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CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

December 31, 2017

The Board of Directors' meeting of February 26, 2018 adopted and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the year ended December 31, 2017.

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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 in addition to its consolidated financial statements.

Readers are reminded that Safran:

- is the result of the May 11, 2005 merger of Sagem and Snecma, 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 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 first-half 2010 interim financial statements, the Group decided to restate:
  - the impact of purchase price allocations for business combinations, particularly amortization charged against intangible assets recognized at the time of the transaction and amortized over extended periods due to the length of the Group's business cycles, as well as
  - gains on remeasuring any previously held equity interests in the event of step acquisitions or asset contributions to joint ventures;

- 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 instruments hedging future cash flows are neutralized.

The resulting changes in deferred tax have also been adjusted.

RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT WITH THE ADJUSTED INCOME STATEMENT

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

	2017 consolidated data	Currency hedges		Business combinations		2017 adjusted data
		Remeasurement of revenue	Deferred hedging gain (loss)	Amortization of intangible assets from Sagem-Snecma merger	PPA impacts – other business combinations	
(in € millions)		(1)	(2)	(3)	(4)	
Revenue	**16,940**	**(419)**	**-**	**-**	**-**	**16,521**
Other recurring operating income and expenses	(14,323)	(19)	7	67	40	(14,228)
Share in profit from joint ventures	154	-	-	-	23	177
Recurring operating income	**2,771**	**(438)**	**7**	**67**	**63**	**2,470**
Other non-recurring operating income and expenses	(90)	-	-	-	-	(90)
Profit from operations	**2,681**	**(438)**	**7**	**67**	**63**	**2,380**
Cost of debt	(57)	-	-	-	-	(57)
Foreign exchange gain	3,143	438	(3,476)	-	-	105
Other financial income and expense	(22)	-	-	-	-	(22)
Financial income	**3,064**	**438**	**(3,476)**	**-**	**-**	**26**
Income tax expense	(1,716)	-	1,215	(39)	(2)	(542)
Profit from continuing operations	**4,029**	**-**	**(2,254)**	**28**	**61**	**1,864**
Profit from discontinued operations and disposal gain	823	-	-	-	-	823
Loss for the period attributable to non-controlling interests	**(62)**	**-**	**-**	**(2)**	**-**	**(64)**
Profit for the period attributable to owners of the parent	**4,790**	**-**	**(2,254)**	**26**	**61**	**2,623**

(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 recognized in profit or loss for the period.

(2) Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (€3,476 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (€7 million).

(3) Cancelation 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) Cancelation of depreciation/amortization/impairment of assets identified during business combinations.

Readers are reminded that only the consolidated financial statements are audited by the Group's Statutory Auditors. This includes the revenue and operating profit indicators set out in the adjusted data in Note 4, "Segment information".

Adjusted financial data other than the data provided in Note 4, "Segment information" are subject to verification procedures applicable to all of the information provided in the Registration Document.

The audit procedures on the consolidated financial statements have been completed. An audit opinion will be issued after the Board of Directors' meeting of March 22, 2018, once specific verifications and a review of events subsequent to February 26, 2018 have been performed.

Comparative adjusted consolidated income statement and segment information

Adjusted income statement

(in € millions)	2016 Adjusted data	2017 Adjusted data
Revenue	**15,781**	**16,521**
Other income	277	278
Income from operations	**16,058**	**16,799**
Change in inventories of finished goods and work-in-progress	308	227
Capitalized production	624	501
Raw materials and consumables used	(9,347)	(9,716)
Personnel costs	(4,420)	(4,363)
Taxes	(286)	(284)
Depreciation, amortization and increase in provisions, net of use	(516)	(966)
Asset impairment	(231)	(72)
Other recurring operating income and expenses	115	167
Share in profit from joint ventures	99	177
Recurring operating income	**2,404**	**2,470**
Other non-recurring operating income and expenses	(18)	(90)
Profit from operations	**2,386**	**2,380**
Cost of net debt	(51)	(57)
Foreign exchange gain (loss)	(35)	105
Other financial income and expense	(58)	(22)
Financial income (loss)	**(144)**	**26**
Profit before tax	**2,242**	**2,406**
Income tax expense	(498)	(542)
Profit from continuing operations	**1,744**	**1,864**
Profit from discontinued operations and disposal gain	117	823
Profit for the period	**1,861**	**2,687**
Attributable to:		
owners of the parent	1,804	2,623
continuing operations	1,689	1,801
discontinued operations	115	822
non-controlling interests	57	64
continuing operations	55	63
discontinued operations	2	1
Earnings per share from continuing operations attributable to owners of the parent (in €)		
Basic earnings per share	4.06	4.39
Diluted earnings per share	3.99	4.31
Earnings per share from discontinued operations attributable to owners of the parent (in €)		
Basic earnings per share	0.28	2.00
Diluted earnings per share	0.27	1.97

Segment information

The operating segments and key indicators shown are defined in Note 4.

At December 31, 2017

(in € millions)		Aerospace Propulsion	Aircraft Equipment	Defense	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**Total consolidated data**
Revenue		**9,741**	**5,415**	**1,345**	**16,501**	**20**	**16,521**	**419**	**-**	**16,940**
Recurring operating income (loss)		**1,729**	**682**	**95**	**2,506**	**(36)**	**2,470**	**431**	**(130)**	**2,771**
Other non-recurring operating income and expenses		(40)	(14)	(14)	**(68)**	(22)	**(90)**	-	-	**(90)**
Profit (loss) from operations[(1)]		**1,689**	**668**	**81**	**2,438**	**(58)**	**2,380**	**431**	**(130)**	**2,681**
Free cash flow		**1,158**	**328**	**105**	**1,591**	**(153)**	**1,438**	**-**	**-**	**1,438**
Gross operating working capital		**(215)**	**1,284**	**317**	**1,386**	**(178)**	**1,208**	**-**	**-**	**1,208**
Segment assets[(2)]		**15,003**	**5,993**	**2,151**	**23,147**	**3,107**	**26,254**	**-**	**-**	**26,254**
(1)	of which depreciation, amortization and increase in provisions, net of use	(639)	(245)	(63)	**(947)**	(19)	**(966)**	(7)	(105)	**(1,078)**
	of which impairment	(29)	(37)	(6)	**(72)**	-	**(72)**	-	-	**(72)**

(2) The increase in Holding company and other segment assets in 2017 is mainly due to the reclassification of €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace. These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction (see Note 16, "Cash and cash equivalents").

At December 31, 2016

(in € millions)		Aerospace Propulsion	Aircraft Equipment	Defense	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**Total consolidated data**
Revenue		**9,391**	**5,145**	**1,238**	**15,774**	**7**	**15,781**	**701**	**-**	**16,482**
Recurring operating income (loss)		**1,786**	**567**	**76**	**2,429**	**(25)**	**2,404**	**712**	**(126)**	**2,990**
Other non-recurring operating income and expenses		3	(5)	(7)	**(9)**	(9)	**(18)**	-	367	**349**
Profit (loss) from operations[(1)]		**1,789**	**562**	**69**	**2,420**	**(34)**	**2,386**	**712**	**241**	**3,339**
Free cash flow		**929**	**165**	**17**	**1,111**	**(20)**	**1,091**	**-**	**-**	**1,091**
Gross operating working capital		**(92)**	**1,215**	**392**	**1,515**	**(67)**	**1,448**	**-**	**-**	**1,448**
Segment assets		**14,463**	**6,088**	**2,011**	**22,562**	**1,062**	**23,624**	**-**	**-**	**23,624**
(1)	of which depreciation, amortization and increase in provisions, net of use	(248)	(191)	(46)	**(485)**	(31)	**(516)**	(4)	(114)	**(634)**
	of which impairment	(207)	(18)	(9)	**(234)**	3	**(231)**	(6)	-	**(237)**

Revenue (adjusted data)

(in € millions)		2016	2017
Aerospace Propulsion			
Original equipment and related products and services		3,801	3,915
Services		5,350	5,726
Sales of studies		204	65
Other		36	35
	Sub-total	9,391	9,741
Aircraft Equipment			
Original equipment and related products and services		3,182	3,364
Services		1,635	1,749
Sales of studies		199	169
Other		129	133
	Sub-total	5,145	5,415
Defense			
Sales of equipment		799	887
Services		325	333
Sales of studies		111	123
Other		3	2
	Sub-total	1,238	1,345
Holding company and other			
Sales of studies and other		7	20
	Sub-total	7	20
Total		**15,781**	**16,521**

Information by geographic area

At December 31, 2017

(in € millions)	France	Europe (excl. France)	Americas	Asia and Oceania	Africa & Middle East	**Total adjusted data**	Currency hedges	**Total consolidated data**
Revenue by location of customers	3,214	4,366	5,259	2,468	1,214	**16,521**	419	**16,940**
%	20%	26%	32%	15%	7%			
Non-current assets by location[1]	9,885	1,509	993	259	63			**12,709**
%	78%	12%	8%	2%	0%			

(1) Excluding financial assets, derivatives and deferred tax assets.

At December 31, 2016

(in € millions)	France	Europe (excl. France)	Americas	Asia and Oceania	Africa & Middle East	**Total adjusted data**	Currency hedges	**Total consolidated data**
Revenue by location of customers	3,262	3,439	5,345	2,368	1,367	**15,781**	701	**16,482**
%	21%	22%	34%	15%	8%			
Non-current assets by location[1]	9,580	1,515	991	236	64			**12,386**
%	77%	12%	8%	2%	1%			

(1) Excluding financial assets, derivatives and deferred tax assets.

As in the previous year, the Safran Group carried out sales with three major customers during 2017:

- Airbus Group: sales of original equipment engines for aircraft and helicopters for the Aerospace Propulsion operating segment; landing and braking systems, wiring and electrical connection systems and nacelles for the Aircraft Equipment operating segment; and navigation systems, flight control systems and flight-data recording systems for the Defense operating segment;

- Boeing Group: sales of original equipment engines for aircraft for the Aerospace Propulsion operating segment; and landing and braking systems, wiring and electrical connection systems for the Aircraft Equipment operating segment;

- General Electric Group: sales of fleet maintenance spare parts for the Aerospace Propulsion operating segment.

Safran Group consolidated financial statements

Consolidated income statement

(in € millions)	Note	2016	2017
Revenue	5	**16,482**	**16,940**
Other income	5	277	278
Income from operations		**16,759**	**17,218**
Change in inventories of finished goods and work-in-progress		308	227
Capitalized production		624	501
Raw materials and consumables used	5	(9,340)	(9,709)
Personnel costs	5	(4,406)	(4,353)
Taxes		(286)	(284)
Depreciation, amortization and increase in provisions, net of use	5	(634)	(1,078)
Asset impairment	5	(237)	(72)
Other recurring operating income and expenses	5	115	167
Share in profit from joint ventures	13	87	154
Recurring operating income		**2,990**	**2,771**
Other non-recurring operating income and expenses	5	349	(90)
Profit from operations		**3,339**	**2,681**
Cost of net debt		(51)	(57)
Foreign exchange gain (loss)		(943)	3,143
Other financial income and expense		(58)	(22)
Financial income (loss)	6	**(1,052)**	**3,064**
Profit before tax		**2,287**	**5,745**
Income tax expense	7	(398)	(1,716)
Profit from continuing operations		**1,889**	**4,029**
Profit from discontinued operations and disposal gain	27	74	823
Profit for the period		**1,963**	**4,852**
Attributable to:			
owners of the parent		1,908	4,790
continuing operations		1,836	3,968
discontinued operations		72	822
non-controlling interests		55	62
continuing operations		53	61
discontinued operations		2	1
Earnings per share from continuing operations attributable to owners of the parent (in €)	8		
Basic earnings per share		4.41	9.67
Diluted earnings per share		4.33	9.50
Earnings per share from discontinued operations attributable to owners of the parent (in €)	8		
Basic earnings per share		0.17	2.00
Diluted earnings per share		0.17	1.97

Consolidated statement of comprehensive income

(in € millions)	Note	2016	2017
Profit for the period		**1,963**	**4,852**
Other comprehensive income			
Items to be reclassified to profit		**12**	**(517)**
Available-for-sale financial assets	12	(6)	(7)
Foreign exchange differences and net investment hedges		(9)	(211)
Income tax related to components of other comprehensive income to be reclassified to profit		8	(40)
Share in other comprehensive income of equity-accounted companies to be reclassified to profit (net of tax)	13	11	(33)
Items related to discontinued operations to be reclassified to profit		8	(220)
Income tax on items related to discontinued operations to be reclassified to profit		-	(6)
Items not to be reclassified to profit		**(109)**	**34**
Actuarial gains and losses on post-employment benefits	20.c	(131)	43
Income tax related to components of other comprehensive income not to be reclassified to profit		24	(7)
Share in other comprehensive income of equity-accounted companies not to be reclassified to profit (net of tax)		(1)	(2)
Items related to discontinued operations not to be reclassified to profit (net of tax)		(1)	-
Other comprehensive income (expense) for the period		**(97)**	**(483)**
Total comprehensive income for the period		**1,866**	**4,369**
Attributable to:			
- owners of the parent		1,811	4,312
continuing operations		1,730	3,716
discontinued operations		81	596
- non-controlling interests		55	57
continuing operations		53	56
discontinued operations		2	1

In 2017:

Other comprehensive income relating to foreign exchange differences and net investment hedges includes:

- €13 million in foreign exchange losses (gains of €7 million in 2016) arising in the period on long-term financing for foreign subsidiaries. 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;
- €138 million in foreign exchange gains (losses of €36 million in 2016) arising in the period 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; and
- €336 million in foreign exchange losses (gains of €20 million in 2016) arising in the period on foreign operations.

Other comprehensive income relating to equity-accounted companies (net of tax) includes (see Note 13, "Investments in equity-accounted companies"):

- €49 million in translation losses (gains of €11 million in 2016) arising in the period on foreign joint ventures;
- a positive amount of €16 million relating to cash flow hedges of joint ventures (nil in 2016); and

- €2 million in actuarial losses arising on employee benefit obligations for joint ventures (losses of €1 million in 2016).

Items of comprehensive income to be reclassified to profit relating to discontinued operations comprise pre-tax income of €220 million in unrealized foreign exchange differences reclassified to profit further to the disposal of the Security businesses during the first half of 2017, and mainly relate to the US entities sold as part of this divestment. The related tax reclassified to profit represents income of €6 million.

Consolidated balance sheet

ASSETS *(in € millions)*	*Note*	**Dec. 31, 2016**	**Dec. 31, 2017**
Goodwill	*9*	1,864	1,831
Intangible assets	*10*	5,178	5,241
Property, plant and equipment	*11*	3,169	3,518
Non-current financial assets	*12*	382	324
Investments in equity-accounted companies	*13*	2,175	2,119
Non-current derivatives (positive fair value)	*26*	28	16
Deferred tax assets	*7*	1,351	142
Non-current assets		**14,147**	**13,191**
Current financial assets	*12*	147	2,113
Current derivatives (positive fair value)	*26*	592	566
Inventories and work-in-progress	*14*	4,247	4,496
Trade and other receivables	*15*	6,252	6,371
Tax assets	*7*	513	596
Cash and cash equivalents	*16*	1,926	4,914
Current assets		**13,677**	**19,056**
Assets related to discontinued operations	*27*	3,234	-
Total assets		**31,058**	**32,247**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	**Dec. 31, 2016**	**Dec. 31, 2017**
Share capital	*18*	83	83
Consolidated retained earnings	*18*	4,495	5,420
Net unrealized gains on available-for-sale financial assets	*18*	35	28
Profit for the period		1,908	4,790
Equity attributable to owners of the parent		**6,521**	**10,321**
Non-controlling interests		**288**	**303**
Total equity		**6,809**	**10,624**
Provisions	*19*	1,706	1,497
Borrowings subject to specific conditions	*21*	699	569
Non-current interest-bearing financial liabilities	*22*	2,392	3,246
Non-current derivatives (negative fair value)	*26*	-	-
Deferred tax liabilities	*7*	987	1,022
Other non-current financial liabilities	*24*	5	8
Non-current liabilities		**5,789**	**6,342**
Provisions	*19*	1,558	1,906
Current interest-bearing financial liabilities	*22*	945	1,390
Trade and other payables	*23*	10,242	10,822
Tax liabilities	*7*	179	214
Current derivatives (negative fair value)	*26*	4,385	805
Other current financial liabilities	*24*	357	144
Current liabilities		**17,666**	**15,281**
Liabilities related to discontinued operations	*27*	794	-
Total equity and liabilities		**31,058**	**32,247**

Consolidated statement of changes in shareholders' equity

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Foreign exchange differences and net investment hedges	Consolidated reserves and retained earnings	Actuarial gains and losses on post-employment benefits	Profit (loss) for the period	Other		**Equity attributable to owners of the parent**	Non-controlling interests	**Total**
At January 1, 2016	**83**	**3,360**	**(19)**	**41**	**522**	**2,229**	**(363)**	**(424)**	**198**		**5,627**	**266**	**5,893**
Comprehensive income (expense) for the period	-	-	-	(6)	8	-	(131)	1,908	32	(a)	**1,811**	55	**1,866**
Acquisitions/disposals of treasury shares	-	-	(38)	-	-	-	-	-	-		**(38)**	-	**(38)**
Dividends	-	-	-	-	-	(325)	-	-	-		**(325)**	(30)	**(355)**
2016 interim dividend	-	-	-	-	-	(287)	-	-	-		**(287)**	-	**(287)**
OCEANE 2016-2020 bond	-	-	-	-	-	44	-	-	-		**44**	-	**44**
Share buyback program	-	-	(42)	-	-	(208)	-	-	-		**(250)**	-	**(250)**
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(6)		**(6)**	(1)	**(7)**
Other movements, including appropriation of profit	-	-	-	-	-	(439)	15	424	(55)		**(55)**	(2)	**(57)**
At December 31, 2016	**83**	**3,360**	**(99)**	**35**	**530**	**1,014**	**(479)**	**1,908**	**169**		**6,521**	**288**	**6,809**
Comprehensive income (expense) for the period	-	-	-	(7)	(474)	16	40	4,790	(53)	(a)	**4,312**	57	**4,369**
Acquisitions/disposals of treasury shares	-	-	(8)	-	-	-	-	-	-		**(8)**	-	**(8)**
Dividends	-	-	-	-	-	(340)	-	-	-		**(340)**	(32)	**(372)**
Share buyback program	-	-	(402)	-	-	208	-	-	-		**(194)**	-	**(194)**
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-		**-**	-	**-**
Other movements, including appropriation of profit	-	-	-	-	-	1,902	6	(1,908)	30		**30**	(10)	**20**
At December 31, 2017	**83**	**3,360**	**(509)**	**28**	**56**	**2,800**	**(433)**	**4,790**	**146**		**10,321**	**303**	**10,624**

(a) See table below:

(in € millions)	Tax impact on actuarial gains and losses	Tax impact on foreign exchange differences	Total
Comprehensive income (expense) for 2016 (attributable to owners of the parent)	24	8	32
Comprehensive income (expense) for 2017 (attributable to owners of the parent)	(7)	(46)	(53)

Consolidated statement of cash flows

(in € millions)	Note	2016	2017
I. Cash flow from operating activities			
Profit attributable to owners of the parent		**1,908**	**4,790**
Depreciation, amortization, impairment and provisions(1)		927	1,080
Share in profit (loss) from equity-accounted companies (net of dividends received)	*13*	(63)	(110)
Change in fair value of currency and commodity derivatives(2)	*26*	81	(3,608)
Capital gains and losses on asset disposals(3)		(364)	(20)
Profit (loss) from discontinued operations and disposal gain (before tax)		(110)	(990)
Profit attributable to non-controlling interests		55	62
Other(4)		217	1,206
Cash flow from operations, before change in working capital		**2,651**	**2,410**
Change in inventories and work-in-progress	*14*	(347)	(308)
Change in operating receivables and payables(5)	*15, 23, 26*	219	561
Change in other receivables and payables	*15, 23*	(40)	63
Change in working capital		**(168)**	**316**
TOTAL I(6)		**2,483**	**2,726**
II. Cash flow used in investing activities			
Capitalization of R&D expenditure(7)	*10*	(364)	(286)
Payments for the purchase of intangible assets, net of proceeds(8)		(324)	(262)
Payments for the purchase of property, plant and equipment, net of proceeds(9)		(704)	(740)
Payments arising from the acquisition of investments or businesses, net		(810)	(54)
Proceeds arising from the sale of investments or businesses, net		2	3,060
Proceeds (payments) arising from the sale (acquisition) of investments and loans(10)		5	(1,974)
TOTAL II		**(2,195)**	**(256)**
III. Cash flow from (used in) financing activities			
Change in share capital – owners of the parent		-	-
Change in share capital – non-controlling interests		(9)	(4)
Acquisitions and disposals of treasury shares	*18.b*	(38)	(449)
Repayment of borrowings and long-term debt	*22*	(73)	(66)
Increase in borrowings	*22*	682	1,058
Change in repayable advances	*21*	(24)	(25)
Change in short-term borrowings	*22*	10	449
Dividends and interim dividends paid to owners of the parent	*18.e*	(612)	(340)
Dividends paid to non-controlling interests		(30)	(32)
TOTAL III		**(94)**	**591**
Cash flow from operating activities of discontinued operations	**TOTAL IV**	**171**	**14**
Cash flow used in investing activities of discontinued operations	**TOTAL V**	**(111)**	**(52)**
Cash flow used in financing activities of discontinued operations	**TOTAL VI**	**(8)**	**(198)**
Effect of changes in foreign exchange rates	**TOTAL VII**	**15**	**(17)**
Net increase in cash and cash equivalents	**I+II+III+IV+V+VI+VII**	**261**	**2,808**
Cash and cash equivalents at beginning of period		1,659	1,926
Cash and cash equivalents of discontinued operations at beginning of period		186	180
Cash and cash equivalents at end of period	*16*	1,926	4,914
Cash and cash equivalents of discontinued operations at end of period		180	-
Net increase in cash and cash equivalents		**261**	**2,808**

(1) Including in 2017: depreciation and amortization for €802 million (€726 million in 2016), impairment for €73 million (€243 million in 2016) and additions to provisions for €205 million (reversals of provisions for €42 million in 2016).

