FINANCIAL FRAMEWORK

Bernard DELPIT, CFO
Key messages

- Sound financial policy (hedging, accounting, funding)
- Strong organic growth across all businesses
- Improved performance on profitability and cash
- Disciplined capital allocation and focus on shareholder returns
FINANCE AT THE SERVICE OF EXCELLENCE

- Hedging
- Accounting
- Funding
Hedging policy framework

Safran implements a hedging strategy to reduce uncertainty in a volatile FX environment

- Safran hedges 4 currencies: USD, GBP, CAD and MXN

Safran implements a comprehensive hedging policy

- Strict hedging policy, regularly reviewed and approved by the Board of Directors and the Audit Committee
- Market information is regularly updated: mark-to-market impacts, expected USD net exposure and hedge rate targets on a 4-year horizon
- Safran does not apply hedge accounting and therefore recognizes all changes in the fair value of its derivatives in “Financial income (loss)” since 2005. Restated in “Adjusted P&L”
A USD portfolio resilient to potential market movements

Safran uses leveraged options with barrier levels

- The USD portfolio includes an average of 300 structured instruments, each with different barrier levels
- The barriers at various levels provide resilience to FX movements

This strategy offers genuine alternatives to forward sales

- @ USD 1.13 spot rate, forward contracts provide USD 1.25 with 3-year maturity (swap points at their highest historical levels)
- @ same conditions, leveraged options can achieve USD 1.12 or below, with limited risk

▶ Safran’s active management offers protection for the next 4 years against volatility
A USD 29.2bn portfolio (mid-November 2018)

Average annual exposure estimated at $8.8bn going forward
(As of Nov. 16, 2018, in $bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Hedge rate</th>
<th>Minimum amount hedged (firm)</th>
<th>Additional amount hedged at target rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>7.3</td>
<td>Blue</td>
<td>Orange</td>
</tr>
<tr>
<td>2018</td>
<td>8.0</td>
<td>Blue</td>
<td>Orange</td>
</tr>
<tr>
<td>2019e</td>
<td>1.3</td>
<td>Blue</td>
<td>Orange</td>
</tr>
<tr>
<td>2020e</td>
<td>3.8</td>
<td>Blue</td>
<td>Orange</td>
</tr>
<tr>
<td>2021e</td>
<td>1.8</td>
<td>Blue</td>
<td>Orange</td>
</tr>
<tr>
<td>2022e</td>
<td>1.7</td>
<td>Blue</td>
<td>Orange</td>
</tr>
</tbody>
</table>

Reflecting the growth of USD-exposed businesses and former Zodiac Aerospace activities

- **2018**: Exposure raised to $8.0bn and fully hedged
- **2019**: $7.5bn achieved through forward sales and knock out options up to $8.8bn at a target rate of $1.18
  - Knock out options barriers set at various levels between $1.25 and $1.32 with maturities up to end 2019
- **2020**: $5.0bn achieved through forward sales and knock out options up to $8.8bn at a target rate between $1.16 and $1.18
  - Knock out options barriers set at various levels between $1.27 and $1.32 with maturities up to end 2020
- **2021**: $7.0bn achieved through knock out options up to $8.8bn at a target rate between $1.15 and $1.18
  - Knock out options barriers set at various levels between $1.22 and $1.33 with maturities up to mid-2020
- **2022**: $1.7bn achieved through knock out options
  - Knock out options barriers between $1.22 and $1.25 with maturities up to end 2019

Hedge rate (previous and new targets)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous targets</td>
<td>1.21</td>
<td>1.18</td>
<td>1.16-1.18</td>
<td>1.16-1.18</td>
<td>1.16-1.20</td>
<td>-</td>
</tr>
<tr>
<td>New targets</td>
<td>1.21</td>
<td>1.18</td>
<td>1.18</td>
<td>1.16-1.18</td>
<td>1.15-1.18</td>
<td>1.15-1.18</td>
</tr>
</tbody>
</table>
# Main changes of IFRS15

