

# First-half 2012 Earnings

**/ July 31, 2012 /**

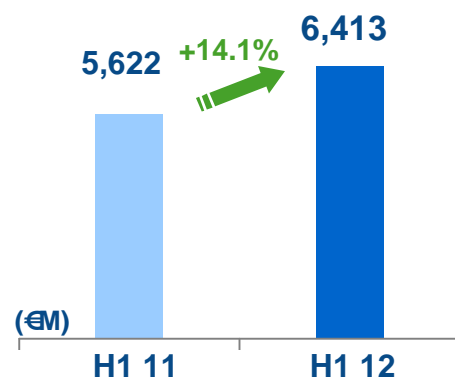
# /01/

## H1 2012 highlights

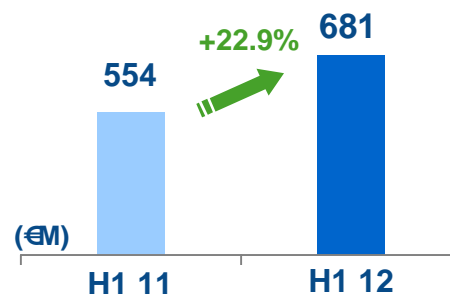
**Jean-Paul HERTEMAN - Chairman & CEO**

# H1 2012 financial highlights

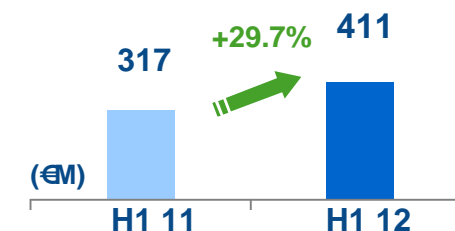
Growing adjusted revenue with strong performance in Aerospace and Security



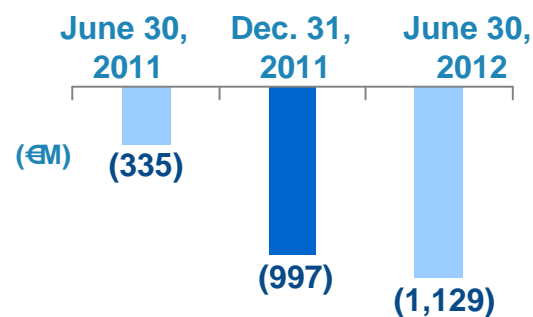
Adjusted recurring operating income at 10.6% of revenue



Higher adjusted net profit (group share) at €0.99 per share



Limited net debt (21% gearing)



# Key strategic business achievements



Safran finalized the merger of SME and Snecma Propulsion Solide to create Herakles a world leader in solid propulsion



Safran and Honeywell launched Electric Green Taxiing System testing on a Boeing 737NG in partnership with TUIfly (Germany)



Creation of JV with MTU (Germany) in the field of the development of safety-critical software and hardware for aviation applications



Panama choose consortium led by Safran for e-Passport solution



Safran acquired Brazilian company Optovac, specialized in optronics and night vision equipment (15 employees)



Cessna Aircraft Company selected the new-generation Silvercrest engine to power its new Citation Longitude business jet

# 2012 Farnborough air show takeaways



**LEAP & CFM56**



**Brakes & Wheels**



Boeing 787



A319/320



**Nacelles**



A380

CFMI: 922 orders & commitments  
(742 LEAP & 180 CFM56) at \$12.6bn list price

**2012 CFMI order book to date of 1,792 engines (LEAP & CFM56)**  
**Backlog of 9,800 engines**

# Aerospace OE

CFM56 engines	H1 2011	H1 2012	Change
<b>Total installed base</b>	<b>21,520</b>	<b>22,730</b>	<b>5.6%</b>
Share of 2 <sup>nd</sup> gen. engines	59%	61%	+2 pts

Increased share of 2<sup>nd</sup> generation CFM engines in fleet



future flow of high value services

Number of deliveries			
1. CFM56 engines	636	723	14%
2. Helicopter engines	470	442	(6)%
3. A380 nacelles	54	60	11%
4. Small nacelles (biz & regional jets)	178	235	32%

1. Record production rates for CFM56
2. Temporary decline in small turbines
3. Increase in A380 nacelles
4. Recovery of the regional jets segment

<b>OE* revenue Prop. &amp; Equipment (in €M)</b>	<b>2,523</b>	<b>3,010</b>	<b>19.3%</b>
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\* All revenue except services

**Achieving record production rates for CFM56,  
future flow of high value services**

# Aerospace services

Services* revenue <i>(in €M)</i>	H1 2011	H1 2012	Change
<b>Aerospace Propulsion</b>	1,484	1,544	4.0%
Services share of total revenue	49.8%	47.3%	(2.5)pts
<b>Aircraft Equipment</b>	474	499	5.3%
Services share of total revenue	31.5%	27.9%	(3.6)pts
<b>Total services revenue</b>	1,958	2,043	4.3%

\* Including spares and maintenance & repair activities

## è Propulsion

- § Global CFM56 spares revenue growth in the low 2-digit
- § Flattish growth in high thrust widebody engine aftermarket services
- § Good momentum in aftermarket services for helicopter turbines driven by SBH
- § Decrease of military engines services given the tough comparison base

## è Equipment

- § Increased civil MRO activity, notably nacelles and wheels & brakes

**Civil aftermarket\*\* grew by 8.1% in H1 2012 in USD terms**

\*\* Includes CFM and high thrust engines (spares and MRO)

# **/02/**

## **H1 2012 Results**

**Ross McINNES - Deputy CEO, CFO**



# Foreword

All figures in this presentation represent Adjusted data

Safran's consolidated income statement has been adjusted for the impact of:

- è purchase price allocations with respect to business combinations. Since 2005, this restatement concerns the amortization charged against intangible assets relating to aeronautical programs that were revalued at the time of the Sagem-Snecma merger. With effect from the first-half 2010 interim financial statements, the Group has decided to restate the impact of purchase price allocations for business combinations. In particular, this concerns the amortization of intangible assets recognized at the time of the acquisition, and amortized over extended periods, justified by the length of the Group's business cycles;
- è 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:
  - è revenue net of purchases denominated in foreign currencies is measured using the effective hedged rate, i.e., including the costs of the hedging strategy,
  - è the recognition of all mark-to-market changes on non-settled hedging instruments at the closing date is neutralized.

