifiée à capital variable) whose corporate purpose is the acquisition and management of securities and whose portfolio comprises Safran shares and shares in other companies resulting from activities previously carried out by the Sagem group. Club Sagem is held at 64.1% by current and former employees of the Group (current and former employees of Sagem), notably via a corporate mutual fund and at 35.9% by the Crédit Mutuel-CIC group.

(3) Calculated based on all shares with voting rights, including treasury shares stripped of voting rights (Article 223-11 of the AMF's General Regulations).

To the best of the Company's knowledge, no shareholder apart from those listed in the table above holds more than 5% of Safran's share capital or voting rights.

#### DOUBLE VOTING RIGHTS

As of December 31, 2013, 99,362,287 shares are entitled to double voting rights pursuant to Article 31.8 of the Company's bylaws.

The main Safran shareholders do not have different voting rights from those of other shareholders. Any shareholder may be entitled to double voting rights in accordance with the conditions stipulated in Article 31.8 of the Company's bylaws (see section 7.1.2.2).

#### REPRESENTATIVES OF EMPLOYEE SHAREHOLDERS

The Safran Board of Directors comprises two employee shareholder representatives, who were appointed with effect from April 21, 2011 by the Annual General Meeting.

#### REPRESENTATIVES OF EMPLOYEES

In accordance with the law on securing employment of June 14, 2013, the amendment of the Company's bylaws will be submitted for shareholder approval at the Shareholders' Meeting of May 27, 2014 to set the procedure for selecting two employee representatives on the Board of Directors (see section 8.2).

### 7.3.2 BREAKDOWN OF SHARE OWNERSHIP BY GEOGRAPHIC ORIGIN

According to a survey on identifiable bearer shares carried out by Euroclear France, as of December 31, 2013 Safran's free-float shareholders break down as 83% institutional investors, 7% index funds and other institutional holdings, 7% individual shareholders and 3% unidentified.

The breakdown of the institutional investors identified by geographic area is as follows: 37% were from North America, 29% were from the UK and Ireland, 23% were from France and 11% were from other countries.

Individual shareholders represent 7% of Safran's share capital, the majority of them being French.

### 7.3.3 CHANGE IN THE BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS OVER THE LAST THREE YEARS

Shareholders	December 31, 2011			December 31, 2012			December 31, 2013		
	Number of shares	% capital	% voting rights <sup>(2)</sup>	Number of shares	% capital	% voting rights <sup>(2)</sup>	Number of shares	% capital	% voting rights <sup>(2)</sup>
Private investors	216,692,488	51.96	44.77	225,492,451	54.07	47.00	261,687,728	62.75	51.90
French State	125,940,227	30.20	29.77	125,940,227	30.20	29.07	93,440,227	22.41	25.68
Employees' corporate mutual fund (FCPE) <sup>(1)</sup>	27,557,360	6.61	10.05	33,661,683	8.07	11.51	32,570,174	7.81	11.30
Club Sagem	24,954,407	5.98	9.86	18,054,407	4.33	7.30	16,804,407	4.03	6.51
Current or former employees	14,126,306	3.39	5.55	12,759,398	3.06	5.12	11,945,945	2.86	4.61
Treasury shares, held directly	6,930,515	1.66	0.00	1,121,419	0.27	0.00	581,104	0.14	0.00
Treasury shares, held indirectly	828,282	0.20	0.00	0	0.00	0.00	0	0.00	0.00
<b>TOTAL</b>	<b>417,029,585</b>	<b>100.00</b>	<b>100.00</b>	<b>417,029,585</b>	<b>100.00</b>	<b>100.00</b>	<b>417,029,585</b>	<b>100.00</b>	<b>100.00</b>

(1) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

(2) Exercisable voting rights.

### 7.3.4 DISCLOSURE THRESHOLDS

#### 7.3.4.1 Significant movements during 2013

- By letter of April 3, 2013, the French State reported that following a sale of 13,000,000 shares on March 27, 2013, it had fallen below the 30%, 28% and 29% statutory thresholds of share capital and the 29%, 28% and 27% statutory thresholds of voting rights and that, as of April 3, 2013, it held 112,940,227 shares, representing 27.08% of the capital, with 130,752,222 voting rights representing 26.43% of the voting rights of the Company.
- By letter received by the AMF on April 4, 2013, the French State reported that on March 27, 2013, it had fallen below the 30% statutory threshold of share capital and it held, at that date, 112,940,227 shares representing 130,752,222 voting rights, i.e., 27.08% of the capital and 26.43% of the voting rights (AMF notification no. 213C0413).
- Franklin Resources, Inc., by letter of April 3, 2013, reported that it had exceeded the 1% statutory threshold of voting rights and it held 5,775,554 Safran shares on behalf of the investment funds and client accounts that it manages, representing 1.3849% of the capital and 1.1655% of the voting rights.
- Natixis Asset Management (21, quai d'Austerlitz, 75634 Paris Cedex 13), acting on behalf of the Safran Ouverture corporate mutual fund, reported on April 18, 2013, that, as of April 16, 2013, it had fallen below the 1% statutory threshold of voting rights and it held shares representing 2,475,740 voting rights, i.e., 0.999% of the voting rights of the Company.
- By letter of May 7, 2013, the French State reported that following its acquisition of 25,000,000 double voting rights on May 3, 2013, it had exceeded the 27%, 28% and 29% statutory thresholds of voting rights and that, as of May 7, 2013, it held 112,940,227 shares representing 27.08% of the capital and 155,752,222 voting rights representing 29.80% of the voting rights.
- Club Sagem, by letter of May 14, 2013, reported that following a sale of 400,000 shares carrying double voting rights, it had fallen below the 7% statutory threshold of voting rights and it held, at that date, 17,054,407 shares representing 4.09% of the capital and 6.85% of the voting rights of the Company.
- UBS Investment Bank, Wealth Management and Corporate Centre, by letter of June 11, 2013, reported that on June 7, 2013 it held 8,568,072 Safran shares representing 2.05% of the capital and 1.65% of the voting rights.
- UBS Investment Bank, Wealth Management and Corporate Centre, by letter of June 14, 2013, reported that on June 12, 2013 it held 1,232,773 Safran shares representing 0.30% of the capital and 0.24% of the voting rights.
- Natixis Asset Management (21, quai d'Austerlitz, 75634 Paris Cedex 13), acting on behalf of the Safran Investissement corporate mutual fund, reported on July 22, 2013, that as of July 16, 2013, it held shares, on behalf of the corporate mutual fund, representing 45,899,745 voting rights, i.e., 8.876% of the voting rights of the Company.

10. The Children's Investment Fund Management (UK) LLP, by letter of November 19, 2013, reported that following the acquisition of shares on November 15, 2013, it had exceeded the 3% statutory threshold and it held, at that date, on behalf of the funds that it manages, 12,630,577 Safran shares representing 3.03% of the capital.
11. By letter of November 21, 2013, the French State reported that following a sale of 19,500,000 shares on November 15, 2013, it had fallen below the 27%, 26%, 25%, 24% and 23% statutory thresholds of share capital and the 29%, 28%, 27% and 26% statutory thresholds of voting rights and that, as of November 21, 2013, it held 93,440,227 shares representing 22.41% of the capital, with 132,440,227 voting rights representing 25.64% of the voting rights of the Company.
12. By letter received by the AMF on November 22, 2013, the French State reported that on November 15, 2013, it had fallen below the 25% statutory threshold of share capital and it held, at that date, 93,440,227 shares representing 132,440,227 voting rights, i.e., 22.41% of the capital and 25.64% of the voting rights (AMF notification no. 213C1784).
13. By letter of November 27, 2013, Schroders Plc reported that, as of November 22, 2013, it held, directly or on behalf of the funds that it manages, 12,114,728 Safran shares representing 2.9% of the capital.
14. UBS Investment Bank, Wealth Management and Corporate Centre, by letter of December 10, 2013, reported that on December 6, 2013 it held 4,761,075 Safran shares representing 1.14% of the capital and 0.92% of the voting rights.
15. The Amundi group's five fundamental asset management companies, namely Amundi, Société Générale Gestion, Étoile Gestion, CPR Asset Management and BFT Gestion, combined their voting right policy and now report jointly on disclosure thresholds. Amundi Asset Management, by letter of December 10, 2013 reported that it held 8,390,740 shares in its money-market funds, representing 2.01% of the capital, thus exceeding the 2% statutory threshold of share capital.
16. Natixis Asset Management (21, quai d'Austerlitz, 75634 Paris Cedex 13), acting on behalf of the Safran Investissement corporate mutual fund, reported on December 20, 2013, that as of November 30, 2013, it held shares, on behalf of the corporate mutual fund, representing 40,110,342 voting rights, i.e., 7.77% of the voting rights of the Company.

### 7.3.4.2 Significant movements since January 1, 2014

State Street Corporation, by letter of January 8, 2014, reported that following the acquisition of shares, it had exceeded the 1% statutory threshold and that, as of January 1, 2014 it held, on behalf of the funds that it manages, 5,569,816 shares representing 1.34% of the capital and 4,269,564 voting rights representing 0.83% of the voting rights of the Company.

No other significant movements took place since January 1, 2014 and up to the date the Registration Document was filed.

### 7.3.4.3 Trigger level for mandatory bids – Grandfather clause

In accordance with Article L.433-3 of the French Monetary and Financial Code (*Code monétaire et financier*) and Article L.234-2 of the AMF's General Regulations adopted for its enforcement, the trigger threshold for filing a draft offer was lowered on February 1, 2011 from one-third to 30% of a company's capital or voting rights.

An open-ended "grandfather" clause applies to investors who held between 30% and 33.33% on January 1, 2010. These investors will remain subject to the former one-third threshold for a mandatory bid as long as their investment remains between the two thresholds (Article 234-11, paragraph 1 of the AMF's General Regulations).

As of January 1, 2010, the French State held a 30.20% equity stake in the Company, representing, as of that date, 27.18% of voting rights. Article 234-11, paragraph 1 of the AMF's General Regulations therefore applied to the French State, which reported its holding to the AMF on February 24, 2011 accordingly. This notification was published on February 25, 2011 in notification no. 211C0236.

In other words, if the French State were to have crossed the one-third share capital threshold or the 30% voting rights threshold it would have been obliged to file a mandatory bid.

As a result of its sale of a 3.12% stake in Safran's share capital on March 27, 2013 (as described in section 2.5 of the 2012 Registration Document and summarized in point 1 of section 7.3.4.1), the French State forfeited its right to this grandfather clause as of March 27, 2013.

## 7.3.5 CONTROL OF THE COMPANY - SHAREHOLDERS' AGREEMENT

As of the date of filing of this Registration Document, no shareholder held, directly or indirectly, jointly or in concert with another shareholder, a percentage of voting rights conferring control of the Company.

To the best of Company's knowledge, there are no current shareholder agreements relating to Safran shares.

## 7.3.6 AGREEMENTS WHOSE IMPLEMENTATION COULD LEAD TO A CHANGE IN CONTROL OF THE COMPANY

To the best of the Company's knowledge, there are no agreements whose implementation at a later date could lead to a change in control of the Company.

### Undertaking to hold securities

To the best of Company's knowledge, there is no collective undertaking to hold securities relating to Safran shares.

## 7.3.7 EMPLOYEE SHAREHOLDERS

### 7.3.7.1 Free share grants

Pursuant to the authorization granted to the Executive Board under the fourteenth resolution of the Annual General Meeting of May 28, 2008, on April 3, 2009 the Executive Board decided to grant 4,200,000 existing Safran shares, representing roughly 1% of the share capital and in the amount of one hundred free shares per beneficiary to employees of Group companies within the scope of the European Works Council.

For employees of the Group's French companies, free shares were awarded to the beneficiaries in April 2011. The rights attached to the shares (voting rights, dividends) were exercisable at the time of delivery.

The two members of the Supervisory Board representing employee shareholders were the only two Safran corporate officers who were granted shares (see section 6.2.2). Other corporate officers who could have benefited from this plan for the grant of free shares under their employment contract individually waived such rights.

For employees of the Group's companies located outside of France, but within the scope of the European Works Council, 500 shares were awarded in 2012 and 495,700 free shares, not subject to a lock-up period, were awarded in April 2013 to the eligible beneficiaries present in the Group at that date.

### 7.3.7.2 Other transactions

#### PROFIT-SHARING BONUS FOR EMPLOYEES

In both 2013 and 2012, since the dividends per share paid by Safran were up on the average dividend paid in the previous two years, the Group paid its employees a profit-sharing bonus. In 2013, this bonus was determined in accordance with the Group's new profit-sharing agreement signed in 2012 (see section 3.1, Note 6 and section 5.3.4). Based on the analysis that the profit-sharing bonus mechanism introduced by the Law of July 28, 2011 is also a form of profit redistribution, the Group's profit-sharing agreement states that an additional amount is payable if dividends increase (starting from dividends payable in 2013 in respect of 2012 profit). Up until 2012, the bonus awarded was a fixed amount representing the amount negotiated and granted in respect of dividends paid.

#### EMPLOYEE SHAREHOLDING TRANSACTIONS

Following the successive sales by the French State of 3.12% (March 27, 2013) and 4.7% (November 15, 2013) of the capital of the Company (see section 7.3.4.1), 3,611,111 shares will be offered to the current and former employees of Safran and its subsidiaries, in accordance with the Privatization Law of August 6, 1986.

### 7.3.7.3 Stock options

As of the date this Registration Document was filed, the Board of Directors has not used the 26-month authorization approved by the twentieth resolution of the Annual General Meeting of May 28, 2013 to give stock options granting entitlement to subscribe for new shares of the Company or to purchase existing shares bought back by the Company. This authorization expires on July 27, 2015.

There is no stock subscription or stock purchase option plan in progress.

Safran affiliates do not grant stock subscription or purchase options.

### 7.3.8 TEMPORARY TRANSFER OF SAFRAN SHARES

In accordance with French law, any individual or legal entity (with the exception of the investment services firms described in paragraph IV-3 of Article L.233-7 of the French Commercial Code) holding alone or in concert a number of shares representing more than 0.5% of the Company's voting rights pursuant to one or more temporary transfers or similar transactions within the meaning of Article L.225-126 of the aforementioned Code is required to notify the Company and the AMF of the number of shares owned on a temporary basis no later than the third business day preceding the Shareholders' Meeting at midnight.

If no notification is sent, any shares acquired under a temporary transfer will be stripped of voting rights at the Shareholders' Meeting concerned and at any Shareholders' Meeting that may be held until such shares are resold or returned.

No disclosures of temporary transfers were made in 2013.

No disclosures of temporary transfers were made since January 1, 2014 and up to the date the Registration Document was filed.

## 7.4 RELATIONS WITH SHAREHOLDERS

### 7.4.1 ACCESSIBLE FINANCIAL INFORMATION

The following financial information and financial publications are available on the website at [www.safran-group.com](http://www.safran-group.com) in the Finance section:

- the annual report (including the sustainable development report);
- the Registration Document (including the financial report) and the half-year financial report filed with the AMF;
- financial press releases and financial publications (results, Capital Markets Day, roadshow, etc.);

- documents relating to the Shareholders' Meeting;
- the shareholders' newsletter, the shareholders' guide, the site visit program.

The information can be mailed upon request from the Financial Communications Department.

### 7.4.2 RELATIONS WITH INSTITUTIONAL INVESTORS AND FINANCIAL ANALYSTS

To ensure good relations with the financial community, the Financial Communications Department regularly organizes events to enable analysts and institutional investors to meet with Executive Management.

Executive Management participated in conference calls during which it presented first-quarter and third-quarter revenue, first half and annual results for 2013 and answered questions from investors and analysts.

Safran also held its Capital Markets Day (CMD) open to analysts and investors on June 16, 2013. This event was led by the Chairman and Chief Executive Officer and the Deputy Chief

Executive Officer, Finance, assisted by members of the Executive Committee and the Executive Management team. At the CMD, the Group's management executives presented the latest company developments during plenary sessions on civil engines, electrical aircraft and the business model.

In addition, throughout 2013, Executive Management and the Financial Communications Department participated in over 500 meetings and conference calls, in France and abroad, with portfolio managers and analysts. These regular contacts contribute to developing a relationship of trust.

