PART IV.
FINANCE
FINANCE IN SUPPORT OF STRATEGY

Bernard DELPIT
Group CFO
FINANCE IN SUPPORT OF STRATEGY

- Conservative accounting supporting transparency
- Hedging policy protecting performance
- Disciplined capital allocation sustaining growth
- Financial ambition creating success
CONSERVATIVE ACCOUNTING

OE

- Revenues booked at net contract price
  - including variable consideration (allowances…)

- All costs incurred are expensed
  - No capitalization of negative margins

- Margins booked at delivery
  - Upon delivery if positive
  - No later than at delivery if negative

AFTERMARKET

- Revenues booked at net contract price

- Timing of revenue recognition depends on type of contracts
  - “T&M”: at shop visit
  - Long term service agreements (LTSA):
    - ESPH: monthly billings
    - ESPO: fraction as monthly billings and remainder at shop visit

- Margins
  - T&M: at the shop visit
  - LTSA: booked progressively
    - Provisions to reflect future maintenance costs based on engine behaviour & contracts requirements

Start up LEAP losses booked in P&L as incurred (2016-2020)
No anticipation of LTSA margins
CONSERVATIVE ACCOUNTING

IFRS 15 PROJECT

⇒ IFRS 15 mandatory from 2018
⇒ 2017 proforma for comparison
⇒ Opening impact on Equity at 01/01/2017
⇒ Implementation guidance yet to be finalized
⇒ Project launched at Safran and ongoing industry discussions

⇒ Key items
  • Identification of performance obligations
  • Timing of transfer of control
  • Opening Balance Sheet

PRELIMINARY ASSESSMENT

⇒ Main areas affected
  • Revenue based on milestones (Defense)
  • Upfront revenues (R&D sales)
  • Per Flight Hour service agreements

⇒ Some classification changes in the P&L
  • Some transactions with customers booked as charges could be instead deducted from revenue (e.g. special warranties, penalties...)

Early stage of analysis and assessment, next update at FY 2016 earnings
CONSERVATIVE ACCOUNTING

Potential impacts of IFRS 15 implementation on current civil engines revenue

- **OE**
  - Limited potential impact

- **Services**
  - T&M: Limited potential impact
  - ESPH/ESPO: recognition of revenue when costs are incurred (at SV)

**Takeaways**

- **LEAP: 50-60% of aftermarket on ESPH/ESPO**
  - Accounting under IFRS 15 expected to be close to current T&M revenue recognition

- **Gradual transition for Propulsion**
  - CFM56 aftermarket will remain mostly a T&M business
  - LEAP will represent 20% of CFM fleet in the 2020’s

**2020’s: P&L of services will remain dominated by current model**
HEDGING

PRINCIPLES

- To protect economic performance from €/$ volatility and provide time to adapt cost structure to an adverse FX environment
- To optimize financial benefits of hedging whenever possible without jeopardizing protection
- Translation effect not hedged*
- Transaction effect hedged through the coverage of net exposure to the $
- Mark to Market variations neutralized in adjusted data

*except net investment hedge

INSTRUMENTS

- Forward $ sales / Y+3-Y+4
- Accumulators: day after day hedging build up
- Options to increase coverage and/or improve hedged rate
- No views taken on spot rate evolution
- Benefits from long term volumes of net exposure (supported by backlog)
- Risk: loss of opportunities only

*except net investment hedge
HEDGING

Yearly exposure: $7.4bn to $8.0bn
Increasing level of net USD exposure for 2016-19 in line with the growth of businesses with exposed USD revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>€/$</td>
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<tr>
<td></td>
<td>hedge rates under conditions described in 2015 annual results disclosure</td>
<td>1.25</td>
<td>1.24</td>
<td>1.22</td>
<td>1.17-1.20</td>
<td>1.15-1.20</td>
</tr>
</tbody>
</table>

Estimated impact on recurring operating income of target €/$ hedge rates

EBIT impact vs previous year (in €M)

€250M to €500M of tailwind over 2016-2019e
HEDGING

Reminder of the €/$ spot and forward rates seen in 2014 and 2015

- 2014 average spot 1.33 (High 1.39, Low 1.21)
- 2015 average spot 1.11 (High 1.21, Low 1.05)
- In 2015, the forward rate for 2018 was on average 1.16 (High 1.25, Low 1.10)
- In 2015, the forward rate for 2019 was on average 1.19 (High 1.28, Low 1.13)

- Target ranges at “1.17-1.20 for 2018” and “1.15-1.20 for 2019” include opportunistic hedges at 1.08 (as communicated in October 2015) and optional strategies at higher rates set up in the course of 2014 which matured at the end of 2015