<table>
<thead>
<tr>
<th>CFM56 / LEAP transition</th>
<th>Civil Aftermarket</th>
<th>Customer funded R&amp;D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantees deducted from Revenues</td>
<td>Change in the timing of Revenue recognition as different prices are allocated to installed engines and spare engines (instead of averaging the price for all engines of a contract)</td>
<td>Guarantees deducted from Revenues</td>
</tr>
<tr>
<td>P&amp;L</td>
<td>T&amp;M and RPFH: Guarantees deducted from Revenues</td>
<td>No Revenue at the time of the financing</td>
</tr>
<tr>
<td></td>
<td>RPFH contracts: change in timing of Revenue recognition as sales are recognized when costs are incurred</td>
<td>Revenue recognized over product delivery</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>RPFH contracts: difference between Billing and Revenues is booked as deferred Revenue in “Contract Liabilities” or “Contract Assets”</td>
<td>Balance sheet</td>
</tr>
<tr>
<td></td>
<td>Financing received is booked as a “Contract Liability”</td>
<td>Financing received is booked as a “Contract Liability”</td>
</tr>
<tr>
<td></td>
<td>Costs incurred are booked as intangible in “capitalized R&amp;D”</td>
<td>Costs incurred are booked as intangible in “capitalized R&amp;D”</td>
</tr>
</tbody>
</table>

# Estimated impact of IFRS15 for 2018-2022

- **IAS18 Gross Margin breakeven of LEAP:** 2020
- **IFRS15 Gross Margin breakeven of LEAP:** 2022

Limited impact on Civil Aftermarket profile over the period:

- **T&M:** limited impact
- **RPFH:**
  - Growing deferred Revenue booked in “Contract Liabilities” driven by the ramp up of LEAP contracts
  - Conservative margin recognition on LEAP contracts

Limited impact on the profile of self-funded R&D, capitalized R&D and amortized R&D

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**Note:** RPFH = Rate Per Flight Hour

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Safran - Capital Markets Day 2018 / November 29, 2018

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New changes to come with IFRS 16

IFRS 16 (leases) will be applied by Safran starting January 1\textsuperscript{st}, 2019. 2018 will not be restated. The impact of change of accounting method, if any, will impact 2019 opening balance sheet

IFRS 16 impacts for Safran
- Mainly affecting real estate, vehicles and handling equipment currently under operating lease contracts
- Impact on aircraft engine lease contracts not material

Impact on 2019 opening balance sheet (transition impacts)
- ~€500M of liabilities will be recognized (included in net debt position), representing discounted future lease payments
- Equivalent impact in assets (rights-of-use)

Impact going forward
- Ebit / financial expenses: a few million Euros each
- Positive impact for FCF year 1
Safran maintains balanced and diversified debt maturity schedule with active use of financing opportunities

Active management of the balance sheet with cash in-hand

- Safran has paid down €1.3bn of Zodiac Aerospace debt, thus reducing interest expenses. €279M remaining debt is kept until maturity (Schuldschein and EuroPP)
- Safran repurchased the outstanding convertible bonds (OCEANEs) due 2020 (€702M)

Proactive refinancing initiatives at almost zero cost in 2017 and 2018 (FRN, convertible bonds) taking advantage of favorable market conditions

Average cost of debt: almost zero
FINANCIAL AMBITION

- Growth
- Margins
- Cash generation
- Capital allocation
Growth

Adjusted Revenue (€m) and Organic Growth (%)

Civil Aftermarket Revenue (Growth in $)

CFM engines deliveries

Note: Excluding Zodiac Aerospace for FY15, FY16 and FY17 published and restated; Previous accounting standards for FY15, FY16 and FY17 published
* At an estimated average spot rate of USD 1.21 to the Euro in 2018
** At an estimated average spot rate of USD 1.25 between 2019-2022

All businesses are growing
The CFM56-LEAP transition

CFM56 / LEAP Original Equipment (OE) contribution

Impact of IFRS15 on transition profile planned (CMD’16)

- In IAS18, Gross Margin LEAP OE breakeven planned at the end of the decade
- In IFRS15, Gross Margin LEAP OE breakeven planned after 2020:
  - Guarantees are deducted from Revenues
  - Gross Margin is calculated with specific prices for OE/spare engines

CMD’18

Post 2022e

(1) More CFM56 sold at a better price: positive impact of the CFM56 lasting longer than expected + positive product-mix

(2) LEAP cost reduction trajectory in line with initial ambition

Transition impact better than initially anticipated
CFM56 / LEAP transition: what’s next?