The Safran share is monitored by more than 20 financial analysts.

### 7.4.3 RELATIONS WITH INDIVIDUAL SHAREHOLDERS

Safran organized two meetings especially for individual shareholders, with a view to developing a close, trust-based relationship with them. The first of these meetings was held in Toulouse on October 17, 2013, and the second in Pau on December 3, 2013.

To further strengthen these relationships, Safran proposes industrial-site visits to members of the Shareholders' Club. In 2013,

six half-day visits were organized, during which more than 100 people got an insiders' view of the Group's business activities.

On October 15, 2013, Safran was awarded the "Grand Prix des Actions" silver medal\*, which rewards the quality of its investor relations.

### 7.4.4 PROVISIONAL SHAREHOLDERS' CALENDAR

First-Quarter 2014 Revenue: April 23, 2014

Ordinary and Extraordinary General Meeting of Shareholders: May 27, 2014 at the Palais des Congrès in Paris

First-half 2014 results: July 31, 2014

Third-quarter 2014 revenue: October 23, 2014

### 7.4.5 INVESTOR RELATIONS CONTACTS

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\* Ranking established by the magazine *Mieux Vivre votre Argent* and non-financial rating agency, Vigéo.

## 7.5 STOCK MARKET INFORMATION

The Safran share (ISIN code: FR0000073272 – Ticker symbol: SAF) is listed on the A list of the Euronext Paris Eurolist and is eligible for deferred settlement (see Euronext notice 2005-1865 of May 11, 2005).

Since September 19, 2011, the Safran share has been included in the CAC 40, CAC 40 Equal Weight, CAC Large 60, SBF 120, CAC All-Tradable, CAC All-Share, CAC Industrials, CAC Aero & Def., Euronext 100 and Euronext FAS IAS indices. Safran's share has been included in the LC 100 Europe index since March 21, 2011.

Main stock market data over three years	2011	2012	2013
<b>Number of shares as of December 31</b>	<b>417,029,585</b>	<b>417,029,585</b>	<b>417,029,585</b>
<b>Safran share price (in €)</b>			
High	30.500	32.850	50.690
Low	20.180	22.755	32.760
Closing	23.205	32.595	50.510
Market capitalization as of December 31 (in € millions)	9,677	13,593	21,064

Change in share price from January 1, 2013 to February 28, 2014	Average share price* (in €)	High (in €)	Low (in €)	Average daily transactions (in number of shares)	Average market capitalization** (in € millions)
<b>2013</b>					
January	33.610	34.870	32.760	509,538	14,016
February	34.119	35.545	33.065	872,702	14,229
March	35.700	36.950	34.140	923,221	14,888
April	35.621	37.970	33.365	985,443	14,855
May	39.697	37.970	33.365	807,246	16,555
June	40.225	41.790	38.480	950,481	16,775
July	42.587	44.880	40.145	751,789	17,760
August	43.175	44.660	41.755	534,190	18,005
September	44.124	45.835	42.235	647,981	18,401
October	46.105	47.770	44.215	593,044	19,227
November	47.351	48.885	45.940	943,703	19,747
December	48.800	50.690	47.130	606,853	20,351
<b>2014</b>					
January	52.460	54.560	50.080	679,085	21,877
February	52.537	54.590	49.315	961,771	21,909

\* Average closing price.

\*\* Out of the 417,029,585 shares that comprised the share capital from January 1, 2013 to February 28, 2014. Source: NYSE Euronext.



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# 8 | ANNUAL GENERAL MEETING OF MAY 27, 2014

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# 11

ordinary resolutions

# 2

extraordinary resolutions

# 1

resolution concerning powers  
to carry out formalities

The Annual General Meeting will be held on May 27, 2014 at the Palais des Congrès, Paris, France.

## Proposed resolutions

- Approval of the parent company and consolidated financial statements for the year ended December 31, 2013
- Appropriation of profit for the year and approval of the recommended dividend
- Related-party agreements and commitments
- Setting the amount of attendance fees to be allocated to the Board of Directors
- Authorization for the Board of Directors to carry out a share buyback program
- Advisory vote on the compensation due or awarded for 2013 to Jean-Paul Herteman, Chairman and Chief Executive Officer
- Advisory vote on the compensation due or awarded for 2013 to the Deputy Chief Executive Officers
- Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares
- Employee representation on the Board of Directors; amendments to the bylaws
- Powers to carry out formalities

## Dividend

At the Annual General Meeting of May 27, 2014, the Board of Directors will recommend a dividend payment of €1.12 per share, representing a total payout of around €467 million (including the €200 million interim dividend paid in December 2013).

	2011	2012	2013
Dividend per share	€0.62	€0.96	€1.12

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## 8.1 AGENDA

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### ORDINARY RESOLUTIONS

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First resolution:	Approval of the parent company financial statements for the year ended December 31, 2013
Second resolution:	Approval of the consolidated financial statements for the year ended December 31, 2013
Third resolution:	Appropriation of profit for the year and approval of the recommended dividend
Fourth resolution:	Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Stéphane Abrial (Deputy Chief Executive Officer) concerning pension benefits and personal risk insurance
Fifth resolution:	Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Jean-Paul Herteman (Chairman and Chief Executive Officer) concerning pension benefits
Sixth resolution:	Approval of related-party commitments governed by article L.225-42-1 of the French Commercial Code, given to the Deputy Chief Executive Officers concerning pension benefits
Seventh resolution:	Related-party agreements governed by article L.225-38 of the French Commercial Code
Eighth resolution:	Setting the amount of attendance fees to be allocated to the Board of Directors
Ninth resolution:	Authorization for the Board of Directors to carry out a share buyback program
Tenth resolution:	Advisory vote on the compensation due or awarded for 2013 to Jean-Paul Herteman, Chairman and Chief Executive Officer
Eleventh resolution:	Advisory vote on the compensation due or awarded for 2013 to the Deputy Chief Executive Officers

### EXTRAORDINARY RESOLUTIONS

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Twelfth resolution:	Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares
Thirteenth resolution:	Amendment to Article 14 of the Company's bylaws in order to introduce provisions concerning the procedures for the election of employee representative Directors, in accordance with France's Employment Security Act of June 14, 2013

### POWERS TO CARRY OUT FORMALITIES

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Fourteenth resolution:	Powers to carry out formalities
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## 8.2 PROPOSED RESOLUTIONS

### 8.2.1 REPORT OF THE BOARD OF DIRECTORS ON THE PROPOSED RESOLUTIONS

#### ORDINARY RESOLUTIONS

##### PRESENTATION OF THE FIRST AND SECOND RESOLUTIONS

###### Approval of the parent company and consolidated financial statements

In the first and second resolutions shareholders are invited to approve the parent company and consolidated financial statements for the year ended December 31, 2013 as well as the expenses incurred during the year that are not deductible for tax purposes.

- The parent company financial statements show that the Company ended 2013 with profit of €327.8 million.
- The consolidated financial statements show attributable profit for the year amounting to €1,386 million (€3.33 per share).

##### PRESENTATION OF THE THIRD RESOLUTION

###### Appropriation of profit

Safran SA's distributable profit for 2013 totals €696.1 million, breaking down as €327.8 million in profit for the year plus €368.3 million in retained earnings brought forward from the previous year.

The Board of Directors is recommending a total dividend payout of €467 million, representing a per-share dividend of €1.12, up 17% on 2012.

An interim dividend of €0.48 per share was paid on December 19, 2013 with the ex-dividend date having been set as December 16, 2013. If the third resolution is approved, the ex-dividend date for the balance of the 2013 dividend – corresponding to €0.64 per share – will be set as May 29, 2014, and the dividend payment will be made on June 3, 2014.

The remaining €229 million of distributable profit would be allocated to retained earnings.

Individual shareholders domiciled for tax purposes in France are eligible for 40% tax relief on the amount of their interim dividend, as provided for under article 158, 3-2° of the French Tax Code (*Code général des impôts*). They also qualify for this 40% tax relief on the

balance of the dividend payment. However for such shareholders, the Company's paying agent – BNP Paribas Securities Services – will withhold at source from the gross amount of said balance (i) a compulsory deduction of 21% as required in accordance with article 117 *quater* of the French Tax Code (as amended by article 9 of the French Finance Act for 2013 – Act 2012-1509 of December 29, 2012), and (ii) 15.5% in social security contributions. The compulsory 21% withholding tax does not apply to income from shares held as part of a PEA personal equity plan, as defined in articles L.221-30 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*).

The 21% withholding tax corresponds to a downpayment of personal income tax due on the dividend payment and is not a payment in full discharge of all of the tax that may potentially be due on the dividend income. Consequently, the tax payable on the dividend will be subject to the progressive tax scale applicable to personal income tax, after applying the above-mentioned 40% tax relief. The withholding tax deducted at the time of the dividend payment may be set off against the overall amount of the income tax due on said payment. If the withholding tax exceeds the amount actually due, the excess will be repaid to the shareholder concerned by the French tax authorities in accordance with article 117 *quater* of the French Tax Code.

In practice, the amount withheld at source when the balance of the dividend is paid on June 3, 2014 will be offset against shareholders' personal income tax payable in 2015 on income received in 2014.

Individual shareholders domiciled for tax purposes in France whose reference taxable income for 2013 was less than €50,000 (for single, divorced or widowed taxpayers) or €75,000 (for taxpayers filing a joint tax return) may apply for an exemption from this withholding tax. In order to qualify for this exemption on the balance of the 2013 dividend to be paid on June 3, 2014, shareholders must lodge with the Company's paying agent, by March 31, 2014, a statement of honor as provided for in article 242 *quater* of the French Tax Code certifying that their reference taxable income for 2013 did not exceed the ceilings set out in article 117 *quater* of said Code.

## PRESENTATION OF THE FOURTH, FIFTH, SIXTH AND SEVENTH RESOLUTIONS

### Related-party agreements and commitments

The fourth, fifth, sixth and seventh resolutions concern related-party agreements and commitments governed by articles L.225-38 and L.225-42-1 of the French Commercial Code (*Code de commerce*) entered into or given in 2013, as described in the Statutory Auditors' special report.

These agreements and commitments correspond to the following:

- agreements – other than those falling within the scope of routine operations – that are entered into between the Company and (i) any companies with which it has a member of management in common, or (ii) a shareholder owning more than 10% of the Company's voting rights. Shareholders will be asked to place on record that no such agreements were entered into in 2013;
- commitments given to management executives (the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers) corresponding to benefits due or likely to be due as a result of the termination or a change in their duties. Several of these types of commitments were given in 2013.

#### ■ Fourth resolution – Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Stéphane Abrial (Deputy Chief Executive Officer) concerning pension benefits and personal risk insurance

##### Continuation of coverage for Stéphane Abrial (Deputy Chief Executive Officer) under the personal risk insurance plan and supplementary defined contribution pension plan

Prior to his appointment as Deputy Chief Executive Officer, Stéphane Abrial was covered under his employment contract by the personal risk insurance plan set up for all Safran Group employees. He was also a member of the supplementary defined contribution pension plan set up for the Company's managerial-grade staff.

At its meeting of July 25, 2013 the Board of Directors decided to authorize Stéphane Abrial to continue to be covered by these two plans, in the same conditions as the other personnel concerned. The contributions are based on the compensation (fixed and variable) that Mr. Abrial receives for his role as Deputy Chief Executive Officer.

Shareholders are invited to approve this commitment.

#### ■ Fifth resolution – Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Jean-Paul Herteman (Chairman and Chief Executive Officer) concerning pension benefits

As part of the Group's human resources management strategy, on October 31, 2013, the Board of Directors decided to set up a supplementary defined benefit pension plan, effective from January 1, 2014, for which Executive Managers, currently numbering around 400, are eligible. The plan is described in more detail in section 3.1 (Note 21) and section 6.2.1 of this Registration Document.

On December 11, 2013, the Board of Directors decided to extend this plan to the Group's Executive Corporate Officers, including Jean-Paul Herteman, Chairman and Chief Executive Officer.

Shareholders are invited to approve this commitment.

In view of the Board's decision on December 11, 2013 to authorize Jean-Paul Herteman to be covered by the supplementary defined benefit pension plan, Mr. Herteman stated that he irrevocably waived his rights under the related-party commitments made to him in 2011, described in section 6.2.1 of this Registration Document.

#### ■ Sixth resolution – Approval of related-party commitments governed by article L.225-42-1 of the French Commercial Code, given to the Deputy Chief Executive Officers concerning pension benefits

Further to the Board of Directors' above-mentioned decision of December 11, 2013, the supplementary defined benefit pension plan has also been extended to the three Deputy Chief Executive Officers (Stéphane Abrial, Ross McInnes and Marc Ventre).

Shareholders are invited to approve these commitments.

#### ■ Seventh resolution – Related-party agreements governed by article L.225-38 of the French Commercial Code

Shareholders are invited to place on record that no related-party agreements governed by article L.225-38 of the French Commercial Code were entered into during 2013.

## PRESENTATION OF THE EIGHTH RESOLUTION

### Attendance fees

In the eighth resolution shareholders are invited to set the aggregate amount of attendance fees to be allocated among the members of the Board of Directors for 2014 at €868,000.

## PRESENTATION OF THE NINTH RESOLUTION

### Share buyback programs

The Company needs to have the necessary flexibility to react to changes in financial markets by buying back Safran shares.

In the ninth resolution shareholders are therefore invited to authorize the Board of Directors to carry out a share buyback program with the following main conditions.

The number of shares that may be bought back may not exceed 10% of the Company's total outstanding shares (for information purposes, 41,702,958 shares based on the issued capital at December 31, 2013) and the Company may at no time directly or indirectly hold a number of Safran shares representing more than 10% of its capital.

The shares may be purchased, sold or transferred at any time (including during a public tender offer initiated by the Company) and by any authorized method, including through block trades or the use of derivatives, subject to the limitations set down in the applicable laws and regulations.

The maximum per-share purchase price of shares acquired using this authorization would be set at €65 and the maximum total investment in the buyback program would be €2.7 billion.

The buyback program would be used for the purposes authorized in the applicable regulations, notably to purchase shares:

- to maintain a liquid market in the Company's shares via a liquidity agreement entered into with an investment services firm;
- for allocation or sale to employees and/or Corporate Officers, notably in connection with a profit-sharing plan, free share grant plan or Group employee savings plan;
- to deliver shares on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- for delivery in payment or exchange for external growth transactions;
- for cancellation subject to the approval of the twelfth resolution below.

This authorization would be given for a period of 18 months as from the date of this Meeting and would supersede the previous authorization granted for the same purpose in the tenth resolution of the Annual General Meeting held on May 28, 2013.

#### Report on the utilization in 2013 of previous shareholder-approved share buyback programs

In 2013, the aggregate number of shares purchased under the liquidity agreement entered into with Oddo Corporate Finance amounted to €2,957,646.

The total number of shares sold under the above-mentioned liquidity agreement amounted to 3,002,261.

In addition, a total of 495,700 shares were delivered as part of a free share grant plan (described in section 7.2.7.1 of this Registration Document).

No treasury shares purchased under a buyback program were canceled in 2013.

At December 31, 2013, the Company directly held 581,104 Safran shares, representing 0.14% of its share capital. These treasury shares were held for the following purposes:

- to allocate or sell shares to employees or Corporate Officers: 518,604 shares, representing 0.12% of the Company's capital;
- to maintain a liquid market in the Company's shares via a liquidity agreement: 62,500 shares, representing 0.015% of the Company's capital.

#### PRESENTATION OF THE TENTH AND ELEVENTH RESOLUTIONS

Safran bases its corporate governance framework on the Corporate Governance Code for Listed Corporations published by the AFEP and MEDEF, as revised in June 2013 (hereinafter the AFEP/MEDEF Code). In Article 24.3 of said Code it is stated that *companies' Boards of Directors should present to the Annual General Meeting the components of compensation due or awarded for the past fiscal year to each executive Director. These compensation components include:*

- *the fixed portion;*
- *the annual variable portion, and where applicable, the multi-annual variable portion, including a description of the objectives that must be met in order for this variable portion to be paid;*
- *extraordinary compensation;*
- *stock options, performance shares and any other long-term compensation;*
- *benefits related to taking up or terminating office;*
- *supplementary pension plan;*
- *any other benefits.*

The AFEP/MEDEF Code recommends that this presentation be followed by a shareholder advisory vote, with one resolution presented for the Chief Executive Officer and one resolution for the Deputy Chief Executive Officer(s).