## Recurring operating income

- è It excludes income and expenses which are largely unpredictable because of their unusual, infrequent and/or material nature such as impairment losses/reversals, capital gains/losses on disposals of operations and other unusual and/or material non operational items.

# Fx volatility

## è Continued Fx volatility during H1 2012

- n **Translation** effect: foreign currencies translated into €
  - ⇒ Positive impact from \$
  - ⇒ Impact on Revenue and Return on Sales

### Average spot rate

H1 2011	H1 2012
\$1.40	\$1.30

- n **Transaction** effect: mismatch between \$ sales and € costs is hedged
  - ⇒ Positive impact from \$
  - ⇒ Positive impact from other currencies
  - ⇒ Impact on Profits

### Hedge rate

H1 2011	H1 2012
\$1.38	\$1.32

- n **Mark-to-market** effect
  - ⇒ €(42)M on fair value of financial instruments
  - ⇒ Impact on consolidated “statutory” accounts

### Spot rate

June 30, 2011	Dec. 31, 2011	June 30, 2012
\$1.45	\$1.29	\$1.26

## Diverse impacts on P&L

# Consolidated and adjusted income statements

H1 2012 reconciliation (In €M)	Consolidated data	Currency hedging		Business combinations		Adjusted data
		Re- measurement of revenue	Deferred hedging gain (loss)	Amortization of intangible assets - Sagem/Snecma merger	PPA impacts - other business combinations	
<b>Revenue</b>	<b>6,441</b>	<b>(28)</b>				<b>6,413</b>
Other operating income / expense	(5,844)	1	(18)	79	50	(5,732)
<b>Recurring operating income</b>	<b>597</b>	<b>(27)</b>	<b>(18)</b>	<b>79</b>	<b>50</b>	<b>681</b>
Other non current operating income / expense	(19)	-	-	-	-	(19)
<b>Profit (loss) from operations</b>	<b>578</b>	<b>(27)</b>	<b>(18)</b>	<b>79</b>	<b>50</b>	<b>662</b>
Cost of net debt	(28)	-	-	-	-	(28)
Foreign exchange financial income (loss)	(52)	27	42	-	-	17
Other finance costs /income	(68)	-	-	-	-	(68)
<b>Net finance costs / income</b>	<b>(148)</b>	<b>27</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>(79)</b>
Income from associates	11	-	-	-	-	11
Income tax expense	(115)	-	(8)	(28)	(19)	(170)
<b>Profit (loss) from continuing operations</b>	<b>326</b>	<b>-</b>	<b>16</b>	<b>51</b>	<b>31</b>	<b>424</b>
Profit (loss) from discontinuing operations	-	-	-	-	-	-
<b>Minority interests</b>	<b>(11)</b>	<b>-</b>	<b>1</b>	<b>(1)</b>	<b>(2)</b>	<b>(13)</b>
<b>Parent</b>	<b>315</b>	<b>-</b>	<b>17</b>	<b>50</b>	<b>29</b>	<b>411</b>

# H1 2012 profit from operations

<i>(In €M)</i>	H1 2011	H1 2012
<b>Revenue</b>	<b>5,622</b>	<b>6,413</b>
Recurring operating income <i>% of revenue</i>	554 <b>9.9%</b>	681 <b>10.6%</b>
Total one-off items	(14)	(19)
<i>Capital gain (loss) on disposals</i>	-	-
<i>Impairment reversal (charge)</i>	-	-
<i>Other infrequent &amp; material &amp; non operational items</i>	(14)	(19)
Profit from operations <i>% of revenue</i>	540 <b>9.6%</b>	662 <b>10.3%</b>

*Includes €(12)M of integration costs mainly related to MorphoTrust and a €(7)M provision of receivables related to Hawker Beechcraft (Chap 11 filing in May)*

**10.6% recurring operating income**

# H1 2012 income statement

<i>(In €M)</i>	H1 2011	H1 2012
<b>Revenue</b>	<b>5,622</b>	<b>6,413</b>
<b>Recurring operating income</b>	<b>554</b>	<b>681</b>
<i>% of revenue</i>	<i>9.9%</i>	<i>10.6%</i>
<b>Profit from operations</b>	<b>540</b>	<b>662</b>
<i>% of revenue</i>	<i>9.6%</i>	<i>10.3%</i>
<i>Net finance (cost) income</i>	<i>(104)</i>	<i>(79)</i>
<i>Income tax expense</i>	<i>(115)</i>	<i>(170)</i>
<i>Profit (loss) from discontinued op.</i>	<i>-</i>	<i>-</i>
<i>Minority interests</i>	<i>(10)</i>	<i>(13)</i>
<i>Share in profit from associates</i>	<i>6</i>	<i>11</i>
<b>Profit - group share</b>	<b>317</b>	<b>411</b>
<b>Basic EPS (in €)</b>	<b>0.79*</b>	<b>0.99**</b>

