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CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

June 30, 2018

SAFRAN

The Board of Directors' meeting of September 5, 2018 adopted and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the six-month period ended June 30, 2018.

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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 section 3.1, Note 1.f of the 2017 Registration Document).

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 and the impact of remeasuring inventories, as well as
  - gains on remeasuring any previously held equity interests in the event of step acquisitions or asset contributions to joint ventures;

  Safran has also applied these restatements to the acquisition of Zodiac Aerospace with effect from 2018.
- 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:

		Currency hedges		Business combinations		
(in € millions)	**First-half 2018 consolidated data**	Remeasurement of revenue (1)	Deferred hedging gain (loss) (2)	Amortization of intangible assets from Sagem-Snecma merger (3)	PPA impacts – other business combinations (4)	**First-half 2018 adjusted data**
Revenue	**9,393**	**113**	**-**	**-**	**-**	**9,506**
Other recurring operating income and expenses	(8,544)	(1)	-	30	313	(8,202)
Share in profit from joint ventures	63	-	-	-	19	82
Recurring operating income	**912**	**112**	**-**	**30**	**332**	**1,386**
Other non-recurring operating income and expenses	(26)	-	-	-	-	(26)
Profit from operations	**886**	**112**	**-**	**30**	**332**	**1,360**
Cost of debt	(34)	-	-	-	-	(34)
Foreign exchange gain (loss)	(175)	(83)	189	-	-	(69)
Other financial income and expense	(11)	-	-	-	-	(11)
Financial income (loss)	**(220)**	**(83)**	**189**	**-**	**-**	**(114)**
Income tax expense	(100)	(10)	(65)	(10)	(87)	(272)
Profit from continuing operations	**566**	**19**	**124**	**20**	**245**	**974**
Profit from discontinued operations and disposal gain	-	-	-	-	-	-
Loss for the period attributable to non-controlling interests	**(31)**	**(1)**	**-**	**(1)**	**(9)**	**(42)**
Profit for the period attributable to owners of the parent	**535**	**18**	**124**	**19**	**236**	**932**

(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. However, the use of the outstanding portfolio of currency derivatives held by Zodiac Aerospace at the acquisition date gave rise to the partial reclassification of changes in the fair value of currency hedges to financial income (loss) for a six-month transition period.

(2) Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (€189 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (zero at June 30, 2018).

(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 the impact of remeasuring inventories at the time of the acquisition of Zodiac Aerospace for a negative €294 million (see Note 4, "Scope of consolidation") and cancelation of amortization/impairment of assets identified during other business combinations.

Readers are reminded that only the condensed interim consolidated financial statements are subject to review by the Group's Statutory Auditors. The condensed interim consolidated financial statements include the revenue and operating profit indicators set out in the adjusted data in Note 5, "Segment information".

Adjusted financial data other than the data provided in Note 5, "Segment information" are subject to the verification procedures applicable to all of the information provided in the interim report.

Comparative adjusted interim consolidated income statement and segment information

Adjusted interim income statement

(in € millions)	First-half 2017 Adjusted data (published)	IFRS 15 impact*	First-half 2017 Adjusted data	First-half 2018 Adjusted data
Revenue	**8,038**	**(368)**	**7,670**	**9,506**
Other income	143	-	143	148
Income from operations	**8,181**	**(368)**	**7,813**	**9,654**
Change in inventories of finished goods and work-in-progress	415	12	427	406
Capitalized production	241	6	247	197
Raw materials and consumables used	(4,940)	156	(4,784)	(5,575)
Personnel costs	(2,247)	-	(2,247)	(2,770)
Taxes	(165)	-	(165)	(179)
Depreciation, amortization and increase in provisions, net of use	(331)	30	(301)	(429)
Asset impairment	(87)	7	(80)	(20)
Other recurring operating income and expenses	59	(6)	53	20
Share in profit from joint ventures	92	(10)	82	82
Recurring operating income	**1,218**	**(173)**	**1,045**	**1,386**
Other non-recurring operating income and expenses	(16)	-	(16)	(26)
Profit from operations	**1,202**	**(173)**	**1,029**	**1,360**
Cost of net debt	(28)	-	(28)	(34)
Foreign exchange gain (loss)	24	(29)	(5)	(69)
Other financial income and expense	(20)	17	(3)	(11)
Financial income (loss)	**(24)**	**(12)**	**(36)**	**(114)**
Profit before tax	**1,178**	**(185)**	**993**	**1,246**
Income tax expense	(306)	58	(248)	(272)
Share in profit from associates	-	-	-	-
Profit from continuing operations	**872**	**(127)**	**745**	**974**
Profit from discontinued operations and disposal gain	765	8	773	-
Profit for the period	**1,637**	**(119)**	**1,518**	**974**
Attributable to:				
owners of the parent	1,606	(118)	1,488	932
continuing operations	842	(126)	716	932
discontinued operations	764	8	772	-
non-controlling interests	31	(1)	30	42
continuing operations	30	(1)	29	42
discontinued operations	1	-	1	-
Earnings per share from continuing operations attributable to owners of the parent (in €)				
Basic earnings per share	2.05	(0.31)	1.74	2.17
Diluted earnings per share	2.01	(0.30)	1.71	2.11
Earnings per share from discontinued operations attributable to owners of the parent (in €)				
Basic earnings per share	1.86	0.02	1.88	-
Diluted earnings per share	1.83	0.02	1.85	-

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers”.

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

Segment information

The operating segments and key indicators shown are defined in Note 5.

Following the acquisition of Zodiac Aerospace on February 13, 2018 (consolidated with effect from March 1, 2018), the Group now reports on two additional segments: Aerosystems and Aircraft Interiors.

First-half 2018

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defense	Aerosystems	Aircraft Interiors	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**Total consolidated data**
Revenue	**4,744**	**2,585**	**651**	**742**	**774**	**9,496**	**10**	**9,506**	**(113)**	**-**	**9,393**
Recurring operating income (loss)	**868**	**347**	**45**	**129**	**-**	**1,389**	**(3)**	**1,386**	**(112)**	**(362)**	**912**
Other non-recurring operating income and expenses	(1)	-	6	(1)	(2)	**2**	(28)	**(26)**	-	-	**(26)**
Profit (loss) from operations	**867**	**347**	**51**	**128**	**(2)**	**1,391**	**(31)**	**1,360**	**(112)**	**(362)**	**886**
Free cash flow	**685**	**71**	**(46)**	**97**	**(47)**	**760**	**60**	**820**	**-**	**-**	**820**

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

First-half 2017*

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defense	Aerosystems	Aircraft Interiors	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**Total consolidated data**
Revenue	**4,414**	**2,636**	**612**	**-**	**-**	**7,662**	**8**	**7,670**	**341**	**-**	**8,011**
Recurring operating income	**721**	**287**	**35**	**-**	**-**	**1,043**	**2**	**1,045**	**345**	**(79)**	**1,311**
Other non-recurring operating income and expenses	-	-	-	-	-	**-**	(16)	**(16)**	-	-	**(16)**
Profit (loss) from operations	**721**	**287**	**35**	**-**	**-**	**1,043**	**(14)**	**1,029**	**345**	**(79)**	**1,295**
Free cash flow	**698**	**57**	**(20)**	**-**	**-**	**735**	**(69)**	**666**	**-**	**-**	**666**

* The consolidated data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.2, “Impact at June 30, 2017”).

