

BOARD OF DIRECTORS' REPORT ON THE ISSUE OF INITIAL 2027 OCEANE BONDS

Additional report by the Board of Directors on the terms and conditions of the issue of bonds convertible and/or exchangeable for new and/or existing ordinary shares ("OCÉANE" bonds) due May 15, 2027

(drawn up in accordance with Article R.225-116 of the French Commercial Code)

To the Shareholders,

In accordance with Articles L.225-129-5 and R.225-116 of the French Commercial Code (*Code de commerce*), we hereby report to you on the use of the authorizations granted to the Board of Directors of Safran (the "**Company**") in the nineteenth and twentieth resolutions of the May 23, 2019 Ordinary and Extraordinary Shareholders' Meeting (the "**Annual General Meeting**") in order to carry out an issue through an offering of financial securities to qualified investors, without pre-emptive subscription rights for existing shareholders, of bonds convertible and/or exchangeable for new and/or existing ordinary shares ("OCÉANE" bonds) due May 15, 2027 (the "**Bonds**"), with an overallocation option where applicable.

On this basis, and in accordance with the above-mentioned legal and regulatory provisions, the report below (i) describes the final terms and conditions of the Bond issue and (ii) explains the impact of those terms and conditions on the Company's shareholders and holders of securities carrying rights to Company shares.

1) Background

Annual General Meeting of May 23, 2019

In the nineteenth resolution of the Annual General Meeting, in accordance with Articles L.225-129 *et seq.* and L.228-91 *et seq.* of the French Commercial Code, and with Article L.411-2 II of the French Monetary and Financial Code (*Code monétaire et financier*)¹, the shareholders granted the Board of Directors a twenty-six month authorization to increase the Company's share capital by issuing ordinary shares and/or securities carrying immediate or deferred rights to new or existing ordinary shares of the Company, through an offering of financial securities to a restricted group of investors acting on their own account or to qualified investors, without pre-emptive subscription rights for existing shareholders.

The shareholders set the following ceilings in the resolution: (i) the maximum nominal amount of any capital increases carried out pursuant to the authorization – either immediately and/or on the exercise of rights to shares of the Company – was set at €8 million (not including the nominal amount of any ordinary shares that may be issued to protect the rights of holders of securities carrying rights to Company shares), and (ii) the maximum principal amount of debt securities that may be issued pursuant to the authorization was set at €1.8 billion.

In addition to these ceilings set by the shareholders, in accordance with paragraph 3 of Article L.225-136 of the French Commercial Code, the maximum nominal amount of any capital increases carried out pursuant to the nineteenth resolution may not represent more than 20% of the Company's share capital per year.

In the twentieth resolution of the Annual General Meeting of May 23, 2019, the shareholders also granted the Board of Directors an authorization to increase the initial nominal amount of the issue, as decided pursuant to the nineteenth resolution, through the exercise of an overallocation option (the "Overallocation Option"), within the limits set out in the twentieth resolution (i.e., the additional securities must be issued at the same price as for the original issue, within 30 days of the close of the original subscription period and may not represent more than 15% of the original issue amount, in accordance with the applicable legal and regulatory provisions).

Meeting of the Board of Directors of April 28, 2020

At its April 28, 2020 meeting, having placed on record that the above-mentioned authorizations granted in the nineteenth and twentieth resolutions of the Annual General Meeting had not yet been used, the Board of Directors used said authorizations to unanimously decide:

■ to authorize in principle:

- the issue – on one or more occasions – of OCÉANE bonds without pre-emptive subscription rights for existing shareholders, through an offering of financial securities to a restricted group of investors acting on their own account or to qualified investors, with a request for the admission to trading of the OCÉANE bonds on a regulated or organized market, subject to an overall ceiling of a maximum nominal amount of €1 billion after the exercise, where applicable, of the Overallocation Option in full, for a maturity or maturities not exceeding seven years after the date of issue of the OCÉANE bonds (the "**Issue**"), and
- any increase in the Company's share capital that may be necessary due to the issue, on one or more occasions, of new Company shares as a result of holders of the v bonds (the "Bondholders") exercising their Conversion Rights subject to a ceiling representing

¹ The wording of Article L.411-2 of the French Monetary and Financial Code relating to public offerings of financial securities has since been amended by French government ordonnance (order) of October 21, 2019, but the amendment does not, either by nature or by purpose, call into question the authorization granted by the Annual General Meeting of May 23, 2019.

a maximum nominal amount of €2,136,170.60 after the exercise, where applicable, of the Overallotment Option in full, not including the nominal amount of any shares that may be issued in accordance with the applicable laws and the terms and conditions of the Issue to protect the rights of the OCÉANE Bondholders in the event of any subsequent corporate actions;

■ to grant the Chief Executive Officer the necessary powers to carry out the Issue, determine the terms and conditions thereof and decide on the final characteristics and timing of the Issue, within the limitations of the authorization granted by the shareholders and the delegation of authority granted by the Board of Directors;

■ to authorize the Chief Executive Officer to delegate the implementation of the Issue to any person of his choosing.