In accordance with this recommendation, shareholders are therefore invited to give positive advisory votes on (i) the compensation due or awarded for 2013 to the Chairman and Chief Executive Officer, Jean-Paul Herteman, as shown in the table below (tenth resolution), and (ii) the compensation due or awarded for 2013 to the Deputy Chief Executive Officers, Stéphane Abrial, Ross McInnes, Marc Ventre and Dominique-Jean Chertier (who was in office until June 30, 2013), as shown in the tables below (eleventh resolution).



**Tenth resolution – Presentation of the compensation due or awarded for 2013 to Jean-Paul Herteman (Chairman and Chief Executive Officer)**

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Fixed compensation</b>	<b>€730,000</b>	<p>Jean-Paul Herteman's fixed annual compensation was set at €730,000 by the Board of Directors at its meeting of May 26, 2011. This amount was effective until January 1, 2014.</p> <p>As proposed by Jean-Paul Herteman, at its December 11, 2013 meeting the Board of Directors renewed this fixed annual compensation of €730,000 until the end of Mr. Herteman's term of office, i.e., until the 2015 Annual General Meeting.</p>
<b>Annual variable compensation</b>	<b>€803,000</b>	<p>Two thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.</p> <p>At its meeting on December 12, 2012, the Board of Directors determined that the financial performance metrics for 2013 would be as follows:</p> <ul style="list-style-type: none"> <li>• weighting: <ul style="list-style-type: none"> <li>– EBIT: 60%,</li> <li>– working capital: 10%, and</li> <li>– free cash flow: 30%;</li> </ul> </li> <li>• threshold levels (based on annual budgets): <ul style="list-style-type: none"> <li>– 80% of EBIT target,</li> <li>– 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and</li> <li>– 65% of free cash flow target.</li> </ul> </li> </ul> <p>The same meeting set the following calculation methods, based on the threshold and maximum levels applied:</p> <ul style="list-style-type: none"> <li>• the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);</li> <li>• if an objective was exceeded, the variable compensation allocated in respect of that objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130%, which applied irrespective of the extent to which the objective was exceeded, as follows: <ul style="list-style-type: none"> <li>– if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,</li> <li>– if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and</li> <li>– if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.</li> </ul> </li> </ul> <p>Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed by the Board based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated.</p> <p>At its same meeting on December 12, 2012, the Board of Directors also determined Mr. Herteman's individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They were not disclosed for reasons of strategic and competitive sensitivity.</p> <p>At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to Jean-Paul Herteman for 2013, after consultation with the Appointments and Compensation Committee.</p>

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
		As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above. The achievement rate of the variable compensation objectives set for 2013 resulted in the payment to Jean-Paul Herteman of €803,000 in variable compensation.
<b>Deferred variable compensation</b>	<b>N/A<sup>(1)</sup></b>	Mr. Herteman does not receive any deferred variable compensation.
<b>Extraordinary compensation</b>	<b>N/A</b>	Mr. Herteman does not receive any extraordinary compensation.
<b>Stock options, performance shares and any other long-term compensation</b>	<b>Stock options = N/A</b> <b>Performance shares = N/A</b> <b>Other long-term compensation = N/A</b>	Mr. Herteman does not receive any stock options. Mr. Herteman does not receive any performance shares or any other long-term compensation.
<b>Attendance fees</b>	<b>€40,657</b>	Mr. Herteman receives attendance fees for his duties as a Director of the Company and Chairman of the Board of Directors.
<b>Value of benefits-in-kind</b>	<b>€3,742</b> (accounting value)	Mr. Herteman has the use of a company car.

(1) N/A = not applicable.

Compensation due or awarded for 2013 that has been approved by shareholders as part of the procedure for related-party agreements and commitments	Amounts submitted for shareholder approval	Presentation
<b>Termination benefits</b>	<b>€0</b>	According to the Board of Directors' decision of April 21, 2011, in the case of early termination of the term of office of Jean-Paul Herteman as Chairman and Chief Executive Officer, for any reason whatsoever, save serious or gross misconduct (including the consequences of a merger with another company or absorption by another company, a health incident or strategic differences with the other Board members), he was entitled to a termination payment equal to two years of fixed and variable compensation. This commitment was submitted for shareholder approval in the fifth resolution of the May 31, 2012 Annual General Meeting in accordance with the applicable procedure for approving related-party agreements and commitments. As noted by the Board of Directors' meeting of December 11, 2013, Jean-Paul Herteman irrevocably waived his right to this termination benefit.
<b>Non-compete indemnity</b>	<b>N/A</b>	Jean-Paul Herteman is not subject to any non-compete clause.

Compensation due  
or awarded for 2013  
that has been approved  
by shareholders as part  
of the procedure for  
related-party agreements  
and commitments

Amounts submitted  
for shareholder approval

Presentation

Supplementary pension  
benefits

€0

Supplementary defined contribution pension plan:  
In his prior capacity as a Company employee, Mr. Herteman was previously covered by supplementary defined contribution pension plans set up for the Company's managerial-grade staff.  
At its meeting of July 27, 2011, the Board of Directors decided to authorize Mr. Herteman to continue to be covered by this supplementary pension plan, in the same conditions as the other personnel concerned. The contributions are based on the compensation (fixed and variable) that he receives for his role as Chairman and Chief Executive Officer. The expense recorded in the 2013 financial statements relating to the contributions paid under this plan for Mr. Herteman amounted to €43,607.68.  
This commitment was submitted for shareholder approval in the sixth resolution of the May 31, 2012 Annual General Meeting in accordance with the applicable procedure for approving related-party agreements and commitments.

Supplementary defined benefit pension plan:  
As part of the Group's human resources management, on October 31, 2013, the Board of Directors of Safran decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which Executive Managers within the Group, currently numbering around 400, are eligible.  
On December 11, 2013, the Board of Directors decided to extend this plan to the four Executive Corporate Officers, including Jean-Paul Herteman. The methods used to calculate the benefits that would be paid to these Corporate Officers are exactly the same as those used for the other Executive Managers who benefit from the plan, namely:

- the amount of the benefits will be calculated based on the average compensation over the previous three years and will take into account the seniority of the beneficiary concerned within the category of top executives (*hors statut*) and Officers (with at least five years of service), and will be equal to 1.8% of this reference compensation per year of service, capped at 18%;
- the total replacement rate (all basic, additional and supplementary retirement benefits) shall not exceed 35% of the reference compensation;
- the annual amount of the supplementary retirement benefits is capped at three times the annual social security ceiling in force at the date that the general social security retirement pension is paid (in 2013 the ceiling was €37,032);
- the payment of these supplementary retirement benefits is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

Accordingly, the potential annual benefits to which Jean-Paul Herteman would be entitled, subject to his fulfilling the aforementioned conditions, will be capped at three times the annual social security ceiling, i.e., €111,096 per year based on the ceiling in 2013.  
This commitment will be submitted for shareholder approval in the fifth resolution of the May 27, 2014 Annual General Meeting, in accordance with the applicable procedure for approving related-party agreements and commitments.

### Eleventh resolution – Presentation of the compensation due or awarded for 2013 to the Deputy Chief Executive Officers

#### ■ Presentation of the compensation due or awarded for 2013 to Stéphane Abrial (Deputy Chief Executive Officer, Corporate Office since July 1, 2013)

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Fixed compensation</b>	<b>€200,000</b> <i>(calculated on a proportionate basis between July 1 and December 31, 2013)</i>	Stéphane Abrial's fixed annual compensation was set at €400,000 by the Board of Directors at its meeting of July 25, 2013. Prior to this date, Stéphane Abrial received gross fixed compensation of €200,000 under his employment contract with Safran for the period from January 1 to June 30, 2013.
<b>Annual variable compensation</b>	<b>€200,000</b> <i>(calculated on a proportionate basis between July 1 and December 31, 2013)</i>	<p>Two thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.</p> <p>At its meeting on July 25, 2013, the Board of Directors determined that the financial performance metrics for 2013 would be as follows (calculated on a proportionate basis as from Mr. Abrial's appointment):</p> <ul style="list-style-type: none"> <li>• weighting: <ul style="list-style-type: none"> <li>– EBIT: 60%,</li> <li>– working capital: 10%, and</li> <li>– free cash flow: 30%;</li> </ul> </li> <li>• threshold levels (based on annual budgets): <ul style="list-style-type: none"> <li>– 80% of EBIT target,</li> <li>– 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and</li> <li>– 65% of free cash flow target.</li> </ul> </li> </ul> <p>The same meeting set the following calculation methods, based on the threshold and maximum levels applied:</p> <ul style="list-style-type: none"> <li>• the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);</li> <li>• if an objective was exceeded, the variable compensation allocated in respect of that objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130%, which applied irrespective of the extent to which the objective was exceeded, as follows: <ul style="list-style-type: none"> <li>– if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,</li> <li>– if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and</li> <li>– if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.</li> </ul> </li> </ul> <p>Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed by the Board based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated. At its same meeting on July 25, 2013, the Board of Directors also determined Mr. Abrial's individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They were not disclosed for reasons of strategic and competitive sensitivity. At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to Stéphane Abrial for 2013 (calculated on a proportionate basis from the start of his term of office, i.e., July 1, 2013), after consultation with the Appointments and Compensation Committee.</p>

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
		<p>As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above.</p> <p>The achievement rate of the variable compensation objectives set for 2013 (calculated on a proportionate basis for the period from July 1 to December 31, 2013) resulted in the payment to Stéphane Abrial of €200,000 in variable compensation.</p> <p>For information purposes, under his employment contract for the period prior to his appointment as Deputy Chief Executive Officer, Mr. Abrial received gross variable compensation of €160,000.</p>
<b>Deferred variable compensation</b>	<b>N/A</b>	Mr. Abrial does not receive any deferred variable compensation.
<b>Extraordinary compensation</b>	<b>N/A</b>	Mr. Abrial does not receive any extraordinary compensation.
<b>Stock options, performance shares and any other long-term compensation</b>	<b>Stock options = N/A</b>	Mr. Abrial does not receive any stock options.
	<b>Performance shares = N/A</b>	Mr. Abrial does not receive any performance shares or any other long-term compensation.
	<b>Other long-term compensation = N/A</b>	
<b>Attendance fees</b>	<b>N/A</b>	Mr. Abrial does not receive any attendance fees.
<b>Value of benefits-in-kind</b>	<b>€1,709</b> (accounting value)	<p>Mr. Abrial has the use of a company car.</p> <p>For information purposes, Stéphane Abrial had the use of a company car in his capacity as an employee, from January 1 to June 30, 2013, representing a benefit-in-kind valued at €1,709.</p>

Compensation due or awarded for 2013 that has been approved by shareholders as part of the procedure for related-party agreements and commitments

Amounts submitted for shareholder approval

Presentation

Termination benefits	N/A	Stéphane Abrial is not entitled to any termination benefits.
Non-compete indemnity	N/A	Mr. Abrial is not subject to any non-compete clause.
Supplementary pension benefits	€0	<p>Supplementary defined contribution pension plan:</p> <p>In his prior capacity as a Company employee, Mr. Abrial was previously covered by a supplementary defined contribution pension plan set up for the Company's managerial-grade staff.</p> <p>At its meeting of July 25, 2013, the Board of Directors decided to authorize Mr. Abrial to continue to be covered by this supplementary pension plan, in the same conditions as the other personnel concerned. The contributions are based on the compensation (fixed and variable) that he receives for his role as Deputy Chief Executive Officer. The expense recorded in the 2013 financial statements relating to the contributions paid under this plan for Mr. Abrial (calculated on a proportionate basis from July 1 to December 31, 2013) amounted to €4,068.38.</p> <p>This commitment will be submitted for shareholder approval in the fourth resolution of the May 27, 2014 Annual General Meeting, in accordance with the applicable procedure for approving related-party agreements and commitments.</p> <p>Supplementary defined benefit pension plan:</p> <p>As part of the Group's human resources management, on October 31, 2013, the Board of Directors of Safran decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which Executive Managers within the Group, currently numbering around 400, are eligible.</p> <p>On December 11, 2013, the Board of Directors decided to extend this plan to the four Executive Corporate Officers, including Stéphane Abrial. The methods used to calculate the benefits that would be paid to these Corporate Officers are exactly the same as those used for the other Executive Managers who benefit from the plan, namely:</p> <ul style="list-style-type: none"> <li>the amount of the benefits will be calculated based on the average compensation over the previous three years and will take into account the seniority of the beneficiary concerned within the category of top executives (<i>hors statut</i>) and Officers (with at least five years of service), and will be equal to 1.8% of this reference compensation per year of service, capped at 18%;</li> <li>the total replacement rate (all basic, additional and supplementary retirement benefits) shall not exceed 35% of the reference compensation;</li> <li>the annual amount of the supplementary retirement benefits is capped at three times the annual social security ceiling in force at the date that the general social security retirement pension is paid (in 2013 the ceiling was €37,032);</li> <li>the payment of these supplementary retirement benefits is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.</li> </ul> <p>Accordingly, the potential annual benefits to which Stéphane Abrial would be entitled, subject to his fulfilling the aforementioned conditions, will be capped at three times the annual social security ceiling, i.e., €111,096 per year based on the ceiling in 2013.</p> <p>This commitment will be submitted for shareholder approval in the sixth resolution of the May 27, 2014 Annual General Meeting, in accordance with the applicable procedure for approving related-party agreements and commitments.</p>

■ Presentation of the compensation due or awarded for 2013 to Ross McInnes (Deputy Chief Executive Officer, Finance)

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Fixed compensation</b>	<b>€500,000</b>	Ross McInnes' fixed annual compensation was set by the Board of Directors at its meeting of December 12, 2012 for the period up until January 1, 2016.
<b>Annual variable compensation</b>	<b>€550,000</b>	<p>Two thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.</p> <p>At its meeting on December 12, 2012, the Board of Directors determined that the financial performance metrics for 2013 would be as follows:</p> <ul style="list-style-type: none"> <li>• weighting: <ul style="list-style-type: none"> <li>– EBIT: 60%,</li> <li>– working capital: 10%, and</li> <li>– free cash flow: 30%;</li> </ul> </li> <li>• threshold levels (based on annual budgets): <ul style="list-style-type: none"> <li>– 80% of EBIT target,</li> <li>– 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and</li> <li>– 65% of free cash flow target.</li> </ul> </li> </ul> <p>The same meeting set the following calculation methods, based on the threshold and maximum levels applied:</p> <ul style="list-style-type: none"> <li>• the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);</li> <li>• if an objective was exceeded, the variable compensation allocated in respect of that objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130% which applied irrespective of the extent to which the objective was exceeded, as follows: <ul style="list-style-type: none"> <li>– if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,</li> <li>– if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and</li> <li>– if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.</li> </ul> </li> </ul> <p>Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed by the Board based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated.</p> <p>At its same meeting on December 12, 2012, the Board of Directors also determined Mr. McInnes' individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They were not disclosed for reasons of strategic and competitive sensitivity.</p> <p>At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to Ross McInnes for 2013, after consultation with the Appointments and Compensation Committee.</p> <p>As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above.</p> <p>The achievement rate of the variable compensation objectives set for 2013 resulted in the payment to Ross McInnes of €550,000 in variable compensation.</p>



Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Deferred variable compensation</b>	<b>N/A</b>	Mr. McInnes does not receive any deferred variable compensation.
<b>Extraordinary compensation</b>	<b>N/A</b>	Mr. McInnes does not receive any extraordinary compensation.
<b>Stock options, performance shares and any other long-term compensation</b>	<b>Stock options = N/A</b>	Mr. McInnes does not receive any stock options.
	<b>Performance shares = NA</b>	Mr. McInnes does not receive any performance shares or any other long-term compensation.
	<b>Other long-term compensation = N/A</b>	
<b>Attendance fees</b>	<b>N/A</b>	Mr. McInnes does not receive any attendance fees.
<b>Value of benefits-in-kind</b>	<b>€4,091</b> (accounting value)	Mr. McInnes has the use of a company car.