Revenue (adjusted data)

(in € millions) **Aerospace Propulsion**		First-half 2017*	First-half 2018
Original equipment and related products and services		1,729	1,982
Services		2,641	2,721
Sales of studies		27	25
Other		17	16
	Sub-total	4,414	4,744
Aircraft Equipment			
Original equipment and related products and services		1,716	1,681
Services		807	846
Sales of studies		43	27
Other		70	31
	Sub-total	2,636	2,585
Defense			
Sales of equipment		396	429
Services		164	161
Sales of studies		52	59
Other		-	2
	Sub-total	612	651
Aerosystems			
Sales of equipment		N/A	439
Services		N/A	252
Sales of studies		N/A	36
Other		N/A	15
	Sub-total	N/A	742
Aircraft interiors			
Sales of equipment		N/A	542
Services		N/A	188
Sales of studies		N/A	32
Other		N/A	12
	Sub-total	N/A	774
Holding company and other			
Sales of studies and other		8	10
	Sub-total	8	10
Total		**7,670**	**9,506**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers".

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

Information by geographic area

First-half 2018

(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		1,592	2,313	3,308	1,597	696	**9,506**	(113)	**9,393**
	%	17%	24%	35%	17%	7%			

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

First-half 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		1,310	1,969	2,701	1,127	563	**7,670**	341	**8,011**
	%	17%	26%	35%	15%	7%			

* The consolidated data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

Safran Group condensed interim consolidated financial statements

Consolidated income statement

(in € millions)	Note	First-half 2017*	First-half 2018
Revenue	*6*	**8,011**	**9,393**
Other income	*7*	143	148
Income from operations		**8,154**	**9,541**
Change in inventories of finished goods and work-in-progress		427	112
Capitalized production		247	197
Raw materials and consumables used	*7*	(4,784)	(5,574)
Personnel costs	*7*	(2,237)	(2,770)
Taxes		(165)	(179)
Depreciation, amortization and increase in provisions, net of use	*7*	(360)	(478)
Asset impairment	*7*	(80)	(20)
Other recurring operating income and expenses	*7*	52	20
Share in profit from joint ventures	*15*	57	63
Recurring operating income		**1,311**	**912**
Other non-recurring operating income and expenses	*7*	(16)	(26)
Profit from operations		**1,295**	**886**
Cost of net debt		(28)	(34)
Foreign exchange gain (loss)		2,384	(175)
Other financial income and expense		(3)	(11)
Financial income (loss)	*8*	**2,353**	**(220)**
Profit before tax		**3,648**	**666**
Income tax expense	*9*	(1,171)	(100)
Profit from continuing operations		**2,477**	**566**
Profit from discontinued operations and disposal gain	*23*	773	-
Profit for the period		**3,250**	**566**
Attributable to:			
owners of the parent		3,221	535
continuing operations		2,449	535
discontinued operations		772	-
non-controlling interests		29	31
continuing operations		28	31
discontinued operations		1	-
Earnings per share from continuing operations attributable to owners of the parent (in €)	*10*		
Basic earnings per share		5.96	1.25
Diluted earnings per share		5.85	1.21
Earnings per share from discontinued operations attributable to owners of the parent (in €)	*10*		
Basic earnings per share		1.88	-
Diluted earnings per share		1.84	-

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.2, “Impact at June 30, 2017”).

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

Consolidated statement of comprehensive income

(in € millions)	Note	First-half 2017*	First-half 2018
Profit for the period		**3,250**	**566**
Other comprehensive income			
Items to be reclassified to profit		**(350)**	**84**
Available-for-sale financial assets	14	(4)	-
Translation adjustments		(95)	94
Remeasurement of hedging instruments		17	(29)
Income tax related to components of other comprehensive income to be reclassified to profit		(23)	9
Share in other comprehensive income of equity-accounted companies to be reclassified to profit (net of tax)	15	(19)	10
Items related to discontinued operations to be reclassified to profit		(220)	-
Income tax on items related to discontinued operations to be reclassified to profit		(6)	-
Items not to be reclassified to profit		**(3)**	**(4)**
Actuarial gains and losses on post-employment benefits		(3)	(6)
Income tax related to components of other comprehensive income not to be reclassified to profit		-	2
Items related to discontinued operations not to be reclassified to profit (net of tax)		-	-
Other comprehensive income (expense) for the period		**(353)**	**80**
Total comprehensive income for the period		**2,897**	**646**
Attributable to:			
- owners of the parent		2,868	612
continuing operations		2,272	612
discontinued operations		596	-
- non-controlling interests		29	34
continuing operations		28	34
discontinued operations		1	-

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017"), but have not been restated to reflect the impact of the change in accounting policy resulting from the limited retrospective application of IFRS 9, "Financial Instruments" (see Note 3.b, "Application of IFRS 9").

The data shown for first-half 2018 include four months of activity for Zodiac Aerospace, acquired by Safran on February 13, 2018 and consolidated with effect from March 1, 2018.

In first-half 2018, other comprehensive income relating to translation adjustments includes:

- €3 million in translation gains (losses of €3 million in first-half 2017) 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;
- €91 million in translation gains (losses of €92 million in first-half 2017) arising in the period on foreign operations.

In first-half 2018, other comprehensive income resulting from the remeasurement of hedging instruments includes €29 million in translation losses (gains of €17 million in first-half 2017) 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 (wholly effective hedge in both first-half 2018 and first-half 2017).

Other comprehensive income relating to equity-accounted companies (net of tax) includes (see Note 15, "Investments in equity-accounted companies") €12 million in translation gains arising in the period on foreign joint ventures (losses of €29 million in first-half 2017) and €2 million in negative fair value adjustments relating to cash flow hedges of joint ventures (€10 million in positive fair value adjustments in first-half 2017).

In first-half 2017, items of comprehensive income related to discontinued operations to be reclassified to profit comprised pre-tax income of €220 million in unrealized translation gains reclassified to profit further to the disposal of the Security businesses. These translation gains mainly relate to the US entities sold as part of this divestment. The related tax reclassified to profit represents income of €6 million.

In accordance with the amended IAS 19, changes in actuarial gains and losses are shown in “Other comprehensive income” and are not subsequently reclassified to profit.

The discount rates used to calculate post-employment benefit obligations are determined by reference to the yield on private investment-grade bonds (AA), using the Iboxx index. The main discount rate assumptions used to calculate post-employment benefit obligations at the dates shown were revised as follows:

	Dec. 31, 2016	**June 30, 2017**	Dec. 31, 2017	**June 30, 2018**
Eurozone	1.30%	**1.30%**	1.40%	**1.40%**
UK	2.75%	**2.55%**	2.60%	**2.60%**

The inflation rate assumption used to calculate obligations in the United Kingdom was as follows:

	Dec. 31, 2016	**June 30, 2017**	Dec. 31, 2017	**June 30, 2018**
UK inflation rate	3.35%	**3.20%**	3.35%	**3.35%**