*Of which cost of debt of €(28)M*

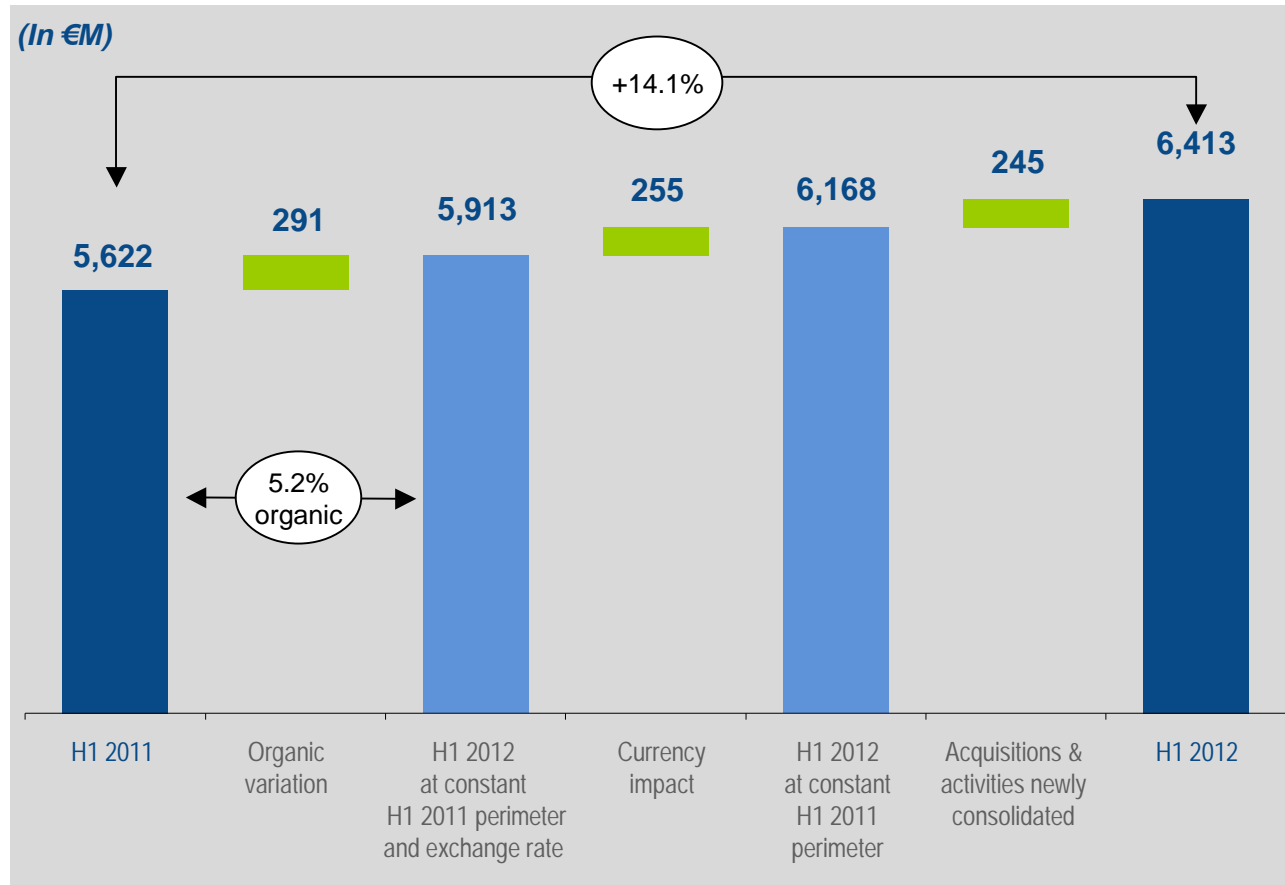
*Effective tax rate of 29%*

**Net profit growth of 30%**

\* Based on 401,277,095 shares

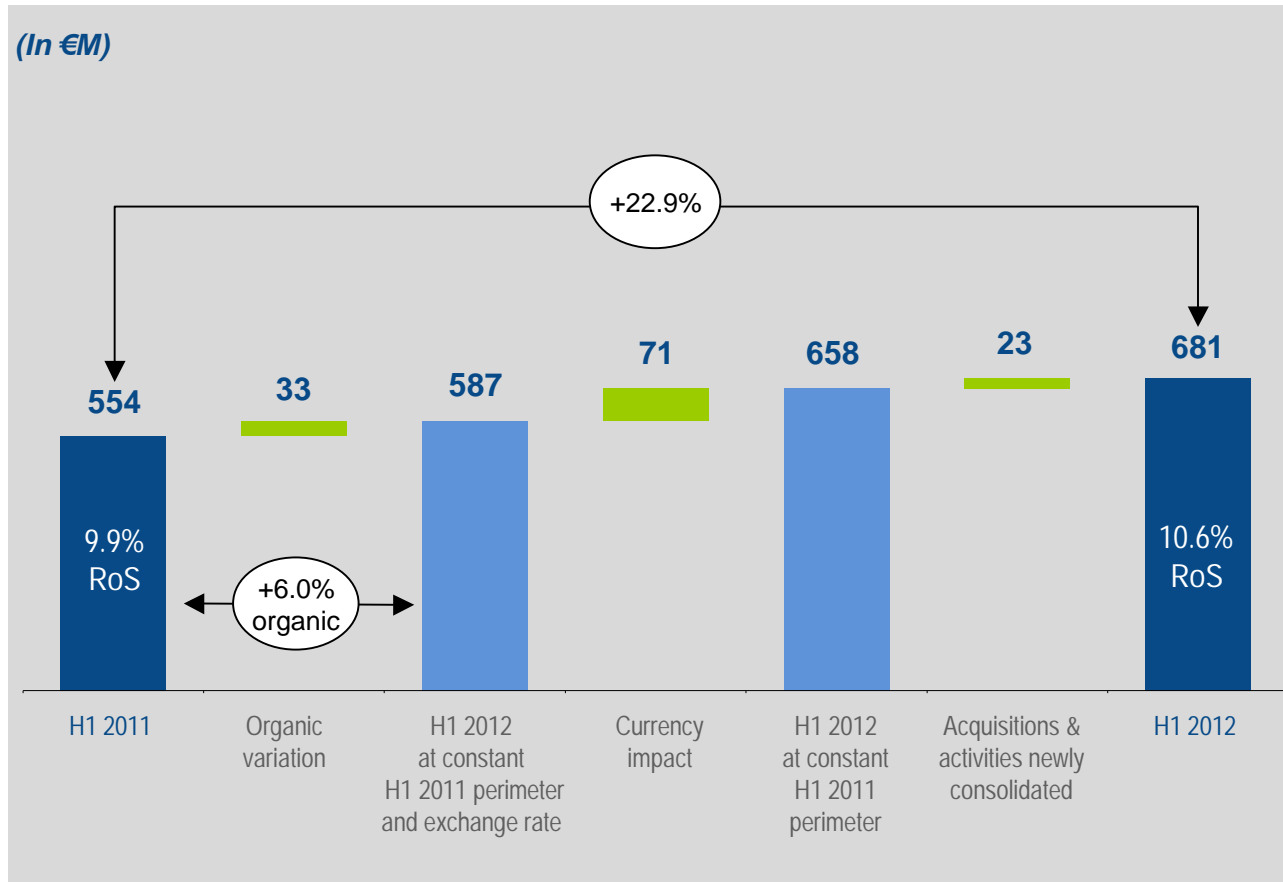
\*\* Based on 414,658,530 shares

# H1 2012 revenue



- è Record OEM production rates in aerospace coupled with positive trends in civil aerospace aftermarket
- è Strength in the defence business (avionics) and growing momentum in security (detection, e-Documents), as well as through acquisitions (MorphoTrust)
- è Favourable currency impact
  - § Positive translation and transaction impact on \$
- è Changes in the scope of consolidation include:
  - § 6 months of L-1 ID: €160M
  - § 3 months of SME: €71M

# H1 2012 recurring operating income



## è Improved profitability

- n Propulsion: solid original equipment growth, OE unit revenue for civil engines, positive trends in CFM56 and helicopter turbines aftermarket
- n Harnessing and nacelles
- n Detection, e-Documents
- n Safran+ productivity improvements and costs efficiency

## è Changes in the scope of consolidation include:

- n 6 months of L-1 ID: €13M
- n 3 months of SME: €9M

# Research & Development

<i>(In €M)</i>	S1 2011	S1 2012	Variation
<b>Total R&amp;D</b>	<b>(576)</b>	<b>(703)</b>	<b>(127)</b>
External funding	194	227	33
<b>Total self-funded cash R&amp;D</b>	<b>(382)</b>	<b>(476)</b>	<b>(94)</b>
<i>as a % of revenue</i>	6.8 %	7.4 %	0.6 pt
Tax credit	57	57	-
<b>Total self-funded cash R&amp;D after tax credit</b>	<b>(325)</b>	<b>(419)</b>	<b>(94)</b>
Gross capitalized R&D	120	216	96
Amortised R&D	(46)	(34)	12
<b>P&amp;L R&amp;D in recurring EBIT</b>	<b>(252)</b>	<b>(237)</b>	<b>15</b>
<i>as a % of revenue</i>	4.5 %	3.7 %	(0.8) pt

- è Cash R&D effort now above 7%
- è Ramp-up of LEAP and Silvercrest programs as well as on A350; partly offset by tailing off of R&D developments on A400M and SJ100
- è Increase of capitalized costs: +€96M