Decision of the Chief Executive Officer of May 12, 2020

On May 12, 2020, using the authorization granted by the Board of Directors on April 28, 2020, the Chief Executive Officer decided to issue the Bonds in accordance with the terms and conditions described in section 2 below.

2) Terms and conditions of the issue

Characteristics of the issue

Nominal amount of and gross proceeds from the issue	€799,999,902.95
Net proceeds from the issue	€793,199,903.77
Number of Bonds issued	7,391,665
Par value per Bond	€108.23, representing an issue premium of 40% over the reference price of ordinary shares of the Company, corresponding to the volume-weighted average price of the ordinary Company shares listed on Euronext Paris between the start of trading on May 12, 2020 and the date on which the final terms and conditions of the Bonds were determined.
Public offering	Carried out on May 12, 2020 in France, the European Economic Area (EEA) and outside the EEA (excluding, in particular, the United States, Canada, South Africa, Australia, Japan and any other jurisdiction where registration or approval would be required by the applicable laws and regulations), for qualified investors within the meaning of Article 2(e) of the Prospectus Regulation only (falling within the scope of paragraph 1 of Article L.411-2 of the French Monetary and Financial Code).
Issue price of the Bonds	100% of par. On the Bond Issue Date (as defined below), the price of new ordinary shares of the Company issued at the Company's discretion on the exercise of the Conversion Right (as defined below) shall, based on the Conversion Ratio (as defined below) applicable at the Bond Issue Date, be equal to the par value per Bond defined above, in accordance with the provisions of Articles L.225-136 and R.225-119 of the French Commercial Code.
Issue and settlement-delivery date of the Bonds	May 15, 2020 (the " Bond Issue Date ")
Listing of the Bonds	During the month following the Bond Issue Date, on Euronext Access, under ISIN code FR0013513041.
Clearing	Euroclear France, Euroclear Bank S.A./N.V., Clearstream Banking S.A.
Global Coordinators – Bookrunners	BNP Paribas and Crédit Agricole Corporate and Investment Bank – joint global coordinators and joint bookrunners. HSBC, Natixis and Société Générale – joint bookrunners.
Securities services and centralizing and calculation agents	BNP Paribas Securities Services – securities services and centralizing agent. Aether Financial Services – calculation agent.
Blackout period	Undertaking not to issue shares of the Company or securities carrying rights to Company shares for a period of 90 calendar days as from the Bond Issue Date, apart from certain standard exceptions or prior consent from the Global Coordinators.

Characteristics of the Bonds

Ranking of the Bonds	The Bonds constitute unsecured, direct, general, unconditional and unsubordinated debt obligations, ranking equally among themselves and, subject to mandatory legal exceptions, <i>pari passu</i> with all other present or future unsecured debts and guarantees of the Company.
Negative pledge	Only applies in the event that the Company or one of its principal subsidiaries grants a guarantee, an indemnity or collateral to the holders of other bonds or other marketable instruments representing new or existing debt securities issued by the Company or one of its principal subsidiaries.