Compensation due or awarded for 2013 that has been approved by shareholders as part of the procedure for related-party agreements and commitments

	Amounts submitted for shareholder approval	Presentation
<b>Termination benefits</b>	<b>N/A</b>	Ross McInnes is not entitled to any termination benefits.
<b>Non-compete indemnity</b>	<b>N/A</b>	Mr. McInnes is not subject to any non-compete clause.
<b>Supplementary pension benefits</b>	<b>€0</b>	<p>Supplementary defined contribution pension plan:</p> <p>In his prior capacity as a Company employee, Mr. McInnes was previously covered by a supplementary defined contribution pension plan set up for the Company's managerial-grade staff.</p> <p>At its meeting of July 27, 2011, the Board of Directors decided to authorize Mr. McInnes to continue to be covered by this supplementary pension plan, in the same conditions as the other personnel concerned. The contributions are based on the compensation (fixed and variable) that he receives for his role as Deputy Chief Executive Officer. The expense recorded in the 2013 financial statements relating to the contributions paid under this plan for Mr. McInnes amounted to €18,901.78.</p> <p>This commitment was submitted for shareholder approval in the sixth resolution of the May 31, 2012 Annual General Meeting in accordance with the applicable procedure for approving related-party agreements and commitments.</p> <p>Supplementary defined benefit pension plan:</p> <p>As part of the Group's human resources management, on October 31, 2013, the Board of Directors of Safran decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which Executive Managers within the Group, currently numbering around 400, are eligible.</p> <p>On December 11, 2013, the Board of Directors decided to extend this plan to the four Executive Corporate Officers, including Ross McInnes. The methods used to calculate the benefits that would be paid to these Corporate Officers are exactly the same as those used for the other Executive Managers who benefit from the plan, namely:</p> <ul style="list-style-type: none"> <li>the amount of the benefits will be calculated based on the average compensation over the previous three years and will take into account the seniority of the beneficiary concerned within the category of top executives (<i>hors statut</i>) and Officers (with at least five years of service), and will be equal to 1.8% of this reference compensation per year of service, capped at 18%;</li> <li>the total replacement rate (all basic, additional and supplementary retirement benefits) shall not exceed 35% of the reference compensation;</li> <li>the annual amount of the supplementary retirement benefits is capped at three times the annual social security ceiling in force at the date that the general social security retirement pension is paid (in 2013 the ceiling was €37,032);</li> <li>the payment of these supplementary retirement benefits is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.</li> </ul> <p>Accordingly, the potential annual benefits to which Ross McInnes would be entitled, subject to his fulfilling the aforementioned conditions, will be capped at three times the annual social security ceiling, i.e., €111,096 per year based on the ceiling in 2013.</p> <p>This commitment will be submitted for shareholder approval in the sixth resolution of the May 27, 2014 Annual General Meeting, in accordance with the applicable procedure for approving related-party agreements and commitments.</p>

■ Presentation of the compensation due or awarded for 2013 to Marc Ventre (Deputy Chief Executive Officer, Operations)

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Fixed compensation</b>	<b>€500,000</b>	Marc Ventre's fixed annual compensation was set by the Board of Directors at its meeting of December 12, 2012 for the period up until January 1, 2016.
<b>Annual variable compensation</b>	<b>€550,000</b>	<p>Two thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.</p> <p>At its meeting on December 12, 2012, the Board of Directors determined that the financial performance metrics for 2013 would be as follows:</p> <ul style="list-style-type: none"> <li>weighting: <ul style="list-style-type: none"> <li>EBIT: 60%,</li> <li>working capital: 10%, and</li> <li>free cash flow: 30%;</li> </ul> </li> <li>threshold levels (based on annual budgets): <ul style="list-style-type: none"> <li>80% of EBIT target,</li> <li>135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and</li> <li>65% of free cash flow target.</li> </ul> </li> </ul> <p>The same meeting set the following calculation methods, based on the threshold and maximum levels applied:</p> <ul style="list-style-type: none"> <li>the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);</li> <li>if an objective was exceeded, the variable compensation allocated in respect of that objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130%, which applied irrespective of the extent to which the objective was exceeded, as follows: <ul style="list-style-type: none"> <li>if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,</li> <li>if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and</li> <li>if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.</li> </ul> </li> </ul> <p>Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed by the Board based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated.</p> <p>At its same meeting on December 12, 2012, the Board of Directors also determined Mr. Ventre's individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They were not disclosed for reasons of strategic and competitive sensitivity.</p> <p>At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to Marc Ventre for 2013, after consultation with the Appointments and Compensation Committee.</p> <p>As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above.</p> <p>The achievement rate of the variable compensation objectives set for 2013 resulted in the payment to Marc Ventre of €550,000 in variable compensation.</p>

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Deferred variable compensation</b>	<b>N/A</b>	Mr. Ventre does not receive any deferred variable compensation.
<b>Extraordinary compensation</b>	<b>N/A</b>	Mr. Ventre does not receive any extraordinary compensation.
<b>Stock options, performance shares and any other long-term compensation</b>	<b>Stock options = N/A</b>	Mr. Ventre does not receive any stock options.
	<b>Performance shares = NA</b>	Mr. Ventre does not receive any performance shares or any other long-term compensation.
	<b>Other long-term compensation = N/A</b>	
<b>Attendance fees</b>	<b>N/A</b>	Mr. Ventre does not receive any attendance fees.
<b>Value of benefits-in-kind</b>	<b>€4,003</b> (accounting value)	Mr. Ventre has the use of a company car.

Compensation due or awarded for 2013 that has been approved by shareholders as part of the procedure for related-party agreements and commitments

Amounts submitted for shareholder approval

Presentation

Termination benefits	N/A	Marc Ventre is not entitled to any termination benefits.
Non-compete indemnity	N/A	Mr. Ventre is not subject to any non-compete clause.
Supplementary pension benefits	€0	<p>Supplementary defined contribution pension plan:</p> <p>In his prior capacity as a Company employee, Mr. Ventre was previously covered by supplementary defined contribution pension plans set up for the Company's managerial-grade staff.</p> <p>At its meeting of July 27, 2011, the Board of Directors decided to authorize Mr. Ventre to continue to be covered by this supplementary pension plan, in the same conditions as the other personnel concerned. The contributions are based on the compensation (fixed and variable) that he receives for his role as Deputy Chief Executive Officer. The expense recorded in the 2013 financial statements relating to the contributions paid under this plan for Mr. Ventre amounted to €33,292.82.</p> <p>This commitment was submitted for shareholder approval in the sixth resolution of the May 31, 2012 Annual General Meeting in accordance with the applicable procedure for approving related-party agreements and commitments.</p> <p>Supplementary defined benefit pension plan:</p> <p>As part of the Group's human resources management, on October 31, 2013, the Board of Directors of Safran decided to set up a supplementary defined benefit pension plan in France, effective from January 1, 2014, for which Executive Managers within the Group, currently numbering around 400, are eligible.</p> <p>On December 11, 2013, the Board of Directors decided to extend this plan to the four Executive Corporate Officers, including Marc Ventre.</p> <p>The methods used to calculate the benefits that would be paid to these Corporate Officers are exactly the same as those used for the other Executive Managers who benefit from the plan, namely:</p> <ul style="list-style-type: none"> <li>the amount of the benefits will be calculated based on the average compensation over the previous three years and will take into account the seniority of the beneficiary concerned within the category of top executives (<i>hors statut</i>) and Officers (with at least five years of service), and will be equal to 1.8% of this reference compensation per year of service, capped at 18%;</li> <li>the total replacement rate (all basic, additional and supplementary retirement benefits) shall not exceed 35% of the reference compensation;</li> <li>the annual amount of the supplementary retirement benefits is capped at three times the annual social security ceiling in force at the date that the general social security retirement pension is paid (in 2013 the ceiling was €37,032);</li> <li>the payment of these supplementary retirement benefits is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.</li> </ul> <p>Accordingly, the potential annual benefits to which Marc Ventre would be entitled, subject to his fulfilling the aforementioned conditions, will be capped at three times the annual social security ceiling, i.e., €111,096 per year based on the ceiling in 2013.</p> <p>This commitment will be submitted for shareholder approval in the sixth resolution of the May 27, 2014 Annual General Meeting, in accordance with the applicable procedure for approving related-party agreements and commitments.</p>

■ **Presentation of the compensation due or awarded for 2013 to Dominique-Jean Chertier (Deputy Chief Executive Officer, Corporate Office) until June 30 2013**

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
<b>Fixed compensation</b>	<b>€240,000</b> (calculated on a proportionate basis between January 1 and June 30, 2013)	Dominique-Jean Chertier's fixed annual compensation was set at €480,000 by the Board of Directors at its meeting on May 26, 2011. This amount was effective until January 1, 2014.
<b>Annual variable compensation</b>	<b>€244,000 €</b> (calculated on a proportionate basis between January 1 and June 30, 2013)	<p>Two thirds of the variable component is determined on the basis of financial objectives and one third on individual objectives for each year. The Board of Directors decided to define financial objectives with reference to EBIT, free cash flow and working capital. The Board reviews the respective weighting of these three performance metrics every year. It also establishes the threshold and maximum levels for each metric, as well as an aggregate maximum level.</p> <p>At its meeting on December 12, 2012, the Board of Directors determined that the financial performance metrics for 2013 would be as follows:</p> <ul style="list-style-type: none"> <li>• weighting: <ul style="list-style-type: none"> <li>– EBIT: 60%,</li> <li>– working capital: 10%, and</li> <li>– free cash flow: 30%;</li> </ul> </li> <li>• threshold levels (based on annual budgets): <ul style="list-style-type: none"> <li>– 80% of EBIT target,</li> <li>– 135% of budgeted working capital (no variable compensation on this metric if the value of working capital is higher than 135% of budgeted working capital), and</li> <li>– 65% of free cash flow target.</li> </ul> </li> </ul> <p>The same meeting set the following calculation methods, based on the threshold and maximum levels applied:</p> <ul style="list-style-type: none"> <li>• the threshold level of each performance metric resulted in the allocation of variable compensation (from 0 at the threshold level to 100% upon meeting budget at 100%);</li> <li>• if an objective was exceeded, the variable compensation allocated in respect of that objective increased beyond 100% in proportion to the extent to which the objective was exceeded, capped at a maximum of 130%, which applied irrespective of the extent to which the objective was exceeded, as follows: <ul style="list-style-type: none"> <li>– if 130% (or more) of the EBIT target was achieved, the maximum 130% of variable compensation was payable for this metric,</li> <li>– if 65% (or less) of the working capital target was achieved, the maximum 130% of variable compensation was payable for this metric, and</li> <li>– if 130% (or more) of the free cash flow target was achieved, the maximum 130% of variable compensation was payable for this metric.</li> </ul> </li> </ul> <p>Total variable compensation could reach 100% of fixed compensation if all of the objectives were achieved and up to 130% if the performance, assessed by the Board based on both individual objectives and in proportion to the Group's results for the financial objectives, were exceeded and substantiated.</p> <p>At its same meeting on December 12, 2012, the Board of Directors also determined Mr. Chertier's individual objectives. These objectives were measurable, they were not solely financial, and mainly related to the Group's main strategic challenges in terms of programs, competitiveness and external growth. They were not disclosed for reasons of strategic and competitive sensitivity.</p> <p>At its meeting of February 19, 2014, the Board of Directors reviewed the achievement of objectives set for the variable compensation payable to Dominique-Jean Chertier for the period from January 1 to June 30, 2013, after consultation with the Appointments and Compensation Committee.</p>

Compensation due or awarded for 2013	Amounts (or accounting value) submitted for shareholder approval	Presentation
		As regards the Group's financial performance, the EBIT and free cash flow targets were exceeded, which largely offset the fact that the working capital target was only partially achieved. The achievement rate of the individual qualitative objectives was specifically determined and is not disclosed for the confidentiality reasons provided above. The achievement rate of the variable compensation objectives set for 2013 resulted in the payment to Dominique-Jean Chertier of €244,000 in variable compensation.
Deferred variable compensation	N/A	Mr. Chertier did not receive any deferred variable compensation.
Extraordinary compensation	N/A	Mr. Chertier did not receive any extraordinary compensation.
Stock options, performance shares and any other long-term compensation	Stock options = N/A Performance shares = NA Other long-term compensation = N/A	Mr. Chertier did not receive any stock options. Mr. Chertier did not receive any performance shares or any other long-term compensation.
Attendance fees	N/A	Mr. Chertier did not receive any attendance fees.
Value of benefits-in-kind	€2,423 (accounting value)	Mr. Chertier had the use of a company car.

Compensation due or awarded for 2013 that has been approved by shareholders as part of the procedure for related-party agreements and commitments	Amounts submitted for shareholder approval	Presentation
Termination benefits	N/A	Dominique-Jean Chertier was not entitled to any termination benefits.
Non-compete indemnity	N/A	Mr. Chertier was not subject to any non-compete clause
Supplementary pension benefits	€0	In his capacity as a Company employee, prior to his appointment as a Deputy Chief Executive Officer, Mr. Chertier was covered by supplementary defined contribution pension plans set up for the Company's managerial-grade staff. At its meeting of July 27, 2011, the Board of Directors decided to authorize Mr. Chertier to continue to be covered by this supplementary pension plan, in the same conditions as the other personnel concerned. Throughout Mr. Chertier's term as Deputy Chief Executive Officer, the contributions paid into the plan were based on the compensation (fixed and variable) that he received for his role as Deputy Chief Executive Officer. The expense recorded in the 2013 financial statements relating to the contributions paid under this plan for Mr. Chertier (calculated on a proportionate basis for the period from January 1 to June 30, 2013) amounted to €22,446.40. This commitment was submitted for shareholder approval in the sixth resolution of the May 31, 2012 Annual General Meeting in accordance with the applicable procedure for approving related-party agreements and commitments.



## EXTRAORDINARY RESOLUTIONS

### PRESENTATION OF THE TWELFTH RESOLUTION

#### **Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares**

In the twelfth resolution the Board of Directors is seeking an authorization to reduce the Company's capital by canceling all or some of the treasury shares purchased under share buyback programs previously authorized by shareholders as well as the new program proposed in the ninth resolution.

In compliance with the applicable law, the number of shares canceled in any 24-month period would not be able to exceed 10% of the Company's capital.

This authorization would be given for a period of 24 months and would supersede the unused authorization given for the same purpose in the ninth resolution of the Annual General Meeting held on May 31, 2012.

### PRESENTATION OF THE THIRTEENTH RESOLUTION

#### **Amendment to Article 14 of the Company's bylaws in order to introduce provisions concerning the procedures for the election of employee representative Directors, in accordance with France's Employment Security Act of June 14, 2013**

In the thirteenth resolution shareholders are requested to amend Article 14 of the Company's bylaws relating to the membership structure of the Board of Directors in order to introduce provisions concerning the procedures for the election of employee representative Directors, in accordance with France's Employment Security Act of June 14, 2013.

Since the Company meets the criteria set in the Employment Security Act (including having more than 10,000 employees worldwide), and the Board of Directors comprises 13 members (not counting the Directors who represent employee shareholders), the law states that it must include two employee representative Directors. These two new Board members must take up office within six months of this Annual General Meeting.

It is proposed that each of the two employee representative Directors would be elected by all eligible employees, forming a single electoral body. The election would be from a list of candidates using the largest-remainder proportional representation system, without vote-splitting. In accordance with the law, a consultation process has been conducted with the Group's Works Council concerning the proposed terms and conditions for the election process.

## RESOLUTION CONCERNING POWERS TO CARRY OUT FORMALITIES

### PRESENTATION OF THE FOURTEENTH RESOLUTION

The fourteenth resolution concerns the powers that are necessary to carry out the filing and other legal formalities required for the resolutions adopted at this Meeting.

## 8.2.2 TEXT OF THE PROPOSED RESOLUTIONS

### ORDINARY RESOLUTIONS

#### Approval of the parent company and consolidated financial statements for the year ended December 31, 2013

##### TEXT OF THE FIRST RESOLUTION

##### Approval of the parent company financial statements for the year ended December 31, 2013

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the management report prepared by the Board of Directors and the Statutory Auditors' report on the parent company financial statements, the shareholders approve the financial statements of the parent company for the year ended December 31, 2013 as presented – showing profit for the year of €327,839,112.93 – together with the transactions reflected in these financial statements and referred to in these reports.