(2) Including losses of €3,604 million arising on currency derivatives (gains of €131 million in 2016) (see Note 26, "Management of market risks and derivatives").

(3) Including in 2016: a revaluation gain of €367 million in respect of the contribution to ArianeGroup.

(4) Including in 2017: deferred tax income of €1,197 million arising on the change in fair value of currency derivatives (deferred tax expense of €54 million in 2016).

(5) Including in 2017: net premiums on currency options for €50 million (see Note 26, "Management of market risks and derivatives"), shown on the balance sheet under current derivatives with a negative fair value (net premiums paid for €20 million in 2016).

(6) Including in 2017: €582 million in taxes paid (€292 million in taxes paid in 2016), of which €72 million in interest paid (€50 million in 2016) and €24 million in interest received (€20 million in 2016).

(7) Including in 2017: capitalized interest of €11 million (€20 million in 2016).

(8) Including in 2017: €291 million in disbursements for acquisitions of intangible assets (€313 million in 2016), €16 million in proceeds from disposals (zero proceeds in 2016) and changes in amounts payable on acquisitions of non-current assets representing a positive €13 million (a negative €11 million in 2016).

(9) Including in 2017: €786 million in disbursements for acquisitions of property, plant and equipment (€738 million in 2016), changes in amounts payable on acquisitions of non-current assets representing a positive €24 million (a negative €5 million in 2016) and €22 million in proceeds from disposals (€39 million in 2016).

(10) Including in 2017: €2,000 million arising from money market funds pledged during the tender offer for Zodiac Aerospace, reclassified under other financial assets (see Note 12, "Current and non-current financial assets").

Notes to the Group consolidated financial statements

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 26, 2018 adopted and authorized for issue the 2017 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/finance/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).

Changes in accounting policies

New IFRS standards, amendments and interpretations effective as of January 1, 2017

- Amendments to IAS 7, "Statement of Cash Flows" – Disclosure Initiative.
- Amendments to IAS 12, "Income Taxes" – Recognition of Deferred Tax Assets for Unrealized Losses.

These standards, interpretations and amendments effective for reporting periods beginning on or after January 1, 2017 do not have a material impact on the Group's consolidated financial statements.

New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2017

None.

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

- IFRS 9, "Financial Instruments".
- IFRS 15, "Revenue from Contracts with Customers".
- IFRS 16, "Leases".
- IFRS 17, "Insurance Contracts".
- Amendments to IAS 28, "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures.
- Amendments to IAS 28, "Investments in Associates and Joint Ventures", and IFRS 10, "Consolidated Financial Statements" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Amendments to IAS 40, "Investment Property" – Transfers of Investment Property.
- Amendments to IFRS 2, "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions.
- Amendments to IFRS 9, "Financial Instruments" – Prepayment Features with Negative Compensation.
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle).
- Annual Improvements to IFRSs published in December 2017 (2015-2017 cycle).
- IFRIC 22, "Foreign Currency Transactions and Advance Consideration".
- IFRIC 23, "Uncertainty over Income Tax Treatments".

With the exception of IFRS 9 and IFRS 15, which are effective for financial periods beginning on or after January 1, 2018, and IFRS 16, effective for financial periods beginning on or after January 1, 2019, these new standards, amendments and interpretations have not yet been adopted by the European Union and cannot therefore be applied ahead of their effective date.

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

The analyses carried out on the hedging provisions of IFRS 9 indicate that most of the derivative instruments used by the Group as part of its foreign currency hedging policy will not be eligible for hedge accounting within the meaning of the standard. The Group will not therefore be able to apply hedge accounting in managing its foreign currency risk on future foreign currency cash flows (see Note 1.f, "Translation of foreign currency transactions and foreign currency derivatives"). Concerning the classification/measurement of financial assets/liabilities and the impairment of financial assets (trade receivables, loans, etc.) (see Note 1.m, "Equity investments, loans and receivables"), the negative impact on equity of applying IFRS 9 using the "limited retrospective" approach at January 1, 2018 will be less than €10 million. This impact results solely from the new financial asset impairment method, which takes into account an estimate of expected losses. The comparative 2017 data included in the 2018 financial statements will not be restated in this respect.

Regarding the application of IFRS 15, the main changes in accounting treatment at Group level are described below (for the current treatment of revenue, see Note 1.g, "Revenue").

Sales of original equipment engines and spare engines, serial production equipment and spare parts

Revenue relating to serial products and spare parts is currently recognized on delivery of the goods and the application of IFRS 15 will not change this pattern of recognition.

Concerning the transaction price to adopt for these contracts under IFRS 15, few changes are expected as compared to current practices, except for the treatment of certain performance warranties in the Aerospace Propulsion and Aircraft Equipment segments. Performance warranties granted to customers along with extended warranties will be recognized as a deduction from revenue, whereas they are currently recognized in expenses.

In the Aircraft Equipment segment, the Group expects changes in the accounting for trade concessions granted to customers in the form of goods free of charge. In accordance with IFRS 15, these will be deducted from the transaction price, whereas they are currently recognized in expenses. The pattern in which they are recognized in income may also be altered.

Contracts with multiple elements

The main change resulting from the application of IFRS 15 in the Defense sector concerns contracts with "multiple elements", which include development work, sales of goods and sales of services. Most of the Group's "multiple-element" contracts are found in the Defense sector.

Revenue from these contracts is currently recognized as an overall performance obligation, either as technical milestones are achieved or based on the percentage-of-completion (cost-to-cost method).

Applying IFRS 15 will require the Group to identify separate performance obligations for each contract and to determine the time at which each obligation is satisfied. Accordingly, this may alter the pattern in which the Group recognizes revenue and margins under these contracts.

- Generally speaking, the portion of the contract concerning specific development work or customization assignments will not represent a specific performance obligation since the development and customization are inseparable from serial production. Financing received from the customer will be recognized in revenue as and when the various performance obligations are satisfied.
- The costs associated with development and installation will be recognized as the contract "fulfillment cost" and accounted for in expenses over the contract term.
- Revenue generated on the serial production portion of the contract will be recognized either on delivery of the goods, or on a percentage-of-completion basis (cost-to-cost method), depending on the nature of the performance obligation.

Sales of time and materials service contracts

Services under these contracts are generally provided over the short term. Revenue generated on these contracts is currently recognized once the repair service has been provided. There will be no change to this accounting treatment as a result of IFRS 15.

Concerning the transaction price to adopt for such contracts under IFRS 15, few changes are expected as compared to current practices, except for the treatment of certain performance warranties in the Aerospace Propulsion segment. Performance warranties granted to customers will be recognized as a deduction from revenue, whereas they are currently recognized in expenses.

Sales of installed base maintenance and support contracts

- In the Aerospace Propulsion and Aircraft Equipment segments, certain maintenance and support contracts require a fleet of engines or various equipment to be kept in flying condition. Revenue under these contracts is currently recognized in line with the flying hours/landings billed. Under IFRS 15, the different services provided under each such contract represent a single performance obligation and the related revenue is to be recognized on a percentage-of-completion basis (cost-to-cost method).
  This represents the biggest change for the Group resulting from IFRS 15 in terms of both revenue recognition and the accounting for the associated margins.

  Concerning the transaction price for these contracts, few changes are expected when applying IFRS 15 as compared to current practices, except for the treatment of certain performance warranties discussed in the section on time and materials service contracts.

- In the Defense sector, the pattern of revenue recognition under certain fixed-price maintenance contracts may alter depending on the type of service. Revenue will be recognized based on the percentage-of-completion (cost-to-cost method) rather than on billing milestones.

Sales of studies

Sales of studies include standalone sales and development sales associated with the delivery of the goods.

Under IFRS 15, the Group will be required to identify the separate performance obligations existing in the contract for each of these sales.

- Sales of studies

  Each study to be completed generally represents a separate performance obligation.

  The pattern of recognizing revenue will depend on how control is transferred: i.e., over time or at a given point in time.

  Revenue under these contracts is currently recognized based on the percentage-of-completion (cost-to-cost method) or on the achievement of billing milestones.

  Under IFRS 15, revenue will be recognized based on the percentage of costs incurred (transfer over time) or once the performance obligation has been satisfied.

  Sales of studies only represent a very minor part of the Group's business and are found in all of its business activities.

- Sales of development work associated with serial production deliveries

  Development work may be carried out prior to production and be wholly or partly financed by the customer.

  Sales of development work primarily concern the Aircraft Equipment and Defense sectors.

  In the Group's contracts, financed development work is generally inseparable from serial production and does not therefore represent a separate performance obligation. Under IFRS 15, client-financed development work is to be recognized in full within "serial" revenue on the delivery

of the goods, whereas currently it is generally recognized within sales of studies during the development phase, based on either the percentage-of-completion (cost-to-cost method), on billing milestones, or on delivery of serial production.

Estimated impacts

IFRS 15 will be applied with effect from January 1, 2018 using the "full retrospective" approach.

Accordingly, opening equity at January 1, 2017 will be restated for the impacts of the first-time application of the new standard, and the comparative data for 2017 presented in the 2018 consolidated financial statements will also be restated.

The impact on opening equity results from the retrospective application of IFRS 15, which in certain cases (notably for maintenance contracts based on flying hours/landings and for contracts where revenue is based on the percentage-of-completion) gives rise to deferred recognition of revenue and of the associated margins as compared to current accounting practice.

The Group estimates a negative impact on consolidated equity at January 1, 2017 around €0.8 billion, taking account of the related deferred tax effect. At this stage, the estimated impact may evolve as the impact assessment calculations are finalized.

Consolidated revenue and recurring operating income will be impacted by:

- a base effect relating to the reclassification of expenses as a deduction from revenue. This essentially concerns certain warranties, concessions and penalties. The base effect should be marginal with regard to the volume of revenue and neutral with regard to profit from operations;
- an effect resulting from the deferred recognition of revenue and of the associated margins, attributable to:
  - revenue under maintenance contracts henceforth being recognized on a percentage-of-completion basis (cost-to-cost method),
  - various performance obligations being identified within contracts for which the pattern of revenue recognition will differ,
  - the total transaction price of a contract being allocated to each identified performance obligation, along with the appropriate pattern of revenue recognition (inclusion of certain rebates, warranties, various obligations, etc.).

The impact of applying IFRS 15 on the 2017 consolidated income statement (revenue and recurring operating income) is estimated at:

- a negative €0.6 billion on 2017 revenue totaling €16.9 billion;
- a negative €0.3 billion on 2017 recurring operating income totaling €2.8 billion.

The impact of applying IFRS 15 to 2017 adjusted revenue and recurring operating income is estimated at:

- a negative €0.6 billion on 2017 adjusted revenue totaling €16.5 billion;
- a negative €0.3 billion on 2017 adjusted recurring operating income totaling €2.5 billion.

These estimates may evolve as the impact assessment calculations are finalized.

IFRS 15 has no impact on the related cash flows.

Regarding IFRS 16, "Leases", the Group is in the process of identifying leases so as to be able to apply the "modified retrospective" approach at January 1, 2019, with the impact of applying the standard being recorded against equity at that date. Accordingly, the comparative 2018 data included in the 2019 financial statements will not be restated.

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 when their contribution to certain consolidated indicators is material or when their business is strategic for the Group. These are entities over which the Group has the power to direct the relevant activities in order to earn returns and can affect those returns through its power over the investee. Power generally results from holding a majority of voting rights (including potential voting rights when these are substantive) or contractual rights.

Entities controlled jointly by Safran and another group, known as joint arrangements, are entities for which decisions about the relevant activities (budget, management appointments, etc.) require the unanimous consent of the parties sharing control. There are two types of joint arrangement:

- joint operations are entities where, based on the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement, or other facts and circumstances, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each partner accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation, unless the arrangement specifies otherwise;
- joint ventures are entities where the parties that have joint control of the arrangement have rights to the net assets of the arrangement only. Each partner recognizes its share in the net assets of the venture using the equity method.

Entities over which Safran exercises significant influence (associates) are accounted for under the equity method. Significant influence is presumed to exist when the Group holds at least 20% of the voting rights. However, significant influence must be demonstrated when the Group holds less than 20% of the voting rights. The fact that the Group is represented on its investee's management body (Board of Directors, etc.) indicates that it exercises significant influence over that investee.

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

The removal of a company from the scope of consolidation is effective as of the date sole or joint 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 in the income statement, statement of comprehensive income and shareholders' equity.

IFRS 10 states that any changes in the percent interest in a fully consolidated company 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. Certain other items of comprehensive income attributable to majority shareholders will be reclassified to income. Any residual interest retained is to be remeasured at fair value through profit or loss when control is relinquished.

Acquisitions of shares that give the Group sole control over an entity will be recognized in accordance with the policies governing business combinations described in Note 1.c.

Intragroup transactions

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

When a fully consolidated company carries out a transaction (e.g., sale or transfer of an asset to a joint operation, joint venture or associate), any resulting gains or losses are recognized in the consolidated financial statements solely to the extent of the percentage interest held in the joint operation, joint venture or associate outside the Group.

However, when a fully consolidated company carries out a transaction (e.g., purchase of an asset) with one of its joint operations, joint ventures or associates, the Group's share of the gain or loss is only recognized in the consolidated financial statements when the fully consolidated entity resells that asset to a third party.

Such transactions are not eliminated when the joint operation acts solely as an intermediary (agent) 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 applies the revised IFRS 3.

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. Only items that should have been taken into account at the date of the combination but for which the acquirer did not hold all of the relevant information at that date can give rise to an adjustment in the purchase price consideration.

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 consolidated companies or interests in joint operations, 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 interests in joint ventures and associates is recorded on the line "Investments in equity-accounted companies", 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. Only new information about facts and circumstances existing at the date of the combination can give rise to an adjustment against goodwill. 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.l. 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.l. Impairment charged against goodwill is taken to profit or loss and may not be reversed.

d) Discontinued operations and assets (or disposal groups) held for sale

A non-current asset or group of non-current assets and directly 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 within a maximum period of one year. 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.

In accordance with IFRS 5, 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 income, expenses and cash flows attributable to the operations disposed of or held for sale are presented on separate lines of the consolidated financial statements for all periods presented. The assets and liabilities attributable to the operations disposed of or held for sale are presented on separate lines of the consolidated balance sheet for the last period presented only.

In accordance with IFRS 5, further to classification as discontinued operations or assets held for sale:

- the activities are measured at the lower of their carrying amount and their fair value less estimated costs to sell;
- depreciation/amortization of the non-current assets relating to the activities ceases;
- the non-current assets included in the discontinued operations are no longer tested for impairment;
- symmetrical positions on the balance sheet between continuing operations and discontinued operations continue to be eliminated.

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 profit or loss as a component of the gain or loss on disposal. For any disposal, the foreign exchange differences recognized in profit or loss are determined based on direct consolidation of the foreign operation in the Group's financial statements.

Note 1.v. discusses the net investment hedge set up by the Group for some of its foreign operations.

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.v). Advances and downpayments paid or received continue to be recorded at the initial amount for which they were recognized.

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", foreign exchange differences arising on these items are recorded in other comprehensive income (OCI) up to the date on which the investment is sold, when they are recognized as part of the gain or loss on disposal. 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-denominated purchases. The Group's forex hedging policy along with the forward currency contracts and options it uses are described in Note 26, "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-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)".

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

g) Revenue

The main types of contracts identified in the Group are serial 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, the future payments are discounted in order to calculate the fair value. This reduces the revenue recognized in proportion to the financial component inherent to the payment deferral.

Conversely, when the Group receives payments on account from customers, the revenue recognized is not increased by the financial component inherent to prepayments.

Serial product and spare part sales contracts

Revenue is only recognized if the Group 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. Revenue on serial product and spare part sales contracts is generally recognized on delivery of the goods, net of any discounts granted. If there is a risk that the

transaction will be canceled or that the receivable identified at the inception of the contract will not be collected, no revenue is recognized. When this is no longer the case, revenue is recorded.

Under certain serial product sales contracts, customers are explicitly required to fund development:

- when the Group collects the financing from the customer during the development phase, the associated revenue is recognized on a percentage-of-completion basis by reference to the costs incurred to complete the development, or as and when the contractually defined technical milestones are met. In this last case, the development costs incurred are first recognized in "Inventories and work-in-progress". These costs are then expensed as and when the technical milestones defined upstream are met, at which time a portion of the financing received is recognized in revenue;

- when the financing for these contracts is contractually guaranteed by the customer for a specific number of units to be produced and delivered during the serial production phase, the design and development costs incurred are first recognized in "Inventories and work-in-progress". On delivery of each unit, a portion of these costs is expensed and the related guaranteed financing is booked in revenue.