- Where the achieved hedge rates for 2018 and 2019 will lie in the target ranges will depend on whether the €/$ remains below 1.25 in 2016 and 2017
CAPITAL ALLOCATION

 ➔ Technological differentiation through R&D
   • R&D spending peaked in 2014 and will continue to decline during period of the plan
   • Discipline in sustaining engineering
   • New opportunities to be selected under strict conditions

 ➔ Capital Expenditure to support growth
   • CAPEX peaking in 2016 – stabilization at a lower level going forward
   • New products ramps, production rate increases, international footprint

 ➔ Growing cash returns to shareholders
   • Confirming 40% pay out ratio for dividend distribution going forward

 ➔ Acquisitions
   • In core activities only
   • Under strict conditions of IRR and implicit rating
R&D spending

- Sustained R&T for the long term
- Decrease of development spending as programs enter into service
- Self funded R&D trending towards €1bn
- Expensed R&D peaking in 2017

CAPEX spending

- Supporting LEAP ramp up
- Production rate increases (A320, 737, A350, 787)
- Production capacity (carbon)
- Strict investment criteria
- Trending towards 3% of sales by 2020
2016-2020 trends

→ Growth in cash from operations (CFO*)
→ Higher working capital (WC)
→ Lower capitalized R&D and CAPEX after 2016

→ FCF conversion rate:
  • above 40% in 2016
  • to average 50% over 2016-2020

→ More FCF generation offering increased headroom

\* Including expensed R&D  ** Capitalized R&D
FINANCIAL AMBITION

MAIN ASSUMPTIONS

➔ **Scope**
  - 2016 outlook is applicable to the Group’s structure as of December 31, 2015 and does not take into account the impact in 2016 of the finalisation of ASL
  - For the 2017-2020 period, ASL is expected to be consolidated using the equity method (50%)

➔ **FX**
  - By convention, average spot rate of EUR/USD spot rate of 1.11 in 2016, 1.12 for 2017-2020
  - Including benefits of medium-term FX hedging policy

➔ **Accounting**
  - Safran’s outlook is based on the Group’s current accounting practices
  - No anticipation of IFRS 15 potential impacts

2016-2020 VIEW

➔ **Steady organic revenue growth…**
  - Aerospace: OE production ramp-up (narrowbody & widebody, military, helicopters), growth in services
  - Defence: executing on contract wins (Rafale, Patroller, Paseo…)
  - Security: strong organic growth based on existing contracts and new products

➔ **Providing strong base for progress in profitability**
  - Transitory pressure on Propulsion profitability
  - Steadily increasing contributions of Aircraft Equipment, Defence and Security
Gradual reduction of CFM56 contribution
Transitory losses on Leap OE
Break-even on LEAP OE production by end of decade

Cost of production: Learning curve of LEAP
- 40%
Standard cost of production

Initial production costs > standard cost of production (double sourcing; volumes)
Targeting a 40% reduction in production cost by 2020 (double sourcing; learning curve)
FINANCIAL AMBITION

- Aircraft Equipment
  - Growth in services
  - New programs contribution
- Defence
  - Push export sales
  - Dual use technologies
- Security
  - Existing contracts profitability
  - New products

Productivity gains and cost control measures across all businesses
Temporary headwind from LEAP transition and expensed R&D

Offsetting factors: growing contribution of civil aftermarket and other businesses

Tailwind from FX

Propulsion margin to remain in the mid to high teens during transition

Group margin consistent with the record set in 2015 during transition and trending above 15% when transition is completed

Indicative profile of Group gross margin

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016e</th>
<th>2017e*</th>
<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
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<tbody>
<tr>
<td>SERVICES</td>
<td></td>
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<tr>
<td>OE CFM56 &amp; LEAP</td>
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<tr>
<td>Other OE</td>
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* Starting 2017, excluding the contribution of assets contributed to ASL. For 2017-2020, ASL is expected to be consolidated under the equity method.
2016-2020 AMBITION

» Revenue target above €21 billion in 2020
  • Assuming average spot rate of USD 1.11 to the Euro in 2016 and 1.12 over 2017-2020

» Recurring operating margin trending above 15% in 2020
  • Including benefits of medium-term FX hedging policy

» EBIT to Free Cash Flow conversion averaging 50% over 2016-2020
  • Subject to customary elements of uncertainty on the timing of downpayments and the rhythm of payments by certain state customers
  • Future opportunities will be evaluated on their merits and investments decided as appropriate