Pursuant to article 223 *quater* of the French Tax Code, the shareholders approve the non-deductible expenses governed by article 39-4 of said Code, which totaled €125,757 and gave rise to a tax charge of €47,788.

##### TEXT OF THE SECOND RESOLUTION

##### Approval of the consolidated financial statements for the year ended December 31, 2013

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the management report prepared by the Board of Directors and the Statutory Auditors' report on the consolidated financial statements, the shareholders approve the consolidated financial statements for the year ended December 31, 2013 as presented, together with the transactions reflected in these financial statements and referred to in these reports.

The shareholders note that dividends paid for the past three years were as follows:

Year	Number of shares carrying dividend rights <sup>(1)</sup>	Net dividend per share	Total payout <sup>(4)</sup>
2012	416,463,366 <sup>(2)</sup>	€0.96	€399,645,083.40
2011	415,843,977 <sup>(3)</sup>	€0.62	€256,383,788.99
2010	406,335,324	€0.50	€203,167,662.00

(1) Total number of shares making up the Company's capital (417,029,585) less the number of Safran shares held in treasury at the dividend payment date.

(2) An interim dividend (€0.31) was paid on 415,948,050 shares and the final dividend (€0.65) was paid on 416,463,366 shares.

(3) An interim dividend (€0.25) was paid on 410,086,070 shares and the final dividend (€0.37) was paid on 415,843,977 shares.

(4) Fully eligible for the 40% tax relief provided for under article 158, 3-2° of the French Tax Code.

#### Appropriation of profit for the year and approval of the recommended dividend

##### TEXT OF THE THIRD RESOLUTION

##### Appropriation of profit for the year and approval of the recommended dividend

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings, and based on the Board of Directors' recommendation, the shareholders' resolve to appropriate profit for the year ended December 31, 2013 as follows:

• Profit for 2013	€327,839,112.93
• Retained earnings <sup>(1)</sup>	€368,281,554.50
• Profit available for distribution	€696,120,667.43

##### Appropriation:

• Dividend	€467,073,135.20
• Retained earnings	€229,047,532.23

(1) Including €714,148.20 corresponding to the 2012 dividend due on shares held in treasury at the dividend payment date.

Accordingly, the dividend paid will be €1.12 per share.

An interim dividend of €0.48 per share was paid on December 19, 2013. The ex-dividend date for the remaining payout of €0.64 per share will be May 29, 2014, and the dividend will be paid on June 3, 2014.

Individual shareholders domiciled for tax purposes in France are eligible for 40% tax relief on the amount of their interim dividend and the final dividend, as provided for under article 158, 3-2° of the French Tax Code.

The shareholders resolve that dividends which are not payable on shares held in treasury will be credited to retained earnings.

## Related-party agreements and commitments

### TEXT OF THE FOURTH RESOLUTION

#### Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Stéphane Abrial (Deputy Chief Executive Officer) concerning pension benefits and personal risk insurance

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the Statutory Auditors' special report on related-party commitments governed by article L.225-42-1 of the French Commercial Code, the shareholders approve the commitment described therein given to Stéphane Abrial (Deputy Chief Executive Officer) concerning his continued membership of the collective personal risk insurance plan and supplementary defined contribution pension plan.

### TEXT OF THE FIFTH RESOLUTION

#### Approval of a related-party commitment governed by article L.225-42-1 of the French Commercial Code, given to Jean-Paul Herteman (Chairman and Chief Executive Officer) concerning pension benefits

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the Statutory Auditors' special report on related-party commitments governed by article L.225-42-1 of the French Commercial Code, the shareholders approve the commitment described therein given to Jean-Paul Herteman (Chairman and Chief Executive Officer) concerning his membership of the supplementary defined benefit pension plan.

### TEXT OF THE SIXTH RESOLUTION

#### Approval of related-party commitments governed by article L.225-42-1 of the French Commercial Code, given to the Deputy Chief Executive Officers concerning pension benefits

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the Statutory Auditors' special report on related-party commitments governed by article L.225-42-1 of the French Commercial Code, the shareholders approve the commitments described therein given to Stéphane Abrial, Ross McInnes and Marc Ventre (Deputy Chief Executive Officers) concerning their membership of the supplementary defined benefit pension plan.

### TEXT OF THE SEVENTH RESOLUTION

#### Related-party agreements governed by article L.225-38 of the French Commercial Code

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the Statutory Auditors' special report on related-party agreements governed by article L.225-38 of the French Commercial Code, the shareholders place on record that no such agreements were entered into during 2013.

## Setting the amount of attendance fees to be allocated to the Board of Directors

### TEXT OF THE EIGHTH RESOLUTION

#### Setting the amount of attendance fees to be allocated to the Board of Directors

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the report of the Board of Directors, the shareholders set at €868,000 the total maximum amount of attendance fees to be allocated among members of the Board of Directors for 2014.

## Authorization for the Board of Directors to carry out a share buyback program

### TEXT OF THE NINTH RESOLUTION

#### Authorization for the Board of Directors to carry out a share buyback program

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings and having considered the report of the Board of Directors, the shareholders grant the Board of Directors an authorization – which may be delegated in accordance with the law – to purchase, directly or indirectly, the Company's shares in accordance with the conditions set out in articles L.225-209 *et seq.* of the French Commercial Code, EC Regulation 2273/2003 dated December 22, 2003 implementing EC Directive 2003/6/EC dated January 28, 2003, the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF), market practices permitted by the AMF, and any other laws and regulations that may be applicable in the future.

The authorization may be used to purchase shares:

- to maintain a liquid market in the Company's shares via a liquidity agreement entered into with an investment services firm and which complies with the AMF-approved code of ethics drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI);
- for allocation or sale to employees and/or Corporate Officers of the Company or of other Group companies, in accordance with the terms and conditions provided for by law, notably in connection with a profit-sharing plan, free share grant plan, stock option plan, the Group employee savings plan, or any company employee savings plan in place within the Safran Group;
- for delivery on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- to hold in treasury for subsequent delivery in payment or exchange for external growth transactions; and
- for cancellation in accordance with the authorization granted in the twelfth resolution of this Annual General Meeting.

Shares may be purchased, sold, or transferred in one or several transactions and by any method allowed under the laws and regulations applicable at the transaction date, including over-the-counter and through a block trade for all or part of the program, as well as via the use of derivative financial instruments.

The Board of Directors may use this authorization at any time subject to the limitations set down by the applicable regulations, including during a tender offer initiated by the Company, subject to strict compliance with article 231-41 of the AMF's General Regulations and article L.225-209 of the French Commercial Code.

The number of shares that may be bought back under this authorization may not exceed 10% of the Company's total outstanding shares (for information purposes, 41,702,958 shares based on the issued capital at December 31, 2013). This ceiling shall be reduced to 5% for shares acquired for the purpose of being held in treasury for subsequent delivery in payment or exchange for external growth transactions. When shares are bought back for market-making purposes under a liquidity agreement, the number of shares included in the calculation of the 10% ceiling corresponds to the number of shares purchased less any shares sold during the period covered by this authorization.

Under no circumstances may the use of this authorization have the effect of increasing the number of Safran shares held by the Company, either directly or indirectly, to more than 10% of its share capital.

The shares may not be purchased at a price of more than €65 per share and the maximum amount that may be invested in the program is €2.7 billion. However, the Board of Directors may adjust this maximum purchase price to take into account the impact on the share price of any corporate actions.

The shareholders give full powers to the Board of Directors – or any representative duly empowered in accordance with the law – to carry out this share buyback program, set the applicable terms and conditions, make the required adjustments as a result of any corporate actions, place any and all buy and sell orders, enter into any and all agreements notably for the keeping of registers of share purchases and sales, make any and all filings with the AMF and any other organization, carry out all other formalities, and generally do everything necessary to use this authorization.

This authorization is given for a period of 18 months from the date of this Meeting. It supersedes the authorization given to the Board of Directors for the same purpose in the tenth resolution of the Annual General Meeting held on May 28, 2013.

## **Advisory votes on the compensation due or awarded for 2013 to the Executive Corporate Officers**

### **TEXT OF THE TENTH RESOLUTION**

#### **Advisory vote on the compensation due or awarded for 2013 to Jean-Paul Herteman, Chairman and Chief Executive Officer**

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings, and having been consulted in connection with the "say-on-pay" recommendations in Article 24.3 of the June 2013 revised version of the AFEP/MEDEF Code on corporate governance – which the Company uses as its reference framework for corporate governance in accordance with article L.225-37 of the French Commercial Code – the shareholders issue a positive advisory vote on the compensation due or awarded for the year ended December 31, 2013 to Jean-Paul Herteman (Chairman and Chief Executive Officer) as presented in section 8.2.1 of the 2013 Registration Document.

### **TEXT OF THE ELEVENTH RESOLUTION**

#### **Advisory vote on the compensation due or awarded for 2013 to the Deputy Chief Executive Officers**

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings, and having been consulted in connection with the "say-on-pay" recommendations in Article 24.3 of the June 2013 revised version of the AFEP/MEDEF Code on corporate governance – which the Company uses as its reference framework for corporate governance in accordance with article L.225-37 of the French Commercial Code – the shareholders issue a positive advisory vote on the compensation due or awarded for the year ended December 31, 2013 to the Deputy Chief Executive Officers as presented in section 8.2.1 of the 2013 Registration Document.

## EXTRAORDINARY RESOLUTIONS

### TEXT OF THE TWELFTH RESOLUTION

#### Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares

Deliberating in accordance with the rules of quorum and majority applicable to extraordinary general meetings and having considered the report of the Board of Directors and the Statutory Auditors' special report, in accordance with article L.225-209 of the French Commercial Code, the shareholders:

1. Authorize the Board of Directors to reduce the Company's capital on one or more occasions, in the proportions and at the times it deems appropriate, by canceling all or some of the treasury shares held by the Company as a result of implementing a share buyback program. The number of treasury shares that may be canceled within any 24-month period may not exceed 10% of the Company's capital. This 10% ceiling shall apply to the amount of the Company's capital as adjusted, where applicable, to take into consideration any corporate actions that may be carried out after this Annual General Meeting.
2. Resolve that the Board of Directors will have full powers, which may be delegated in accordance with the law, to implement this resolution and in particular to:
  - set the definitive amount of the capital reduction(s);
  - set the terms and conditions of the capital reduction(s) and to carry them out;
  - charge the difference between the carrying amount of the canceled shares and their par value against any available reserves and additional paid-in capital accounts;
  - place on record the completion of the capital reduction(s) and amend the Company's bylaws accordingly; and
  - carry out any formalities and other measures and generally do everything necessary to complete the capital reduction(s).

This authorization is given for a period of 24 months from the date of this Meeting. It supersedes the authorization given to the Board of Directors for the same purpose in the ninth resolution of the Annual General Meeting held on May 31, 2012.

### TEXT OF THE THIRTEENTH RESOLUTION

#### Amendment to Article 14 of the Company's bylaws in order to introduce provisions concerning the procedures for the election of employee representative Directors, in accordance with France's Employment Security Act of June 14, 2013

Deliberating in accordance with the rules of quorum and majority applicable to extraordinary general meetings and having considered the report of the Board of Directors and the opinion issued by the Group's Works Council in France, the shareholders resolve to amend Article 14 of the Company's bylaws to read as follows:

#### Article 14 – Membership Structure of the Board of Directors

- 14.1. *The Company shall be administered by a Board of Directors with at least three and no more than thirteen members, including any representatives of the French State appointed in application of article 12 of Act 49-985 dated July 25, 1949. The French*

*State shall be entitled to have at least two representatives on Safran's Board for as long as it holds at least 10% of the Company's capital.*

- 14.2. *The maximum number of thirteen Board members may be increased to allow for the inclusion of any Directors representing employee shareholders, elected as provided for in Article 14.8 below, and any employee representative Directors in general, elected as provided for in Article 14.9 below.*
- 14.3. *Directors may be either individuals or legal entities. Legal entities elected to the Board of Directors are required to appoint a permanent representative who shall be subject to the same conditions and duties and have the same responsibilities as if he were a Director in his own name, without prejudice to the joint and several liability of the legal entity he represents.*
- 14.4. *Directors shall be elected, re-elected or removed from office in accordance with the conditions set down in the applicable laws and regulations.*
- 14.5. *Each Director – other than the representatives of the French State, the Directors representing employee shareholders and employee representative Directors – shall be required to own a certain number of shares in the Company in accordance with the terms and conditions set down in the Board of Directors' Internal Rules. If a Director no longer holds the required number of shares, he will have a specific period of time (as set out in the Board of Directors' Internal Rules) to remedy the situation, after which he will be automatically deemed to have resigned.*
- 14.6. *Directors shall be subject to the applicable laws and regulations concerning multiple directorships.*
- 14.7. *In accordance with the applicable laws and regulations, and subject to compliance with the conditions concerning combining directorships with an employment contract, the number of Directors holding an employment contract with the Company (not including Directors representing employee shareholders and employee representative Directors) must not exceed one third of the Board's members.*

*The employment contract of a Director shall not be automatically terminated when his term of office as a Director expires or if he is removed from office.*

- 14.8. *Directors representing employee shareholders*

*If the report presented by the Board at the Annual General Meeting in accordance with article L.225-102 of the French Commercial Code shows that the shares held by employees of the Company – or of companies related to it within the meaning of article L.225-180 of said Code – represent more than 3% of the share capital, then one or more Directors representing employee shareholders shall be elected at an Ordinary General Meeting in accordance with the terms and conditions set down in the applicable laws and regulations as well as in these bylaws. This requirement shall not, however, apply if the Board's members already include (i) one or more Directors who are employee representative members of the Supervisory Board of a corporate mutual fund or (ii) one or more employee representatives appointed in application of article L.225-27 of the French Commercial Code.*



Prior to the Ordinary General Meeting at which Directors representing employee shareholders are to be elected, the Chairman of the Board of Directors shall contact the Supervisory Boards of the corporate mutual funds set up as part of the Group's employee share ownership program – whose investments mainly comprise shares in the Company – in order to carry out a consultation procedure with the employee shareholders in accordance with the conditions set down in these bylaws.

Candidate Directors representing employee shareholders shall be selected as follows:

- When the voting rights attached to the shares held by the employees concerned are exercised on their behalf by the members of the Supervisory Board of a corporate mutual fund, said Supervisory Board may select one or more candidates from among its members who represent employees. When there are several corporate mutual funds, the Supervisory Boards of these funds may agree together to present one or more joint candidates, selected from among all of their members representing employees.
- When the voting rights attached to the shares held by the employees concerned are exercised directly by the employees, candidates may be selected through consultation procedures organized by the Company. These consultations, which must be preceded by calls for candidates, may be organized by the Company using any technical means that offer a secure voting process, including electronic or postal voting systems. In order to be eligible, candidate applications must be presented by a group of shareholders representing at least 5% of the shares held by employees who exercise their voting rights directly.

A special-purpose electoral committee set up by the Company may be tasked with ensuring that the overall process is properly conducted.

The only candidate(s) submitted for election at the Ordinary General Meeting shall be the candidate(s) presented either by the Supervisory Boards of the corporate mutual funds or by the groups of employee shareholders as described above.

The reports presenting the candidates drawn up by the Supervisory Boards of the corporate mutual funds or by the special-purpose electoral committee must be given to the Board of Directors at least eight days before it meets to approve the resolutions to be proposed at the Annual General Meeting at which Directors representing employee shareholders will be elected.

In order to be valid, each candidate file put forward must include a proposed position holder and a deputy. The deputy, who must meet the same eligibility criteria as the position holder, will be appointed by the Board of Directors to replace the representative elected at the Annual General Meeting in the event that this representative has to terminate his duties before the end of his term of office. Any such appointment by the Board would be subject to ratification at the following General Shareholders' Meeting.

If the deputy Director representing employee shareholders also has to step down before the end of his term, in order to ensure that employee shareholders continue to be represented, the Chairman of the Board of Directors shall request the body that originally presented the candidate (i.e., the Supervisory Board of the corporate mutual fund or the group of employee shareholders) to select a new candidate Director to be put forward for election at the following Shareholders' Meeting.