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.

Revenue from Group service contracts is chiefly recorded as and when billings are made, which in turn is based on units of labor such as flying hours (for installed base maintenance and support contracts, for example), or on technical milestones formally set down in such contracts (for example in the case of multiple-element Defense contracts which include the sale of both the development and the serial production). Revenue earned on certain design sales contracts is recognized based on the percentage of costs incurred.

If contract income cannot be measured reliably, revenue is only recognized to the extent of the contract costs incurred.

If revenue billed to the customer 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.

The main changes in accounting treatment relating to the application of IFRS 15, "Revenue from Contracts with Customers", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

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 likely that they will be recovered in subsequent years. The value of deferred tax assets is reviewed at the end of each annual 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 applicable in France is recognized as a tax expense in the period in which the related dividends were paid. Following the legality of this tax being called into question during 2017, the Group received a partial repayment. This partial repayment and the balance due at the end of the reporting period are recognized as tax benefits in the 2017 accounts.

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, excluding treasury shares and including the impact of all potentially dilutive ordinary shares, particularly those resulting from convertible bonds or an outstanding share buyback program. The dilutive impact of convertible bonds results from the shares that may be created if all bonds issued were to be converted. The dilutive impact of share buyback programs is calculated using the reverse treasury stock method which compares the closing share price with 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 on the acquisition of Rolls Royce's stake in the RTM322 program 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 23 years).

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 of development expenditures ceases as soon as the product to which the expenditures relate is brought into service.

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.l.

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 reduction of the debt 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
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.l.

l) Impairment of non-current assets

Non-current assets, and particularly goodwill acquired in a business combination, are allocated to cash-generating units (CGUs)[1]. 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 to which goodwill is allocated, 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 discount rate that reflects the Group's weighted average cost of capital (WACC). 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 defense), 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 (or beyond year ten for certain activities with a longer development and production cycle), and are 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 (or beyond year ten for certain activities), 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 pro-rata to their carrying amount.

In the event of an identified loss in value, any impairment loss recognized against goodwill cannot be reversed. For other assets, indications of impairment 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 cost, less any impairment losses. 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 on the disposal of the investments.

Loans and receivables are carried at historical 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.).

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

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, highly liquid short-term investments (three months or less) 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 subject to an insignificant risk of changes in value.

These assets are recognized at market value (fair value) or amortized cost, as appropriate.

Cash equivalents subject to usage restriction (e.g., pledges) are recorded under other financial assets for the duration of the restriction.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

p) Treasury shares

All treasury shares held by the Group are deducted from consolidated equity based on their acquisition price, regardless of whether they were repurchased in connection with a liquidity agreement or under a share buyback program initiated by the Group. Gains and losses on the disposal of treasury shares are recorded directly in equity and do not impact profit or loss for the period.

For share buyback programs outstanding at the end of the reporting period, the firm obligation to repurchase shares is recognized in the form of a liability for the acquisition of shares, against a reduction in consolidated retained earnings. This liability, which is not included in calculations of the Group's net financial position, is cleared as and when the disbursements relating to the share buybacks are made.

q) Share-based payment

The Group occasionally grants various share-based payments to its employees, including free shares, long-term variable compensation and leveraged or unleveraged savings plans.

In accordance with IFRS 2, Share-based Payment, these arrangements are measured at fair value taking into account any lock-up period for shares granted. The fair value of equity-settled instruments is determined at the grant date. The fair value of cash-settled instruments is revised up to the date of payment. These employee benefits represent personnel costs and are recognized on a straight-line basis over the period during which the rights vest, with an offsetting entry to consolidated retained earnings for equity-settled plans and to liabilities for cash-settled plans.

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.
For taxes levied by public authorities, the liability is recognized at the date of the obligating event for each levy, such as that defined by applicable local regulations.

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 sales contracts, when:

- a contract (or combination of contracts), 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 termination indemnities;
- the Group's obligation and the expected economic benefits can be measured reliably;
- it is highly probable that the contract (or combination of contracts) will be onerous (the unavoidable costs of meeting the obligations under the contract [or combination of contracts] exceed the expected economic benefits).

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 case of original equipment sales contracts, the expected economic benefits correspond to the contract cash flows associated with the highly probable cash flows from the spare part activities provided under the contracts.

The cash flows used in this analysis are discounted to take into account their spread over time.

Under onerous contracts, losses arising on delivery commitments are recognized primarily as a deduction from inventories and work-in-progress (for the completed portion of the contract and directly related to the contract or combination of contracts), and shown in provisions for work to be completed.

Provisions for financial guarantees on sales

As part of its civil engine sales campaigns, the 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 the Group together with its partner General Electric, and form part of financing packages proposed by aircraft manufacturers to airline companies. They generally 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 the Group 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 operating warranties, performance warranties, and standard warranty extensions

These provisions are recorded to cover the Group's share of probable future disbursements with respect to operating and performance warranties on deliveries of engines and equipment and standard warranty extensions that may be granted. Operating warranties generally cover a period of one to three years depending on the type of equipment delivered. Performance warranties are generally granted for longer periods. These provisions are calculated as appropriate based on technical files or statistics, particularly with respect to the return of parts covered by operating warranties, and standard warranty extensions or performance tracking indicators (consumption, noise, emissions, etc.) for performance warranties.

The main changes in accounting treatment relating to the application of IFRS 15, "Revenue from Contracts with Customers", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

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 measured 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 for which accounts are published.

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 revised IAS 19, changes in actuarial gains and losses arising on defined benefit plans are recognized in "Other comprehensive income" within equity and not subsequently reclassified to profit.

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 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 Group receives public financing in the form of repayable advances to develop aircraft and defense 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 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.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

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.v), interest-bearing financial liabilities are subsequently carried at amortized cost using the effective interest rate method.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

v) 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. 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 26, "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). Counterparty risk and proprietary credit risk are taken into account when measuring derivatives.

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 may use 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 commodity component. Pursuant to IAS 39, these commodity derivatives are recognized in the balance sheet at their fair value at the end of the reporting period and the Group recognizes changes in the fair value of these instruments in "Financial income (loss)" if it is unable to apply hedge accounting.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

w) Sale of receivables

The Group sells some of its trade receivables to financial institutions, generally within the scope of confirmed factoring facilities. The related assets may only be removed from the balance sheet if the rights to the future cash flows from the receivables are transferred, along with substantially all of the associated risks and rewards (payment default, late-payment risk, etc.).

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

x) 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.

y) Recurring operating income

To make the Group's operating performance more transparent, it includes an intermediate operating indicator known as "Recurring operating income" in its reporting.

This sub-total includes the share of profit from joint ventures accounted for under the equity method, since all joint ventures are involved in businesses directly related to the Group's core activities.

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., significant decrease in forecast volumes, difficulties encountered during the development phase, renegotiated sales agreements, changes in the production process, etc.);

- capital gains and losses on disposals of operations;
- gains on remeasuring any previously held equity interests in the event of step acquisitions or transfers made to joint ventures;
- 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 cases, 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 segments. 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 material 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.l. 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 certain contracts. Under this method, it recognizes revenue based on the percentage of work completed, calculated by reference to the contract milestones met or costs incurred. This method requires an 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 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: sales contracts (or combinations of contracts) may be onerous. For all sales contracts or combinations of contracts, the Group estimates the volume of goods to be delivered as well as spare parts and services directly related to the delivery commitment, which may be contractual or highly probable. Accordingly, the Group recognizes a provision for losses arising on delivery commitments when the combination of contracts is onerous and a loss is likely to be incurred. It uses estimates, notably as regards the volume of goods to be produced and delivered under the sales contracts or combinations of contracts, as well as the volume of directly-related spare parts and services, projected production costs and the expected economic benefits;

- repayable advances: the forecast repayment of advances received from public bodies is based on revenue from future sales of engines, equipment and spare parts, as appropriate. As a result, the forecasts 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 by independent experts.

When estimating provisions relating to the Group's contractual commitments on timeframes and technical specifications in connection with the development phase, the general stage of development of each of the Group's programs is taken into account, particularly as regards changes made to specifications during the development phase. Contractually defined liability limits are also taken into account.

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.

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 consolidated 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 – prove 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.
The specific nature of any receivables from governments or government-backed entities is taken into account when determining bad debt risk for each receivable and therefore when estimating the amount of any impairment loss.

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 prices. 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 regulatory, 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 - Scope of consolidation

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2017

Sale of the Security businesses

Safran announced on April 7, 2017, that it had finalized the sale of Morpho Detection LLC, Morpho Detection International LLC and other detection assets to Smiths Group Plc for an enterprise value of USD 710 million. The divested companies were deconsolidated as from that date.

On May 31, 2017, Safran finalized the disposal of its identity and security businesses to Advent International for an enterprise value of €2.4 billion. The divested companies were deconsolidated as from that date.

These transactions generated a disposal gain recognized in "Profit from discontinued operations" in a post-tax amount of €824 million (see Note 27 – "Discontinued operations").

Safran granted vendor warranties as part of these disposals (See Note 30.b, "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation").

Structil

On October 2, 2017, Safran Ceramics and Mitsubishi Chemical Corporation finalized the sale of all shares and voting rights attached to the share capital of Structil, which they held at 80.05% and 19.95% respectively, to the Hexcel group. Structil specializes in high-performance carbon-fiber composite materials for the aerospace industry and other high-tech industries.

In Safran's consolidated financial statements, the sale of shares and land for €38 million generated a capital gain of €25 million, net of selling costs. This is recognized in "Non-recurring operating income" (see Note 5, "Breakdown of the main components of profit from operations").

Safran granted a vendor warranty as part of this disposal (See Note 30.b, "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation").

OTHER TRANSACTIONS THAT MAY IMPACT THE SCOPE OF CONSOLIDATION

Tender offer for Zodiac Aerospace

On January 19, 2017, Safran announced its intention to acquire Zodiac Aerospace through an agreed public tender offer and a subsequent merger, after approval of the main terms and conditions of the transaction by the Board of Directors of Safran and the Supervisory Board of Zodiac Aerospace.

On May 24, 2017, Safran and Zodiac Aerospace announced that they would no longer pursue this transaction structure and had entered into a new business combination agreement.

Pursuant to this agreement, Safran filed a Tender Offer for Zodiac Aerospace's shares on December 7, 2017 (declared compliant by the AMF on December 21, 2017), consisting of:

- A primary cash offer targeting 100% of Zodiac Aerospace's shares (excluding any treasury shares held by Zodiac Aerospace) at a price of €25 per Zodiac Aerospace share;
- A subsidiary exchange offer pursuant to which Zodiac Aerospace shareholders would receive a number of Safran preferred shares determined on the basis of a ratio between a value of €24 per Zodiac Aerospace share and the market price of Safran ordinary shares, within a +5%/-5% collar mechanism, resulting in an exchange ratio of 0.300 to 0.332 Safran preferred shares per Zodiac Aerospace share. The number of Zodiac Aerospace shares that could be tendered to the subsidiary exchange offer was capped at 88,847,828 shares.

The final exchange ratio was set on January 17, 2018, at 0.300 Safran preferred shares for 1 Zodiac Aerospace share, in accordance with the terms set out in the information memorandum.

Upon completion of the initial Offer period, which ran from December 27, 2017 to January 31, 2018, 91,414,451 Zodiac Aerospace shares had been tendered under the Principal Tender Offer, and

142,249,773 Zodiac Aerospace shares under the Subsidiary Exchange Offer. As the limit of Zodiac Aerospace shares which could be tendered to the Subsidiary Exchange Offer, set at 88,847,828 Zodiac Aerospace shares, was exceeded, 53,401,945 Zodiac Aerospace were carried over to the Principal Tender Offer. In the overall context of the Offer, Safran therefore acquired a total of 233,664,224 shares, representing 79.74% of Zodiac Aerospace's share capital, excluding treasury shares. In its declaration submitted to the AMF on February 7, 2018, Safran stated that it held 88.23% of the share capital of Zodiac Aerospace considering (i) the shares tendered to the Offer, (ii) the 12,625,784 treasury shares held by Zodiac Aerospace, representing 4.31% of the share capital of Zodiac Aerospace and which were not tendered to the Offer, and (iii) the remaining Zodiac Aerospace shares covered by the residual interest undertaking described in section 1.4.3 of the information memorandum prepared by Safran (i.e., around 4.18% of the share capital of Zodiac Aerospace). Since both the acceptance threshold set at 50% of the share capital or voting rights of Zodiac Aerospace, and the withdrawal threshold set at 66.67% of the voting rights exercisable at a Zodiac Aerospace shareholders' meeting, had been exceeded, the Offer had a positive outcome.

The settlement of the initial Offer took place on February 13, 2018 and accordingly, an amount of €3,620 million was paid to Zodiac Aerospace shareholders in consideration for the 144,816,396 Zodiac Aerospace shares tendered or carried over to the Principal Tender Offer, and 26,651,058 Safran preferred shares were issued at a price of €84.18 in consideration for the 88,847,828 Zodiac Aerospace shares effectively tendered to the Subsidiary Exchange Offer. Accordingly, the share capital of Safran increased by the amount of €5 million from €83 million to €89 million, with an issue premium of €2,238 million.

The Offer was reopened from February 19, 2018 to March 2, 2018, to enable Zodiac Aerospace shareholders who have not yet done so to tender their shares to the Offer.

In the United States of America, the Tender Offer was open only to qualified institutional buyers. Outside of France, it was not open in any jurisdiction where authorization for the offer would be required.

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2016

Airbus Safran Launchers (ASL) Joint Venture

On January 14, 2015, Airbus Group and Safran completed the first phase of the creation of their 50-50 joint arrangement, Airbus Safran Launchers (ASL). During this phase, the coordination and the management of all existing civil launchers programs along with Safran's investments in Europropulsion, Regulus and Arianespace were contributed to the joint venture. In return for these first phase contributions, Safran received 50% of the shares issued by ASL, which were recognized within "Investments in equity-accounted companies" for €69 million. A revaluation gain of €36 million on the activities and investments contributed during this first phase was recognized in first-half 2015 within "Other non-recurring operating income and expenses". On August 12, 2015, the European Space Agency awarded ASL the Ariane 6 development contract.

On May 20, 2016, Airbus Group and Safran signed the phase 2 Master Agreement fully enabling the joint venture to design, develop, produce and market all activities related to civil and military launchers and associated propulsion systems, and completing the coordination and the management of all civil launchers programs and associated investments, already managed by ASL since the completion of the first phase.

Pursuant to this agreement, on June 30, 2016 Safran contributed to the joint venture all the assets and liabilities relating to the design, development, production and commercial activities related to launcher propulsion systems for civil and military applications, as well as its investments in Pyroalliance and APP Beheer BV. In order to respect the 50-50 balance between both partners, Safran subscribed to two reserved capital increases carried out by ASL Holding SAS for a total amount of €750 million. In return for these contributions and capital increases, Safran received 50% of the shares issued by ASL Holding SAS, which were recognized within "Investments in equity-accounted companies" for €1,398 million. The loss of control in the activities and the investments contributed during this second phase led to the recognition of a revaluation gain of €367 million in "Other non-recurring operating income and expenses" for 2016, exempt from tax pursuant to deferred tax rules.

To complete the last phase of the project, ASL's acquisition of CNES' 34.68% stake in Arianespace was approved by the European Commission in mid-July 2016 and finalized at end-December 2016, bringing ASL's interest in Arianespace to 74%. Changes in Arianespace's share ownership mark the new governance arrangements in place for European launchers.

The allocation of the purchase price to the acquired entity's amortizable intangible assets finalized in June 2017 generated an amortization expense net of the deferred tax effect of €44 million in 2017, before the impact of the future tax rate decrease (€12 million in second-half 2016). (See Note 13, "Investments in equity-accounted companies".)

On July 1, 2017, Airbus Safran Launchers (ASL) became ArianeGroup following the change of its corporate name.

Safran Ventilation Systems

On June 15, 2016, the AMF approved Safran's public tender offer followed by a mandatory squeeze-out of the 4.85% of Technofan's share capital not owned by Safran on the date the offer was registered. The offer applied to 30,495 shares at a price per share of €245, equal to a total acquisition price of €7.5 million, to acquire Technofan's non-controlling interests, reducing consolidated equity by €6 million at December 31, 2016.

Note 4 - 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. Three operating segments have been identified based on these criteria.

The Security segment has been classified within "discontinued operations" since 2016 (see Note 27).

Aerospace Propulsion

The Group designs, develops, produces and markets propulsion systems for commercial aircraft, military transport, training and combat aircraft, business 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 covers the full life cycle of systems and equipment for civil and military aircraft and helicopters. The Group is involved in landing gear and brakes, engine systems and associated equipment such as thrust reversers and nacelles, and mechanical power transmission systems. The Group is also present at the different stages of the electrical power generation cycle, associated engineering services, and ventilation systems. Aircraft Equipment also includes maintenance, repair and related services and the sale of spare parts.

Defense

Defense includes all businesses serving naval, land and aviation defense industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defense 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, and air surveillance systems), as well as defense equipment and systems.

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 on page 7 is identical to that presented to the Chief Executive Officer, who – in accordance with the Group's governance structure – has been designated 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 the Chief Executive Officer is based on adjusted contribution figures as explained in the Foreword (see page 3).

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, "Accounting policies"), except for the restatements made in respect of adjusted data (see Foreword).

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.

Gross operating 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, investments in joint ventures 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 equity-accounted associates and joint ventures.

Quantified segment information for 2016 and 2017 is presented on pages 7 to 9.

Note 5 - Breakdown of the main components of profit from operations

Revenue

(in € millions)	2016	2017
Original equipment and related products and services	8,116	8,363
Services	7,648	8,020
Sales of studies	535	372
Other	183	185
Total	**16,482**	**16,940**

Other income

(in € millions)	2016	2017
Research tax credit[1]	139	140
Competitiveness and employment tax credit (CICE)	37	41
Other operating subsidies	81	78
Other operating income and expenses	20	19
Total	**277**	**278**

(1) Of which €8 million in connection with additional research tax credits in respect of 2016, included in 2017 income (€5 million in respect of 2015 included in 2016 income).

Raw materials and consumables used

This caption breaks down as follows for the period:

(in € millions)	2016	2017
Raw materials, supplies and other	(2,531)	(2,829)
Bought-in goods	(118)	(143)
Changes in inventories	36	79
Sub-contracting	(4,179)	(4,428)
Purchases not held in inventory	(479)	(444)
External service expenses	(2,069)	(1,944)
Total	**(9,340)**	**(9,709)**

PERSONNEL COSTS

(in € millions)	2016	2017
Wages and salaries	(2,720)	(2,666)
Social security contributions	(1,141)	(1,115)
Statutory employee profit-sharing	(142)	(144)
Optional employee profit-sharing	(165)	(161)
Additional contributions	(54)	(64)
Corporate social contribution	(74)	(77)
Other employee costs	(110)	(126)
Total	**(4,406)**	**(4,353)**

The decrease in personnel costs primarily relates to the transfer of 3,500 employees further to the contribution at June 30, 2016 of the space business to the Airbus Safran Launchers joint venture (renamed ArianeGroup on July 1, 2017).

Full-time equivalent employees of consolidated companies, excluding jointly controlled entities, represented 55,238 people on average in 2017 (56,976 people on average in 2016).