Consolidated balance sheet

ASSETS *(in € millions)*	*Note*	Jan. 1, 2017*	Dec. 31, 2017*	June 30, 2018
Goodwill	*11*	1,864	1,831	7,346
Intangible assets	*12*	5,483	5,596	6,285
Property, plant and equipment	*13*	3,169	3,518	4,116
Non-current financial assets	*14*	382	324	459
Investments in equity-accounted companies	*15*	2,193	2,127	2,144
Non-current derivatives (positive fair value)	*22*	28	16	12
Deferred tax assets		1,478	251	398
Other non-current financial assets		-	-	5
Non-current assets		**14,597**	**13,663**	**20,765**
Current financial assets	*14*	147	2,113	127
Current derivatives (positive fair value)	*22*	582	566	819
Inventories and work-in-progress		3,754	3,954	5,578
Contract costs		258	261	473
Trade and other receivables		5,279	4,952	6,154
Contract assets		1,109	1,366	1,485
Tax assets		513	596	589
Cash and cash equivalents	*16*	1,926	4,914	2,380
Current assets		**13,568**	**18,722**	**17,605**
Assets related to discontinued operations	*23*	3,250	-	-
Total assets		**31,415**	**32,385**	**38,370**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	Jan. 1, 2017*	Dec. 31, 2017*	June 30, 2018
Share capital	*17*	83	83	89
Consolidated retained earnings	*17*	3,742	4,686	9,863
Net unrealized gains on available-for-sale financial assets	*17*	35	28	-
Profit for the period		1,908	4,550	535
Equity attributable to owners of the parent		**5,768**	**9,347**	**10,487**
Non-controlling interests		**287**	**301**	**309**
Total equity		**6,055**	**9,648**	**10,796**
Provisions	*18*	1,357	1,263	1,506
Borrowings subject to specific conditions	*19*	699	569	610
Non-current interest-bearing financial liabilities	*20*	2,392	3,246	3,596
Non-current derivatives (negative fair value)	*22*	-	-	20
Deferred tax liabilities		699	674	606
Other non-current financial liabilities	*21*	5	8	765
Non-current liabilities		**5,152**	**5,760**	**7,103**
Provisions	*18*	708	925	1,126
Current interest-bearing financial liabilities	*20*	945	1,390	2,309
Trade and other payables		3,951	4,409	5,244
Contract liabilities		8,874	9,090	10,103
Tax liabilities		179	214	365
Current derivatives (negative fair value)	*22*	4,375	805	1,230
Other current financial liabilities	*21*	357	144	94
Current liabilities		**19,389**	**16,977**	**20,471**
Liabilities related to discontinued operations	*23*	819	-	-
Total equity and liabilities		**31,415**	**32,385**	**38,370**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.1, “Impact at January 1, 2017” and Note 3.a.3, “Impact at December 31, 2017”). They do not include data relating to Zodiac Aerospace, which was acquired after December 31, 2017.

Consolidated statement of changes in shareholders' equity

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Translation adjustments	Remeasurement of hedging instruments	Consolidated reserves and retained earnings	Actuarial gains and losses on post-employment benefits	Profit for the period	Other	**Equity attributable to owners of the parent**	Non-controlling interests	**Total**
At December 31, 2016	**83**	**3,360**	**(99)**	**35**	**(235)**	**765**	**1,014**	**(479)**	**1,908**	**169**	**6,521**	**288**	**6,809**
Change in accounting policy (IFRS 15)	-	-	-	-	-	-	(753)	-	-	-	**(753)**	(1)	**(754)**
At January 1, 2017	**83**	**3,360**	**(99)**	**35**	**(235)**	**765**	**261**	**(479)**	**1,908**	**169**	**5,768**	**287**	**6,055**
Comprehensive income (expense) for the period	-	-	-	(4)	253	(580)	10	(3)	3,221	(29) (a)	**2,868**	29	**2,897**
Acquisitions/disposals of treasury shares	-	-	(8)	-	-	-	-	-	-	-	**(8)**	-	**(8)**
Dividends	-	-	-	-	-	-	(340)	-	-	-	**(340)**	(28)	**(368)**
Share buyback programs	-	-	(402)	-	-	-	208	-	-	-	**(194)**	-	**(194)**
Other movements, including appropriation of profit	-	-	-	-	-	-	1,902	6	(1,908)	(4)	**(4)**	(8)	**(12)**
At June 30, 2017*	**83**	**3,360**	**(509)**	**31**	**18**	**185**	**2,041**	**(476)**	**3,221**	**136**	**8,090**	**280**	**8,370**
Comprehensive income (expense) for the period	-	-	-	(3)	51	(176)	6	43	1,329	(24) (a)	**1,226**	27	**1,253**
Dividends	-	-	-	-	-	-	-	-	-	-	**-**	(4)	**(4)**
Other movements, including appropriation of profit	-	-	-	-	-	-	-	-	-	31	**31**	(2)	**29**
At December 31, 2017*	**83**	**3,360**	**(509)**	**28**	**69**	**9**	**2,047**	**(433)**	**4,550**	**143**	**9,347**	**301**	**9,648**
Change in accounting policy (IFRS 9)	-	-	-	(28)	-	-	26	-	-	-	**(2)**	-	**(2)**
At January 1, 2018	**83**	**3,360**	**(509)**	**-**	**69**	**9**	**2,073**	**(433)**	**4,550**	**143**	**9,345**	**301**	**9,646**
Comprehensive income (expense) for the period	-	-	-	-	103	(29)	(2)	(6)	535	11 (a)	**612**	34	**646**
Acquisitions/disposals of treasury shares	-	-	4	-	-	-	-	-	-	-	**4**	-	**4**
Dividends	-	-	-	-	-	-	(695)	-	-	-	**(695)**	(26)	**(721)**
OCEANE 2018-2023 bond	-	-	-	-	-	-	31	-	-	-	**31**	-	**31**
Share buyback programs	-	-	(122)	-	-	-	(400)	-	-	-	**(522)**	-	**(522)**
Acquisition of Zodiac Aerospace[b]	6	2,238	-	-	-	-	(283)	-	-	-	**1,961**	-	**1,961**
Reclassification of Zodiac Aerospace hybrid debt[c]	-	-	-	-	-	-	(251)	-	-	-	**(251)**	-	**(251)**
Other movements, including appropriation of profit	-	-	-	-	-	-	4,550	-	(4,550)	2	**2**	-	**2**
At June 30, 2018	**89**	**5,598**	**(627)**	**-**	**172**	**(20)**	**5,023**	**(439)**	**535**	**156**	**10,487**	**309**	**10,796**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRIC 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017" and Note 3.a.3, "Impact at December 31, 2017").

(a) See table below: (in € millions)	Tax impact on actuarial gains and losses	Tax impact on foreign exchange differences	Total
Comprehensive income (expense) for first-half 2017 (attributable to owners of the parent)	-	(29)	(29)
Comprehensive income (expense) for second-half 2017 (attributable to owners of the parent)	(7)	(17)	(24)
Comprehensive income (expense) for first-half 2018 (attributable to owners of the parent)	2	9	11

(b) Including a €283 million liability for purchase commitments (put option) granted to Zodiac Aerospace minority shareholders (net of the share in net assets).
(c) See Note 20, "Interest-bearing financial liabilities".