Nominal rate – Coupon	<p>0.875% per year, payable on May 15 of each year (the “Coupon Payment Date”) (or the following business day if this date is not a business day, without this giving rise to additional interest) and for the first time on May 15, 2021. The period between the Bond Issue Date or a Coupon Payment Date (inclusive) and the following Coupon Payment Date (exclusive) is referred to as the “Coupon Period”.</p> <p>The annual amount of interest per Bond is calculated (and rounded to the nearest lowest multiple of €0.00001) by applying the annual nominal rate of 0.875% (regardless of the number of days in the year) to the par value of each Bond.</p> <p>The amount of interest due per Bond for any period shorter than a Coupon Period is determined (and rounded to the nearest lowest multiple of €0.00001) based on the Actual/Actual ICMA method by applying to the par value of each Bond the sum of (a) the above-mentioned annual nominal rate multiplied by (b) the ratio between (x) the number of accrued days in the Coupon Period and (y) the number of days in said Coupon Period.</p>
Term of the Bonds	7 years
Maturity date of the Bonds	May 15, 2027 (the “ Maturity Date of the Bonds ”)
Redemption at maturity	Redemption in full at par on the Maturity Date of the Bonds (or the following business day if this date is not a business day).
Early redemption, at the Company’s discretion	<ul style="list-style-type: none"> ■ (i) The Company may redeem all or some of the Bonds at any time before the Maturity Date of the Bonds, without any limitation on price or number, either by repurchasing them through on-market or off-market transactions, or through repurchase or exchange offers. ■ (ii) The Company may redeem all of the outstanding Bonds at par, plus interest accrued since the previous Coupon Payment Date (or, where applicable, since the Bond Issue Date), at any time from June 5, 2024 until the Maturity Date of the Bonds, subject to a minimum prior notice period of 30 calendar days (and a maximum notice period of 45 calendar days), if the arithmetic mean, calculated over a period of 20 consecutive trading days chosen by the Company out of the 40 consecutive trading days preceding the publication of the early redemption notice, of (a) the daily proceeds of the volume-weighted average daily price of Company shares traded on Euronext Paris, and (b) the Conversion Ratio (as defined below) applicable at each corresponding date exceeds 130% of the par value of the Bonds. ■ (iii) The Company may redeem all of the outstanding Bonds at par, plus interest accrued since the previous Coupon Payment Date (or, where applicable, since the Bond Issue Date), at any time, subject to a minimum prior notice period of 30 calendar days, if the total number of Bonds still outstanding represents less than 20% of the number of Bonds originally issued <p>In the event of (ii) or (iii) above, the Bondholders retain the possibility to request the exercise of their Conversion Right (defined below) until the seventh business day (exclusive) preceding the early redemption date.</p>
Obligatory early redemption of the Bonds	Possible at par, notably in the event of default by the Company.
Early redemption at the Bondholders’ discretion	Possible at par, plus interest accrued since the previous Coupon Payment Date (or, where applicable, since the Bond Issue Date), in the event of a change in control of the Company.
Rights attached to the Bonds/Conversion Right	<p>Nature of the Conversion Right</p> <p>The Bonds carry a conversion right (the “Conversion Right”), whereby the Bondholders will be entitled to receive a number of new or existing ordinary shares (at the Company’s discretion) equal to the Conversion Ratio (as defined below) applicable at the Exercise Date (as defined below), multiplied by the number of Bonds for which the Conversion Right has been exercised.</p> <p>On the Bond Issue Date, the “Conversion Ratio” was 1 ordinary share to 1 Bond (subject to any subsequent adjustments carried out to protect the rights of Bondholders, particularly in the event of any distribution of dividends by the Company).</p> <p>Exercise Period of the Conversion Right</p> <p>The Bondholders may request to exercise their Conversion Right at any time from the Bond Issue Date (inclusive) until the seventh trading day (exclusive) preceding (i) the Maturity Date of the Bonds or, where applicable, (ii) the relevant early redemption date of the Bonds, it being specified that any Bonds for which the Bondholders have requested the exercise of their Conversion Right will not entitle their holders to any redemption at either the Maturity Date of the Bonds or, where applicable, at their early redemption date.</p>

Dividend rights and listing of the underlying shares

Any Bondholder who has not requested the exercise of their Conversion Right during the time period indicated above will be reimbursed in cash at the Maturity Date of the Bonds or, where applicable, at their early redemption date.

Terms of allocation of ordinary shares pursuant to the exercise of the Conversion Right

On exercise of their Conversion Right, each Bondholder will receive new and/or existing ordinary shares of the Company.

The total number of new and/or existing ordinary Company shares (the allocation of which will be decided by the Company) will be determined by the calculation agent and will be equal, for each Bondholder, to the Conversion Ratio applicable at the Exercise Date (as defined below) multiplied by the number of Bonds transferred to the centralizing agent and for which the Conversion Right has been exercised.

Suspension of the Conversion Right

In the event of a capital increase or the issue of new Company shares or securities carrying rights to Company shares, or any other financial transactions conferring pre-emptive subscription rights or reserving a priority subscription period for the benefit of the Company's shareholders, the Company will be entitled to suspend the exercise of the Conversion Right for a period which may not exceed three months or any other period provided for in the applicable regulations.