Any terms and conditions for selecting candidates that are not provided for in the applicable laws and regulations or in these bylaws shall be determined by the Chairman of the Board of Directors, notably the timeframe for the candidate selection process.

Directors representing employee shareholders shall be elected at an Ordinary General Meeting in accordance with the same conditions as for electing other Directors.

Directors who represent employee shareholders shall not be included for the purpose of determining the minimum and maximum number of Directors referred to in Article 14.1 above.

Directors representing employee shareholders shall be elected for a five-year term, expiring at the close of the Ordinary General Meeting held during the year in which their term expires in order to approve the financial statements for the previous year. However, the term of a Director representing employee shareholders shall automatically be terminated and the Director shall be deemed to have resigned if he ceases to be either (i) an employee of the Company (or of a company or inter-company partnership related to the Company within the meaning of article L.225-180 of the French Commercial Code), or (ii) a shareholder (or member of a corporate mutual fund holding shares in the Company).

If a position of Director representing employee shareholders falls vacant for any reason, it shall be filled in accordance with the conditions described above, and the new Director shall be elected by shareholders in an Ordinary General Meeting for the remainder of his predecessor's term of office. In such a case, the Board of Directors may meet and validly conduct business until the new Director(s) representing employee shareholders is/are replaced.

The provisions set out in the first paragraph of this Article shall cease to apply if, at the end of a fiscal year, the above-mentioned report drawn up in accordance with article L.225-102 of the French Commercial Code shows that the shares held by employees of the Company – or of companies related to it within the meaning of article L.225-180 of said Code – represent less than 3% of the share capital. However, the term of office of Directors representing employee shareholders elected in application of the first paragraph of this Article shall continue to run until their expiry date.

The provisions of Article 14.5 relating to the number of the Company's shares that must be held by a Director shall not apply to Directors representing employee shareholders. However, each such Director shall be required to hold – either individually or through a corporate mutual fund set up as part of the Group's employee share ownership program – at least one share or a number of units in the fund equivalent to at least one share.

**14.9. Directors representing employees ("employee representative Directors")**

**14.9.1. Number of employee representative Directors and terms and conditions of their election and appointment**

*In application of article L.225-27-1 of the French Commercial Code, the Board of Directors shall include one or two employee representative Directors, depending on the total number of Board members.*

*The Board shall have one employee representative Director if it has twelve or fewer members on the date said Director is appointed, or two employee representative Directors if it has more than twelve members on that date. Directors representing employees or employee shareholders shall not be included for the purpose of determining the total number of Board members.*

*If, during the term of office of an employee representative Director, the total number of Board members falls to twelve or below (not including Directors representing employees or employee shareholders) the employee representative Director(s) shall nevertheless remain on the Board for the length of their scheduled term of office. However, in such a case, if at the end of the term of office of the employee representative Director(s) the number of Board members has not been increased to above twelve (not including Directors representing employees or employee shareholders) as at the scheduled appointment date for the employee representative Director(s)' replacement(s), then the number of employee representative Directors shall be reduced to one.*

*If the total number of Board members is subsequently increased to more than twelve (not including Directors representing employees or employee shareholders), then a second employee representative Director shall be elected in accordance with the terms and conditions set out below. Such election shall be held within six months of the appointment by the Board or the election by shareholders of the new Director which resulted in the twelve-member threshold being exceeded.*

*Elections of employee representative Directors shall be organized in accordance with the provisions of article L.225-28 of the French Commercial Code and the terms and conditions set out below.*

**14.9.2. Type of election**

*Employee representative Directors shall be elected by all employees eligible to vote, who shall form a single electoral body.*

*In accordance with article L.225-28 of the French Commercial Code, the election shall be held in one round, with the electors selecting from a list of candidates using the largest-remainder proportional representation system, without vote-splitting. Each list of candidates shall contain twice as many candidate names as there are Board seats to be filled, and shall contain the same number of men and women candidates, with men's and women's names appearing alternately on the list. No deputy employee representative Directors shall be elected.*

*The lists of candidates shall be put forward solely by one or more of the trade unions representing the Group's employees.*

**14.9.3. Organization and timing of elections**

*The elections shall be organized by Executive Management. The timing of the elections (notably the latest date by which candidatures may be filed and the voting date) as well as any electoral procedures that are not provided for in the applicable laws or regulations or in these bylaws (notably the selection of*

*the voting procedure) shall be set by Executive Management following consultation with the trade unions concerned.*

*The timing of the elections shall be such that the election results can be announced at least fifteen days before the expiration of the end of the term of office of outgoing employee representative Directors. For the first election held in application of French Act 2013-504 of June 14, 2013, the timing of the election shall be such that the election results can be announced within six months of the Annual General Meeting at which the bylaws were amended, as provided for in article L.225-27-1 III of the French Commercial Code.*

*For each election, Executive Management shall draw up the list of the Company's direct and indirect subsidiaries whose registered offices are located in France, as provided for in articles L.225-27-1 and L.225-28 of the French Commercial Code.*

**14.9.4. Voting procedures**

*Eligible employees may vote either by electronic means or on paper (including postal voting), or by a combination of both methods.*

*When voting is by electronic means it may take place at the employees' work premises or remotely, but the voting period may not last for more than fifteen days. The design and implementation of the electronic voting system may be entrusted to an external service provider. The system must guarantee confidentiality of the data transmitted as well as the security of voter authentication and signatures, and the recording and counting of votes.*

**14.9.5. Board vacancies and lack of candidates**

*If no candidates are put forward for one or more employee representative seats on the Board, the corresponding seat(s) shall remain vacant until the next election of employee representative Director(s).*

*If a seat held by an employee representative Director falls definitively vacant, that seat shall be filled in accordance with article L.225-34 of the French Commercial Code, i.e., by the candidate whose name featured directly below that of the last elected candidate on the same list.*

**14.9.6. Status of employee representative Directors**

*Employee representative Directors shall not be included for the purpose of determining the minimum and maximum number of Directors referred to in Article 14.2 above.*

*Employee representative Directors shall be elected for a term of five years. However, an employee representative Director shall be deemed to have resigned in the event that his employment contract is terminated. In this case, he shall be replaced in the same way as provided for in the second paragraph of Article 14.9.5 above.*

*Newly-elected employee representative Directors shall take up office on the date that the term of the outgoing employee representative Directors expires.*

*Employee representative Directors shall not be included for the purpose of determining the minimum and maximum number of Directors referred to in Article 16.3 below.*

*If the Company no longer meets the legal criteria that trigger the requirement for the election of one or more employee representative Directors then the term of the employee representative Director(s) in office at that time shall expire at the close of the Meeting at which the Board of Directors places on record that such criteria are no longer met."*



## POWERS TO CARRY OUT FORMALITIES

### TEXT OF THE FOURTEENTH RESOLUTION

#### Powers to carry out formalities

The shareholders give full powers to the bearer of an original, extract or copy of the minutes of this Meeting to carry out any and all filing, publication, declaration and other formalities required by the applicable laws and regulations.

## 8.3 DIVIDEND PAYMENT POLICY

Year	Type of shares	Number of shares	Dividend per share (in €) Actual	Tax credit (in €) Actual	Net dividend (in €)	Total dividend payment (in €)
2008	Ordinary	417,029,585	0.25	-	0.25	104,257,396
2009	Ordinary	417,029,585	0.38	-	0.38	158,471,242
2010	Ordinary	417,029,585	0.50	-	0.50	208,514,792
2011	Ordinary	417,029,585	0.62	-	0.62	258,558,343
2012 <sup>(1)</sup>	Ordinary	417,029,585	0.96	-	0.96	400,348,402
<b>2013<sup>(1)</sup></b>	<b>Ordinary</b>	<b>417,029,585</b>	<b>1.12</b>	<b>-</b>	<b>1.12</b>	<b>467,073,135</b>

(1) For income tax purposes, for dividends paid as from January 1, 2012, the full amount of the dividend qualifies for the 40% tax relief provided for under article 158, 3-2° of the French Tax Code for individuals domiciled in France for tax purposes. However for such shareholders, the Company's paying agent will withhold at source from the gross amount of the dividend (i) a compulsory deduction of 21% as required in accordance with article 117 quater of the French Tax Code (as amended by article 9 of the French Finance Act for 2013 – Act 2012-1509 of December 29, 2012), and (ii) 15.5% in social security contributions. Shareholders whose taxable income is below the ceilings set in article 117 quater of the French Tax Code may qualify for an exemption from the 21% withholding tax provided they have lodged with the Company's paying agent a statement of honor as provided for in article 242 quater of said Code. The 21% withholding tax corresponds to a downpayment of personal income tax due on the dividend payment and is not a payment in full discharge of all of the tax that may potentially be due on the dividend income. Consequently, the tax payable on the dividend will be subject to the progressive tax scale applicable to personal income tax.

Dividends that have not been claimed within five years are time-barred and paid over to the French State, in accordance with the applicable legislation.

Future dividends will depend on Safran's ability to generate profits, its financial position and any other factors deemed relevant by the Company's corporate governance bodies.

## 8.4 FIVE-YEAR FINANCIAL SUMMARY

(in €)	2009	2010	2011	2012	2013
<b>Capital at December 31</b>					
Share capital	83,405,917	83,405,917	83,405,917	83,405,917	83,405,917
Number of ordinary shares outstanding	417,029,585	417,029,585	417,029,585	417,029,585	417,029,585
<b>Financial results</b>					
Profit before tax, statutory employee profit-sharing, depreciation, amortization and provisions	259,026,592	460,950,316	311,960,503	583,002,487	351,489,419
Income tax expense	(130,569,281)	(81,337,666)	(85,414,505)	(190,424,330)	(49,857,914)
Statutory employee profit-sharing for the fiscal year	-	-	-	-	-
Profit after tax, statutory employee profit-sharing, depreciation, amortization and provisions	249,519,112	497,099,621	352,862,622	764,947,485	327,839,113
Dividend payment	158,471,242	208,514,793	258,558,343	400,348,402	467,073,135
<b>Per share data</b>					
Profit after tax, statutory employee profit-sharing, but before depreciation, amortization and provisions					
• divided by the number of shares outstanding	0.93	1.30	0.95	1.85	0.96
Profit after tax, statutory employee profit-sharing, depreciation, amortization and provisions					
• divided by the number of shares outstanding	0.60	1.19	0.85	1.83	0.79
Net dividend:					
• per ordinary share outstanding	0.38	0.50	0.62	0.96	1.12
<b>Employees</b>					
Average number of employees during the fiscal year	426	475	895	1,085	1,211
Total payroll	52,628,948	64,261,911	87,901,591	99,864,352	109,929,617
Social security and other social welfare contributions	23,727,951	31,003,789	75,671,943 <sup>(1)</sup>	56,713,929	71,358,273 <sup>(2)</sup>

(1) Including a total expense of €27 million in respect of the April 3, 2009 free share plan, of which €26.4 million was rebilled to the French subsidiaries employing the beneficiaries.

(2) Including €3.7 million in respect of the international free share plan, of which the full amount of €3.7 million has been rebilled to the European subsidiaries employing the beneficiaries.

## 8.5 STATUTORY AUDITORS' REPORTS

### 8.5.1 STATUTORY AUDITORS' REPORT ON RELATED-PARTY AGREEMENTS AND COMMITMENTS

#### SHAREHOLDERS' MEETING TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

*This is a free translation into English of the Statutory Auditors' special report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related-party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with article R. 225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with article R. 225-31 of the French Commercial Code (*Code de commerce*) concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the national auditing body (*Compagnie nationale des commissaires aux comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

#### Agreements and commitments submitted for approval by the General Meeting of Shareholders

##### AGREEMENTS AND COMMITMENTS AUTHORIZED DURING THE YEAR

In accordance with article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been advised of certain

related-party agreements and commitments which received prior authorization from your Board of Directors.

#### Continuation of personal risk insurance benefits and supplementary pension benefits for Stéphane Abrial, Deputy Chief Executive Officer

##### Person concerned

Stéphane Abrial, Deputy Chief Executive Officer.

##### Nature and purpose

As a company employee, Stéphane Abrial was previously covered by the personal risk insurance plan set up for all Safran Group employees and by supplementary defined contribution pension plans for managerial-grade staff.

At its meeting of July 25, 2013 the Board of Directors decided to authorize, in accordance with article L.225-42-1 of the French Commercial Code (*Code de commerce*), Stéphane Abrial, Deputy Chief Executive Officer since July 1, 2013, to continue to be covered by the personal risk insurance and the supplementary pension plans in the same terms and conditions as all relevant employees.

##### Terms and conditions

The contributions are based on the compensation (fixed and variable) that he receives for his role as Deputy Chief Executive Officer.

The expense recorded in the 2013 financial statements amounted to €7,448, of which €3,380 relating to the contribution to the personal risk insurance plan and €4,068 relating to the contribution to the supplementary pension plans.

#### Extension of defined benefit pension plan to the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers

##### Persons concerned

Jean-Paul Herteman, Chairman and Chief Executive Officer and Stéphane Abrial, Ross McInnes and Marc Ventre, Deputy Chief Executive Officers.

### Nature and purpose

At its meeting of October 31, 2013, the Board of Directors decided to implement as from January 1, 2014, a new supplementary defined benefit pension plan in France that covers senior executives of the Group, who are currently around 400.

At its meeting of December 11, 2013 the Board of Directors authorized the extension of this supplementary defined benefit pension plan to the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers.

### Terms and conditions

Terms and conditions for calculating the benefits that would be paid to the Chairman and chief Executive Officer and the Deputy Chief Executive Officers are the same as for other covered employees, that are:

- the benefits will be based on the average compensation of the last 3 years preceding retirement and on years of service within the covered category (at least 5 years), for 1.8% of the referred compensation per year of service, capped at 18%;
- the total amount of benefits under all pension plans will not exceed 35% of the referred compensation;
- the annuity is capped at three times the annual social security ceiling in force as of the wind-up date of the general social security pension plan;
- the granting of this benefit is subject to the beneficiary completing his/her career with the Company and to the effective liquidation of his/her full social security pension.

## Agreements and commitments already approved by the General Meeting of Shareholders

### AGREEMENTS AND COMMITMENTS APPROVED IN PRIOR YEARS WHOSE IMPLEMENTATION CONTINUED DURING THE YEAR

In accordance with article R.225-30 of the French Commercial Code (*Code de commerce*), we were informed that the following agreements and commitments which were approved by the General Meeting of Shareholders in previous years continued during the year.

#### Agreement concerning a syndicated credit line entered into with a group of international banks, including Crédit Industriel et Commercial (Crédit Mutuel-CIC Group)

##### Person concerned

Michel Lucas, Director of Safran until May 31, 2013 and Chairman and Chief Executive Officer of CIC.

##### Nature and purpose

This agreement was authorized by the Supervisory Board on December 2, 2010 and signed on December 8, 2010. It concerns a €1.6 billion five-year revolving credit facility maturing in

December 2015 granted by a group of thirteen banks, including five French banks (CIC, also acting as Agent, BNP Paribas, also acting as documentation agent, Société Générale, Crédit Agricole CIB and Crédit Agricole Ile-de-France), two German banks (Deutsche Bank and Commerzbank), two British banks (Royal Bank of Scotland and HSBC), one Spanish bank (Santander), one Dutch bank (ING), one Japanese bank (Bank of Tokyo-Mitsubishi) and one American bank (Citibank).

This credit facility – intended for the Group's general financing requirements – was an addition to the €800 million existing facility which expired in January 2012.

### Terms and conditions

The expense recorded in the 2013 financial statements relating to this facility amounted to €3,421,167, corresponding to the no-use fee (split between lenders based on their respective commitments) and €20,000, corresponding to the agent's annual commission paid to CIC.

#### Agreement concerning a syndicated credit line entered into with a group of seven banks, including Crédit Industriel et Commercial (Crédit Mutuel-CIC Group)

##### Person concerned

Michel Lucas, Director of Safran until May 31, 2013 and Chairman and Chief Executive Officer of CIC.

##### Nature and purpose

This agreement was authorized by the Board of Directors on October 20, 2011 and signed on October 21, 2011.