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE

(in € millions)	2016	2017
Net depreciation and amortization expense		
- intangible assets	(333)	(382)
- property, plant and equipment	(393)	(420)
Total net depreciation and amortization expense[(1)]	**(726)**	**(802)**
Net increase in provisions	**92**	**(276)**
Depreciation, amortization and increase in provisions, net of use	**(634)**	**(1,078)**

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €67 million in 2017 and €70 million in 2016; and during recent acquisitions: €40 million in 2017 and €44 million in 2016.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	2016	2017	2016	2017
Property, plant and equipment and intangible assets	(40)	(74)	4	4
Financial assets	(9)	(44)	10	2
Inventories and work-in-progress	(506)	(500)	324	493
Receivables	(55)	(46)	35	93
Total	**(610)**	**(664)**	**373**	**592**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2016	2017
Capital gains and losses on asset disposals	2	(6)
Royalties, patents and licenses	(23)	(26)
Losses on irrecoverable receivables	(11)	(7)
Other operating income and expenses[1]	147	206
Total	**115**	**167**

(1) Of which income of €136 million in 2017 relating to the review of the probability that borrowings subject to specific conditions will be repaid (income of €9 million in 2016) (see Notes 1.t and 21, "Borrowings subject to specific conditions").

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2016	2017
Gains on remeasuring previously held equity interests	367	-
Capital gains on asset disposals	-	23
Impairment net of reversals on intangible assets	-	(23)
Other non-recurring items	(18)	(90)
Total	**349**	**(90)**

For 2017, "Capital gains on asset disposals" (€23 million) corresponds mainly to the sale of Structil (see Note 3, "Scope of consolidation").

The Group also decided to analyze the situation of the assets associated with the Falcon 5X program following Dassault Aviation's announcement on December 13, 2017 that it had decided to initiate proceedings to terminate the Silvercrest contract, leading to the cancelation of the Falcon 5X program. These analyses led the Group to write down assets it had specifically committed to this program for an amount of €23 million. As a reminder, the intangible assets relating specifically to the development of the Silvercrest engine and certain other specific assets relating to this program were written down in full for an amount of €654 million in 2015.

"Other non-recurring items" include €61 million in transaction and integration costs, particularly those relating to Safran's tender offer on Zodiac Aerospace's share capital (see Note 3, "Scope of consolidation"), and the payment of €29 million in respect of an arbitral award (see Note 31 "Disputes and litigation").

At December 31, 2016, the revaluation gain arising from the loss of control in the activities and the investments transferred during the second phase of the creation of ASL (since renamed ArianeGroup), the 50-50 joint arrangement between Airbus Group and Safran, was included within "Other non-recurring operating income and expenses" for €367 million (see Note 3, "Scope of consolidation").

Besides this gain, other non-recurring items chiefly included €15 million in transaction and integration costs arising on business combinations.

Note 6 - Financial income (loss)

(in € millions)	2016	2017
Financial expense on interest-bearing financial liabilities	(71)	(81)
Financial income on cash and cash equivalents	20	24
Cost of net debt	**(51)**	**(57)**
Gain (loss) on foreign currency hedging instruments	(186)	3,476
Foreign exchange gains and losses	(730)	(428)
Net foreign exchange gains (losses) on provisions	(27)	95
Foreign exchange gain (loss)	**(943)**	**3,143**
Gain or loss on interest rate and commodity hedging instruments	15	4
Capital gains or losses on financial asset disposals	-	17
Impairment of available-for-sale financial assets	(3)	(2)
Dividends received	2	3
Other financial provisions	4	-
Interest component of IAS 19 expense	(16)	(12)
Impact of discounting	(71)	(35)
Other	11	3
Other financial income and expense	**(58)**	**(22)**
Financial income (loss)	**(1,052)**	**3,064**
of which financial expense	**(1,104)**	**(558)**
of which financial income	**52**	**3,622**

In 2017, the €3,476 million gain on foreign currency hedging instruments reflects changes in the fair value of these instruments attributable to cash flows that will be recognized in profit or loss in future periods. This gain results chiefly from the change in the EUR/USD closing exchange rate (1.20 at December 31, 2017 versus 1.05 at December 31, 2016).

The €428 million foreign exchange loss includes €438 million relating to the loss on unwinding currency derivatives hedging operating cash flows recognized in profit or loss in the period. This foreign exchange loss reflects the fact that the currency derivatives unwound in the period broadly guaranteed a EUR/USD exchange rate of USD 1.21 for €1, which proved less favorable than the actual exchange rate observed during the period.

Note 7 - Income tax

INCOME TAX EXPENSE

Income tax expense breaks down as follows:

(in € millions)	2016	2017
Current income tax benefit (expense)	(348)	(515)
Deferred tax benefit (expense)[1]	(50)	(1,201)
Total tax benefit (expense)	**(398)**	**(1,716)**

(1) Including €1,198 million in deferred tax expense in 2017 arising on fair value adjustments to currency derivatives (deferred tax of €64 million in 2016).

EFFECTIVE TAX RATE

The effective tax rate breaks down as follows:

(in € millions)		2016	2017
Profit before tax	**(a)**	2,287	5,745
Standard tax rate applicable to the parent company		34.43%	34.43%
Tax expense at standard rate		**(787)**	**(1,978)**
Impact of permanent differences		86	22
Impact of research and CICE tax credits		59	61
Impact of different tax rates (France/international)		28	64
Impact of unrecognized tax		1	10
Positive impact of tax reassessments		31	-
Impact of tax on dividends paid by Safran		(18)	76
Impact of changes in tax rates on deferred taxes		172	130
Impact of joint ventures		29	54
Impact of other items		1	(155)
Current income tax benefit (expense) recognized in profit or loss	**(b)**	**(398)**	**(1,716)**
Effective tax rate	**(b)/(a) in %**	17.40%	29.87%

The increase in the effective tax rate between 2016 and 2017 is mainly attributable to the impact of the recognition of significant fair value adjustments in connection with the currency hedging portfolio in 2017 pre-tax profit.

In France, the 2018 Finance Act had the following impacts on the Group's 2017 income tax expense:

- The French Constitutional Council's decision to rule unconstitutional the 3% contribution on dividends, has given rise to the repayment of the corresponding levy previously paid since 2013. The Group therefore recognized net current tax income of €76 million in 2017 within "Impact of tax on dividends paid by Safran".
- In parallel, an exceptional contribution of 15% and an additional contribution of 15% were introduced for groups whose revenue exceeds €3 billion. This generated a current income tax expense for the Group of €115 million for 2017 recorded under "Impact of other items".
- The Group recognized net deferred tax income of €120 million in 2017 within "Impact of changes in tax rates on deferred taxes", further to the progressive decrease in the corporate tax rate to 25% by 2022 (25.83% including the additional contribution), in line with the 2017 and 2018 Finance Acts. Consequently, deferred tax assets and liabilities expected to reverse in 2021 were calculated at a rate of 26.5% (27.37% including the additional contribution), and items expected to reverse in 2022 and beyond were calculated at 25% (25.83% including the additional contribution).

Belgium also voted to cut the corporate tax rate in two stages: first in 2018 and 2019, the corporate tax rate will decrease from 33% (33.99% including the additional crisis contribution) to 29% (29.58% including the additional contribution). It will subsequently be cut to 25% in 2020. This change in corporate tax rate gave rise to the recognition in 2017 of net deferred tax income of €28 million within "Impact of changes in tax rates on deferred taxes".

US tax reform voted at the end of 2017 included two measures with significant implications for the Group's tax charge:

- Firstly, the corporate tax rate was cut from 35% to 21%, effective January 1, 2018. As a result, a deferred tax expense of €18 million was recognized in the 2017 consolidated financial statements within "Impact of changes in tax rates on deferred taxes".

- Secondly, a toll charge transition tax was introduced for unremitted post-1986 accumulated earnings in non-US subsidiaries owned at more than 10%. This led to a current income tax expense for the Group of €54 million, recorded under “Impact of other items”.

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets (liabilities) in the balance sheet

(in € millions)	Assets	Liabilities	Net
Net deferred tax assets (liabilities) at December 31, 2016	**1,351**	**987**	**364**
Deferred taxes recognized in profit or loss[(1)]	(1,176)	25	(1,201)
Deferred taxes recognized directly in equity	(4)	19	(23)
Reclassifications	(18)	(3)	(15)
Foreign exchange differences	(4)	2	(6)
Changes in scope of consolidation	(7)	(8)	1
Net deferred tax assets (liabilities) at December 31, 2017	**142**	**1,022**	**(880)**

(1) Including €1,198 million in deferred tax expense in 2017 arising on fair value adjustments to currency derivatives (deferred tax of €64 million in 2016).

Deferred tax asset bases

(in € millions)		**Dec. 31, 2016**	**Dec. 31, 2017**
Deferred tax asset bases			
Property, plant and equipment and intangible assets		(4,585)	(4,581)
Inventories		184	248
Current assets/liabilities		390	123
Financial assets/liabilities		3,870	248
Provisions		1,417	1,247
Tax adjustments		(447)	(530)
Losses carried forward and tax credits		366	225
Total deferred tax asset bases		**1,195**	**(3,020)**
Total gross deferred tax balance	**(a)**	**470**	**(852)**
Total unrecognized deferred tax assets	**(b)**	**106**	**28**
Total net deferred taxes recognized	**(a)-(b)**	**364**	**(880)**

CURRENT TAX ASSETS AND LIABILITIES

Current tax assets and liabilities break down as follows:

(in € millions)	Assets	Liabilities	Net
Net tax assets (liabilities) at December 31, 2016	**513**	**179**	**334**
Movements during the period	111	3	108
Current taxes recognized directly in equity	-	45	(45)
Foreign exchange differences	(25)	(13)	(12)
Other movements	(3)	-	(3)
Net tax assets (liabilities) at December 31, 2017	**596**	**214**	**382**

Note 8 - Earnings per share

	Index	2016	2017
Numerator (in € millions)			
Profit for the period attributable to owners of the parent	(a)	1,908	4,790
Profit from continuing operations attributable to owners of the parent	(i)	1,836	3,968
Profit from discontinued operations attributable to owners of the parent	(j)	72	822
Denominator (in shares)			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	1,838,487	7,742,624
Number of shares excluding treasury shares	(d)=(b-c)	415,191,098	409,286,961
Weighted average number of shares (excluding treasury shares)	(d')	416,325,118	410,241,043
Potentially dilutive ordinary shares	(e)	7,293,830	7,277,205
Weighted average number of shares after dilution	(f)=(d'+e)	423,618,948	417,518,248
Ratio: earnings per share from continuing operations (in €)			
Basic earnings per share	(k)=(i*1million)/(d')	4.41	9.67
Diluted earnings per share	(l)=(i*1million)/(f)	4.33	9.50
Ratio: earnings per share from discontinued operations (in €)			
Basic earnings per share	(m)=(j*1million)/(d')	0.17	2.00
Diluted earnings per share	(n)=(j*1million)/(f)	0.17	1.97

At December 31, 2017, potentially dilutive ordinary shares comprise shares that may be issued if all of the options issued by the Group on January 5, 2016 as part of the issue of bonds convertible and/or exchangeable for new and/or existing shares (OCEANE – see Note 18.c, "Convertible bond issues") are converted.

The calculation of earnings per share in 2017 does not include the issuance of 26,651,058 Class A Preferred Shares on February 13, 2018 to the shareholders of Zodiac Aerospace who tendered their shares to the subsidiary exchange offer (see Note 3, "Scope of consolidation"). The Class A Preferred Shares bear dividend rights as from their date of issuance.

Note 9 - Goodwill

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2016 Net	Changes in scope of consolidation	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments and other	Dec. 31, 2017 Net
Safran Aircraft Engines	392	-	-	-	-	392
Safran Helicopter Engines	306	-	-	-	1	307
Safran Aero Booster	47	-	-	-	-	47
Other	1	-	-	-	-	1
Total Aerospace Propulsion	**746**	**-**	**-**	**-**	**1**	**747**
Safran Nacelles	213	-	-	-	-	213
Safran Engineering Services	78	-	-	-	-	78
Safran Landing Systems	188	-	-	-	2	190
Safran Ventilation Systems	10	-	-	-	-	10
Safran Electrical & Power	491	-	-	-	(27)	464
Total Aircraft Equipment	**980**	**-**	**-**	**-**	**(25)**	**955**
Safran Electronics & Defense	138	-	-	-	(9)	129
Total Defense	**138**	**-**	**-**	**-**	**(9)**	**129**
Total	**1,864**	**-**	**-**	**-**	**(33)**	**1,831**

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 (CGUs) presented above, by comparing their value in use with their net carrying amount.

The main assumptions used in determining the value in use of CGUs are described below:

- expected future cash flows are determined over a period consistent with the useful life of the assets included in each CGU. This is generally estimated at 10 years but may be extended for businesses with longer development and production cycles;
- operating forecasts used to determine expected future cash flows 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 macroeconomic assumptions. These projections and assumptions are based on the Group's medium-term plan for the next four years, while projections and assumptions beyond this period are based on management's best case long-term scenario;
- the value in use of CGUs is equal to the sum of these discounted estimated future cash flows plus a terminal value, calculated by applying the growth rate expected for the relevant businesses to standardized cash flows representing long-term business activity, which usually corresponds to the last year in the long-term plan;
- the growth rate used to calculate terminal value was set at 1.5% for the Defense CGU (unchanged from 2016) and at 2% for the Aerospace Propulsion and Aircraft Equipment CGUs (unchanged from 2016);
- the average USD exchange rate adopted is 1.18 for years 2018 to 2020 and 1.35 thereafter. These exchange rate assumptions were used for forecasting during the first half of the year, and take into account the foreign currency hedging portfolio (see Note 26, "Management of market risks and derivatives");
- the benchmark post-tax discount rate used is 7.5% (unchanged from 2016) and is applied to post-tax cash flows.

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 2016.

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 2017 as in 2016, 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 10 - Intangible assets

Intangible assets break down as follows:

(in € millions)	Dec. 31, 2016			Dec. 31, 2017		
	Gross	Amortization/ impairment	Net	Gross	Amortization/ impairment	Net
Aircraft programs	2,367	(1,326)	1,041	2,363	(1,459)	904
Development expenditures	3,946	(1,265)	2,681	4,185	(1,384)	2,801
Commercial agreements and concessions	973	(312)	661	1,096	(354)	742
Software	523	(452)	71	547	(467)	80
Commercial relationships	227	(90)	137	198	(80)	118
Technology	93	(22)	71	83	(25)	58
Other	642	(126)	516	683	(145)	538
Total	**8,771**	**(3,593)**	**5,178**	**9,155**	**(3,914)**	**5,241**

Movements in intangible assets break down as follows:

(in € millions)	**Gross**	**Amortization/ impairment**	**Net**
At December 31, 2016	**8,771**	**(3,593)**	**5,178**
Capitalization of R&D expenditure(1)	286	-	286
Capitalization of other intangible assets	117	-	117
Acquisitions of other intangible assets	174	-	174
Disposals and retirements	(50)	33	(17)
Amortization	-	(382)	(382)
Impairment losses recognized in profit or loss	-	(73)	(73)
Reclassifications	(80)	69	(11)
Changes in scope of consolidation	(5)	6	1
Foreign exchange differences	(58)	26	(32)
At December 31, 2017	**9,155**	**(3,914)**	**5,241**

(1) Including €11 million in capitalized interest on R&D expenditure at December 31, 2017 (€20 million at December 31, 2016).

Research and development expenditure recognized in recurring operating income for the period totaled €955 million including amortization (€867 million in 2016). This amount does not include the research tax credit recognized in recurring operating income within other income (see Note 5, "Breakdown of the main components of profit from operations").

Amortization was recognized in respect of intangible assets for €107 million relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger (€67 million), and to assets identified as part of other business combinations (€40 million).

As a result of the impairment tests carried out at December 31, 2017, assets that the Group had specifically committed to the Falcon 5X program were written down in an amount of €23 million (see Note 5, "Breakdown of the main components of profit from operations"), while intangible assets relating to an Aircraft Equipment program were written down in an amount of €34 million.
No impairment losses were recognized as a result of the impairment tests carried out in 2016.

Note 11 - *Property, plant and equipment*

Property, plant and equipment break down as follows:

(in € millions)	Dec. 31, 2016			Dec. 31, 2017		
	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	209	-	209	204	-	204
Buildings	1,559	(687)	872	1,624	(750)	874
Technical facilities, equipment and tooling	4,416	(3,028)	1,388	4,711	(3,127)	1,584
Assets in progress, advances	690	(78)	612	750	(76)	674
Site development and preparation costs	50	(28)	22	51	(30)	21
Buildings on land owned by third parties	92	(34)	58	90	(31)	59
Computer hardware and other equipment	369	(361)	8	459	(357)	102
Total	**7,385**	**(4,216)**	**3,169**	**7,889**	**(4,371)**	**3,518**

Movements in property, plant and equipment can be analyzed as follows:

(in € millions)	**Gross**	**Depreciation/ impairment**	**Net**
At December 31, 2016	**7,385**	**(4,216)**	**3,169**
Internally produced assets	110	-	110
Additions(1)	678	-	678
Disposals and retirements	(202)	174	(28)
Depreciation	-	(420)	(420)
Impairment losses recognized in profit or loss	-	(14)	(14)
Reclassification(2)	81	14	95
Changes in scope of consolidation	(24)	21	(3)
Foreign exchange differences	(139)	70	(69)
At December 31, 2017	**7,889**	**(4,371)**	**3,518**

(1) Including €2 million in assets held under finance leases.

(2) €102 million, corresponding to the cumulative elimination of intragroup transactions entered into between the Group and a joint venture in prior periods, was reclassified from property, plant and equipment to investments in equity-accounted companies.

Assets held under finance leases and recognized in property, plant and equipment break down as follows:

	Dec. 31, 2016			Dec. 31, 2017		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	16	-	16	16	-	16
Buildings	236	(58)	178	235	(67)	168
Technical facilities, equipment and tooling	18	(7)	11	18	(8)	10
Site development and preparation costs	7	(2)	5	10	(3)	7
Buildings on land owned by third parties	18	-	18	18	(2)	16
Computer hardware and other equipment	20	(20)	-	20	(20)	-
Total	**315**	**(87)**	**228**	**317**	**(100)**	**217**

Note 12 - *Current and non-current financial assets*

Financial assets include:

	Dec. 31, 2016			Dec. 31, 2017		
(in € millions)	Gross	Impairment	Net	Gross	Impairment	Net
Non-consolidated investments[(1)]	488	(188)	300	442	(216)	226
Other financial assets	316	(87)	229	2,298	(87)	2,211
Total	**804**	**(275)**	**529**	**2,740**	**(303)**	**2,437**

(1) Of which Embraer listed securities for €39 million at December 31, 2016, classified in Level 1 of the IFRS 13 fair value hierarchy. The Embraer shares were sold in 2017 for €41 million.

Non-consolidated investments are classified as available-for-sale and measured at fair value or at cost if fair value cannot be reliably measured.

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.

No material write-downs were recognized in 2017.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Loans to non-consolidated companies	152	108
Loans to employees	32	31
Deposits and guarantees	7	2,007
Loans linked to sales financing	1	-
Other	37	65
Total	**229**	**2,211**
Non-current	**82**	**98**
Current	**147**	**2,113**

Loans to non-consolidated companies correspond to revolving credit agreements.