However, in no circumstances may such suspension cause the Bondholders to lose their Conversion Right. Any decision by the Company to suspend the Bondholders' Conversion Right will be published in a notice in the French legal gazette (*Bulletin des Annonces Légales Obligatoires* – BALO). This notice must be published at least seven calendar days before the suspension of the Conversion Right becomes effective and must specify the dates on which the suspension period begins and ends. This information will also be published by the Company on its website (www.safran-group.com).

Conditions of exercise of the Conversion Right

To exercise their Conversion Right, Bondholders must make a request to the financial intermediary that holds their Bonds in a securities account. Any such request is irrevocable once received by the relevant financial intermediary. The centralizing agent will ensure the centralization of the request.

The date of the request will correspond to either (i) the business day on which both of the conditions described below are satisfied, if they are satisfied by 5:00 p.m. (Paris time), or (ii) the following business day, if said conditions are satisfied after 5:00 p.m. (Paris time) (the **"Date of the Request"**):

- the centralizing agent has received the exercise request transmitted by the financial intermediary that holds the Bonds in a securities account;
- the Bonds have been transferred to the centralizing agent by the relevant financial intermediary.

Any request for the exercise of a Conversion Right sent to the centralizing agent will be effective as of the first trading day following the Date of the Request (the **"Exercise Date"**). All requests for the exercise of the Conversion Right must be received by the centralizing agent (and the Bonds transferred to the centralizing agent) before the seventh trading day (exclusive) preceding the Maturity Date of the Bonds or their early redemption date.

All Bondholders with Bonds having the same Exercise Date will be treated equally and will each receive the same proportion of new and/or existing ordinary shares for their Bonds, subject to rounding.

The Bondholders will receive delivery of their new and/or existing ordinary shares no later than the seventh trading day following the Exercise Date.

The new or existing ordinary shares issued or delivered on the exercise of the Conversion Right will carry dividend rights and entitle their holders to all the rights attached to the ordinary shares as from their delivery date, it being specified that in the event that a record date for a dividend (or interim dividend) occurs between the Exercise Date and the delivery date of the shares, the Bondholders will not be entitled to such dividend (or interim dividend) nor to any compensation therefor, subject to the right to an adjustment of the Conversion Ratio – a right to which the Bondholders are entitled until the delivery date of the ordinary shares (exclusive).

	Applications will be made for the admission to trading on Euronext Paris of the new ordinary shares issued upon the exercise of the Conversion Right. Accordingly, the new shares will immediately become fungible with the existing ordinary shares listed on Euronext Paris and will be tradable, as from the date on which they are admitted to trading, on the same listing line as said existing ordinary shares under the same ISIN code (FR0000073272).
	Any existing ordinary shares allocated upon the exercise of the Conversion Right will be immediately tradable on Euronext Paris.
Currency of the issue	Euro
Governing law	French law

3) Purpose of the issue

The purpose of the issue of the Bonds is for the Company to have access to financing for its general corporate purposes.

4) Impact of the issue of the bonds and the exercise of the conversion right on existing holders of Company shares and securities carrying rights to Company shares

Dilution in the event that new ordinary shares of the Company are issued on the exercise of the Conversion Right – Impact on attributable equity for shareholders and holders of securities carrying rights to shares

The table below, provided for information purposes only, shows the impact that the issue of new ordinary shares would have on attributable equity per share if the Conversion Right were exercised for all Bonds, assuming that the Company opted to grant only new ordinary shares.

This impact was calculated based on the following:

(i) equity as reported in the parent company and consolidated financial statements for the year ended December 31, 2019, adjusted to reflect the capital increases since January 1, 2020 in an aggregate amount of €356.80 following the exercise of stock subscription options between January 1, 2020 and April 30, 2020, representing a total issue amount of €191,726.48 including the premium;

(ii) 425,068,660 undiluted shares at April 30, 2020, i.e., 427,235,939 shares making up the Company's share capital at that date, less 2,167,279 shares held in treasury at April 30, 2020; and

(iii) an assumption that the Conversion Ratio equals 1.