Consolidated statement of cash flows

(in € millions)	*Note*	First-half 2017*	First-half 2018
I. Cash flow from operating activities			
Profit attributable to owners of the parent		**3,221**	**535**
Depreciation, amortization, impairment and provisions(1)		397	523
Share in profit from equity-accounted companies (net of dividends received)	*15*	(40)	(29)
Change in fair value of currency and commodity derivatives(2)	*22*	(2,865)	207
Capital gains and losses on asset disposals		(3)	(3)
Profit (loss) from discontinued operations and disposal gain (before tax)		(955)	-
Profit attributable to non-controlling interests		28	31
Other(3)		1,311	455
Cash flow from operations, before change in working capital		**1,094**	**1,719**
Change in inventories and work-in-progress		(477)	(444)
Change in operating receivables and payables(4)		182	(242)
Change in contract costs		(1)	(7)
Change in contract assets and liabilities		518	446
Change in other receivables and payables		(39)	(52)
Change in working capital		**183**	**(299)**
	TOTAL I(5)	**1,277**	**1,420**
II. Cash flow from (used in) investing activities			
Capitalization of R&D expenditure(6)	*12*	(170)	(144)
Payments for the purchase of intangible assets, net of proceeds(7)		(96)	(69)
Payments for the purchase of property, plant and equipment, net of proceeds(8)		(345)	(387)
Payments arising from the acquisition of investments or businesses, net(9)		4	(4,129)
Proceeds arising from the sale of investments or businesses, net		3,109	-
Proceeds (payments) arising from the sale (acquisition) of investments and loans(10)		(68)	1,991
	TOTAL II	**2,434**	**(2,738)**
III. Cash flow from (used in) financing activities			
Change in share capital – owners of the parent		-	-
Change in share capital – non-controlling interests		(3)	(1)
Acquisitions and disposals of treasury shares	*17.b*	(453)	(117)
Repayment of borrowings and long-term debt(11)	*20*	(17)	(477)
Increase in borrowings	*20*	1,012	702
Change in repayable advances	*19*	(11)	1
Change in short-term borrowings	*20*	966	(601)
Dividends and interim dividends paid to owners of the parent	*17.e*	(340)	(695)
Dividends paid to non-controlling interests		(26)	(26)
	TOTAL III	**1,128**	**(1,214)**
Cash flow from operating activities of discontinued operations	**TOTAL IV**	**14**	**-**
Cash flow used in investing activities of discontinued operations	**TOTAL V**	**(52)**	**-**
Cash flow used in financing activities of discontinued operations	**TOTAL VI**	**(139)**	**-**
Effect of changes in foreign exchange rates	**TOTAL VII**	**(17)**	**(2)**
Net increase (decrease) in cash and cash equivalents	**I+II+III+IV+V+VI+VII**	**4,645**	**(2,534)**
Cash and cash equivalents at beginning of period		1,926	4,914
Cash and cash equivalents of discontinued operations at beginning of period		180	-
Cash and cash equivalents at end of period	*16*	6,751	2,380
Cash and cash equivalents of discontinued operations at end of period		-	-
Net increase (decrease) in cash and cash equivalents		**4,645**	**(2,534)**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

(1) Including in first-half 2018: depreciation and amortization for €449 million (€375 million in first-half 2017), impairment for €21 million (€74 million in first-half 2017) and additions to provisions for €53 million (reversals of provisions for €52 million in first-half 2017).

(2) Including in first-half 2018: positive impact of €210 million arising on currency derivatives (negative impact of €2,861 million in first-half 2017) (see Note 22, "Management of market risks and derivatives").

(3) Including in first-half 2018: deferred tax negative impact of €65 million arising on the change in fair value of currency derivatives (deferred tax positive impact of €943 million in first-half 2017).

(4) Including in first-half 2018: net premiums on currency options for €1 million (see Note 22, "Management of market risks and derivatives"), shown on the balance sheet under current derivatives with a negative fair value (net premiums paid for €2 million in 2017).

(5) Including in first-half 2018: €103 million in taxes paid (€64 million in first-half 2017), of which €35 million in interest paid (€35 million in first-half 2017) and €9 million in interest received (€12 million in first-half 2017).

(6) Including in first-half 2018: €4 million in capitalized interest (€6 million in first-half 2017).

(7) Including in first-half 2018: €55 million in disbursements for acquisitions of intangible assets (€127 million in first-half 2017), €5 million in proceeds from disposals (€17 million in first-half 2017) and changes in amounts payable on acquisitions of non-current assets representing a negative €19 million (a positive €16 million in first-half 2017).

(8) Including in first-half 2018: €360 million in disbursements for acquisitions of property, plant and equipment (€349 million in first-half 2017), changes in amounts payable on acquisitions of non-current assets representing a negative €34 million (a negative €6 million in first-half 2017), €11 million in proceeds from disposals (€10 million in first-half 2017) and changes in amounts receivable on disposals of non-current assets representing a negative €4 million.

(9) Including the acquisition of Zodiac Aerospace for €4,092 million (amount paid as part of the tender offer net of cash and cash equivalents acquired).

(10) Including in first-half 2018: the transfer to cash and cash equivalents of €2,000 million in money market funds pledged during the tender offer for Zodiac Aerospace and previously classified under other financial assets (see Note 14, "Current and non-current financial assets").

(11) Including in first-half 2018: €250 million relating to the repayment of Zodiac Aerospace hybrid debt (see Note 20, "Interest-bearing financial liabilities").

Notes to the Safran Group condensed interim 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 condensed interim consolidated financial statements reflect the accounting position of Safran and the subsidiaries it controls, directly or indirectly and jointly or exclusively, as well as entities over which it exercises significant influence (the "Group").

The condensed interim consolidated financial statements and accompanying notes are drawn up in euros and all amounts are rounded to the nearest million unless otherwise stated.

The Board of Directors' meeting of September 5, 2018 adopted and authorized for issue the 2018 condensed interim consolidated financial statements.

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/internal_market/accounting/ias/index_en.htm) at the date the condensed interim consolidated financial statements were approved by the Board of Directors. They include standards approved by the IASB, namely the IFRSs, International Accounting Standards (IAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC).

The condensed interim consolidated financial statements at June 30, 2018 have been prepared in accordance with IAS 34, Interim Financial Reporting and with all the standards and interpretations adopted by the European Union and applicable to accounting periods beginning on or after January 1, 2018.

In preparing these condensed interim consolidated financial statements at June 30, 2018, Safran applied the same accounting rules and methods as those applied in the preparation of its consolidated financial statements for the year ended December 31, 2017 (see section 3.1, Note 1 of the 2017 Registration Document), except as regards the specific requirements of IAS 34 (use of projected annual rates in calculating the Group's income tax, adjusted for the main permanent differences) and the changes described below.

Changes in accounting policies

New IFRS standards, amendments and interpretations effective as of January 1, 2018:

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers";
- Amendments to IFRS 2 , "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40, "Investment Property" – Transfers of Investment Property;
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle);
- IFRIC 22, "Foreign Currency Transactions and Advance Consideration".

The impacts of applying IFRS 9 and IFRS 15 are detailed Note 3, "Change in accounting policy".
The other standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2018 do not have a material impact on the Group's financial statements.

New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2018:

None.

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

- IFRS 16, “Leases”;
- IFRS 17, “Insurance Contracts”;
- Amendments to IAS 19, “Employee Benefits” – Plan Amendment, Curtailment or Settlement;
- 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;
- Annual Improvements to IFRSs published in December 2017 (2015-2017 cycle);
- IFRIC 23, “Uncertainty over Income Tax Treatments”.

Except for IFRS 16, 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 even if early adoption were permitted by the texts concerned.

Regarding IFRS 16, “Leases”, the Group has analyzed its lease contracts and is currently carrying out an initial impact simulation. IFRS 16 will be applied using the “modified retrospective” approach at January 1, 2019, whereby the impact of first-time application of the new standard will be recorded against equity at that date. Accordingly, the comparative 2018 data included in the 2019 financial statements will not be restated.

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 section 3.1, Note 1.l of the 2017 Registration Document. 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 section 3.1, Note 1.j of the 2017 Registration Document. 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 on a percentage-of-completion basis**: the Group accounts for contracts on a percentage-of-completion basis (cost-to-cost method). Under this method, revenue is recognized based on the percentage of work completed, calculated by reference to the 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 (i) is recognized within provisions for losses on completion or (ii) leads to the write-down of contract fulfillment costs (if any) and to the subsequent recognition of a provision for losses on completion for the remaining amount of the loss;

- **timing of revenue recognition:** the recognition of revenue under certain contracts is based on delivery volume assumptions. These assumptions therefore influence the timing of revenue recognition;

- **variable consideration:** the transaction price may be comprised of both a fixed amount and a variable amount. This variable amount may depend on volume assumptions which therefore require the use of estimates;

- **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. These write-downs are in addition to any allowances recognized for expected losses, which are calculated on a collective basis for all clients with the same credit rating.