# H1 2012 results by activity

<i>(In €M)</i>	<b>H1 2012</b>	<b>Propulsion</b>	<b>Equipment</b>	<b>Defence</b>	<b>Security</b>	<b>Holding &amp; others</b>
<b>Revenue</b>	<b>6,413</b>	<b>3,266</b>	<b>1,787</b>	<b>640</b>	<b>719</b>	<b>1</b>
<i>Year-over-year growth in %</i>	<i>14.1%</i>	<i>9.7%</i>	<i>18.8%</i>	<i>2.6%</i>	<i>41.3%</i>	<i>na</i>
<b>Recurring operating income</b>	<b>681</b>	<b>512</b>	<b>134</b>	<b>45</b>	<b>66</b>	<b>(76)</b>
<i>as a % of revenue</i>	<i>10.6%</i>	<i>15.7%</i>	<i>7.5%</i>	<i>7.0%</i>	<i>9.2%</i>	<i>na</i>

# Aerospace Propulsion

<i>(In €M)</i>	H1 2011	H1 2012	<i>Change</i>	<i>Organic Change</i>
<b>Revenue</b>	<b>2,977</b>	<b>3,266</b>	9.7%	3.1%
<b>Recurring operating income</b>	<b>424</b>	<b>512</b>	+20.8%	
<i>% of revenue</i>	14.2%	15.7%	+1.5 pt	
<i>One-off items</i>	-	-		
<b>Profit (loss) from op.</b>	<b>424</b>	<b>512</b>		
<i>% of revenue</i>	14.2%	15.7%		

## è Growing revenue

- § Strong rise in civil OEM deliveries (CFM, high thrust and helicopters engines)
- § Solid trends in civil aftermarket and helicopters turbines services

è 3 months contribution of SME: €71M in revenue and €9M in profits

## è Excellent profitability mainly driven by civil aftermarket

- § Aftermarket (CFM, SBH contracts in helicopters)
- § Impact of better OE unit revenue for civil engines
- § Productivity improvements
- § Positive currency effect

# Aircraft Equipment

<i>(In €M)</i>	H1 2011	H1 2012	Change	Organic Change
<b>Revenue</b>	<b>1,504</b>	<b>1,787</b>	18.8%	11.6%
<b>Recurring operating income</b>	<b>99</b>	<b>134</b>	+35.3%	
<i>% of revenue</i>	6.6%	7.5%	+0.9 pt	
<i>One-off items</i>	-	(7)		
<b>Profit (loss) from op.</b>	<b>99</b>	<b>127</b>		
<i>% of revenue</i>	6.6%	7.1%		

## è OE driven revenue growth

- § Increases in OEM production rates (notably the Boeing 787 and A380 programs) and business jets market segment
- § Market share wins in carbon brakes