It concerns a €950 million five-year revolving credit facility maturing in October 2016 granted by (i) Bank of Tokyo-Mitsubishi, CIC, Natixis and Société Générale CIB in their capacity as bookrunners and lead arrangers, (ii) BNP Paribas, Crédit Agricole CIB and HSBC France in their capacity as lead arrangers, and (iii) Crédit Agricole CIB in its capacity as facility agent.

This credit facility – intended for the Group's general financing requirements – was an addition to the existing €1.6 billion facility put in place in 2010.

### Terms and conditions

The expense recorded in the 2013 financial statements relating to this facility amounted to €1,853,167, corresponding to the no-use fee (split between lenders based on their respective commitments) and €15,000, corresponding to the agent's annual commission paid to Crédit Agricole CIB.

#### Amendments to the three-way agreement in lieu of a "golden share" entered into by Sagem SA, Snecma and the French State on December 21, 2004

When Sagem S.A. and Snecma merged, the French State required adequate contractual rights to be put in place to protect France's national interests, as consideration for waiving its right to take a golden share in Snecma in accordance with article 10 of Act no. 86-912 of August 6, 1986.

A three-way agreement in lieu of a golden share was therefore entered into between the French State and Sagem S.A. and Snecma, which have now been merged into Safran. This agreement, which was signed on December 21, 2004, remained in force during 2013 as modified by three amendments.

#### ■ Amendment no. 1

##### Persons concerned

The members of the Board of Directors representing the French State (Astrid Milsan, Laure Reinhart, Thierry Pérard and Patrick Gandil).

##### Nature and purpose

Following Safran's acquisition of (i) the entire interest owned by SNPE in SNPE Matériaux Énergétiques (subsequently renamed SME), except for one share held by the French State, and (ii) a 40% stake in Regulus, the French State's contractual rights concerning the protection of national interests as provided for in the December 21, 2004 agreement were extended by way of an amendment to said agreement (Amendment no. 1). This extension covers Safran's newly-acquired 40% interest in Regulus as well as a number of strategic assets held by Roxel France, in which SME holds an indirect 50% stake.

##### Terms and conditions

The signature of this amendment was authorized by the Supervisory Board on March 30, 2011. It was signed on March 31, 2011 and entered into force on April 5, 2011.

#### ■ Amendment no.2

##### Persons concerned

The members of the Board of Directors representing the French State (Astrid Milsan, Laure Reinhart, Thierry Pérard and Patrick Gandil).

##### Nature and purpose

Following its April 21, 2011 Annual General Meeting, Safran changed its corporate governance structure from a two-tier system with an Executive Board and a Supervisory Board to a single-tier system with a Board of Directors. The provisions of the December 21, 2004 agreement entered into with the French State were consequently amended for the sole purpose of harmonization with Safran's new governance structure.

##### Terms and conditions

The signature of this amendment was authorized by the Board of Directors on May 26, 2011. It was signed on June 29, 2011 and entered into force on the same date.

#### ■ Amendment no.3

##### Persons concerned

The members of the Board of Directors representing the French State (Astrid Milsan, Laure Reinhart, Thierry Pérard and Patrick Gandil).

##### Nature and purpose

Following this amendment, Herakles was added to the list of strategic subsidiaries whose shares and assets are protected by the December 21, 2004 three-way agreement.

##### Terms and conditions

The signature of this amendment was authorized by the Board of Directors on December 15, 2011. It was signed on December 16, 2011 and entered into force on the same date.

### Agreements and commitments authorized in prior years but not approved by the General Meeting of Shareholders

We hereby report to you on the related-party agreements or commitments, authorized in the course of the year 2011, included in our special report on related-party agreements and commitments to the Shareholders' Meeting to approve the financial statements for the year ended December 31, 2011, not approved by this Shareholders' Meeting, and which remained in force during the year ended December 31, 2013.

#### With Jean-Paul Herteman, Chairman and Chief Executive Officer, and Dominique-Jean Chertier, Ross McInnes and Marc Ventre, Deputy Chief Executive Officers

##### ■ Continuation of personal risk insurance benefits for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers

##### Nature and purpose

As Company employees, the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers were previously covered by the personal risk insurance plan set up for all Safran Group employees.

##### Terms and conditions

At its meeting of July 27, 2011 the Board of Directors decided to authorize, in accordance with article L.225-42-1 of the French Commercial Code (*Code de commerce*), Jean-Paul Herteman, Chairman and Chief Executive Officer, and Dominique-Jean Chertier, Ross McInnes and Marc Ventre, Deputy Chief Executive Officers, to continue to be covered by this plan. The contributions and benefits are based on the compensation (fixed and variable) that they receive for their role as Chief Executive Officer and Deputy Chief Executive Officer.

The expense recorded in the 2013 financial statements relating to the contribution to these personal risk insurance plans amounted to €23,236.

■ **Continuation of supplementary pension benefits for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers**

**Nature and purpose**

As Company employees, the Chairman and Chief Executive Officer and the Deputy Chief Executive Officers were previously covered by supplementary defined contribution pension plans for managerial-grade staff.

**Terms and conditions**

At its meeting of July 27, 2011 the Board of Directors decided to authorize, in accordance with Article L.225-42-1 of the French Commercial Code (*Code de commerce*), Jean-Paul Herteman, Chairman and Chief Executive Officer, and Dominique-Jean Chertier, Ross McInnes and Marc Ventre, Deputy Chief Executive Officers, to continue to be covered by these supplementary pension plans. The contributions and benefits are based on the compensation (fixed and variable) that they receive for their role as Chief Executive Officer and Deputy Chief Executive Officer.

The expense recorded in the 2013 financial statements relating to the contribution to these supplementary pension plans amounted to €118,249.

Courbevoie et Paris-La Défense, March 26, 2014

The Statutory Auditors

*French original signed by:*

**MAZARS**

Thierry Colin

Gaël Lamant

**ERNST & YOUNG et Autres**

Vincent de La Bachelerie

Jean-Roch Varon

## 8.5.2 STATUTORY AUDITORS' REPORT ON THE REDUCTION IN CAPITAL

### COMBINED GENERAL MEETING OF MAY 27, 2014 (12<sup>TH</sup> RESOLUTION)

*This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of Safran and in compliance with Article L.225-209 of the French Commercial Code (*Code de commerce*) in respect of the reduction in capital by the cancelation of repurchased shares, we hereby report on our assessment of the terms and conditions for the proposed reduction in capital.

Your Board of Directors requests that it be authorized, for a period of 24 months as from the date of the present Meeting, to proceed with the cancelation of shares the Company was authorized to repurchase, representing an amount not exceeding 10% of its total share capital, by period of 24 months, in accordance with the provisions of the above-mentioned article.

We have performed those procedures which we considered necessary in accordance with professional guidance issued by the French national auditing body (*Compagnie nationale des commissaires aux comptes*) for this type of engagement. These procedures consisted in verifying that the terms and conditions for the proposed reduction in capital, which should not compromise the equality among the shareholders, are fair.

We have no matters to report as to the terms and conditions of the proposed reduction in capital.

Paris-La Défense and Courbevoie, March 26, 2014.

The Statutory Auditors,

*French original signed by*

#### ERNST & YOUNG et Autres

Vincent de La Bachelerie

Jean-Roch Varon

#### MAZARS

Thierry Colin

Gaël Lamant





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## Persons responsible

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### PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

#### Jean-Paul Herteman

- Chairman and Chief Executive Officer

### PERSON RESPONSIBLE FOR THE FINANCIAL INFORMATION

#### Ross McInnes

- Deputy Chief Executive Officer, Finance

## Statutory Auditors

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### STATUTORY AUDITORS

#### Mazars

61, rue Henri-Régnault  
92400 Courbevoie

#### Ernst & Young et Autres

1-2, place des Saisons – Paris la Défense 1  
92400 Courbevoie

The terms of office of the Company's Statutory Auditors will expire at the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2015.

## Cross-reference tables

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- Board of Directors' management report cross-reference table;
- EC Regulation No. 809/2004 cross-reference table;
- Annual financial report cross-reference table;
- Labor, environmental and social information cross-reference table;
- Annual General Meeting information cross-reference table.

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## 9.1 PERSONS RESPONSIBLE

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### 9.1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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Jean-Paul Herteman

Chairman and Chief Executive Officer of Safran

### 9.1.2 DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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"I hereby declare, having taken all reasonable care to ensure that such is the case, that the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I further declare that to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings in the consolidation taken as a whole, and that the management report (the cross-reference table for which is shown in section 9.4.1) includes a fair review of the development of the business, the results of operations and the financial position of the Company and of all the undertakings in the consolidation taken as a whole, and also describes the main risks and uncertainties to which they are exposed.

I have obtained a statement from the Statutory Auditors, in which they state that they have audited the information contained in this document relating to the financial position and the financial statements contained herewithin, and that they have read this document in its entirety.

Statutory Auditors' reports have been issued in respect of the historical financial information presented in this Registration Document.

Audit reports were issued in respect of the annual and consolidated financial statements for the year ended December 31, 2011 presented in the Registration Document filed on April 13, 2012 under the number D.12-0340 and incorporated by reference as stated in the foreword to section 3 of this Registration Document.

Audit reports were issued in respect of the annual and consolidated financial statements for the year ended December 31, 2012 presented in the Registration Document filed on March 28, 2013 under the number D.13-0243 and incorporated by reference as stated in the foreword to section 3 of this Registration Document.

Audit reports were issued in respect of the annual and consolidated financial statements for the year ended December 31, 2013 presented respectively in sections 3.2 and 3.4 of this Registration Document. The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2013 presented in section 3.2 of this Registration Document contains an emphasis of matter of a technical nature."

Paris, March 27, 2014

Chairman and Chief Executive Officer,

Jean-Paul Herteman

### 9.1.3 PERSON RESPONSIBLE FOR THE FINANCIAL INFORMATION

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Ross McInnes

Deputy Chief Executive Officer, Finance

Telephone: +33 (0)1 40 60 81 26

Email: ross.mcinnnes@safran.fr

## 9.2 STATUTORY AUDITORS

For the period covered by the historical financial information, Safran's Statutory Auditors are as follows:

### Statutory Auditors

Mazars	Ernst & Young et Autres
Represented by: <b>Thierry Colin and Gaël Lamant</b> 61, rue Henri-Régnault 92400 Courbevoie	Represented by: <b>Vincent de La Bachelerie and Jean-Roch Varon</b> 1-2, place des Saisons – Paris la Défense 1 92400 Courbevoie
<ul style="list-style-type: none"> <li>Start date of first term of office: May 27, 2010 Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 27, 2010 for a term of six years (2010 to 2015)</li> <li>Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2015</li> </ul>	<ul style="list-style-type: none"> <li>Start date of first term of office: May 27, 2010 Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 27, 2010 for a term of six years (2010 to 2015)</li> <li>Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2015</li> </ul>

Mazars and Ernst & Young are members of the Versailles regional auditing body (*Compagnie régionale des commissaires aux comptes de Versailles*).

### Alternate auditors

Gilles Rainaut	Auditex
60, rue du Général-Leclerc 92100 Boulogne-Billancourt	1-2, place des Saisons – Paris la Défense 1 92400 Courbevoie
<ul style="list-style-type: none"> <li>Start date of first term of office: May 27, 2010 Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 27, 2010 for a term of six years (2010 to 2015)</li> <li>Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2015</li> </ul>	<ul style="list-style-type: none"> <li>Start date of first term of office: May 27, 2010 Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 27, 2010 for a term of six years (2010 to 2015)</li> <li>Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2015</li> </ul>

### New terms of office and non-renewal

None.

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## 9.3 DOCUMENTS ON DISPLAY

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### 9.3.1 AVAILABILITY OF DOCUMENTS AND INFORMATION CONCERNING THE COMPANY

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Safran's legal documents that must be made available to shareholders, in accordance with the applicable regulations, may be consulted at the registered office located at 2, boulevard du Général Martial-Valin, 75015 Paris.

Safran provides its shareholders with a wide range of tools for the frequent communication of transparent and accessible information on the Group, its businesses and its results. The Group website ([www.safran-group.com](http://www.safran-group.com)) contains information for the public, such as presentations to analysts, financial press releases, and Registration Documents (last five years).

## 9.4 CROSS-REFERENCE TABLES

### 9.4.1 BOARD OF DIRECTORS' MANAGEMENT REPORT CROSS-REFERENCE TABLE

This Registration Document includes the information contained in the Board of Directors' management report provided for by articles L.225-100 and L.225-100-2 of the French Commercial Code.

The table below lists the references to excerpts of the Registration Document corresponding to the various sections of the management report as approved by the Board of Directors:

	Board of Directors' management report headings	2013 Registration Document section(s)
<b>1</b>	<b>Group activities in 2013</b>	<b>Profile and 2.1</b>
	Summary of key figures by business	<b>Profile and 2.1.3</b>
<b>2</b>	<b>Human resources</b>	
2.1	Headcount	<b>5.3.2</b>
2.2	Human resources policy	<b>5.3.1 and 5.3.3</b>
2.3	Labor relations	<b>5.3.5</b>
2.4	Statutory and discretionary profit-sharing schemes	<b>5.3.4</b>
2.5	Group employee savings plan and international Group employee savings plan	<b>5.3.4</b>
2.6	The importance of sub-contracting	<b>5.5</b>
2.7	Group ethics and values	<b>5.2</b>
<b>3</b>	<b>CSR information</b>	<b>5</b>
<b>4</b>	<b>Research and development</b>	
4.1	Major technological focuses	<b>1.5.1</b>
4.2	Technical and scientific partnerships	<b>1.5.2</b>
4.3	Innovation and intellectual property	<b>1.5.3</b>
<b>5</b>	<b>Operating and financial position</b>	
5.1	Consolidated income statement	<b>2.1.2 and 3.1</b>
5.2	Consolidated balance sheet as of December 31, 2013	<b>2.2.2 and 3.1</b>
5.3	Research and development expenditure	<b>1.5.4</b>
5.4	Parent company financial statements	<b>2.3 and 3.3</b>
5.5	Non-deductible expenses	<b>8.2.2</b>
5.6	Proposed appropriation of profit	<b>8.2.1 and 8.2.2</b>
<b>6</b>	<b>Risk factors</b>	
6.1	Identified risk factors	<b>4.1</b>
6.2	General risk management policy	<b>4.2</b>
6.3	Insurance	<b>4.3</b>
6.4	Health, safety and environmental risks	<b>5.4</b>
<b>7</b>	<b>Investments</b>	<b>7.1.3</b>

Board of Directors' management report headings		2013 Registration Document section(s)
<b>8</b>	<b>Share capital and share ownership</b>	
8.1	Breakdown of share capital and voting rights	<b>7.3.1 and 7.3.2</b>
8.2	Shareholder agreements	<b>7.3.5</b>
8.3	Agreement with the French State	<b>7.1.4.2</b>
8.4	Undertaking to hold securities	<b>7.3.6</b>
8.5	Stock options	<b>7.3.7.3</b>
8.6	Free share grants	<b>7.3.7.1</b>
8.7	Share buyback programs	<b>7.2.7</b>
8.8	Safran share	<b>7.5</b>
<b>9</b>	<b>Corporate Officers</b>	
9.1	Terms of office and duties	<b>6.1</b>
9.2	Compensation and benefits	<b>6.2</b>
9.3	Transactions in the Company's shares	<b>6.3</b>
<b>10</b>	<b>Outlook for 2014 and significant subsequent events</b>	<b>2.4, 2.5 and 3.1 – Note 32</b>
<b>11</b>	<b>Principal provisions of the bylaws</b>	<b>7.1.2</b>
<b>Appendices</b>		
Appendix 1	List of subsidiaries and associates	<b>3.1 – Note 33</b>
Appendix 2	Five-year financial summary	<b>8.4</b>
Appendix 3	Authorizations and powers granted by the AGM to the Board of Directors with respect to share capital increases	<b>7.2.2.1</b>
Appendix 4	Dividends paid over the past three years	<b>8.3</b>



## 9.4.2 EC REGULATION NO. 809/2004 CROSS-REFERENCE TABLE

This Registration Document includes the information to be included in registration documents as set out in Annex 1 of EC Regulation No. 809/2004.

The following table presents the cross-references between the two documents.