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 26, "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 - Change in accounting policy

3.a. APPLICATION OF IFRS 15

The Group has applied IFRS 15, "Revenue from Contracts with Customers" with effect from January 1, 2018.

The main customer contract types identified within the Group are:

- sales of original equipment engines and spare engines, serial production equipment and spare parts;
- sales of installed base maintenance and support contracts;
- sales of time and materials service contracts;
- sales of contracts with multiple elements ("combined contracts");
- sales of studies.

The revenue recognition rules applicable to each of these contract types are outlined below.

On rare occasions, the impact of a financing component will also be taken into account in recognizing revenue, when the component is significant relative to the contract transaction price.

<u>Sales of original equipment engines and spare engines, serial production equipment and spare parts</u>
For sales of engines, production equipment and spare parts, the performance obligation is generally defined for each individual product or service and not for a series of products and services.

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 sector and certain contracts in the Defense sector.

Development work financed by customers is generally inseparable from serial production and does not therefore represent a separate performance obligation. Accordingly, customer-financed development work will be recognized within contract liabilities in the balance sheet when the funding is received, and subsequently taken to "serial" revenue in full as and when the related products are delivered.

However, financed development work that represents a separate performance obligation is recognized in revenue upon completion of the performance obligation when control is transferred at a point in time, or on a percentage-of-completion basis (cost-to-cost method) if control is transferred over time.

Extended warranties granted in connection with sales of engines or production equipment represent a separate performance obligation when the warranty is an additional service that is not granted to all customers (unlike a standard warranty). In this case, a portion of the transaction price of the engines or production equipment is allocated to this warranty and recognized within contract liabilities.

The contract liability will be reversed against revenue as and when the warranty costs are incurred.

Revenue recognized for each engine, item of production equipment or spare part is net of any discounts granted in any form whatsoever, including guarantees resembling trade discounts (performance bonds, fuel consumption, etc.) and any products or services granted free of charge which do not represent separate performance obligations.

When products or services granted free of charge are transferred to customers before the revenue recognition date, they are recognized in the balance sheet within contract assets until the date revenue is recognized.

Revenue is recognized when control of each product is transferred, which is usually upon delivery (i.e., at a point in time).

Where there is a risk of the transaction being canceled or the receivable not being recovered exists at the inception of the contract, no revenue is recognized. When the risk no longer exists, revenue is recorded.

Downpayments from customers are included in contract liabilities when they are received and taken to revenue when the products to which they relate are delivered.

<u>Sales of installed base maintenance and support contracts</u>
Certain maintenance and support contracts require a fleet of engines or various equipment to be kept in flying condition. These contracts are billed based on the number of flight hours or landings for the engines/equipment concerned.

The different services provided under each such contract represent a single performance obligation since the services are related when the contracts are fulfilled.

Revenue is 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.

If control is transferred over time, revenue is recognized on a percentage-of-completion basis (cost-to-cost method).

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

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.

Contract modifications do not generally result in the addition of distinct goods or services to the original contract. Accordingly, the associated revenue adjustment at that date results in an immediate adjustment to profit or loss (“catch-up method”).

Amounts billed to customers for which payment has generally been received but which have not yet been recognized in revenue, are included within contract liabilities (deferred income) at the end of the reporting period. In contrast, revenue which has been recognized but which has not yet been billed is recorded within contract assets in the balance sheet at the reporting date.

<u>Sales of time and materials service contracts</u>
These contracts may cover engines or production equipment and are generally entered into on a short-term basis.

They represent a single performance obligation.

Revenue generated on these contracts is recognized once the repair service has been provided (i.e., at a point in time).

<u>Sales of contracts with multiple elements</u>
Contracts with multiple elements are contracts that include the sale of specific development work as well as the sale of both goods and services.

The Group identifies separate performance obligations for each contract and determines the date on which control is transferred.

In general, for these contracts:

- the specific development work or customization assignments for a given contract and customer do not represent a separate performance obligation since the development and customization are inseparable from serial production. The costs associated with the development and installation are recognized within contract costs, a new balance sheet caption, and expensed over the contract term. These costs were previously either expensed or recognized within outstanding development work;
- financing received from the customer for the development work or customization assignment is recognized as revenue as and when the various performance obligations under the contract are satisfied;
- revenue generated on the serial production and service portion of the contract is 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 studies

These types of contract are found in all of the Group's business sectors. Generally speaking, each study represents a separate performance obligation since control of the development work is transferred to the customer, often through the transfer of intellectual property.

Revenue is recognized on a percentage-of-completion basis (cost-to-cost method) when control is transferred over time, or once the performance obligation has been satisfied if control is transferred at a point in time.

Contract assets and liabilities are new balance sheet captions resulting from the application of IFRS 15.

- A contract asset denotes Safran's right to consideration in exchange for goods or services that it has transferred, when that right is conditioned on something other than the passage of time. Contract assets mainly include amounts relating to revenue recognized on a percentage-of-completion basis where Safran does not have the right to immediately bill the customer. These sums were previously recognized within trade receivables.
- A contract liability denotes Safran's obligation to transfer goods or services to a customer for which it has received consideration from the customer.
  Contract liabilities include advances and downpayments received, deferred income and concession liabilities previously classified within trade and other payables.

In accordance with IAS 8, since this represents a change in accounting policy, comparative information for the prior period is presented in the 2018 interim consolidated financial statements showing the impact of "full retrospective" application.

The impacts of this change in accounting policy on the 2017 interim consolidated financial statements are the following:

3.a.1. Impact at January 1, 2017

Opening balance sheet at January 1, 2017:

ASSETS *(in € millions)*	Jan. 1, 2017 (published)	IFRS 15 impact	Jan. 1, 2017 (restated)
Goodwill	1,864	-	1,864
Intangible assets	5,178	305	5,483
Property, plant and equipment	3,169	-	3,169
Non-current financial assets	382	-	382
Investments in equity-accounted companies	2,175	18	2,193
Non-current derivatives (positive fair value)	28	-	28
Deferred tax assets	1,351	127	1,478
Non-current assets	**14,147**	**450**	**14,597**
Current financial assets	147	-	147
Current derivatives (positive fair value)	592	(10)	582
Inventories and work-in-progress	4,247	(493)	3,754
Contract costs	-	258	258
Trade and other receivables	6,252	(973)	5,279
Contract assets	-	1,109	1,109
Tax assets	513	-	513
Cash and cash equivalents	1,926	-	1,926
Current assets	**13,677**	**(109)**	**13,568**
Assets held for sale	3,234	16	3,250
Total assets	**31,058**	**357**	**31,415**