Cumulative number of engine deliveries

Illustrative impact of price and cost evolution

CFM56 / LEAP OE contribution to Gross Margin

- CFM56
- LEAP
- LEAP non-recurring costs
- CFM56+LEAP (incl. Non-rec costs)
- LEAP (1st scenario)
- LEAP (2nd scenario)
2018-2022 ambition for Propulsion: Recurring Operating Margin trending above 20%
2018-2022 ambition: Recurring Operating Margin beyond 16% for Equipment and beyond 10% for Defense

<table>
<thead>
<tr>
<th>Year</th>
<th>Equipment Recurring Operating Margin</th>
<th>Defense Recurring Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>2011</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>2012</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>2013</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>2014</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>2015</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>2017</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>2018e</td>
<td>&gt;16%</td>
<td>16%</td>
</tr>
<tr>
<td>2019e</td>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>2020e</td>
<td></td>
<td>20%</td>
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<tr>
<td>2021e</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>2022e</td>
<td></td>
<td>24%</td>
</tr>
</tbody>
</table>

Service Revenue Growth: high-teens over the period
Cost reduction

Executing on contract wins
Cost reduction
2018-2022 ambition for former Zodiac Aerospace: recovery confirmed

Zodiac Acquisition Business Plan targets (May, 2017) to be delivered in 2022:
- €200M cost synergies confirmed
- >13% Margin in 2022 including only a portion of total synergies
- Aerosystems above 13%; Aircraft Interiors below 13%
- Other synergies spread over Safran’s other Business Units
- €18M synergies on financial costs below Recurring Operating Income

Aerosystems:
- Low to mid-single digit Revenue growth p.a.
- Aftermarket Growth

Aircraft Interiors:
- Mid-single digit Revenue growth p.a. after 2019
- Increase in aftermarket
- Strong margin recovery
2018-2022 ambition for the Group: a 16-18% margin by 2022

Opportunities:
- LEAP OE Gross Margin
- LEAP Services Margins
- Civil Aftermarket trend
- Euro / Dollar hedge rate

Risks:
- LEAP ramp-up execution
- Aircraft Interiors recovery
- World Economy

Group Recurring Operating Margin

Indicative profile of Group Gross Margin

Services activities: a predictable business that should grow by ~30% over the period

Zodiac Aerospace’s Gross Margin to increase by ~60% over the period

CFM56 / LEAP transition: limited impact from 2018 to 2022
2018-2022 strong cash flows from operations

**EBITDA (€M)**

+~50%  

<table>
<thead>
<tr>
<th>Year</th>
<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
<th>2021e</th>
<th>2022e</th>
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<tbody>
<tr>
<td>2018</td>
<td></td>
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<tr>
<td>2019</td>
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<td>2020</td>
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<td>2021</td>
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<tr>
<td>2022</td>
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</tbody>
</table>

**MAIN FCF TAILWINDS:**
- Increase in profitability across all businesses
- CFM56 aftermarket and Equipment Services
- LEAP ESPH contracts (~25% of LEAP RPFH contracts)
- Zodiac recovery

**MAIN FCF HEADWINDS:**
- Working capital (advance payments)
- New developments and R&D efforts
- Capex (investments to secure ramp-up; additive manufacturing)

**Note:** At an estimated average spot rate of USD 1.21 to the Euro in 2018; at a hedged rate of 1.18 and at a spot rate of 1.25 over the period 2019-2022

**Note:** ESPH= Engine Service Per Hour; RPFH= Rate Per Flight Hour
Focus on working capital

**Total advance payments (€bn)**
*(Projected balance sheet over the period)*

**Inventories and WIP (€bn)**
*(Projected balance sheet over the period)*

**RPFH cash contribution (€bn)**
*(Projected balance sheet over the period)*

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**Significant reduction of advance payments:**
- Reduction of RAFALE advance payments
- End of LEAP ramp up

**Stable inventories and work-in-progress (WIP)**

**LEAP aftermarket: conservative assumptions for RPFH contracts**
*(75% ESPO – 25% ESPH)*

Note: RPFH= Rate Per Flight Hour

* Includes mainly Helicopters and Military excl. Rafale

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Focus on R&D: new cycle ahead

From 2018, new cycle of R&D spending:
- Assumption: NMA launched
- Catch up on Zodiac

Increased self-funded R&T: from €460M in 2018 to ~€600M in 2022

Self-funded R&D spending between 6% and 7% of sales over 2018-2022

Note: Restated figures for 2014-2017 (exclusion of Space and Security)
* Total R&D effort includes R&D sold to third parties, self-funded R&D and capitalised R&D
Focus on Capex