## è Significant improvement in profitability

- § A favourable mix/volume impact on nacelles, harnesses and landing systems with the ramp-up of OEM volumes
- § Positive currency effect
- § €(7)M provision on receivables related to Hawker Beechcraft

# Defence

<i>(In €M)</i>	H1 2011	H1 2012	<i>Change</i>	<i>Organic Change</i>
<b>Revenue</b>	<b>624</b>	<b>640</b>	2.6%	(0.2)%
<b>Recurring operating income</b>	<b>31</b>	<b>45</b>	+45.2%	
<i>% of revenue</i>	5.0%	7.0%	+2.0 pt	
<i>One-off items</i>	(7)	-		
<b>Profit (loss) from op.</b>	<b>24</b>	<b>45</b>		
<i>% of revenue</i>	3.8%	7.0%		

è Mid-single digit growth in Avionics with a turnaround in profitability

- § Higher deliveries of AASM kit modules and a solid inertia navigation activity
- § Combination of favourable mix/volume effect with lower industrialisation costs

è Mild decrease in Optronics slightly impacting profits

- § Delivery of the Felin infantry combat system to two regiments of the French Army
- § Long-range infrared goggles down compared to a very strong first-half 2011

# Security

<i>(In €M)</i>	H1 2011	H1 2012	<i>Change</i>	<i>Organic Change</i>
<b>Revenue</b>	<b>509</b>	<b>719</b>	41.3%	6.1%
<b>Recurring operating income</b>	<b>59</b>	<b>66</b>	11.9%	
<i>% of revenue</i>	11.6%	9.2%	(2.4) pts	
<i>One-off items</i>	(3)	(10)		
<b>Profit (loss) from op.</b>	<b>56</b>	<b>56</b>		
<i>% of revenue</i>	11.0%	7.8%		

- è Detection: favorable product-mix in detection systems (renewed order with TSA for CTX devices)
- è e-Documents: migration to high-end EMV\* cards notably in Latin America, driving higher profits
- è Stable ID activity, with the postponement of newly awarded contracts notably in emerging countries
  
- è 6 months contribution of L-1 ID: €160M in revenue and €13M in profits (\$207M revenue and \$29M recurring EBITDA)
  
- è €(10)M one-off items, primarily for MorphoTrust integration

\* Europay, Mastercard and Visa

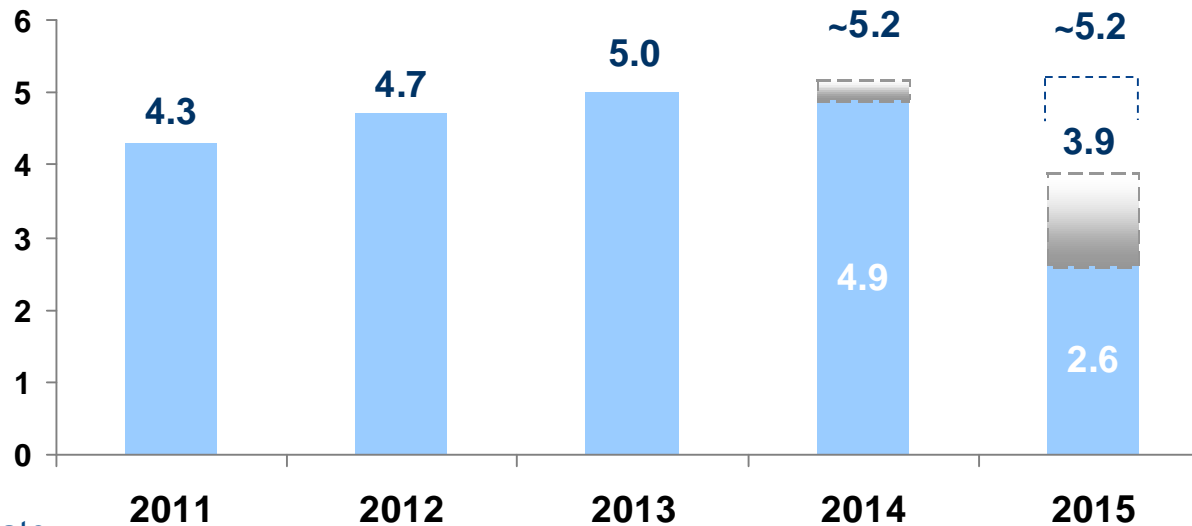
# Fx: increasing the hedge book and improving rates in 2015