The table below shows movements in other financial assets:

(in € millions)	
At December 31, 2016	**229**
Increase	34
Decrease	(60)
Reclassifications	2,011
Changes in scope of consolidation	(3)
At December 31, 2017	**2,211**

The increase in Other financial assets in 2017 is mainly due to the reclassification of €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace. These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction (see Note 16, "Cash and cash equivalents").

Note 13 - Investments in equity-accounted companies

The Group's share in the net equity of equity-accounted companies breaks down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
ArianeGroup	1,484	1,550
Other joint ventures	691	569
Total	**2,175**	**2,119**

Movements in this caption during the period break down as follows:

(in € millions)	
At December 31, 2016	**2,175**
Share in profit from ArianeGroup	86
Share in profit from other joint ventures	68
Dividends received from joint ventures	(44)
Changes in scope of consolidation	34
Reclassification[1]	(106)
Foreign exchange differences	(77)
Other movements	(17)
At December 31, 2017	**2,119**

(1) €106 million, corresponding to the cumulative eliminations of intragroup transactions generated between the Group and a joint venture in prior periods, was reclassified from property, plant and equipment (€102 million) and inventories (€4 million) to investments in equity-accounted companies.

The Group's off-balance sheet commitments with joint ventures are described in Note 29, "Related parties".

The Group has interests in the following joint ventures which are accounted for using the equity method:

- Airbus Safran Launchers (ASL), which changed corporate name to ArianeGroup on July 1, 2017: launchers;
- Shannon Engine Support Ltd: leasing of CFM56 and Leap engines, modules, equipment and tooling to airline companies;
- ULIS: manufacture of uncooled infrared detectors;

- SOFRADIR: manufacture of cooled infrared detectors;
- Safran Martin-Baker France: manufacture of ejectable seating;
- A-Pro: repair of landing gear for regional and business jets;
- CFM Materials LP: sale of used CFM56 parts;
- Roxel SAS: holding company;
- Roxel France SA: motors for tactical missiles;
- Roxel Ltd: motors for tactical missiles;
- SAIFEI: electrical wiring;
- Fadec International LLC: digital engine control systems.

ArianeGroup is the Group's sole material joint venture.

Financial information for ArianeGroup can be summarized as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Non-current assets	1,093	1,167
Current assets	5,518	5,335
of which: Cash and cash equivalents	797	807
Non-current liabilities	(526)	(496)
of which: non-current financial liabilities	(35)	(31)
Current liabilities	(6,511)	(6,470)
of which: current financial liabilities	(333)	(36)
Non-controlling interests	8	7
Net assets of ArianeGroup (excl. goodwill and PPA) – attributable to owners of the parent (based on a 100% interest)	**(434)**	**(471)**
Equity share in net assets of ArianeGroup (excl. goodwill and PPA) (based on a 50% interest)	(217)	(236)
Purchase price allocation, net of deferred taxes(1)	350	609
Safran equity share – Net assets of ArianeGroup(1)	**133**	**374**
Goodwill(1)	**1,351**	**1,176**
Carrying amount of investment in ArianeGroup	**1,484**	**1,550**

(1) Provisional allocation of the purchase price at December 31, 2016; final allocation of the purchase price at June 30, 2017.

(in € millions)	2016	2017
Profit for the period attributable to owners of the parent	**100**	**218**
Other comprehensive income	(4)	28
Total comprehensive income attributable to owners of the parent	**96**	**246**
Safran equity share – Profit for the period	50	109
Amortization of purchase price allocation, net of deferred taxes(1)	(12)	(44)
Deferred tax rate change(2)		21
Safran equity share in profit of ArianeGroup	**38**	**86**
Safran equity share – Other comprehensive income	(2)	14
Safran equity share in comprehensive income of ArianeGroup	**36**	**100**

(1) Provisional allocation of the purchase price at December 31, 2016; final allocation of the purchase price at June 30, 2017.
(2) Impact of the future corporate tax rate reduction following the amending Finance Act for 2017 on deferred tax liabilities on final allocation of the purchase price (see Note 7, "Income tax").

In 2017, ArianeGroup paid €50 million in interim dividends (of which €25 million for Safran).

The contribution of other joint ventures to the Group's comprehensive income was as follows:

(in € millions)	2016	2017
Profit from continuing operations	49	68
Profit from discontinued operations	1	-
Other comprehensive income	11	(49)
Total comprehensive income	**61**	**19**

Note 14 - Inventories and work-in-progress

Inventories and work-in-progress break down as follows:

	Dec. 31, 2016	Dec. 31, 2017
(in € millions)	Net	Net
Raw materials and supplies	519	532
Finished goods	1,995	2,127
Work-in-progress	1,721	1,782
Bought-in goods	12	55
Total	**4,247**	**4,496**

Movements in inventories and work-in-progress can be analyzed as follows:

(in € millions)	Gross	Impairment	Net
At December 31, 2016	**5,063**	**(816)**	**4,247**
Movements during the period	308	-	308
Net impairment expense	-	(12)	(12)
Reclassification[1]	24	(8)	16
Changes in scope of consolidation	-	(1)	(1)
Foreign exchange differences	(71)	9	(62)
At December 31, 2017	**5,324**	**(828)**	**4,496**

(1) €4 million, corresponding to the cumulative elimination of intragroup transactions entered into between the Group and a joint venture in prior periods, was reclassified from inventories and work-in-progress to investments in equity-accounted companies.

Note 15 - Trade and other receivables

(in € millions)	Dec. 31, 2016 Net	Movements during the period	Impairment/ reversal	Changes in scope of consolidation	Reclassifications	Translation adjustments	Dec. 31, 2017 Net
Operating receivables	**5,696**	**(1)**	**58**	**6**	**(1)**	**(34)**	**5,724**
Debit balances on trade payables/advance payments to suppliers	224	193	-	-	(2)	(1)	414
Trade receivables	5,462	(189)	58	6	1	(33)	5,305
Current operating accounts	1	-	-	-	-	-	1
Employee-related receivables	9	(5)	-	-	-	-	4
Other receivables	**556**	**44**	**1**	**55**	**-**	(9)	**647**
Prepayments	30	11	-	-	(2)	(1)	38
VAT receivables	461	80	-	-	-	(5)	536
Other State receivables	11	-	-	-	-	-	11
Other receivables	54	(47)	1	55	2	(3)	62
Total	**6,252**	**43**	**59**	**61**	**(1)**	**(43)**	**6,371**

In both 2017 and 2016, the Group sold trade receivables under an agreement requiring derecognition under IFRS. The terms and conditions of this agreement are presented in Note 22, "Interest-bearing financial liabilities".

The table below provides a breakdown of the carrying amount 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[1]
			< 30	31-90	90-180	181-360	> 360		
At December 31, 2016									
Trade receivables	**5,462**	4,962	117	140	64	62	36	419	81
At December 31, 2017									
Trade receivables	**5,305**	4,860	106	136	60	31	53	386	59

(1) Certain receivables are only partially written down.

Note 16 - Cash and cash equivalents

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Money-market funds	21	1,293
Short-term investments	1,113	2,077
Sight deposits	792	1,544
Total	**1,926**	**4,914**

Money-market funds are classified within level 1 of the IFRS 13 fair value hierarchy.

The table below presents changes in cash and cash equivalents:

(in € millions)	
At December 31, 2016	**1,926**
Movements during the period	4,983
Changes in scope of consolidation	16
Foreign exchange differences	(11)
Reclassifications	(2,000)
At December 31, 2017	**4,914**

During 2017, €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace was reclassified under other financial assets (see Note 12, "Current and non-current financial assets"). These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction.

Note 17 - Summary of financial assets

The table below presents the carrying amount of the Group's financial assets at December 31, 2016 and December 31, 2017:

At December 31, 2016	Carrying amount				
	At amortized cost		At fair value		Total
(in € millions)	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)	= a+b+c+d
Non-current financial assets					
Non-consolidated investments				300	300
Non-current derivatives (positive fair value)			28		28
Other non-current financial assets	82				82
Sub-total non-current financial assets	**82**	**-**	**28**	**300**	**410**
Other current financial assets	147				147
Current derivatives (positive fair value)			592		592
Trade receivables	5,462				5,462
Current operating accounts and other receivables	55				55
Cash and cash equivalents	1,905		21		1,926
Sub-total current financial assets	**7,569**	**-**	**613**	**-**	**8,182**
Total financial assets	**7,651**	**-**	**641**	**300**	**8,592**

At December 31, 2017 *(in € millions)*	Carrying amount				
	At amortized cost		At fair value		Total
	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)	= a+b+c+d
Non-current financial assets					
Non-consolidated investments				226	226
Non-current derivatives (positive fair value)			16		16
Other non-current financial assets	98				98
Sub-total non-current financial assets	**98**	**-**	**16**	**226**	**340**
Other current financial assets	2,113				2,113
Current derivatives (positive fair value)			566		566
Trade receivables	5,305				5,305
Current operating accounts and other receivables	63				63
Cash and cash equivalents	3,621		1,293		4,914
Sub-total current financial assets	**11,102**	**-**	**1,859**	**-**	**12,961**
Total financial assets	**11,200**	**-**	**1,875**	**226**	**13,301**

The Group did not reclassify any financial assets between the amortized cost and fair value categories in 2016 or 2017.

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, 2016 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments*	39	-	-	39
Derivatives (positive fair value)	-	620	-	620
Cash and cash equivalents	21	-	-	21
Total	**60**	**620**	**-**	**680**

* Excluding investments at cost.

The Group's financial assets carried at fair value at December 31, 2017 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments*	-	-	-	-
Derivatives (positive fair value)	-	582	-	582
Cash and cash equivalents	1,293	-	-	1,293
Total	**1,293**	**582**	**-**	**1,875**

* Excluding investments at cost.

In 2017 and 2016, 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 December 31, 2016 *(in € millions)*	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet[1] (c)	Amount subject to offset agreement but not offset (d)	**Net** **(c) - (d)**
Derivatives (positive fair value)	**620**	**-**	**620**	**617**	**3**

(1) See Note 26, "Management of market risks and derivatives".

At December 31, 2017 *(in € millions)*	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet (1) (c)	Amount subject to offset agreement but not offset (d)	**Net** **(c) - (d)**
Derivatives (positive fair value)	**582**	**-**	**582**	**508**	**74**

(1) See Note 26, "Management of market risks and derivatives".

The tables above show the financial assets for which an offsetting agreement exists with respect to financial liabilities.

At both December 31, 2017 and December 31, 2016, 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 18 - Consolidated shareholders' equity

18.a. Share capital

At December 31, 2017, 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.

18.b. Breakdown of share capital and voting rights

Changes in the breakdown of share capital and voting rights are as follows:

December 31, 2016

Shareholders	Number of shares	% share capital	Number of voting rights[1]	% voting rights[1]
Private investors	318,282,922	76.32%	335,107,792	64.90%
French State	58,393,131	14.00%	116,786,262	22.62%
Employees[2]	38,515,045	9.24%	64,409,240	12.48%
Treasury shares	1,838,487	0.44%	-	-
Total	**417,029,585**	**100.00%**	**516,303,294**	**100.00%**

(1) Exercisable voting rights.

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code (*Code de commerce*).

December 31, 2017

Shareholders	Number of shares	% share capital	Number of voting rights[1]	% voting rights[1]
Private investors	320,032,130	76.74%	336,208,280	66.12%
French State	58,393,131	14.00%	116,786,262	22.97%
Employees[2]	30,861,700	7.40%	55,471,370	10.91%
Treasury shares	7,742,624	1.86%	-	-
Total	**417,029,585**	**100.00%**	**508,465,912**	**100.00%**

(1) Exercisable voting rights.

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

Each share carries entitlement to one vote. Shares held in registered form for over two years have double voting rights.

The 7,742,624 treasury shares have no voting rights.

Treasury shares

The number of treasury shares has increased since December 31, 2016 following:

- the purchase of 96,948 shares under the Group's liquidity agreement, net of shares sold;
- the purchase of 5,807,189 shares in connection with the implementation of the share buyback program.

On May 19, 2016, the Shareholders' Meeting authorized the Board of Directors to buy and sell shares in the Company in accordance with the applicable laws and regulations, at a maximum purchase price of €80 per share. This authorization was renewed by the Shareholders' Meeting of June 15, 2017, which set the maximum purchase price at €95 per share.

Pursuant to these authorizations and to the liquidity agreement signed in 2012 with Oddo BHF, the Company purchased 3,700,272 shares for €284 million, and sold 3,603,324 shares for €278 million. At December 31, 2017, 195,356 shares were held in connection with the liquidity agreement.

On December 12, 2016, Safran announced a buyback program for up to €450 million worth of its own shares in order to neutralize the dilutive effect of equity instruments on its balance sheet.

- on December 8, 2016, Safran signed a share purchase agreement with a bank for an initial buyback tranche of up to €250 million;
- on February 27, 2017, Safran signed a share purchase agreement with a different investment services firm for a second tranche of up to €200 million.

Within the scope of these agreements, at December 31, 2017, the two tranches had been successively completed for a total of 6,428,664 shares at a value of €444 million.

18.c. Convertible bond issues

On January 5, 2016, Safran issued 7,277,205 bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) for a total nominal amount of €650 million.

The bonds do not carry any coupon.

Bondholders have the option of converting their bonds into shares on a one-for-one basis. This option can be exercised at any point after the issue date and up to the seventh trading day preceding the standard or early redemption date.

The bonds come with an early redemption option that the issuer may trigger if the share price exceeds 130% of par value and that the bearer may trigger in the event of a change of control.

Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on December 31, 2020.

OCEANE convertible bonds are deemed a hybrid instrument comprising equity and debt.

The effective annual interest rate on the liability component is 1.50% including issuance fees.

18.d. Dividend distribution

A dividend payout of €1.52 per share was approved in respect of 2016, of which an interim dividend of €0.69 per share was paid in that year, representing a total of €287 million. The balance of €0.83 per share was paid in first-half 2017, representing a payout of €340 million.

At the Shareholders' Meeting to be held on May 25, 2018 to approve the financial statements for the year ended December 31, 2017, the Board of Directors will recommend payment of a dividend of €1.60 per share in respect of 2017, representing a total payout of €710 million for 443,680,643 shares comprising the share capital at the time the dividend is paid. The 26,651,058 Class A Preferred Shares issued on February 13, 2018 in consideration for the 88,847,828 Zodiac Aerospace shares tendered to the Subsidiary Exchange Offer, bear dividend rights as from their issuance date.

Note 19 - Provisions

Provisions break down as follows:

(in € millions)	Dec. 31, 2016	Additions	Reversals Utilizations	Reversals Reclassifications	Reversals Surplus	Changes in scope of consolidation	Other	Dec. 31, 2017
Performance warranties	780	367	(92)	-	(267)	-	25	813
Financial guarantees	14	-	-	-	(9)	-	-	5
Services to be rendered	849	591	(381)	-	(31)	-	(15)	1,013
Post-employment benefits	867	67	(81)	-	(1)	(1)	(38)	813
Sales agreements and long-term receivables	301	136	(16)	-	(27)	-	35	429
Provisions for losses on completion and losses arising on delivery commitments	138	24	(19)	(1)	(34)	-	(50)	58
Disputes and litigation	39	13	(12)	-	(2)	-	1	39
Other	276	94	(47)	(45)	(22)	-	(23)	233
Total	**3,264**	1,292	(648)	(46)	(393)	(1)	(65)	**3,403**
Non-current	1,706							**1,497**
Current	1,558							**1,906**

On December 13, 2017, Dassault Aviation announced that it had initiated the procedure to terminate the Silvercrest contract with Safran. For this program, the Group recorded all necessary provisions to cover its contractual commitments as they currently stand, including the penalties payable to Dassault in connection with the development phase.

The impacts on the income statement can be analyzed as follows:

(in € millions)	Dec. 31, 2017
Net amount recognized in profit from operations	(290)
Net reversals recognized in financial income (loss)	85
Total	**(205)**

Note 20 - 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.

20.a. PRESENTATION OF POST-EMPLOYMENT BENEFITS

a) France

- Defined benefit pension plans

At December 31, 2017, the Group closed the defined benefit supplementary pension plan set up in France in late 2013. It also froze all conditional entitlements at December 31, 2016.

The beneficiaries of this closed plan are Group executive managers with five years' service at December 31, 2017.

The conditional entitlements, which remain subject to the terms and conditions set when the plan was originally put in place, were frozen accordingly:

- The cut-off date for calculating length of service was December 31, 2016; no additional conditional entitlements were accrued after that date.
- The benefit payable is calculated based on length of service as at December 31, 2016 in the beneficiary category (up to 10 years) and on the average compensation for the years 2014 to 2016, revised annually using the actuarial assumptions applied to calculate retirement benefit provisions.
- 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.

The closure of this plan is part of a change in supplementary pension arrangements for Group executive managers, with the introduction of an "Article 83" supplementary defined benefit plan (mandatory collective plan) and an "Article 82" defined contribution plan (voluntary collective plan) as of January 1, 2017.

- 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.

- Other long-term benefits

In France, other long-term benefits mainly comprise obligations in respect of long-service awards and bonuses.

b) United Kingdom

- Defined benefit pension plans

There are three pension funds in place at Safran Landing Systems UK Ltd/Safran Landing Systems Services UK Ltd, Safran Nacelles 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. Beneficiaries no longer accrue any rights under these plans.

c) 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 in relation to continuing operations are:

- Americas: pension funds in Canada; retirement termination benefits in Mexico;
- Europe: pension funds in Switzerland; pension funds and retirement termination benefits in Belgium, retirement termination benefits and long-service bonuses in Poland.

20.b. Financial position

(in € millions)	Dec. 31, 2016	**Dec. 31, 2017**	France	United Kingdom	Rest of the world
Gross obligation	1,513	**1,467**	623	600	244
Fair value of plan assets	646	**665**	8	509	148
Provision recognized in the accounts	**867**	**813**	615	102	96
- Defined benefit pension plans	*268*	***201***	*30*	*102*	*69*
- Retirement termination benefits	*559*	***568***	*543*	*-*	*25*
- Long-service bonuses and other employee benefits	*40*	***44***	*42*	*-*	*2*
Recognized net plan assets	**-**	**(11)**	-	(11)	-

(in € millions)	Dec. 31, 2016	**Dec. 31, 2017**	Defined benefit pension plans	Retirement termination benefits	Long-service bonuses and other long-term benefits
Gross obligation	1,513	**1,467**	855	568	44
Fair value of plan assets	646	**665**	665	-	-
Provision recognized in the accounts	**867**	**813**	201	568	44
Recognized net plan assets	**-**	**(11)**	(11)	-	-

The decrease in the gross obligation results from the following factors:

- an increase of €22 million following updates to demographic assumptions (mortality tables) used in actuarial assumptions of obligations in the UK;
- a decrease in the obligation due to foreign exchange differences arising on foreign operations, particularly €23 million in differences arising on subsidiaries in the UK; and
- a limited effect from changes in actuarial assumptions (0.10 point increase in the discount rate for the eurozone and 0.15 point decrease for the UK).

The value of plan assets also rose due to the return generated by the investment strategies adopted by, and contributions paid to, pension funds in the UK, despite foreign exchange losses arising on the translation of GBP-denominated assets.