EQUITY AND LIABILITIES *(in € millions)*	Jan. 1, 2017 (published)	IFRS 15 impact	Jan. 1, 2017 (restated)
Share capital	83	-	83
Consolidated retained earnings	4,495	(753)	3,742
Net unrealized gains on available-for-sale financial assets	35	-	35
Profit for the period	1,908	-	1,908
Equity attributable to owners of the parent	**6,521**	**(753)**	**5,768**
Non-controlling interests	**288**	**(1)**	**287**
Total equity	**6,809**	**(754)**	**6,055**
Provisions	1,706	(349)	1,357
Borrowings subject to specific conditions	699	-	699
Non-current interest-bearing financial liabilities	2,392	-	2,392
Non-current derivatives (negative fair value)		-	-
Deferred tax liabilities	987	(288)	699
Other non-current financial liabilities	5	-	5
Non-current liabilities	**5,789**	**(637)**	**5,152**
Provisions	1,558	(850)	708
Current interest-bearing financial liabilities	945	-	945
Trade and other payables	10,242	(6,291)	3,951
Contract liabilities		8,874	8,874
Tax liabilities	179	-	179
Current derivatives (negative fair value)	4,385	(10)	4,375
Other current financial liabilities	357	-	357
Current liabilities	**17,666**	**1,723**	**19,389**
Liabilities held for sale	794	25	819
Total equity and liabilities	**31,058**	**357**	**31,415**

3.a.2. Impact at June 30, 2017

Consolidated income statement for first-half 2017:

(in € millions)	First-half 2017 (published)	IFRS 15 impact	First-half 2017 (restated)
Revenue	**8,382**	**(371)**	**8,011**
Other income	143	-	143
Income from operations	**8,525**	**(371)**	**8,154**
Change in inventories of finished goods and work-in-progress	415	12	427
Capitalized production	241	6	247
Raw materials and consumables used	(4,938)	154	(4,784)
Personnel costs	(2,237)	-	(2,237)
Taxes	(165)	-	(165)
Depreciation, amortization and increase in provisions, net of use	(390)	30	(360)
Asset impairment	(87)	7	(80)
Other recurring operating income and expenses	59	(7)	52
Share in profit from joint ventures	66	(9)	57
Recurring operating income	**1,489**	**(178)**	**1,311**
Other non-recurring operating income and expenses	(16)	-	(16)
Profit from operations	**1,473**	**(178)**	**1,295**
Cost of net debt	(28)	-	(28)
Foreign exchange gain (loss)	2,422	(38)	2,384
Other financial income and expense	(20)	17	(3)
Financial income	**2,374**	**(21)**	**2,353**
Profit before tax	**3,847**	**(199)**	**3,648**
Income tax expense	(1,234)	63	(1,171)
Profit from continuing operations	**2,613**	**(136)**	**2,477**
Profit from assets held for sale	765	8	773
Profit for the period	**3,378**	**(128)**	**3,250**
Attributable to:			
owners of the parent	3,348	(127)	3,221
continuing operations	2,584	(135)	2,449
discontinued operations	764	8	772
non-controlling interests	30	(1)	29
continuing operations	29	(1)	28
discontinued operations	1	-	1
Earnings per share from continuing operations attributable to owners of the parent (in €)			
Basic earnings per share	6.28	(0.32)	5.96
Diluted earnings per share	6.17	(0.32)	5.85
Earnings per share from assets held for sale attributable to owners of the parent (in €)			
Basic earnings per share	1.86	0.02	1.88
Diluted earnings per share	1.83	0.01	1.84

Consolidated statement of comprehensive income for first-half 2017:

(in € millions)	First-half 2017 (published)	IFRS 15 impact	First-half 2017 (restated)
Profit for the period	**3,378**	**(128)**	**3,250**
Other comprehensive income			
Items to be reclassified to profit	**(366)**	**16**	**(350)**
Available-for-sale financial assets	(4)		(4)
Translation adjustments	(111)	16	(95)
Remeasurement of hedging instruments	17		17
Income tax related to components of other comprehensive income to be reclassified to profit	(23)		(23)
Share in other comprehensive income of equity-accounted companies to be reclassified to profit (net of tax)	(19)		(19)
Items related to discontinued operations to be reclassified to profit (net of tax)	(220)		(220)
Income tax on items related to discontinued operations to be reclassified to profit	(6)		(6)
Items not to be reclassified to profit	**(3)**	**-**	**(3)**
Actuarial gains and losses on post-employment benefits	(3)		(3)
Other comprehensive income (expense) for the period	**(369)**	**16**	**(353)**
Total comprehensive income for the period	**3,009**	**(112)**	**2,897**
Attributable to:			
- owners of the parent	2,982	(114)	2,868
continuing operations	2,443	(171)	2,272
discontinued operations	539	57	596
- non-controlling interests	27	2	29
continuing operations	26	2	28
discontinued operations	1	-	1

Statement of cash flows for first-half 2017:

(in € millions)		First-half 2017 (published)	IFRS 15 impact	First-half 2017 (restated)
I. Cash flow from operating activities				
Profit attributable to owners of the parent		**3,348**	**(127)**	**3,221**
Depreciation, amortization, impairment and provisions		419	(22)	397
Share in profit (loss) from equity-accounted companies (net of dividends received)		(49)	9	(40)
Change in fair value of currency and commodity derivatives		(2,865)	-	(2,865)
Capital gains and losses on asset disposals		(3)	-	(3)
Profit (loss) from discontinued operations (before tax)		(947)	(8)	(955)
Profit attributable to non-controlling interests		30	(2)	28
Other		1,377	(66)	1,311
Cash flow from operations, before change in working capital		**1,310**	**(216)**	**1,094**
Change in inventories and work-in-progress		(466)	(11)	(477)
Change in operating receivables and payables		425	(243)	182
Change in contract costs			(1)	(1)
Change in contract assets and liabilities			518	518
Change in other receivables and payables		1	(40)	(39)
Change in working capital		**(40)**	**223**	**183**
	TOTAL I	**1,270**	**7**	**1,277**
II. Cash flow from investing activities				
Capitalization of R&D expenditure		(141)	(31)	(172)
Payments for the purchase of intangible assets, net of proceeds		(118)	24	(94)
Payments for the purchase of property, plant and equipment, net of proceeds		(345)	-	(345)
Payments arising from the acquisition of investments or businesses, net		4	-	4
Proceeds arising from the sale of investments or businesses, net		3,109	-	3,109
Proceeds (payments) arising from the sale (acquisition) of investments and loans		(68)	-	(68)
	TOTAL II	**2,441**	**(7)**	**2,434**
III. Cash flow from financing activities				
Change in share capital – owners of the parent		-		-
Change in share capital – non-controlling interests		(3)	-	(3)
Acquisitions and disposals of treasury shares		(453)	-	(453)
Repayment of borrowings and long-term debt		(17)	-	(17)
Increase in borrowings		1,012	-	1,012
Change in repayable advances		(11)	-	(11)
Change in short-term borrowings		966	-	966
Dividends and interim dividends paid to owners of the parent		340	-	340
Dividends paid to non-controlling interests		(26)	-	(26)
	TOTAL III	**1,128**	**-**	**1,128**
Cash flow from operating activities of discontinued operations	**TOTAL IV**	**14**	**-**	**14**
Cash flow used in investing activities of discontinued operations	**TOTAL V**	**(52)**	**-**	**(52)**
Cash flow used in financing activities of discontinued operations	**TOTAL VI**	**(139)**	**-**	**(139)**
Effect of changes in foreign exchange rates	**TOTAL VII**	**(17)**	**-**	**(17)**
Net increase in cash and cash equivalents	**I+II+III+IV+ V+VI+VII**	**4,645**	**-**	**4,645**
Cash and cash equivalents at beginning of period		1,926		1,926
Cash and cash equivalents of discontinued operations at beginning of period		180		180
Cash and cash equivalents at end of period		6,751		6,751
Cash and cash equivalents of discontinued operations at end of period		-		-
Net increase in cash and cash equivalents		**4,645**		**4,645**