	Before issue	After issue
Parent company equity	€10,062,226,000	€10,862,226,000 ⁽¹⁾
Consolidated equity (attributable to owners of the parent)	€12,371,184,000	€13,164,384,000 ⁽²⁾
Number of shares – undiluted	425,068,660	432,460,325
Number of shares – diluted ⁽³⁾	430,070,087	437,461,752
Parent company equity per share – undiluted	€23.67	€25.12
Parent company equity per share – diluted ⁽³⁾	€25.02	€26.43
Attributable consolidated equity per share – undiluted	€29.10	€30.44
Attributable consolidated equity per share – diluted ⁽³⁾	€30.32	€31.62

(1) Assuming the Conversion Right is exercised at the time of the issue (nominal amount of the issue: €800,000,000).

(2) Assuming the Conversion Right is exercised at the time of the issue (net proceeds from the issue: €793,200,000).

(3) Assuming that all 4,996,431 OCÉANE bonds issued by the Company on June 21, 2018 are converted and that the same amount of new ordinary Company shares is issued based on a Conversion Ratio of 1.001 to 1 (nominal amount of the issue: €700 million; liability component at December 31, 2019: €667 million).

Dilution in the event that new ordinary shares of the Company are issued on the exercise of the Conversion Right – Impact on existing shareholders and holders of securities carrying rights to shares

The table below, provided for information purposes only, shows the impact of the issue of new ordinary shares on the ownership interest of a shareholder holding 1% of the Company's share capital prior to April 30, 2020.

This impact was calculated based on the following:

(i) 427,235,939 shares making up the Company's share capital at April 30, 2020; and

(ii) an assumption that the Conversion Ratio equals 1.

Shareholder's % ownership interest	Before issue	After issue
Undiluted basis	1%	0.98%
Diluted basis ⁽¹⁾	0.99%	0.97%

(1) Assuming that all 4,996,431 OCÉANE bonds issued by the Company on June 21, 2018 are converted and that the same amount of new ordinary Company shares is issued based on a Conversion Ratio of 1.001 to 1.

5) Impact of the issue of the bonds and the exercise of the conversion right on Safran's share price and market capitalization

The theoretical impact of the issue and conversion of the Bonds on Safran's share price and market capitalization is a positive 0.60% on an undiluted basis and a positive 1.46% on a diluted basis.

This impact was calculated based on the following:

- a price of €79.25 per Safran share, corresponding to the average of the opening Safran share prices over the 20 trading days preceding the date on which the Issue was launched (May 12, 2020);
- the issue of 7,391,665 Bonds with a par value of €108.23 per Bond, which could potentially be converted into an aggregate 7,391,665 ordinary Safran shares (at a ratio of 1 ordinary share to 1 Bond); and
- net issue proceeds of €793,199,903.77.

Based on the above, the following table shows the theoretical impact of the issue and conversion of the Bonds on Safran's share price and market capitalization:

Theoretical impact of the issue and conversion of the Bonds on Safran's share price and market capitalization	
ISSUE OF THE BONDS	
Number of Bonds issued	7,391,665
Conversion Ratio	1
Net proceeds from issue of the Bonds	€793,199,903.77
Total number of ordinary Safran shares that could potentially be issued on conversion of the Bonds	7,391,665
SITUATION BEFORE THE ISSUE OF THE BONDS (UNDILUTED BASIS)	
Number of Safran shares outstanding before the issue of the Bonds	427,235,939
Safran share price before the issue of the Bonds	€79.25
Safran's market capitalization before the issue of the Bonds	€33,858,448,166.00
SITUATION AFTER THE ISSUE AND CONVERSION OF THE BONDS (UNDILUTED BASIS)	
Total number of Safran shares after the issue and conversion of the Bonds	434,627,604
Safran's theoretical market capitalization after the issue and conversion of the Bonds	€34,651,648,070
Theoretical value of one Safran share after the issue and conversion of the Bonds	€79.73
Theoretical impact of the issue and conversion of the Bonds	+0.60%
SITUATION AFTER THE ISSUE AND CONVERSION OF THE BONDS (DILUTED BASIS)⁽¹⁾	
Total number of Safran shares after the issue and conversion of the Bonds	439,629,031
Safran's theoretical market capitalization after the issue and conversion of the Bonds	€35,348,498,053
Theoretical value of one Safran share after the issue and conversion of the Bonds	€80.41
Theoretical impact of the issue and conversion of the Bonds	+1.46%

(1) Assuming that all 4,996,431 OCÉANE bonds issued by the Company on June 21, 2018 are converted and that the same amount of new ordinary Company shares is issued based on a Conversion Ratio of 1.001 to 1 (net proceeds from the issue: €696,849,983.14).

French original signed in Paris, on May 28, 2020

For the Board of Directors

Ross McInnes (Chairman)