Appx. 50% of Safran' USD revenue naturally hedged by USD procurement

## Hedge portfolio, July 18, 2012

Total: \$15.4bn

Estimated exposure needs  
In US\$ bn



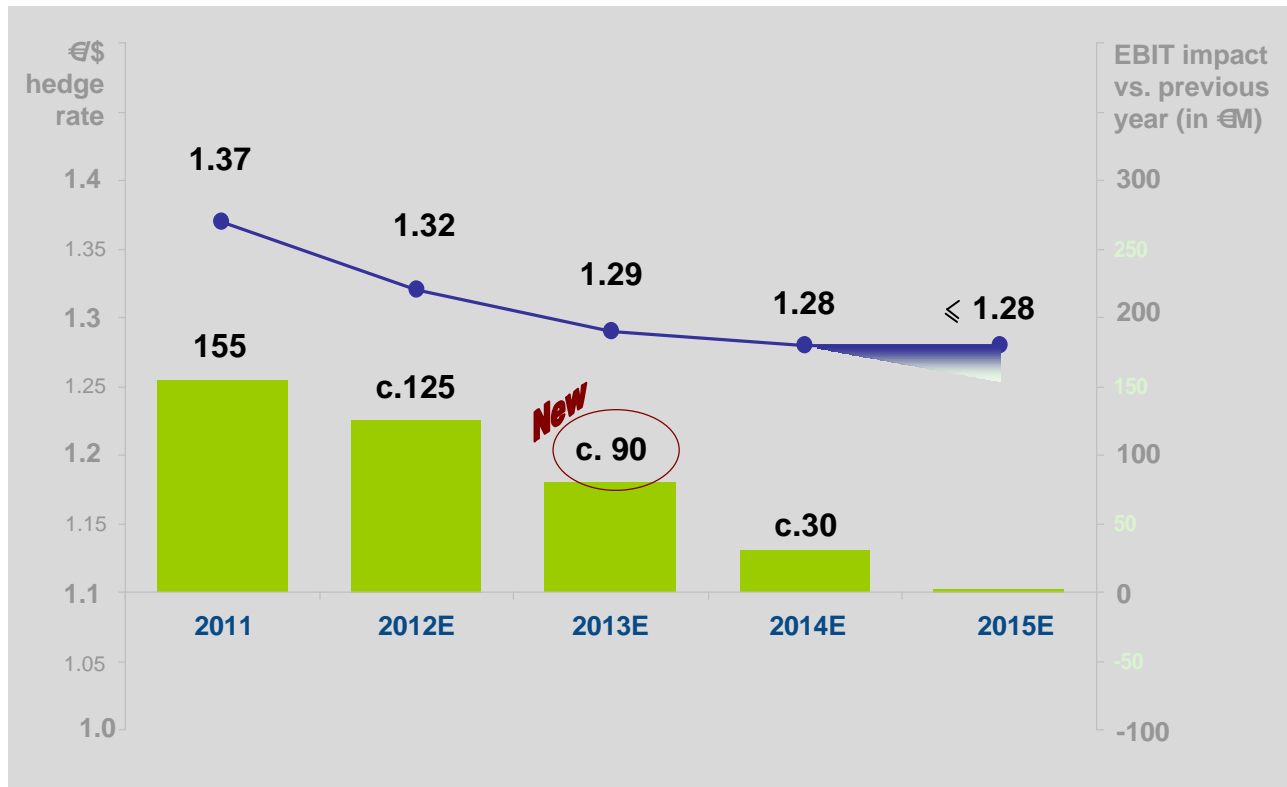
€/\$ hedge rate

	2011	2012	2013	2014	2015
Achieved	1.37	1.32	1.29	1.29	<b>New</b> 1.26
Target				1.28	≤1.28

- è 2012 and 2013 are fully hedged
- è 2014 is 95% completed
  - n \$4.9bn achieved at \$1.29 to rise to \$5.2bn at \$1.28 as long as €/\$ < 1.52 for 2012
- è 2015 hedging is well advanced
  - n \$2.6bn achieved at \$1.26 to rise to \$3.9bn at \$1.28 as long as €/\$ < 1.39 in 2012 and 2013

# Fx: benefiting margins

## Estimated impact on recurring operating income of targeted €/€\$ hedge rates



**Fx hedging represents c.2 points of EBIT margin over 2012-2014**

# Free Cash Flow

<i>(in €M)</i>	H1 2011	H1 2012
<b>Adjusted net profit</b>	<b>317</b>	<b>411</b>
Depreciation, amortization and provisions	103	362
Others	115	102
Elimination of discontinued operations	-	-
<b>Cash from operating activities</b>	<b>535</b>	<b>875</b>
Change in WC	(79)	(305)
Capex (tangible assets)	(148)	(199)
Capex (intangible assets)	(151)	(267)
<b>Free cash flow</b>	<b>157</b>	<b>104</b>

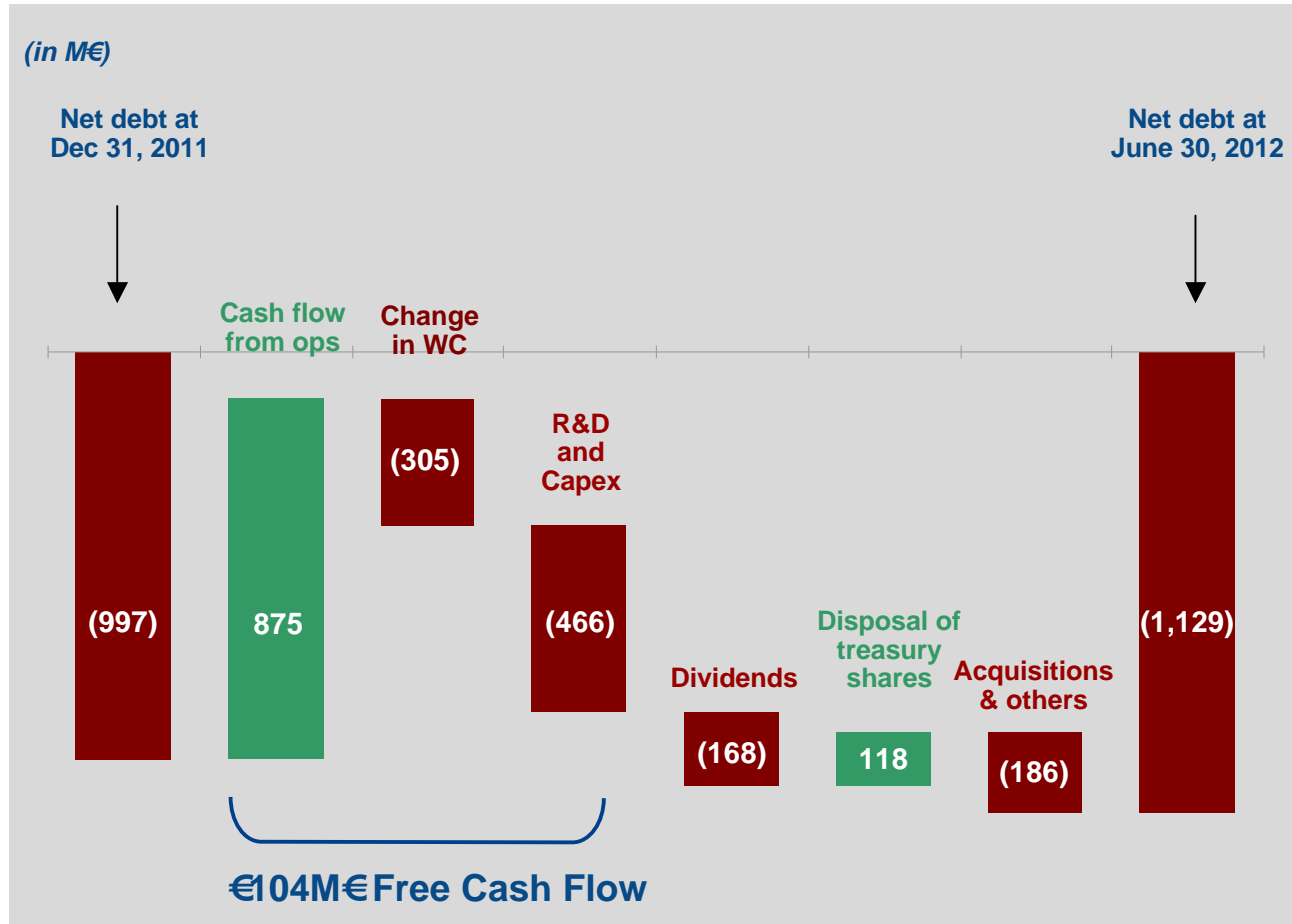
§ *Impact of acquisitions*  
 § *OEM growth induced performance guarantees*  
 § *Provisions for future costs on service contracts in early life*