The cost of the Group's pension obligations in 2016 and 2017 can be analyzed as follows:

(in € millions)	**2016**	**2017**
Current service cost	(48)	(55)
Actuarial gains and losses (on other long-term benefits)	(2)	(1)
Change in retirement plans (implementation, curtailment and settlement)	1	3
Plan administration costs	-	(1)
Total operating component of the pension expense	**(49)**	**(54)**
Interest cost on the net benefit obligation	(16)	(12)
Total financing component of the pension expense	**(16)**	**(12)**
Total	**(65)**	**(66)**

The Group expects to pay a total of €34 million into its defined benefit pension plans in 2018.

Main assumptions used to calculate the gross benefit obligation:

		Eurozone	United Kingdom
Discount rate	*Dec. 31, 2016*	*1.30%*	*2.75%*
	Dec. 31, 2017	**1.40%**	**2.60%**
Inflation rate	*Dec. 31, 2016*	*1.75%*	*3.35%*
	Dec. 31, 2017	**1.75%**	**3.20%**
Rate of annuity increases	*Dec. 31, 2016*	*1.00%*	*3.35%*
	Dec. 31, 2017	**1.00%**	**3.20%**
Rate of future salary increases	*Dec. 31, 2016*	*1.12%-5.00%*	*N/A*
	Dec. 31, 2017	**1.12%-5.00%**	***N/A***
Retirement age	*Dec. 31, 2016*	*Managerial: 64/65 years Non-managerial: 62/65 years*	*65 years*
	Dec. 31, 2017	**Managerial: 64/65 years Non-managerial: 62/65 years**	**65 years**

The discount rates are determined by reference to the yield on private investment-grade bonds (AA), using the Iboxx index for the Group's two main regions (eurozone and United Kingdom).

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, 2017:

(in € millions)

Sensitivity (basis points)	**-0.50%**	**+0.50%**
Discount rate	113	(103)
Inflation rate	(55)	53
Rate of future salary increases	(47)	42

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.

20.c. Change in the gross benefit obligation and plan assets

Change in gross benefit obligation

(in € millions)	Dec. 31, 2016	Dec. 31, 2017	Defined benefit pension plans	Retirement termination benefits	Other employee benefits
Gross benefit obligation at beginning of period	**1,457**	**1,513**	**914**	**559**	**40**
A. Pension expense					
Current service cost	48	55	11	40	4
Actuarial gains and losses (on other long-term benefits)	2	1	-	-	1
Change in retirement plans (implementation, curtailment and settlement)	(1)	(3)	(3)	(1)	1
Interest cost	35	28	21	7	-
Total expense recognized in the income statement	**84**	**81**	**29**	**46**	**6**
B. Actuarial gains and losses arising in the period on post-employment plans					
Actuarial gains and losses resulting from changes in demographic assumptions	1	(23)	(25)	2	-
Actuarial gains and losses resulting from changes in financial assumptions	230	11	20	(9)	-
Experience adjustments	-	(9)	(11)	2	-
Total revaluation recognized in other comprehensive income for the period	**231**	**(21)**	**(16)**	**(5)**	**-**
C. Other items					
Employee contributions	2	1	1	-	-
Benefits paid	(83)	(74)	(40)	(31)	(3)
Changes in scope of consolidation	(70)	(1)	-	(1)	-
Other movements	(1)	-	-	-	-
Foreign exchange differences	(83)	(32)	(33)	-	1
Reclassification within discontinued operations	(24)	-	-	-	-
Total other items	**(259)**	**(106)**	**(72)**	**(32)**	**(2)**
Gross benefit obligation at end of period	**1,513**	**1,467**	**855**	**568**	**44**
Average weighted term of pension plans	16	15	18	12	9

Change in fair value of plan assets:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017	Defined benefit pension plans	Retirement termination benefits	Other employee benefits
Fair value of plan assets at beginning of period	**602**	**646**	**646**	**-**	**-**
A. Income					
Interest income on plan assets	19	16	16	-	-
Plan administration costs	(1)	(1)	(1)	-	-
Total income recognized in the income statement	**18**	**15**	**15**	**-**	**-**
B. Actuarial gains and losses arising in the period on post-employment plans					
Return on plan assets (excluding interest income component)	100	21	21	-	-
Total revaluation recognized in other comprehensive income for the period	**100**	**21**	**21**	**-**	**-**
C. Other items					
Employee contributions	2	1	1	-	-
Employer contributions	27	45	45	-	-
Benefits paid	(33)	(38)	(38)	-	-
Changes in scope of consolidation	-	-	-	-	-
Other movements	-	(1)	(1)	-	-
Foreign exchange differences	(69)	(24)	(24)	-	-
Reclassification within discontinued operations	(1)	-	-	-	-
Total other items	**(74)**	**(17)**	**(17)**	**-**	**-**
Fair value of plan assets at end of period	**646**	**665**	**665**	**-**	**-**

20.d. ASSET ALLOCATION

	United Kingdom % allocation at		**Other European countries** % allocation at	
	Dec. 31, 2016	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**
Shares	31.79%	33.88%	18.79%	19.22%
Bonds and debt instruments	30.04%	28.98%	60.67%	60.78%
Property	7.13%	7.10%	7.76%	7.80%
Mutual funds and other diversified funds	26.93%	27.98%	0.00%	0.00%
Cash and cash equivalents	4.11%	2.06%	3.17%	2.69%
Other	0.00%	0.00%	9.61%	9.51%

An active market price exists for all plan assets except property.

In the United Kingdom, 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.

20.e. CONTRIBUTIONS TO DEFINED CONTRIBUTION PLANS

The expense for 2017 in respect of defined contribution plans amounts to €224 million (€217 million in 2016).

These contributions relate to statutory pension plans and mandatory collective defined contribution supplementary pension plans, known as "Article 83" plans, for the Group's companies in France.

A Group agreement signed on November 6, 2017 harmonized all supplementary pension plans for engineers and managerial-grade staff in France and introduced the plan for companies which had not previously had such a plan in place, effective from January 1, 2018.

The Group also introduced two new supplementary pension plans in France from January 1, 2017:

- a mandatory collective defined contribution plan, known as an "Article 83" additional plan, for managerial-grade staff whose compensation is more than four times the social security ceiling;
- a voluntary collective defined contribution plan, known as an "Article 82" plan, for executive managers whose compensation is more than seven times the social security ceiling.

Note 21 - Borrowings subject to specific conditions

This caption mainly includes repayable advances granted by public bodies.

Movements in this caption break down as follows:

(in € millions)	
At December 31, 2016	**699**
New advances received	13
Advances repaid	(38)
Sub-total: changes giving rise to cash flows	**(25)**
Cost of borrowings and discounting	33
Foreign exchange differences	(2)
Adjustments to the probability of repayment of advances[1]	(136)
Sub-total: changes with no cash impacts	**(105)**
At December 31, 2017	**569**

(1) See Note 5, "Breakdown of the main components of profit from operations."

Estimates as to the repayable amounts and the timing of repayments are made regarding borrowings subject to specific conditions. No reliable estimate can be made of the fair value of such borrowings.

Note 22 - Interest-bearing financial liabilities

Breakdown of interest-bearing financial liabilities:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Bond issue	215	1,209
OCEANE convertible bond	613	622
Senior unsecured notes in USD	1,154	1,006
Finance lease liabilities	165	140
Other long-term borrowings	245	269
Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)	**2,392**	**3,246**
Finance lease liabilities	25	26
Other long-term borrowings	223	258
Accrued interest not yet due	15	15
Current interest-bearing financial liabilities, long-term at inception	**263**	**299**
Commercial paper	250	850
Short-term bank facilities and equivalent	432	241
Current interest-bearing financial liabilities, short-term at inception	**682**	**1,091**
Total current interest-bearing financial liabilities (less than 1 year)	**945**	**1,390**
Total interest-bearing financial liabilities[(1)]	**3,337**	**4,636**

Movements in this caption break down as follows:

(in € millions)	
At December 31, 2016	**3,337**
Increase in long-term borrowings at inception (excluding finance lease liabilities)	1,058
Decrease in long-term borrowings at inception	(66)
Change in short-term borrowings	449
Sub-total: changes giving rise to cash flows	**1,441**
Increase in finance lease liabilities	2
Accrued interest	-
Changes in scope of consolidation	2
Foreign exchange differences	(142)
Change in the fair value of borrowings hedged with interest rate instruments[(1)]	(12)
Reclassifications and other	8
Sub-total: changes with no cash impacts	**(142)**
At December 31, 2017	**4,636**

(1) See Note 26, "Management of market risks and derivatives".

Analysis by maturity:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Maturing in:		
1 year or less	945	1,390
More than 1 year and less than 5 years	1,101	2,552
Beyond 5 years	1,291	694
Total	**3,337**	**4,636**

Analysis by currency:

	Dec. 31, 2016		**Dec. 31, 2017**	
(in millions of currency units)	**Currency**	**EUR**	**Currency**	**EUR**
EUR	1,811	1,811	3,450	3,450
USD	1,596	1,515	1,384	1,154
Other	N/A	11	N/A	31
Total		**3,337**		**4,636**

Analysis by type of interest rate:

- Analysis by type of interest rate (fixed/floating), before hedging:

	Total		**Non-current**				**Current**			
	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016		**Dec. 31, 2017**		Dec. 31, 2016		**Dec. 31, 2017**	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	2,405	2,912	2,044	3.27%	1,892	3.17%	361	0.33%	1,020	0.10%
Floating rate	932	1,724	348	0.89%	1,354	0.33%	584	0.29%	370	0.56%
Total	**3,337**	**4,636**	**2,392**	**2.92%**	**3,246**	**1.99%**	**945**	**0.31%**	**1,390**	**0.22%**

- Analysis by type of interest rate (fixed/floating), after hedging:

	Total		**Non-current**				**Current**			
	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016		**Dec. 31, 2017**		Dec. 31, 2016		**Dec. 31, 2017**	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	1,183	**1,823**	822	2.04%	805	1.97%	361	0.33%	1,018	0.10%
Floating rate	2,154	**2,813**	1,570	2.41%	2,441	1.62%	584	0.29%	372	0.56%
Total	**3,337**	**4,636**	**2,392**	**2.28%**	**3,246**	**1.71%**	**945**	**0.31%**	**1,390**	**0.22%**

The Group's net debt position is as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Cash and cash equivalents (A)[(1)]	1,926	4,914
Interest-bearing financial liabilities (B)	3,337	4,636
Fair value of interest rate derivatives hedging borrowings (C)	28	16
Total (A) - (B) + (C)	**(1,383)**	**294**

(1) During 2017, €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace was reclassified under other financial assets (see Note 12, "Current and non-current financial assets"). These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction.

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 currency swaps were taken out in this respect. Changes in the euro value of this issue had a positive impact of €138 million on the Group's net debt at December 31, 2017. Since this issue is classified as a net investment hedge, the offsetting entry was an increase in consolidated equity (see the consolidated statement of comprehensive income).

The Group's gearing ratio is shown below:

(in € millions)	**Dec. 31, 2016**	**Dec. 31, 2017**
Net debt	(1,383)	294
Total equity	6,809	10,624
Gearing ratio	**20.31%**	**N/A**

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 3.70% in 2017 after taking account of interest rate derivatives.

- Issuance on June 28, 2017 of floating-rate bonds for a total amount of €1 billion in two tranches:
  - €500 million of two-year bonds due June 2019 at a fixed-rate coupon of 3-month Euribor +30 basis points (floor at 0%), issued at 100.059% of nominal (tranche 1).
  - €500 million of four-year bonds due June 2021 at a fixed-rate coupon of 3-month Euribor +57 basis points (floor at 0%), issued at 100% of nominal (tranche 2).

  These bonds have been maintained at variable rates.

- Bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) on January 5, 2016 for a nominal total amount of €650 million. These bonds do not carry a coupon and were offered at an issue price of €676 million, or 104% of par, corresponding to a gross yield-to-maturity of -0.78%. Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on December 31, 2020. The effective annual interest rate on the liability component is 1.50% including issuance fees (see Note 18.c, "Convertible bond issues").

- Ten-year bonds: €200 million issued to French investors on April 11, 2014 and maturing on April 11, 2024. The interest rate on these bonds was hedged by a floating-rate swap on 3-month Euribor.
  The issue's initial fixed-rate interest came out at 1.20% in 2017 after taking account of interest rate derivatives.

- European Investment Bank (EIB) borrowings: €112.5 million (€150 million at December 31, 2016). These borrowings bear floating-rate interest indexed to 3-month Euribor plus 0.73% and are repayable in equal yearly installments between December 17, 2013 and December 17, 2020.

- Employee savings financing under the Group employee savings plan: €351.2 million (€305.7 million at December 31, 2016).
  The maximum maturity is five years and the amount falling due within one year is €218 million. The interest rate is set annually and indexed to the five-year French treasury bill rate (BTAN), i.e., 0.70% for 2017 and 0.87% for 2016.

- Safran Helicopter Engines real estate lease financing contract: €24 million (€30 million at December 31, 2016), of which €6 million was due within one year. The lease bears fixed-rate interest of 4.7% and expires in November 2021.

- Safran University real estate lease financing contract: €39 million (€43 million at December 31, 2016), of which €4 million was due within one year. The lease bears floating-rate interest and expires in October 2026.

- Safran R&T Center real estate lease financing contract: €36 million (€38 million at December 31, 2016), of which €4 million was due within one year. The lease bears floating-rate interest and expires in February 2026.

The Group's other long- and medium-term borrowings are not material taken individually.

MAIN SHORT-TERM BORROWINGS

- Commercial paper: €850 million (€250 million at December 31, 2016).
  This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

- Financial current accounts with joint ventures: €93 million (€87 million at December 31, 2016). Interest is indexed to Euribor.

Other short-term borrowings consist mainly of bank overdrafts.

SALE OF RECEIVABLES WITHOUT RECOURSE

Net debt at both December 31, 2017 and December 31, 2016 does not include the CFM Inc. trade receivable assigned without recourse.
This confirmed 364-day facility for USD 2,350 million with a syndicate of nine banks led by Crédit Agricole CIB (USD 2,350 million at December 31, 2016), due to expire in December 2017, was extended by addendum to February 2018 in November 2017. USD 1,862 million (USD 931 million at 50%) had been drawn from the facility at December 31, 2017, versus USD 1,768 million (USD 884 million at 50%) at December 31, 2016.

Note 23 - Trade and other payables

(in € millions)	Dec. 31, 2016	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2017
Operating payables	**9,243**	**533**	**(36)**	**(50)**	**(5)**	**9,685**
Credit balances on trade receivables	2,001	(395)	-	-	-	1,606
Advance payments from customers	3,832	734	(1)	(5)	-	4,560
Trade payables	2,250	134	(35)	(40)	(5)	2,304
Current operating account	2	1	-	-	-	3
Employee-related liabilities	1,158	59	-	(5)	-	1,212
Other liabilities	**999**	**97**	**64**	**(20)**	**(3)**	**1,137**
State aid, accrued payables	19	(1)	-	-	-	18
State, other taxes and duties	181	44	-	(1)	-	224
Deferred income	661	105	-	(3)	(2)	761
Other	138	(51)	64	(16)	(1)	134
Total	**10,242**	**630**	**28**	**(70)**	**(8)**	**10,822**

Deferred income primarily concerns revenue billed on a percentage-of-completion basis and revenue deferred.

Trade and other payables fall due as shown below:

(in € millions)	Total	Less than 12 months	More than 12 months
Operating payables[(1)]	9,685	7,681	2,004
Other liabilities	1,137	982	155
Total	**10,822**	**8,663**	**2,159**

(1) Operating payables maturing in more than 12 months correspond essentially to advances and downpayments received from customers.

Note 24 - Other current and non-current financial liabilities

(in € millions)	Dec. 31, 2016	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Other	Dec. 31, 2017
Payables on purchases of property, plant and equipment and intangible assets	108	37	2	-	-	**147**
Payables on purchases of investments	254	(248)	(1)	-	-	**5**
Total	**362**	**(211)**	**1**	**-**	-	**152**
Non-current	5					**8**
Current	357					**144**

A payable of €250 million relating to the share buyback program launched on December 8, 2016 was settled in the first quarter of 2017.

Note 25 - Summary of financial liabilities

The table below presents the carrying amount of the Group's financial liabilities at December 31, 2016 and December 31, 2017:

At December 31, 2016 *(in € millions)*	Carrying amount		
	Financial liabilities at amortized cost[(1)]	Financial liabilities at fair value	**Total**
Borrowings subject to specific conditions	699		**699**
Non-current interest-bearing financial liabilities	2,392		**2,392**
Current interest-bearing financial liabilities	945		**945**
Trade payables	2,250		**2,250**
Payables on purchases of investments	254	-	**254**
Payables on purchases of property, plant and equipment and intangible assets	108		**108**
Current operating accounts	2		**2**
Non-current derivatives (negative fair value)		-	**-**
Current derivatives (negative fair value)		4,385	**4,385**
Total financial liabilities	**6,650**	**4,385**	**11,035**

(1) Including financial liabilities hedged by fair value hedging instruments.

At December 31, 2017 *(in € millions)*	Carrying amount		
	Financial liabilities at amortized cost[(1)]	Financial liabilities at fair value	**Total**
Borrowings subject to specific conditions	569		**569**
Non-current interest-bearing financial liabilities	3,246		**3,246**
Current interest-bearing financial liabilities	1,390		**1,390**
Trade payables	2,304		**2,304**
Payables on purchases of investments	5	-	**5**
Payables on purchases of property, plant and equipment and intangible assets	147		**147**
Current operating accounts	3		**3**
Current derivatives (negative fair value)		805	**805**
Total financial liabilities	**7,664**	**805**	**8,469**

(1) Including financial liabilities hedged by fair value hedging instruments.

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, 2017 and December 31, 2016, the fair value of financial liabilities approximates their carrying amount, except in the case of the following items:

(in € millions)	**2016**		**2017**	
	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings subject to specific conditions	699	N/A	569	N/A
Interest-bearing financial liabilities[(1)]	3,337	3,424	4,636	4,710

(1) This fair value measurement relates to Level 2 in the fair value hierarchy (see Note 17, "Summary of financial assets").

Safran uses the fair value hierarchy described in Note 17 to determine the classification of financial liabilities at fair value.

The Group's financial liabilities carried at fair value at December 31, 2016 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Derivatives (negative fair value)	-	4,385	-	4,385
Total	**-**	**4,385**	**-**	**4,385**

The Group's financial liabilities carried at fair value at December 31, 2017 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Derivatives (negative fair value)	-	805	-	805
Total	**-**	**805**	**-**	**805**

In 2017 and 2016, 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, 2016 *(in € millions)*	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet[1] (c)	Amount subject to offset agreement but not offset (d)	**Net** **(c) - (d)**
Derivatives (negative fair value)	**4,385**	**-**	**4,385**	**617**	**3,768**

(1) See Note 26, "Management of market risks and derivatives".

At December 31, 2017 *(in € millions)*	Gross carrying amount (a)	Amount offset (b)	Net amount on the balance sheet[1] (c)	Amount subject to offset agreement but not offset (d)	**Net** **(c) - (d)**
Derivatives (negative fair value)	**805**	**-**	**805**	**508**	**297**

(1) See Note 26, "Management of market risks and derivatives".

The tables above show the financial liabilities for which an offsetting agreement exists with respect to financial assets.
At both December 31, 2017 and December 31, 2016, 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 26 - 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, counterparty risk and liquidity risk.