EC Regulation No. 809/2004 Annex 1 headings		2013 Registration Document section(s)
<b>1</b>	<b>Persons responsible</b>	
1.1	Name and positions of the persons responsible	<b>9.1.1</b>
1.2	Declaration by the persons responsible	<b>9.1.2</b>
<b>2</b>	<b>Statutory Auditors</b>	
2.1	Names and addresses of the issuer's auditors	<b>9.2</b>
2.2	Change in auditors, where applicable	<b>9.2</b>
<b>3</b>	<b>Selected financial information</b>	
3.1	Historical financial information	<b>Profile</b>
3.2	Interim financial information	<b>N/A</b>
<b>4</b>	<b>Risk factors</b>	<b>4.1</b>
<b>5</b>	<b>Information about the issuer</b>	
5.1	Selected history and development of the issuer	
5.1.1	Legal and commercial name of the issuer	<b>7.1.1</b>
5.1.2	Place of registration of the issuer and its registration number	<b>7.1.1</b>
5.1.3	Date of incorporation and the length of life of the issuer	<b>7.1.1</b>
5.1.4	Domicile and legal form of the issuer, legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office	<b>7.1.1</b>
5.1.5	Important events in the development of the issuer's business	<b>1.1.1</b>
5.2	Investments	
5.2.1	Past principal investments	<b>1.1.1, 1.5.4, 1.6.2 and 1.7</b>
5.2.2	Principal investments in progress	<b>1.6.2</b>
5.2.3	Future principal investments	<b>1.5</b>
<b>6</b>	<b>Business overview</b>	
6.1	Principal activities	
6.1.1	Nature of the issuer's operations and its principal activities	<b>1.1.4 and 1.3</b>
6.1.2	New products	<b>1.3 and 2.1.3</b>
6.2	Principal markets	<b>1.3, 2.1.3 and 3.1 – Note 4 (Segment information)</b>
6.3	Exceptional factors	<b>N/A</b>
6.4	Extent to which the issuer is dependent on patents or licenses, industrial contracts or manufacturing processes	<b>1.5.3 and 4.1.3</b>
6.5	Competitive position	<b>1.4</b>
<b>7</b>	<b>Organizational structure</b>	
7.1	Brief description of the Group	<b>1.1.2 and 1.1.3</b>
7.2	List of significant subsidiaries	<b>1.1.3 and 3.1 – Note 33</b>
<b>8</b>	<b>Property, plant and equipment</b>	
8.1	Material property, plant and equipment	<b>1.7</b>
8.2	Environmental issues	<b>1.7, 4.1.9 and 5.4</b>

	EC Regulation No. 809/2004 Annex 1 headings	2013 Registration Document section(s)
<b>9</b>	<b>Operating and financial review</b>	
9.1	Financial position	<b>2.1 and 2.2</b>
9.2	Operating results	
9.2.1	Significant factors materially affecting the issuer's income from operations	<b>2.1</b>
9.2.2	Explanation of material changes in net sales or revenue	<b>2.1</b>
9.2.3	Policies or factors that have materially affected, directly or indirectly, the issuer's operations	<b>2.1</b>
<b>10</b>	<b>Capital resources</b>	
10.1	Issuer's capital resources	<b>3.1 – Notes 18 and 19</b>
10.2	Source and amounts of cash flows	<b>3.1</b> <b>(including the statement of cash flows)</b>
10.3	Borrowing requirements and the funding structure of the issuer	<b>3.1 – Note 23</b>
10.4	Restrictions on the use of capital resources	<b>N/A</b>
10.5	Information regarding the anticipated sources of funds	<b>2.2.3, 2.4 and 3.1 – Notes 17 and 23</b>
<b>11</b>	<b>Research and development, patents and licenses</b>	<b>1.5</b>
<b>12</b>	<b>Trend information</b>	
12.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	<b>N/A</b>
12.2	Information on any known trends, uncertainties, demands, commitments, or events that are reasonably likely to have a material effect on the issuer's prospects for at least the current fiscal year	<b>2.4</b>
<b>13</b>	<b>Profit forecasts or estimates</b>	<b>N/A</b>
<b>14</b>	<b>Administrative, management, and supervisory bodies and Executive Management</b>	
14.1	Members of the administrative and management bodies	<b>6.1</b>
14.2	Administrative and management bodies conflicts of interest	<b>6.1</b>
<b>15</b>	<b>Compensation and benefits</b>	
15.1	Compensation paid and benefits in kind	<b>6.2</b>
15.2	Amounts set aside or accrued to provide pension, retirement or similar benefits	<b>6.2</b>
<b>16</b>	<b>Board practices</b>	
16.1	Date of expiration of the current terms of office	<b>6.1</b>
16.2	Members of the administrative or management bodies' service contracts with the issuer or any of its subsidiaries	<b>6.1</b>
16.3	Information about Board Committees	<b>6.1</b>
16.4	Statement of compliance with the corporate governance regime in force	<b>6.5.3</b>
<b>17</b>	<b>Employees</b>	
17.1	Number and breakdown of employees	<b>5.3.2</b>
17.2	Shareholdings and stock options	<b>6.1 and 6.2</b>
17.3	Arrangements for involving the employees in the capital of the issuer	<b>5.3.4 and 7.3.7</b>
<b>18</b>	<b>Major shareholders</b>	
18.1	Major shareholders	<b>7.3.1</b>
18.2	Breakdown of voting rights	<b>7.3.1</b>
18.3	Controlling shareholder	<b>7.3.5</b>
18.4	Change in control	<b>7.3.6</b>
<b>19</b>	<b>Related-party transactions</b>	<b>7.1.4</b>

EC Regulation No. 809/2004 Annex 1 headings		2013 Registration Document section(s)
<b>20</b>	<b>Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>	
20.1	Historical financial information	<b>3.1 and 3.3</b>
20.2	Pro forma financial information	<b>N/A</b>
20.3	Financial statements	<b>3.1 and 3.3</b>
20.4	Auditing of historical annual financial information	
20.4.1	Statement that the historical financial information has been audited	<b>3.2, 3.4 and 9.1.2</b>
20.4.2	Indication of other financial data that has been audited by the auditors	<b>6.6 and 8.5</b>
20.4.3	Indication of the source of the data and the absence of verification of the financial data appearing in the registration document that is not taken from the issuer's audited financial statements	<b>N/A</b>
20.5	Date of the latest financial information	<b>December 31, 2012, 3.2 and 3.4</b>
20.6	Interim and other financial information	
20.6.1	Quarterly or half-yearly financial information	<b>N/A</b>
20.6.2	Interim financial information	<b>N/A</b>
20.7	Dividend policy	
20.7.1	Amount of dividend	<b>8.3</b>
20.8	Disputes and litigation	<b>3.1 – Note 31</b>
20.9	Significant change in the issuer's financial or trading position	<b>3.1 – Note 32</b>
<b>21</b>	<b>Additional information</b>	
21.1	Share capital	
21.1.1	Amount of issued capital	<b>7.2.1</b>
21.1.2	Shares not representing capital	<b>7.2.3.1</b>
21.1.3	Shares held by the issuer	<b>7.2.6</b>
21.1.4	Convertible securities, exchangeable securities or securities with warrants	<b>7.2.3.2</b>
21.1.5	Information about and terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	<b>N/A</b>
21.1.6	Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	<b>N/A</b>
21.1.7	History of share capital	<b>7.2.4</b>
21.2	Bylaws	
21.2.1	Corporate purpose	<b>7.1.1</b>
21.2.2	Provisions of the issuer's bylaws with respect to administrative, management and supervisory bodies	<b>7.1.2.1</b>
21.2.3	Rights, preferential rights and restrictions attached to shares	<b>7.1.2.3</b>
21.2.4	Change in shareholder rights	<b>7.1.2.4</b>
21.2.5	Notice of meeting and admission to shareholders' meetings	<b>7.1.2.2</b>
21.2.6	Change in control	<b>7.1.2.6</b>
21.2.7	Share ownership thresholds	<b>7.1.2.5 and 7.3.4</b>
21.2.8	Description of conditions imposed by the bylaws governing changes in capital, where such conditions are more stringent than is required by law	<b>7.1.2.4</b>
<b>22</b>	<b>Material contracts</b>	<b>7.1.4.2</b>
<b>23</b>	<b>Third party information, statements by experts and declarations of interest</b>	
23.1	Statement or report attributed to a person as an expert	<b>N/A</b>
23.2	Information sourced from a third party	<b>N/A</b>
<b>24</b>	<b>Documents on display</b>	<b>9.3</b>
<b>25</b>	<b>Information on investments</b>	<b>7.1.3 and 3.1 – Note 33</b>

### 9.4.3 ANNUAL FINANCIAL REPORT CROSS-REFERENCE TABLE

This Registration Document includes the information contained in the annual financial report mentioned in paragraph 1 of article L.451-1-2 of the French Monetary and Financial Code and article 222-3 of the AMF's General Regulations.

The following table presents the cross-references between the two documents.

Annual financial report headings	2013 Registration Document section(s)
<b>Declaration by the person responsible</b>	<b>9.1.2</b>
<b>Board of Directors' management report</b>	<b>See the cross-reference table, 9.4.1</b>
Operating, financial and risk analysis of the parent and the Group (art. L.225-100 and L.225-100-2 of the French Commercial Code)	<b>2.1, 4 and 5.4</b>
Information concerning the breakdown of share capital and material that could have an effect in the event of a public offering (art. L.225-100-3 of the French Commercial Code)	<b>7.1.2.2, 7.1.2.6 7.2.6 and 7.3.1</b>
Information concerning share buybacks (art. L.225-211, paragraph 2 of the French Commercial Code)	<b>7.2.7</b>
<b>Report of the Chairman of the Board of Directors</b>	<b>6.5</b>
<b>Financial statements and reports</b>	
Parent company financial statements	<b>3.3</b>
Consolidated financial statements	<b>3.1</b>
Disputes and litigation	<b>3.1 – Note 31</b>
Significant change in the issuer's financial or trading position	<b>3.1 – Note 32</b>
Statutory Auditors' reports	<b>3.2, 3.4, 6.6 and 8.5</b>
Audit fees	<b>6.4</b>

## 9.4.4 LABOR, ENVIRONMENTAL AND SOCIAL INFORMATION

### CROSS-REFERENCE TABLE

This Registration Document includes the labor, environmental and social information contained in the Board of Directors' management report in accordance with article R.225-105-1 of the French Commercial Code.

The following table presents the cross-references between the two documents.

Headings from article R.225-105 of the French Commercial Code		2013 Registration Document section(s)
<b>1</b>	<b>Labor information</b>	
1.1	Employment	
1.1.1	Total headcount and breakdown of employees by gender, age and geographic area	<b>5.3.2 and 5.3.6</b>
1.1.2	New hires and layoffs	<b>5.3.2</b>
1.1.3	Compensation and changes in compensation	<b>5.3.4</b>
1.2	Working hours	
1.2.1	Organization of working time	<b>5.3.5</b>
1.2.2	Absenteeism	<b>5.3.1</b>
1.3	Labor relations	
1.3.1	Organization of social dialog, in particular procedures for informing, consulting and negotiating with employees	<b>5.3.5</b>
1.3.2	Collective bargaining agreements	<b>5.3.5</b>
1.4	Health and safety	
1.4.1	Occupational health and safety conditions	<b>5.4.1.2 and 5.4.2</b>
1.4.2	Bargaining agreements signed with trade unions and employee representatives concerning occupational health and safety	<b>5.4.2</b>
1.4.3	Work-related accidents, in particular frequency and severity, and occupational illnesses	<b>5.4.2</b>
1.5	Training	
1.5.1	Training policies	<b>5.3.3</b>
1.5.2	Total number of training hours	<b>5.3.3</b>
1.6	Equal treatment	
1.6.1	Measures taken to promote gender equality	<b>5.3.6</b>
1.6.2	Measures taken to promote the employment and integration of persons with disabilities	<b>5.3.6</b>
1.6.3	Policy concerning the fight against discrimination	<b>5.3.6</b>
1.7	Promotion of and compliance with the core conventions of the International Labour Organization as regards:	
1.7.1	the respect for the freedom of association and the right to collective bargaining	<b>5.3.1</b>
1.7.2	the elimination of discrimination in respect of employment and occupation	<b>5.3.1</b>
1.7.3	the elimination of forced and compulsory labor	<b>5.3.1</b>
1.7.4	the effective abolition of child labor	<b>5.3.1</b>

Headings from article R.225-105 of the French Commercial Code		2013 Registration Document section(s)
<b>2</b>	<b>Environmental information</b>	
2.1	General environmental policy	
2.1.1	Organization of steps taken by the Company to address environmental issues and, where applicable, environmental assessment and certification procedures	<b>5.4.1 and 5.4.3</b>
2.1.2	Initiatives taken to train and raise awareness among employees on environmental protection	<b>5.4.2.2</b>
2.1.3	Resources assigned to the prevention of environmental risks and pollution	<b>5.4.3</b>
2.1.4	Amount of provisions set aside for environmental risks, provided that this information is not likely to cause serious prejudice to the Company in the context of ongoing proceedings	<b>5.4.3.8 and 5.4.3.12</b>
2.2	Pollution and waste management	
2.2.1	Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant impact on the environment	<b>5.4.3</b>
2.2.2	Measures taken to prevent, recycle and eliminate waste	<b>5.4.3.9</b>
2.2.3	Steps taken to address noise pollution and any other form of pollution relating to a specific activity	<b>5.4.3</b>
2.3	Sustainable use of resources	
2.3.1	Water consumption and supply of water in accordance with local regulations	<b>5.4.3.10</b>
2.3.2	Raw materials consumption and measures taken to promote more efficient use	<b>5.4.3.2 and 5.4.3.3</b>
2.3.3	Energy consumption and measures taken to improve energy efficiency and use of renewable energy	<b>5.4.3.11</b>
2.3.4	Land use	<b>5.4.3.15</b>
2.4	Climate change	
2.4.1	Greenhouse gas emissions	<b>5.4.3.5</b>
2.4.2	Adapting to the consequences of climate change	<b>5.4.3.6</b>
2.5	Protection of biodiversity	
2.5.1	Measures taken to protect and develop biodiversity	<b>5.4.3.14</b>
<b>3</b>	<b>Information on social commitments to promote sustainable development</b>	
3.1	Community, economic and social impact of the Company's activities on:	
3.1.1	Employment and regional development	<b>5.3.5 and 5.5.1</b>
3.1.2	Local residents	<b>5.3.5</b>
3.2	Relationships with people and organizations who benefit from the Company's activities, in particular integration associations, educational institutions, environmental protection associations, consumer and local residents' associations	
3.2.1	Status of dialog conditions with these people and organizations	<b>5.3.3, 5.3.5 and 5.3.6</b>
3.2.2	Partnership and sponsorship initiatives	<b>5.6</b>
3.3	Sub-contracting and suppliers	
3.3.1	Incorporation of social and environmental issues in purchasing policies	<b>5.5.1</b>
3.3.2	Scale of outsourcing and steps taken to raise awareness among suppliers and sub-contractors with respect to corporate social responsibility	<b>5.2.1 and 5.5</b>
3.4	Fair practices	
3.4.1	Steps taken to fight against corruption	<b>5.2</b>
3.4.2	Measures taken to promote consumer health and safety	<b>5.4</b>
3.5	Other action taken, pursuant to paragraph 3 of article R.225-105, to promote human rights	<b>5.2.1 and 5.3.1</b>

## 9.4.5 ANNUAL GENERAL MEETING INFORMATION

### CROSS-REFERENCE TABLE

This Registration Document includes the main information mentioned in article R.225-83 of the French Commercial Code.

The following table presents the cross-references between the two documents.

Headings from article R.225-83 of the French Commercial Code	2013 Registration Document section(s)
Executive management, supervisory and control bodies	6.1
Annual General Meeting agenda	8.1
Board of Directors' management report	See the cross-reference table, 9.4.1
Board of Directors' report on the resolutions	8.2.1
Report of the Chairman of the Board of Directors	6.5
Parent company financial statements	3.3
Consolidated financial statements	3.1
Draft resolutions	8.2.2
Statutory Auditors' reports	3.2, 3.4, 6.6 and 8.5



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## KEY MISSIONS, KEY TECHNOLOGIES, KEY TALENTS

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