Segment information for first-half 2017:

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defense	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impact of business combinations	**Total consolidated data**
Revenue	4,691	2,715	624	**8,030**	8	**8,038**	344	-	**8,382**
IFRS 15 impact	(277)	(79)	(12)	**(368)**	-	**(368)**	(3)	-	**(371)**
Revenue (restated)	**4,414**	**2,636**	**612**	**7,662**	**8**	**7,670**	**341**	**-**	**8,011**
Recurring operating income (published)	849	327	40	**1,216**	2	**1,218**	350	(79)	**1,489**
IFRS 15 impact	(128)	(40)	(5)	**(173)**	-	**(173)**	(5)		**(178)**
Recurring operating income (restated)	**721**	**287**	**35**	**1,043**	**2**	**1,045**	**345**	**(79)**	**1,311**

(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 (published)	1,451	2,034	2,798	1,184	571	**8,038**	344	**8,382**
IFRS 15 impact	(141)	(65)	(97)	(57)	(8)	**(368)**	(3)	**(371)**
Revenue by location of customers (restated)	**1,310**	**1,969**	**2,701**	**1,127**	**563**	**7,670**	**341**	**8,011**

3.a.3. Impact at December 31, 2017

Consolidated balance sheet at December 31, 2017:

ASSETS *(in € millions)*	**Dec. 31, 2017 (published)**	**IFRS 15 impact**	**Dec. 31, 2017 (restated)**
Goodwill	1,831	-	1,831
Intangible assets	5,241	355	5,596
Property, plant and equipment	3,518	-	3,518
Non-current financial assets	324	-	324
Investments in equity-accounted companies	2,119	8	2,127
Non-current derivatives (positive fair value)	16	-	16
Deferred tax assets	142	109	251
Non-current assets	**13,191**	**472**	**13,663**
Current financial assets	2,113	-	2,113
Current derivatives (positive fair value)	566	-	566
Inventories and work-in-progress	4,496	(542)	3,954
Contract costs		261	261
Trade and other receivables	6,371	(1,419)	4,952
Contract assets		1,366	1,366
Tax assets	596	-	596
Cash and cash equivalents	4,914	-	4,914
Current assets	**19,056**	**(334)**	**18,722**
Total assets	**32,247**	**138**	**32,385**

EQUITY AND LIABILITIES *(in € millions)*	**Dec. 31, 2017 (published)**	**IFRS 15 impact**	**Dec. 31, 2017 (restated)**
Share capital	83	-	83
Consolidated retained earnings	5,420	(734)	4,686
Net unrealized gains on available-for-sale financial assets	28	-	28
Profit for the period	4,790	(240)	4,550
Equity attributable to owners of the parent	**10,321**	**(974)**	**9,347**
Non-controlling interests	**303**	**(2)**	**301**
Total equity	**10,624**	**(976)**	**9,648**
Provisions	1,497	(234)	1,263
Borrowings subject to specific conditions	569	-	569
Non-current interest-bearing financial liabilities	3,246	-	3,246
Non-current derivatives (negative fair value)	-	-	-
Deferred tax liabilities	1,022	(348)	674
Other non-current financial liabilities	8	-	8
Non-current liabilities	**6,342**	**(582)**	**5,760**
Provisions	1,906	(981)	925
Current interest-bearing financial liabilities	1,390	-	1,390
Trade and other payables	10,822	(6,413)	4,409
Contract liabilities	-	9,090	9,090
Tax liabilities	214	-	214
Current derivatives (negative fair value)	805	-	805
Other current financial liabilities	144	-	144
Current liabilities	**15,281**	**1,696**	**16,977**
Total equity and liabilities	**32,247**	**138**	**32,385**

3.b. APPLICATION OF IFRS 9

The Group has applied IFRS 9 with effect from January 1, 2018 using the "limited retrospective" approach. At this date, the first-time application of IFRS 9 financial asset impairment requirements had a negative impact of €4 million on consolidated equity before tax (negative impact of €2 million after tax).

The other requirements of IFRS 9 had no impact on the amount of consolidated equity at January 1, 2018.

3.b.1. Reconciliation of IAS 39 and IFRS 9 financial asset categories

Financial assets

(in € millions)

IAS 39 categories	Loans and receivables	Financial assets at fair value (through profit or loss)	Financial assets available for sale (through equity)	Assets held to maturity	Total
Carrying amount at Dec. 31, 2017	11,200	1,875	226	-	**13,301**
Reclassifications		226	(226)		**-**
Carrying amount at Jan. 1, 2018*	11,200	2,101	-	-	**13,301**
IFRS 9 categories	**Amortized cost**	**Fair value through profit or loss**	**Fair value through equity (OCI) to be reclassified****	**Fair value through equity (OCI) not to be reclassified****	**Total**

* Before the first-time application of IFRS 9 financial asset impairment requirements.

** OCI: other comprehensive income.

Non-consolidated investments (€226 million at December 31, 2017) previously classified in the IAS 39 "available-for-sale" category are now classified in the IFRS 9 "fair value through profit or loss" category. This is because:

- these assets by nature do not generate cash flows that are solely payments of principal and interest on the principal amount outstanding at the dates indicated;
- Safran did not opt to classify these assets at fair value through equity (OCI) not to be reclassified to profit.

The transition from IAS 39 to IFRS 9 categories had no impact on the carrying amount of the financial assets in the balance sheet and therefore on the amount of consolidated equity.

Due to non-consolidated investments now being classified within the "fair value through profit or loss" category, the available-for-sale financial assets reserve (€28 million at December 31, 2017) was reclassified to "Other reserves" at January 1, 2018.

3.b.2. Impairment of financial assets and contract assets

The table below shows the pre-tax impact of IFRS 9 on the impairment of trade and other receivables and contract assets at January 1, 2018:

(in € millions)	Trade and other receivables	Contract assets
Carrying amount at Dec. 31, 2017* (before applying IFRS 9)	4,952	1,366
IFRS 9 impact – Impairment	(3)	(1)
Carrying amount at Jan. 1, 2018 (after applying IFRS 9)	**4,949**	**1,365**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers”.

Trade receivables and contract assets are written down using the IFRS 9 simplified impairment approach, as they generally fall due in the short term.

Changes in the credit risk associated with these assets are assessed on both an individual and collective basis.

On a collective assessment basis, the allowance for expected credit losses is calculated for amounts owed by all customers except those rated A3 or A- (depending on the rating agency) or higher, for which no allowance is recognized on a collective basis. This collective assessment is made based on changes in an indicator reflecting airline company profits, since airline companies represent the Group’s main risk exposure among customers ranked A3 or A- or below.

On an individual assessment basis, an additional credit loss allowance is recognized if there has been a significant increase in the credit risk associated with a given customer in any sense whatsoever (payment default at maturity, insolvency proceedings, etc.), such that the amount owed by the customer is likely to be written off.

IFRS 9 had no impact on impairment for other financial assets at January 1, 2018.

3.b.3. Hedging

Safran is not affected by the new IFRS 9 requirements on hedge accounting.

Note 4 - Scope of consolidation

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2018

Acquisition of Zodiac Aerospace

Safran filed a Tender Offer for Zodiac Aerospace's shares on December 7, 2017, which was declared compliant by the AMF on December 21, 2017.

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;
- a total of 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, Safran's share capital increased by €6 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 had not yet done so to tender their shares to the Offer. In the United States, the Tender Offer was open only to qualified investors. Outside of France, it was not open in any jurisdiction where authorization for the Offer would be required.