The carrying amount of derivatives used to manage market risks is shown below:

(in € millions)	Dec. 31, 2016		Dec. 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate risk management	***28***	***-***	***16***	***-***
Fixed-for-floating interest rate swaps	28	-	16	-
Foreign currency risk management	***592***	***(4,385)***	***566***	***(805)***
Currency swaps	-	-	-	-
Purchase and sale of forward currency contracts	97	(2,065)	135	(349)
Currency option contracts	495	(2,320)	431	(455)
Total	**620**	**(4,385)**	**582**	**(805)**

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 expenses for these activities totaled USD 7.3 billion for 2017.

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 a volatile monetary environment.

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.

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 the combination of optional instruments with or without barriers.
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 the combination of optional instruments with or without barriers.

FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

	Dec. 31, 2016				Dec. 31, 2017			
(in millions of currency units)	Fair value[1]	Notional amount[1]	Less than 1 year	1 to 5 years	Fair value[1]	Notional amount[1]	Less than 1 year	1 to 5 years
Forward exchange contracts	**(1,967)**				**(215)**			
Short USD position	(1,962)	14,266	12,516	1,750	(164)	10,253	10,203	50
Of which against EUR	*(1,918)*	*13,678*	*11,978*	*1,700*	*(165)*	*10,097*	*10,097*	*-*
Long USD position	82	(632)	(247)	(385)	(16)	(1,069)	(869)	(200)
Of which against EUR	*82*	*(632)*	*(247)*	*(385)*	*(14)*	*(851)*	*(651)*	*(200)*
Short EUR position against GBP	(2)	(210)	(210)	-	-	-	-	-
Short EUR position against CAD	9	-	40	(40)	7	16	3	13
Long PLN position against EUR	-	(195)	(75)	(120)	-	(40)	(40)	-
Long MXN position against USD	(94)	(5,850)	(3,050)	(2,800)	(42)	(4,000)	(2,650)	(1,350)
Currency option contracts	**(1,826)**				**(24)**			
USD put purchased	149	10,350	8,550	1,800	309	13,795	12,795	1,000
USD call purchased	178	(4,720)	(3,260)	(1,460)	23	(4,160)	(2,800)	(1,360)
USD call sold	(2,215)	25,910	19,360	6,550	(239)	29,859	25,867	3,992
USD put sold	(45)	(9,440)	(6,520)	(2,920)	(175)	(6,520)	(3,800)	(2,720)
EUR put purchased	-	-	-	-	7	300	300	-
EUR call sold	(20)	210	210	-	(4)	600	600	-
Accumulators – sell USD[2]	(27)	1,790	1,790	-	10	774	-	774
Accumulators – buy USD[2]	154	(4,122)	(552)	(3,570)	44	(2,580)	(2,580)	-
Accumulators – buy GBP[2]	-	-	-	-	1	(541)	(541)	-
Total	**(3,793)**				**(239)**			

(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.

In the balance sheet, the €3,554 million increase in the fair value of foreign currency derivatives between December 31, 2016 and December 31, 2017 reflects a €3,604 million increase in the fair value of currency hedging instruments not yet settled at December 31, 2017 and a €50 million decrease in net premiums.

In the income statement, in view of the accounting constraints resulting from the application of IAS 39 and the nature of the hedging instruments used, the Group decided not to apply hedge accounting and therefore to recognize all changes in the fair value of its derivatives in "Financial income (loss)".

Accordingly, changes in the fair value of derivatives not yet settled at December 31, 2017 (increase of €3,604 million) along with changes in the fair value of derivatives settled in 2017 (increase of €17 million) following the collection of advances from customers in foreign currency, representing a positive amount of €3,621 million, are included in "Financial income (loss)" for the period, as follows:

- €3,476 million in "Gain (loss) on foreign currency hedging instruments", corresponding to derivatives hedging revenue net of future purchases;
- €70 million in "Foreign exchange gains and losses", corresponding to derivatives hedging balance sheet positions; and
- a positive €75 million in "Foreign exchange gains and losses", corresponding to premiums due over the period.

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:

(in USD millions)	Dec. 31, 2016	Dec. 31, 2017
Total assets excluding derivatives	1,662	**2,078**
Total liabilities excluding derivatives	(2,714)	**(2,621)**
Derivatives hedging balance sheet positions[(1)]	(507)	**(819)**
Net exposure after the impact of derivatives hedging balance sheet positions	**(1,559)**	**(1,362)**

(1) 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 net exposure, the Group has EUR/USD currency derivatives hedging revenue net of future purchases. These had a negative fair value of USD 272 million, compared to a total negative fair value of USD 258 million for EUR/USD currency derivatives at December 31, 2017 (negative fair value of USD 3,765 million and USD 3,821 million, respectively, at December 31, 2016).

The sensitivity of financial instruments to a 5% increase or decrease in the EUR/USD exchange rate is as follows:

	Dec. 31, 2016		Dec. 31, 2017	
Impact on balance sheet positions (in € millions)	USD		USD	
Closing rate	1.05		1.20	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
EUR/USD exchange rate used for sensitivity analysis	1.00	1.11	1.14	1.26
Impact recognized through profit or loss (before tax)	(1,810)	1,399	(501)	(51)
Impact recognized through equity (before tax)	(61)	56	(54)	49

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

An interest rate swap was taken out to convert the fixed rate payable on the €200 million bond issue carried out in first-half 2014 and maturing in April 2024 to a floating rate.
These swaps are eligible for fair value hedge accounting.

	Dec. 31, 2016					Dec. 31, 2017				
(in € millions)	Fair value	Notional amount (€)	Less than 1 year	1 to 5 years	More than 5 years	Fair value	Notional amount (€)	Less than 1 year	1 to 5 years	More than 5 years
Interest rate swaps										
Fixed-for-floating	17	200	-	-	200	12	200	-	-	200
Total	**17**					**12**				

For the €200 million bond issue, changes in the fair value of the hedging instrument and the hedged item within the scope of this hedge are recognized in "Financial income (loss)" as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Change in fair value of hedging instrument	5	(5)
Change in fair value of hedged item	(5)	5
Impact of fair value interest rate hedges on profit	**-**	**-**

Exposure to euro interest rate risk before and after hedging:

Dec. 31, 2016	Current		Non-current		Total	
(in € millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	16	567	887	341	**903**	**908**
Other financial assets	35	103	-	74	**35**	**177**
Cash and cash equivalents	25	1,628	-	-	**25**	**1,628**
Net exposure before hedging	**(44)**	**(1,164)**	**887**	**267**	**843**	**(897)**
Derivatives[(1)]	-	-	(200)	200	**(200)**	**200**
Net exposure after hedging	**(44)**	**(1,164)**	**687**	**467**	**643**	**(697)**

(1) Notional amount.

Dec. 31, 2017	Current		Non-current		Total	
(in € millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	871	349	883	1,347	**1,754**	**1,696**
Other financial assets	-	2,109	-	70	**-**	**2,179**
Cash and cash equivalents	24	4,556	**-**	**-**	**24**	**4,556**
Net exposure before hedging	**847**	**(6,316)**	**883**	**1,277**	**1,730**	**(5,039)**
Derivatives[(1)]	-	-	(200)	200	**(200)**	**200**
Net exposure after hedging	**847**	**(6,316)**	**683**	**1,477**	**1,530**	**(4,839)**

(1) 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 (USPP) 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 has been kept at a fixed rate. These swaps are eligible for fair value hedge accounting.

Fixed-rate borrower/floating-rate lender swaps for a nominal amount of USD 960 million were contracted in November and December 2017 in connection with a financing transaction. The swaps are for a term of between one and three months and were taken out on behalf of a joint arrangement 50%-owned by the Group. Since the arrangement classifies as a joint operation, it gives rise to a floating-rate borrower/fixed-rate lender swap for a nominal amount of USD 480 million after elimination of intragroup items. These swaps are not eligible for hedge accounting.

	Dec. 31, 2016					Dec. 31, 2017				
(in € millions)	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years
USD interest rate swaps										
Fixed-for-floating	11	1,245	200	-	1,045	4	1,525	480	540	505
Floating-for-fixed	-	400	400	-	-	-	960	960	-	-
Total	**11**					**4**				

Changes in the fair value of the hedging instrument and hedged item within the scope of the hedge of the senior unsecured notes issue are recognized in "Financial income (loss)" as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Change in fair value of hedging instrument	(13)	(7)
Change in fair value of hedged item	13	7
Impact of fair value interest rate hedges on profit	**-**	**-**

Exposure to USD interest rate risk before and after hedging:

Dec. 31, 2016	Current		Non-current		Total	
(in USD millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	361	16	1,219	-	**1,580**	**16**
Other financial assets	2	6	9	-	**11**	**6**
Cash and cash equivalents	76	61	-	-	**76**	**61**
Net exposure before hedging	**283**	**(51)**	**1,210**	**-**	**1,493**	**(51)**
Derivatives[1]	200	(200)	(1,045)	1,045	**(845)**	**845**
Net exposure after hedging	**483**	**(251)**	**165**	**1,045**	**648**	**794**

(1) Notional amount.

Dec. 31, 2017	Current		Non-current		Total	
(in USD millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	154	21	1,209	-	**1,363**	**21**
Other financial assets	2	1	7	-	**9**	**1**
Cash and cash equivalents	87	189	**-**	**-**	**87**	**189**
Net exposure before hedging	**65**	**(169)**	**1,202**	**-**	**1,267**	**(169)**
Derivatives[1]	480	(480)	(1,045)	1,045	**(565)**	**565**
Net exposure after hedging	**545**	**(649)**	**157**	**1,045**	**702**	**396**

(1) 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, 2016	Dec. 31, 2017
Interest rate assumptions used	+1%	+1%
Impact on profit or loss (before tax)	0	45
Impact on equity (before tax)	-	-

MANAGEMENT OF COMMODITY RISK

Since 2009, the Group's policy had been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel, platinum and oil). The policy sought to protect the Group's economic performance from commodity price volatility.

The Group decided to discontinue this hedge at the end of 2016 as the risk was not deemed material for the Group.

EQUITY RISK MANAGEMENT

The Embraer shares that Safran held until 2017 were its only source of exposure to the risk of fluctuations in the stock market. These shares were sold in the second half of 2017 for €41 million.

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.

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their wide geographic spread.

Note 15 provides a breakdown of trade receivables by maturity.

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 the Group has an undrawn, confirmed liquidity line at December 31, 2017, it is relatively insensitive to liquidity risk. This €2,520 million line was set up in December 2015 and expires in December 2020. It includes two successive one-year extension options. Both these options have been exercised, meaning that the line is currently set to expire in December 2022. This line is not subject to any financial covenants.

Further to the announcement on January 19, 2017 of the planned acquisition of Zodiac Aerospace, Safran signed a €4 billion bridge loan with a banking syndicate. The bridge facility has a maturity of 12 months, with two six-month extension options. Further to Safran's €1 billion bond issue on June 28, 2017, the total amount available under the bridge facility was reduced by approximately the same amount, to €3 billion. On July 10, 2017, Safran signed an addendum to the bridge facility in order to adapt it to the revised transaction structure for the planned acquisition of Zodiac Aerospace, which was announced on May 24, 2017, and reduced the amount available under the bridge facility to €1 billion.
During the tender offer for Zodiac Aerospace, Safran pledged €2 billion in money market funds. As a result, these could not be recognized under cash and cash equivalents for the offer period (see Note 16, "Cash and cash equivalents").

A number of financial covenants apply to the EIB borrowings set up in 2010 (see Note 22).
The following two ratios apply:

- net debt/EBITDA <2.5;
- net debt/total equity <1.

The "net debt/EBITDA <2.5" covenant also applies to the senior unsecured notes issued on the US private placement market (see Note 22).

The terms "net debt", "EBITDA" and "total equity" used in connection with the EIB borrowings and senior unsecured notes issued on the US private placement market 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 27 - *Discontinued operations*

All of the activities comprising the Security segment, which were presented within assets held for sale at December 31, 2016, were sold during the first half of 2017 (see Note 3, "Scope of consolidation").

The vendor warranties granted in connection with these disposals are presented in Note 30.b, "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation".

In accordance with IFRS 5, "Profit from discontinued operations" as presented in the consolidated income statement for 2017 includes the contribution of discontinued operations up to the finalization date of each of the disposals (i.e., three months for the detection businesses, five months for the identity and security businesses), the disposal gain net of disposal costs and the associated tax effect:

(in € millions)	2016	2017
Revenue	1,972	748
Recurring operating income	91	39
Profit (loss) for the period	74	(1)
Post-tax disposal gain on detection and security businesses	-	824
Profit from discontinued operations and disposal gain	74	823
Attributable to:	-	-
Owners of the parent	72	822
Non-controlling interests	2	1

Amortization and depreciation were no longer charged against intangible assets and property, plant and equipment (i) as of April 30, 2016 for the detection businesses, and (ii) as of September 30, 2016 for the identity and security businesses. Discontinuing amortization and depreciation had an overall positive impact of €65 million on pre-tax profit (€42 million on net profit) of discontinued operations in 2017 (€60 million impact on pre-tax profit and €38 million impact on net profit in 2016).

Other comprehensive income relating to discontinued operations and reclassified to profit at the disposal date are presented separately in the consolidated statement of comprehensive income.

Note 28 - *Interests in joint operations*

The Group has interests in a number of joint operations whose contribution is recognized line-by-line in the financial statements. The joint operations are:

- CFM International Inc. and CFM International SA: coordination of the CFM56 and Leap engine programs with General Electric and program marketing;
- Famat: manufacture of large casings subcontracted by Safran Aircraft Engines and General Electric;
- Matis: manufacture of aircraft wiring;

- CFAN: production of composite fan blades for turbo engines;
- Propulsion Technologies International: engine repair and maintenance.

The table below shows the Group's share in the various financial indicators of these joint operations, which is included in the consolidated financial statements:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Current assets	125	114
Non-current assets	185	166
Current liabilities	178	180
Non-current liabilities	11	25
Operating income	79	72
Operating expenses	(51)	(44)
Financial income (loss)	(7)	(8)
Income tax expense[1]	(2)	(43)
Profit (loss) for the period	18	(24)
Other comprehensive income	3	(11)
Comprehensive income	21	(35)
Cash flow from operating activities[2]	12	20
Cash flow used in investing activities	(12)	(13)
Cash flow used in financing activities[2]	(11)	(6)

(1) Including an expense of €35 million in 2017 in connection with the tax on repatriated profits at CFM Inc. (see Note 7, “Income tax”).

(2) See Note 22, "Interest-bearing financial liabilities" – trade receivables factoring programs at CFM Inc.

Note 29 - Related parties

In accordance with IAS 24, the Group's related parties are considered to be its owners (including the French State), companies in which these owners hold equity interests, associates, joint ventures and management executives.

The French State also holds a golden share in Safran Ceramics (formerly Herakles, renamed Safran Ceramics on June 30, 2016 following the contributions made to Airbus Safran Launchers) allowing it to veto any change in control of the Company or sale of company assets.

The following transactions were carried out with related parties other than joint ventures:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Sales to related parties other than joint ventures	2,982	3,329
Purchases from related parties other than joint ventures	(78)	(61)

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Amounts receivable from related parties other than joint ventures	1,371	1,486
Amounts payable to related parties other than joint ventures	1,661	2,036

(in € millions)	2016	2017
Commitments to related parties other than joint ventures[1]	2,408	2,158

(1) See Note 30.a, "Off-balance sheet commitments and contingent liabilities relating to the Group's operating activities".

Transactions with related parties other than joint ventures primarily concern the delivery of aviation products to Airbus and the French Defense Procurement Agency (DGA).

The following transactions were carried out with joint ventures:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Sales to joint ventures[1]	255	450
Purchases from joint ventures	(108)	(106)

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Amounts receivable from joint ventures	35	141
Amounts payable to joint ventures	64	6

(in € millions)	2016	2017
Commitments given to joint ventures[2]	-	131

(1) Mainly with Shannon Engine Support Limited.

(2) See Note 13, "Investments in equity-accounted companies".

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 Safran's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Group.

Management executives comprise the 17 members of the Board of Directors, including the Chairman of the Board and the Chief Executive Officer, as well as the five officers considered as having the power to take management decisions with regard to Safran's strategy and future development, or with regular access to privileged information concerning Safran.

All compensation and benefits awarded to members of the Board of Directors and to members of 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.

(in € millions)	2016	2017
Short-term benefits[1]	8.9	**10.4**
Post-employment benefits	1.1	**0.8**
Other long-term benefits	-	**-**
Termination benefits	0.6	**-**
Share-based payment	1.0	**2.0**

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.

The Group's total post-employment benefit commitments and other long-term benefit commitments in respect of management executives amounted to €12.0 million at December 31, 2017 and €11.4 million at December 31, 2016.

Note 30 - Off-balance sheet commitments and contingent liabilities

30.a. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES RELATING TO THE GROUP'S OPERATING ACTIVITIES

(i) Commitments given and contingent liabilities

The Group granted the following commitments in connection with its operating activities:

(in € millions)	Dec. 31, 2016	Dec. 31, 2017
Purchase commitments on intangible assets	245	95
Purchase commitments on property, plant and equipment	368	363
Guarantees given in connection with the performance of operating agreements	4,269	3,590
Operating lease commitments	429	317
Financial guarantees granted on the sale of Group products	29	29
Other commitments given	262	369
Total (*)	**5,602**	**4,763**

(*) Including the Security segment for €395 million at December 31, 2016 (the Security segment businesses were sold in 2017).

Guarantees given in connection with the performance of operating agreements

These guarantees relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers) in which Safran or the subsidiary provide 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.

Guarantees granted to Airbus are shown within "Guarantees granted to related parties" in Note 29, "Related parties".

Operating lease commitments

Commitments under operating leases can be analyzed as follows:

	Dec. 31, 2016	Dec. 31, 2017	Period to maturity		
(in € millions)	Total	**Total**	Less than 1 year	1 to 5 years	Beyond 5 years
Operating lease commitments	429	**317**	56	185	76
Total	**429**	**317**	**56**	**185**	**76**

Including the Security segment for €125 million at December 31, 2016 (the Security segment businesses were sold in 2017).

Financial guarantees granted on the sale of Group products

The financial guarantees shown in this table concern aerospace financing arrangements in place at the end of the period, granted to support sales of civil engines. These arrangements take the form of aircraft financing or guarantees covering the value of assets.

The Group's gross exposure in respect of these financing commitments in their transaction currency represents USD 35 million at December 31, 2017 (USD 31 million at December 31, 2016), or

€29 million (€29 million at December 31, 2016). However, these amounts do not reflect the actual risk to which Safran is exposed. In view of the value of the underlying assets pledged as security, the net exposure represents USD 20 million at December 31, 2017 (USD 25 million at December 31, 2016), for which a provision, based on an assessment of the risk, is booked in the financial statements (see Note 19, "Provisions").

Financing commitments granted in principle to clients alongside aircraft manufacturers in connection with certain civil engine sales campaigns form part of financing packages proposed by aircraft manufacturers to airline companies and generally correspond to the share represented by Group engines in the financing of the aircraft concerned. These commitments are not included in the gross exposure since (i) the probability that they will be called by the airline companies is too uncertain because the deliveries are too far in the future, and (ii) in the past, few commitments have been called due to their dissuasive conditions and to the fact that they represent a "last recourse" after the active banking, credit insurance and investor markets.