Total Capex spending (in €M)

- MRO network development for LEAP
- Accelerated development of additive manufacturing
- Catch up on Zodiac
- Total Capex spending around 4% of sales over 2018-2022

Safran excl. Zodiac Aerospace
Zodiac Aerospace
2018-2022 Capital allocation policy

FCF IMPROVED OVER 2018-2022

Disciplined M&A
Deleveraging
Priority to shareholders returns
Disciplined M&A policy

No major acquisition currently contemplated in the coming years

Zodiac portfolio pruning

Selective bolt-on's reinforcing Safran footprint
e.g. Rockwell Collins’ actuators, pilot controls and special products
Reaffirmed objective of strong investment grade profile with efficient balance sheet management

### Net financial debt/EBITDA of Safran vs. industry peers (2018e) - Adjusted

<table>
<thead>
<tr>
<th>Peer</th>
<th>Net Financial Debt/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer 1</td>
<td>3.5x</td>
</tr>
<tr>
<td>Peer 2</td>
<td>2.6x</td>
</tr>
<tr>
<td>Peer 3</td>
<td>2.1x</td>
</tr>
<tr>
<td>Peer 4</td>
<td>1.3x</td>
</tr>
<tr>
<td>Peer 5</td>
<td>0.9x</td>
</tr>
<tr>
<td>Peer 6</td>
<td>0.4x</td>
</tr>
<tr>
<td>Peer 7</td>
<td>0.4x</td>
</tr>
<tr>
<td>Peer 8</td>
<td>0.0x</td>
</tr>
<tr>
<td>Peer 9</td>
<td>-1.9x</td>
</tr>
</tbody>
</table>

Note: estimated net financial debt/EBITDA adjusted to include pro forma impact of announced acquisitions (full year EBITDA contribution and net debt impact at year-end)

Peers include: Airbus, BAE Systems, Boeing, GE, Meggitt, MTU Aero Engines, Rolls-Royce, Thales and UTC

Sources: FactSet consensus, equity research analysts’ estimates

- Following acquisition of Zodiac and ~50% completion of share buyback program, Safran is moderately leveraged
- Safran’s intention: to maintain its leverage in line with best-in-class peers
Shareholders returns (1/2) – Best-in-class TSR over past 10 years


Dividends paid: x6.8 between 2008 and 2017

Total Shareholder Return (TSR) CAGR 2008-2018: +23.4% p.a
Shareholders returns (2/2) – Increased cash returns over 2018-2022

More dividends driven by higher results

Over 50% of the €2.3bn buyback program already executed, with €1.1bn to go in the next 12/18 months

- €522M through 2 buyback tranches announced on March 27th and June 29th
- Repurchase of the outstanding convertible bonds (OCEANEs) due Dec 31st, 2020. Treasury shares acquired in 2016 and 2017 to cover exchangeable debt securities reassigned to the €2.3bn share buyback program (6.25 million shares for a total value of €702M)
- New price limit set at the Nov. 27th AGM at €140 / share

Intention to increase the share buyback program by another €700M (to avoid potential dilution of June 2023 OCEANEs)

- The Board of Directors will review the practice in 2020 in order to ensure growing and attractive equity return for shareholders
- Over 75% of cumulated FCF to be returned to shareholders over 2018-2022 through buyback, existing dividend practice and a new possible buyback program
2018-2022 Financial wrap-up – Medium term ambition

**Continued organic Growth**
- Mid-single digit Revenue Growth over 2019-2022 (assuming average spot rate of USD 1.25 to the Euro over 2019-2022)
- Civil Aftermarket growing on average at high-single digit

**Best-in-class profitability**
- Benefits of medium-term FX hedging policy
- Recurring Operating Margin trending to a 16%-18% range by 2022
- Former Zodiac Aerospace divisions recovery and €200M cost synergies confirmed

**Strong cash generation**
- EBITDA increase by ~50% between 2018 and 2022
- EBIT to Free Cash Flow conversion above 50% each year and trending above 60%
- Subject to customary elements of uncertainty on the timing of downpayments and the rhythm of payments by certain state customers

**Balanced and disciplined capital allocation with increased returns to shareholders to be further reviewed by Board of Directors in 2020**