*Strong WC requirements to cope with rising production rates in aerospace markets*

*Increased R&D and Capex investments*



# Net debt position



- è Cash flow from operations equals 1.3x EBIT
- è Increased WC requirements
- è 2011 supplemental dividend of €154M (€0.37 per share) to parent holders
- è Disposal of treasury shares within the frame of leveraged employee shareholding plans (€118M)
- è “Acquisitions & Others” include:
  - § Non-cash negative currency translation impact of USPP \$1.2bn notes of €(50)M
  - § €(53)M acquisitions (e.g. additional 10% in Sofradir)

# Gross debt

## è Renewed financing resources: €2.55bn (committed & undrawn)

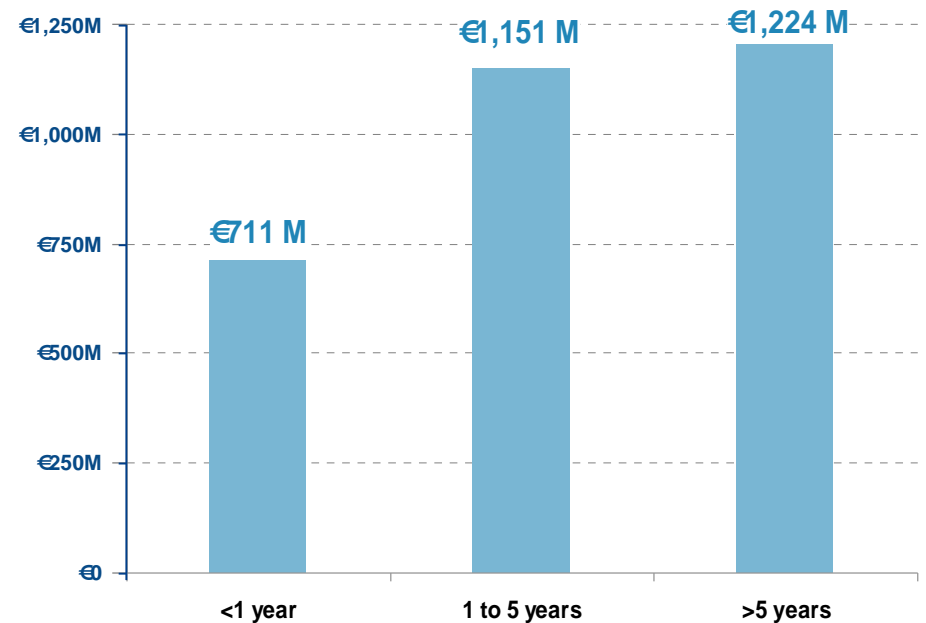
- § Credit line - €950M, undrawn, maturity Oct. 2016; no covenants
- § Credit line - €1,600M, undrawn, maturity Dec. 2015; subject to 1 covenant (net debt/EBITDA <2.5)

## è Feb. 2012: Inaugural USPP notes issue of \$1.2bn

- § \$155M due 2019 at a 3.70% coupon
- § \$540M due 2022 at a 4.28% coupon
- § \$505M due 2024 at a 4.43% coupon

subject to 1 covenant (net debt/EBITDA <2.5)

## Gross debt repayment schedule (June 30, 2012)



# Balance sheet highlights

<i>(In €M)</i>	<b>Dec 31, 2011</b>	<b>June 30, 2012</b>
<b>Goodwill</b>	<b>3,126</b>	<b>3,152</b>
<b>Tangible &amp; Intangible assets</b>	<b>5,984</b>	<b>6,234</b>
<b>Other non current assets</b>	<b>762</b>	<b>835</b>
<b>Operating Working Capital</b>	<b>826</b>	<b>1,107</b>
<b>Net cash (debt)</b>	<b>(997)</b>	<b>(1,129)</b>
<b>Shareholders' equity - Group share</b>	<b>4,968</b>	<b>5,286</b>
<b>Minority interests</b>	<b>154</b>	<b>157</b>
<b>Non current liabilities (excl. net cash (debt))</b>	<b>1,599</b>	<b>1,581</b>
<b>Provisions</b>	<b>2,438</b>	<b>2,513</b>
<b>Other current liabilities / (assets) net</b>	<b>542</b>	<b>662</b>

- è Shareholders' equity up by €318M
- è OWC increased by €281M at €1,107M (8.8% of revenue)
- è Provisions slightly grew

# Customer financial guarantees

<i>(In \$M)</i>	<b>Dec. 31, 2011</b>	<b>June 30, 2012</b>
Total guarantees	143	109
Estimated value of pledges	32	16
Net exposure on these guarantees	69	58