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 claims for failing to meet technical specifications, a delay in the development phase, late completion and/or for additional work in connection with product performance and reliability falling outside the scope of the warranties and commitments provisioned or included within contract costs (see Note 2.b, "Provisions", and Note 19, "Provisions"). 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 beyond contractual liability limits, if any.

In the absence of an agreement between the parties, certain of these claims may give rise to litigation, the most significant of which are indicated in Note 31, "Disputes and litigation".

(ii) Commitments received

The Group was granted the following commitments in connection with its operating activities:

(in € millions)	**Dec. 31, 2016**	**Dec. 31, 2017**
Commitments received from banks on behalf of suppliers	33	18
Completion warranties	30	21
Endorsements and guarantees received	3	3
Other commitments received	9	96
Total (*)	**75**	**138**

(*) Including the Security segment for €9 million at December 31, 2016 (the Security segment businesses were sold in 2017).

30.b. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES RELATING TO THE GROUP'S SCOPE OF CONSOLIDATION

Vendor warranties are given or received on the acquisition or sale of companies.

(i) Vendor warranties given

(in € millions)	**Dec. 31, 2016**	**Dec. 31, 2017**
Vendor warranties given[(1)]	5	333

(1) Vendor warranties, the amount of which may be fixed or determinable.

(ii) Vendor warranties received

(in € millions)	**Dec. 31, 2016**	**Dec. 31, 2017**
Vendor warranties received (*)	3	0

(*) Including the Security segment for €3 million at December 31, 2016 (the Security segment businesses were sold in 2017).

Vendor warranties granted in connection with the disposal of the Security businesses (see Note 3, "Scope of consolidation")

In connection with the sale of the identity and security businesses on May 31, 2017, Safran granted Advent International a vendor warranty valued at €180 million at December 31, 2017, as well as a specific indemnity capped at BRL 200 million (€50 million at December 31, 2017) to cover any financial consequences arising from the dispute between Morpho do Brasil and the Brazilian tax authorities concerning the calculation method for value added tax on certain products.

In connection with the sale of the detection businesses on April 7, 2017, Safran granted Smiths Group Plc a vendor warranty valued at USD 74 million (€62 million at December 31, 2017).

In connection with the sale of Structil on October 2, 2017, Safran Ceramics granted the Hexcel group a vendor warranty valued at €37 million at December 31, 2017.

30.c. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES RELATING TO THE GROUP'S FINANCING

Commitments received in respect of financing relate to:

- the unused portion of the trade receivables factoring facility requiring deconsolidation of the receivables concerned (see Note 22, "Interest-bearing financial liabilities");
- the confirmed, undrawn syndicated credit line (see Note 26, "Management of market risks and derivatives"); and
- the bridge facility set up as part of the acquisition of Zodiac Aerospace (see Note 26, "Management of market risks and derivatives").

Note 31 - Disputes and litigation

Safran and certain Group subsidiaries are party to regulatory, legal or arbitration proceedings arising in the ordinary course of their operations. Safran and certain Group subsidiaries are also party to claims, legal action and regulatory proceedings outside the scope of their ordinary operations. The most important are described below.

The amount of the provisions booked is based on the level of risk for each case, as assessed by Safran and its subsidiaries and largely depends on their assessment of the merits of the claims and defensive arguments, bearing in mind that the occurrence of events during the proceedings can lead to a reassessment of the risk at any time.
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.
Safran considers that the provisions booked are adequate to cover the risks it incurs.

- 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.

- At the end of 2002, a group of French manufacturers, including the former Snecma group, was collectively the subject of a request for arbitration as part of a dispute with the Republic of China relating to a former business contract. After withdrawal of this request, the customer then filed another request for arbitration in November 2012 on similar grounds to those invoked in 2002. The three manufacturers were jointly ordered to pay a total sum of €227 million (including interest) to the Republic of China under an arbitration award notified to them on October 25, 2017. Safran Aircraft Engines paid €29 million, including fees, corresponding to its share of the award. The corresponding expense was recorded under other non-recurring operating income and expenses in the Group's 2017 accounts.
  As no party appealed the decision, the proceedings are now closed.

- On April 2, 2014, Safran was fined by the European Commission relating to the activities of Silec Cable, a former subsidiary of Sagem SA which was sold to General Cable at the end of 2005. General Cable, which was also fined, filed a claim against Safran under the sale agreement in order to protect its rights. Safran paid the €8.5 million fine in 2014. Relying on the European Commission's findings, a number of cable buyers have initiated proceedings for reimbursement of overcharges against the companies fined by the Commission. Safran's joint and several liability with other suppliers has been alleged in one such legal action, and the Group could be at risk of further claims in Europe. At the date of this report, it is not possible to evaluate any potential financial risk.

To the best of Safran's knowledge and that of its subsidiaries, there are no other ongoing regulatory, legal or arbitration proceedings that could have a material impact on the financial position of the Company and/or Group.

Note 32 - Subsequent events

None.

Note 33 - List of consolidated companies

	Country	2016 Consolidation method	2016 % interest	2017 Consolidation method	2017 % interest
Safran SA	**France**	**Parent company**			
Aerospace Propulsion					
Safran Aircraft Engines	France	FC	100.00	FC	100.00
CFAN	United States	JO	50.00	JO	50.00
CFM International SA	France	JO	50.00	JO	50.00
CFM International, Inc.	United States	JO	50.00	JO	50.00
CFM Materials LP	United States	EQ	50.00	EQ	50.00
Famat	France	JO	50.00	JO	50.00
Fan Blade Associates, Inc.	United States	FC	100.00	FC	100.00
Safran Aero Composite	France	FC	100.00	FC	100.00
Safran Aerospace Composites, LLC	United States	FC	100.00	FC	100.00
Shannon Engine Support Limited	Ireland	EQ	50.00	EQ	50.00
Safran Aircraft Engines Mexico	Mexico	FC	100.00	FC	100.00
Safran Aircraft Engines Poland(1)	Poland	-	-	FC	100.00
Safran Aircraft Engine Services Americas	Mexico	FC	100.00	FC	100.00
Safran Aircraft Engine Services Morocco	Morocco	FC	51.00	FC	51.00
Safran MDS, S.A. de C.V.	Mexico	FC	100.00	FC	100.00
Snecma Participations	France	FC	100.00	FC	100.00
Snecma Participations, Inc.	United States	FC	100.00	FC	100.00
Safran Aircraft Engine Services Brussels	Belgium	FC	100.00	FC	100.00
Snecma Suzhou Co, Ltd	China	FC	100.00	FC	100.00
Safran Aircraft Engines Guiyang	China	FC	90.00	FC	90.00
Propulsion Technologies International, LLC	United States	JO	50.00	JO	50.00
Safran Aero Boosters	Belgium	FC	67.19	FC	67.19
Safran Test Cells, Inc.	United States	FC	67.19	FC	67.19
Safran Aero Boosters Programs, LLC	United States	FC	67.19	FC	67.19
Safran Aero Boosters, Inc.	United States	FC	67.19	FC	67.19
Safran Helicopter Engines	France	FC	100.00	FC	100.00
Safran Power Units	France	FC	100.00	FC	100.00
Safran Power Units San Diego, LLC	United States	FC	100.00	FC	100.00
Turbomeca Africa(2)	South Africa	FC	51.00	-	-
Turbomeca America Latina(3)	Uruguay	FC	100.00	-	-
Safran Helicopter Engines Asia Pte. Ltd	Singapore	FC	100.00	FC	100.00
Safran Helicopter Engines Australia Pty Ltd	Australia	FC	100.00	FC	100.00
Safran Moteurs d'Hélicoptères Canada Inc.	Canada	FC	100.00	FC	100.00
Safran Helicopter Engines Brasil Industria e Commercio do Brasil Ltda	Brazil	FC	100.00	FC	100.00
Safran Helicopter Engines Germany GmbH	Germany	FC	100.00	FC	100.00
Safran Helicopter Engines Tianjin Co. Ltd	China	FC	100.00	FC	100.00
Safran Helicopter Engines UK Limited	United Kingdom	FC	100.00	FC	100.00
Safran Helicopter Engines USA, Inc.	United States	FC	100.00	FC	100.00
Safran Helicopter Engines Mexico	Mexico	FC	100.00	FC	100.00
Safran Helicopter Engines South Africa(1)	South Africa	-	-	FC	100.00
Roxel France	France	EQ	50.00	EQ	50.00
Roxel Limited	United Kingdom	EQ	50.00	EQ	50.00
Roxel	France	EQ	50.00	EQ	50.00
Structil(4)	France	FC	80.00	-	-
ArianeGroup Holding	France	EQ	50.00	EQ	50.00

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

(1) First-time consolidation in 2017.

(2) Divested in November 2017.

(3) Left the Group in 2017.

(4) Divested on October 2, 2017

	Country	2016 Consolidation method	2016 % interest	2017 Consolidation method	2017 % interest
Aircraft Equipment					
Safran Nacelles	France	FC	100.00	FC	100.00
Safran Nacelles Limited	United Kingdom	FC	100.00	FC	100.00
Safran Nacelles Morocco	Morocco	FC	100.00	FC	100.00
Aircelle Europe Services(1)	France	FC	100.00	-	-
Safran System Aerostructures	France	FC	100.00	FC	100.00
Safran Landing Systems	France	FC	100.00	FC	100.00
Aero Precision Repair & Overhaul Company, Inc.	United States	EQ	50.00	EQ	50.00
Safran Landing Systems Services Dinard	France	FC	100.00	FC	100.00
Safran Landing Systems Kentucky, LLC	United States	FC	100.00	FC	100.00
Safran Landing Systems Wheel & Brake Services, LLC(2)	United States	-	-	FC	100.00
Safran Landing Systems Malaysia Sdn. Bhd.	Malaysia	FC	100.00	FC	100.00
Safran Landing Systems Canada Inc.	Canada	FC	100.00	FC	100.00
Safran Landing Systems UK Ltd	United Kingdom	FC	100.00	FC	100.00
Safran Landing Systems México S.A. de C.V.	Mexico	FC	100.00	FC	100.00
Safran Landing Systems Services Américas S.A. de C.V.	Mexico	FC	100.00	FC	100.00
Safran Landing Systems Services Singapore Pte. Ltd	Singapore	FC	60.00	FC	60.00
Safran Landing Systems Services Miami, Inc.	United States	FC	100.00	FC	100.00
Safran Landing Systems Services UK Ltd	United Kingdom	FC	100.00	FC	100.00
Safran Landing Systems Services Querétaro S.A. de C.V.	Mexico	FC	100.00	FC	100.00
Safran Landing Systems Holdings Singapore Pte. Ltd	Singapore	FC	100.00	FC	100.00
Safran Filtration Systems	France	FC	100.00	FC	100.00
Safran Landing Systems Suzhou Co., Ltd	China	FC	100.00	FC	100.00
Safran Electrical & Power	France	FC	100.00	FC	100.00
Aerosource Inc.	United States	FC	100.00	FC	100.00
Safran Electrical & Power Chihuahua S.A. de C.V.	Mexico	FC	100.00	FC	100.00
Safran Engineering Services GmbH	Germany	FC	100.00	FC	100.00
Labinal Investments, LLC	United States	FC	100.00	FC	100.00
Safran Electrical & Power USA, LLC	United States	FC	100.00	FC	100.00
Safran Electrical & Power Morocco S.A	Morocco	FC	100.00	FC	100.00
Safran Electrical & Power Mexico SA de CV	Mexico	FC	100.00	FC	100.00
Labinal Salisbury, LLC(3)	United States	FC	100.00	-	-
Matis Aerospace	Morocco	JO	50.00	JO	50.00
Safran Engineering Services	France	FC	100.00	FC	100.00
Safran Engineering Services India Pvt Ltd	India	FC	100.00	FC	100.00
Safran Engineering Services Maroc	Morocco	FC	100.00	FC	100.00
Safran Engineering Services UK Ltd	United Kingdom	FC	100.00	FC	100.00
Safran Electrical & Power UK Ltd	United Kingdom	FC	100.00	FC	100.00
Safran Power USA, LLC	United States	FC	100.00	FC	100.00
Safran Ventilation Systems	France	FC	100.00	FC	100.00
Safran Ventilation Systems USA, LLC	United States	FC	100.00	FC	100.00
Shanghai SAIFEI Aviation EWIS Manufacturing Co., Ltd	China	EQ	49.00	EQ	49.00
Safran Transmission Systems	France	FC	100.00	FC	100.00
Safran Transmission Systems Poland S.p. Z.o.o.	Poland	FC	100.00	FC	100.00
Safran Martin-Baker France	France	EQ	50.00	EQ	50.00

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

(1) Merged into Safran Nacelles on January 1, 2017.

(2) First-time consolidation in 2017.

(3) Merged into Safran Electrical & Power USA, LLC on March 31, 2017.

	Country	2016 Consolidation method	2016 % interest	2017 Consolidation method	2017 % interest
Defense					
Safran Electronics & Defense	France	FC	100.00	FC	100.00
Optics 1, Inc.	United States	FC	100.00	FC	100.00
Safran Electronics & Defense Services Asia Pte Ltd	Singapore	FC	60.00	FC	60.00
Safran Electronics & Defense Canada Inc.	Canada	FC	100.00	FC	100.00
Safran Electronics & Defense Avionics USA, LLC	United States	FC	100.00	FC	100.00
Safran Electronics & Defense Germany GmbH	Germany	FC	100.00	FC	100.00
Sofradir	France	EQ	50.00	EQ	50.00
ULIS	France	EQ	50.00	EQ	50.00
Safran Vectronix AG	Switzerland	FC	100.00	FC	100.00
Sagem USA, Inc.	United States	FC	100.00	FC	100.00
Fadec International, LLC[1]	United States	-	-	EQ	50.00
Safran Reosc	France	FC	100.00	FC	100.00
Safran Colibrys SA	Switzerland	FC	100.00	FC	100.00

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

(1) First-time consolidation in 2017.

	Country	2016 Consolidation method	2016 % interest	2017 Consolidation method	2017 % interest
Security*					
Divested on May 31, 2017:					
Safran Identity & Security	France	FC	100.00	-	-
Aleat	Albania	FC	75.00	-	-
Bioscrypt Inc.	Canada	FC	100.00	-	-
Electronic Identity Management & Security Solutions, LLC	United Arab Emirates	EQ	40.00	-	-
L-1 Secure Credentialing, LLC	United States	FC	100.00	-	-
Morpho Australasia Pty. Ltd	Australia	FC	100.00	-	-
Morpho B.V.	Netherlands	FC	100.00	-	-
Morpho Canada, Inc.	Canada	FC	100.00	-	-
Morpho Maroc Groupe Safran	Morocco	FC	100.00	-	-
Morpho South Africa (Pty) Ltd	South Africa	FC	100.00	-	-
MorphoTrak LLC	United States	FC	100.00	-	-
MorphoTrust USA, LLC.	United States	FC	100.00	-	-
Morpho UK Ltd	United Kingdom	FC	100.00	-	-
Morpho USA, Inc.	United States	FC	100.00	-	-
Trans Digital Technologies Limited Liability Company	United States	FC	100.00	-	-
Morpho Cards GmbH	Germany	FC	100.00	-	-
Morpho Cards Sdn. Bhd	Malaysia	FC	100.00	-	-
Morpho do Brasil S.A.	Brazil	FC	100.00	-	-
Morpho Cards de Colombia SAS	Colombia	FC	100.00	-	-
PT. Morpho Cards Indonesia	Indonesia	FC	100.00	-	-
Morpho Cards (Singapore) Pte. Ltd	Singapore	FC	100.00	-	-
Morpho Cards Peru	Peru	FC	100.00	-	-
Morpho Cards Lda	Portugal	FC	100.00	-	-
Morpho Cards Romania SRL	Romania	FC	100.00	-	-
Morpho N.A. Inc.	United States	FC	100.00	-	-
Morpho South Africa (Pty) Ltd	South Africa	FC	100.00	-	-
CPS Technologies	France	FC	100.00	-	-
Morpho Cards Czech S.R.O	Czech Republic	FC	100.00	-	-
Smart Chip Limited	India	FC	95.89	-	-
Syscom Corporation Limited	India	FC	95.89	-	-
Orga Zelenograd Smart Cards and Systems, ZAO	Russia	FC	100.00	-	-
Morpho Cards FZ-LLC	United Arab Emirates	FC	100.00	-	-
Morpho Cards Mexico	Mexico	FC	100.00	-	-
Morpho de Argentina SA	Argentina	FC	100.00	-	-
Divested on April 7, 2017:					
Morpho Detection, LLC.	United States	FC	100.00	-	-
Morpho Detection International, LLC	United States	FC	100.00	-	-
Morpho Detection Germany GmbH	Germany	FC	100.00	-	-
Morpho Detection UK Limited	United Kingdom	FC	100.00	-	-
Syagen Technology LLC	United States	FC	100.00	-	-

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

* Classified under discontinued operations at December 31, 2016 and divested in 2017.

	Country	2016 Consolidation method	2016 % interest	2017 Consolidation method	2017 % interest
Holding co. and other					
Établissements Vallaroche	France	FC	100.00	FC	100.00
Safran Ceramics	France	FC	100.00	FC	100.00
Safran UK Ltd	United Kingdom	FC	100.00	FC	100.00
Safran USA Inc.	United States	FC	100.00	FC	100.00
Société de réassurance Vallaroche SA	Luxembourg	FC	100.00	FC	100.00

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

Note 34 - Audit fees

Pursuant to Standard No. 2016-09 issued on December 2, 2016 by the French accounting standards-setter (*Autorité des normes comptables* – ANC), the following table shows the amount of fees paid to the Group's Statutory Auditors as included on the consolidated income statement for the year, a distinction being made between fees charged for the statutory audit of the consolidated financial statements and those charged for other services, where applicable. The fees shown for subsidiaries are those consolidated according to the full consolidation method.

	Ernst & Young				**Mazars**				**TOTAL**			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%		Amount (excl. VAT)		%	
(in € millions)	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
A) Statutory audit services												
A.1) Safran (issuer)	0.63	0.83	13%	17%	0.63	0.79	12%	17%	1.26	1.62	12%	17%
A.2) Subsidiaries	3.74	2.92	76%	61%	3.33	2.77	61%	60%	7.07	5.69	68%	60%
Sub-total	4.37	3.75	89%	78%	3.96	3.56	73%	77%	8.33	7.31	80%	77%
B) Other services												
B.1) Safran (issuer)	0.32	0.86	7%	18%	0.38	0.94	7%	20%	0.70	1.80	7%	19%
B.2) Subsidiaries	0.22	0.21	4%	4%	1.12	0.13	20%	3%	1.34	0.34	13%	4%
Sub-total	0.54	1.07	11%	22%	1.50	1.07	27%	23%	2.04	2.14	20%	23%
TOTAL	**4.91**	**4.82**	100%	100%	**5.46**	**4.63**	100%	100%	**10.37**	**9.45**	100%	100%

Statutory audit fees

These are payable for all work that is an integral part of the statutory audit, i.e., all work necessary to produce audit reports or any other reports or representations to be made available to the Ordinary Shareholders' Meeting called to approve the financial statements.

Services are provided 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.

Fees for other services

These services concern work falling within the scope of services usually rendered in conjunction with the statutory audit engagement (drafting of specific reports and statements, due diligence procedures) or any other specific engagement, generally representing one-off or agreed-on services.

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