Provisions	66	52
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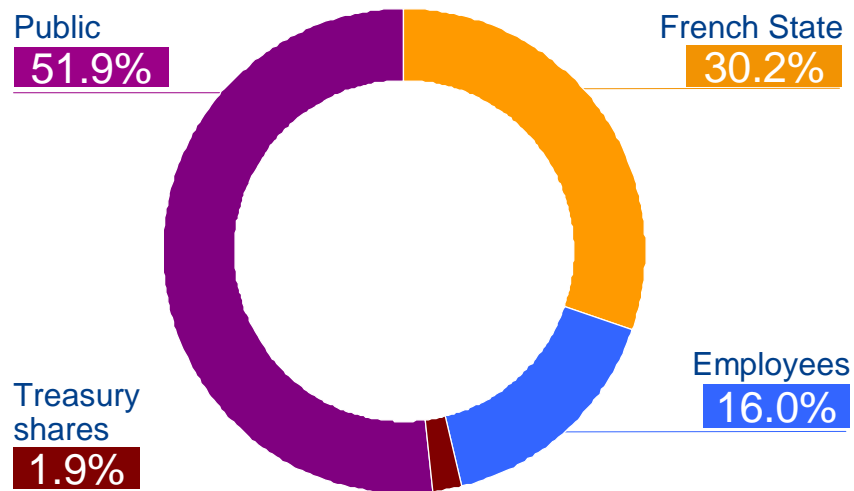
è Decrease of the level of total guarantees: disposal of existing contracts

è Outstanding risk of the portfolio (net exposure) well covered by the provisions booked in Safran's accounts

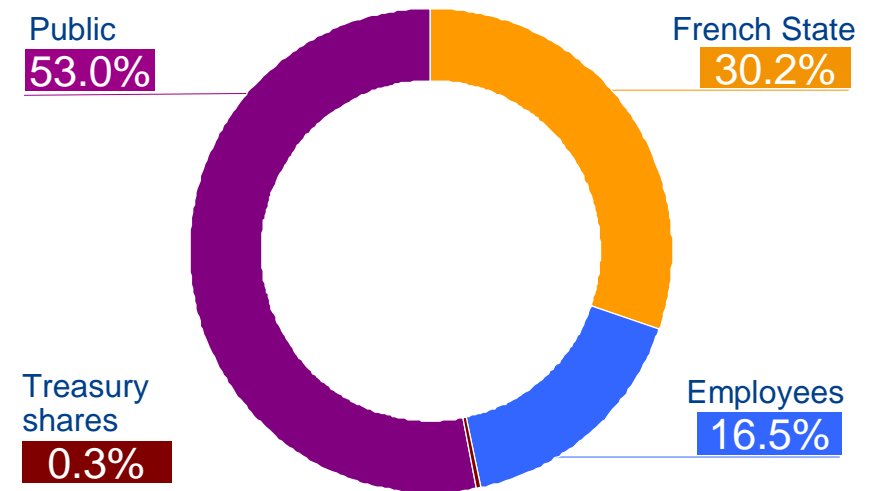
# /03/ Outlook

# Equity shareholding

As of Dec. 31, 2011



As of June 30, 2012



**Free float continued to increase**

# FY 2012 outlook is confirmed

- è Revenue expected to increase at a rate *in the low 2-digit* at an estimated average spot rate of USD 1.30 to the Euro
- è Recurring operating income expected to increase by *around 20%* at a hedge rate of USD 1.32 to the Euro
- è Free cash flow expected to represent *about a third* of the recurring operating income taking into account the expected increase in R&D investments as well as working capital requirements to cope with rising production rates

**Healthy prospects beyond 2012 as well**

# /04/

## Questions & Answers



# **/05/**

## **Additional information**

# H1 2011: R&D by activity

<i>(In €M)</i>	H1 2011	Propulsion	Equipment	Defence	Security
<b>Total self-funded cash R&amp;D</b>	<b>(382)</b>	<b>(193)</b>	<b>(73)</b>	<b>(61)</b>	<b>(55)</b>
<i>as a % of revenue</i>	6.8%	6.5%	4.8 %	9.9%	10.8%
Tax credit	57	22	11	17	7
<b>Total self-funded cash R&amp;D after tax credit</b>	<b>(326)</b>	<b>(171)</b>	<b>(62)</b>	<b>(45)</b>	<b>(48)</b>
Gross capitalized R&D	120	61	38	11	10
Amortised R&D	(46)	(16)	(26)	(4)	-
<b>P&amp;L R&amp;D in recurring EBIT</b>	<b>(252)</b>	<b>(125)</b>	<b>(50)</b>	<b>(39)</b>	<b>(38)</b>
<i>as a % of revenue</i>	4.5%	4.2%	3.3%	6.1%	7.5%

\* SME not included

# H1 2012: R&D by activity

<i>(In €M)</i>	H1 2012	Propulsion	Equipment	Defence	Security
<b>Total self-funded cash R&amp;D</b>	<b>(476)</b>	<b>(259)</b>	<b>(101)</b>	<b>(54)</b>	<b>(62)</b>
<i>as a % of revenue</i>	7.4%	7.9%	5.7%	8.4%	8.6%
Tax credit	57	22	13	17	5
<b>Total self-funded cash R&amp;D after tax credit</b>	<b>(419)</b>	<b>(237)</b>	<b>(88)</b>	<b>(37)</b>	<b>(57)</b>
Gross capitalized R&D	216	137	60	11	8
Amortised R&D	(34)	(12)	(16)	(4)	(2)
<b>P&amp;L R&amp;D in recurring EBIT</b>	<b>(237)</b>	<b>(112)</b>	<b>(44)</b>	<b>(30)</b>	<b>(51)</b>
<i>as a % of revenue</i>	3.7%	3.4%	2.5%	4.7%	7.1%

# KEY MISSIONS, KEY TECHNOLOGIES, KEY TALENTS