Following the settlement of the Subsequent Offer, Safran acquired 27,310,744 Zodiac Aerospace shares for €683 million.

The required conditions being fulfilled, Safran made a request to the AMF for a mandatory squeeze-out of Zodiac Aerospace shares, following which it acquired a further 6,809,584 shares.

The mandatory squeeze-out was executed at the same price as that of the Offer, i.e., €25 per Zodiac Aerospace share (net of all expenses), representing a total amount of €171 million.

Upon completion of these operations, Safran held 267,784,552 Zodiac Aerospace shares (i.e., 95.58% of the share capital), while minority interests held 4.42% of the remaining share capital.

The date on which Safran acquired Zodiac Aerospace (February 13, 2018) is the date on which Safran took control of Zodiac Aerospace and the date of the first-time consolidation of Zodiac Aerospace in Safran's financial statements. To simplify matters, Zodiac Aerospace's activities are consolidated in Safran's financial statements as from March 1, 2018, except for certain major transactions that were carried out between these two dates to adjust Zodiac's financing structure.

The acquisition balance sheet used to calculate consolidation goodwill will be based on Zodiac Aerospace's consolidated balance sheet at March 1, 2018.

The final allocation of the Zodiac Aerospace purchase price to identifiable assets acquired and liabilities assumed, along with the final allocation of goodwill to cash-generating units (CGUs), will be completed in the second half of the year. At June 30, 2018, the purchase price had only been allocated to inventories and borrowings and debt.

The provisional allocation of the Zodiac Aerospace purchase price can be summarized as follows:

(in € millions)	**Provisional allocation**
Acquisition cost of 95.58% of the share capital* (A)	**6,727**
Fair value of total net assets:	
Net assets at acquisition date	1,047
Financial liabilities at fair value	(28)
Inventories remeasured at fair value	335
Deferred tax liabilities	(82)
Fair value of identifiable assets acquired and liabilities assumed	**1,272**
Share of identifiable assets acquired and liabilities assumed (95.58%) (B)	**1,216**
Provisional goodwill (A) - (B)	**5,511**

* Including €4,474 million paid in cash within the scope of the tender offer and mandatory squeeze-out.

The contribution of Zodiac Aerospace to the Group's consolidated results based on its activity in the four months following the acquisition is as follows:

(in € millions)	**2018**
Revenue	1,492
Recurring operating income (loss)*	(192)
Recurring operating income excluding the impact of the provisional purchase price allocation	102

* Including the impact of remeasuring inventories at fair value as part of the provisional allocation of the Zodiac Aerospace purchase price for a negative €294 million.

If the Group had purchased Zodiac Aerospace on January 1, 2018, Zodiac's contribution to the Group's consolidated results based on its activity in the six months following the acquisition would have been:

- revenue of €2,223 million;
- consolidated recurring operating loss of €202 million, including a negative €329 million relating to the provisional purchase price allocation, therefore reflecting consolidated recurring operating income before provisional purchase price allocation of €127 million.

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 of €824 million after tax in 2017, recognized in "Profit from discontinued operations" (€832 million restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers").

Safran granted vendor warranties as part of these disposals (See Note 25.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 7, "Breakdown of the main components of profit from operations").

Safran granted a vendor warranty as part of this disposal (See Note 25.b, "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation").

Note 5 - 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”). Since the acquisition of a controlling interest in Zodiac Aerospace in February 2018, Safran has had five operating segments, organized based on the type of products and services they sell and the markets they serve.

Aerospace Propulsion

The Group designs, develops, produces and markets propulsion systems for commercial aircraft, military transport, training and combat aircraft, civil and military helicopters, 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 overhaul (MRO) activities 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.

Aerosystems

The Aerosystems business, acquired as a result of the Zodiac Aerospace acquisition, includes civil and military operations for the supplier-furnished equipment (SFE) market, whose direct customers are mainly manufacturers of aircraft, helicopters and spacecraft. The Group designs, develops, manufactures and markets evacuation systems, emergency arresting systems, protective parachutes and oxygen systems, electrical power management systems and actuators, elastomer systems and technologies, onboard control and fuel systems, fluid and water & waste management systems, as well as in-flight entertainment and connectivity (IFEC).

Aircraft Interiors

The Aircraft Interiors business, acquired as a result of the Zodiac Aerospace acquisition, includes all operations related to the buyer-furnished equipment (BFE) market, whose direct customers are mostly airline companies. The Group designs, develops, manufactures and markets, for example, aircraft seats for passengers (First, Business and Economy Class) and crew, as well as cabin equipment, overhead bins, class dividers, passenger service units, cabin interior solutions, chilling systems, galleys, electrical inserts and trolleys and cargo equipment.

<u>Holding company and other</u>

In “Holding company and other”, the Group includes proprietary activities carried out by Safran SA, Zodiac and holding companies in various countries.

<u>Business segment performance indicators</u>

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 section 3.1, Note 1 of the 2017 Registration Document), 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 disbursements relating to acquisitions of property, plant and equipment and intangible assets.

Quantified segment information for 2017 and 2018 is presented on pages 7 to 9.

Note 6 - Revenue

BREAKDOWN OF REVENUE BY BUSINESS

First-half 2018

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defense	Aerosystems	Aircraft Interiors	Holding company and other	Total
Description of products/services							
Sales of original equipment and other equipment	1,960	1,659	427	428	538	-	**5,012**
After-sales support	2,690	835	160	245	187	-	**4,117**
Studies, research and development (RTDI)	25	27	59	35	32	5	**183**
Other	16	31	2	15	12	5	**81**
Total revenue	**4,691**	**2,552**	**648**	**723**	**769**	**10**	**9,393**
Timing of revenue recognition							
At a point in time	3,971	2,349	482	657	724	10	**8,193**
Over time	720	203	166	66	45	-	**1,200**
Total revenue	**4,691**	**2,552**	**648**	**723**	**769**	**10**	**9,393**

First-half 2017*

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defense	Aerosystems	Aircraft Interiors	Holding company and other	Total
Description of products/services							
Sales of original equipment and other equipment	1,818	1,784	401	-	-	-	4,003
After-sales support	2,777	839	166	-	-	-	3,782
Studies, research and development (RTDI)	29	45	54	-	-	5	133
Other	18	73	(1)	-	-	3	93
Total revenue	**4,642**	**2,741**	**620**	**-**	**-**	**8**	**8,011**
Timing of revenue recognition							
At a point in time	3,997	2,543	440	-	-	6	6,986
Over time	645	198	180	-	-	2	1,025
Total revenue	**4,642**	**2,741**	**620**	**-**	**-**	**8**	**8,011**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.2, “Impact at June 30, 2017”).

Revenue is broken down into four categories which best reflect the Group’s main businesses:

- Sales of original equipment and other equipment

These sales reflect quantities specified in contracts or aircraft programs as well as contractual financing received from customers to develop these products.

- After-sales support, which includes deliveries of spare parts and maintenance contracts

As these sales are contingent on repairs and maintenance requested by airline companies, they are included within services and volumes that are less predictable since they depend on the condition of fleets.

- Sales of studies, research and development

Contracts are drawn up for all such development work, which represents separate performance obligations. This categories relates to specific work carried out for a given project or program.

- Other

In terms of revenue recognition, it should be noted for each of these business sectors that:

Most revenue within the Group is recognized “at a point in time”.

Revenue recognized on a percentage-of-completion basis (“over time”) mainly concerns service and after-sales support contracts in the Propulsion and Aircraft Equipment segments.

In other sectors, it concerns contract-related activities accounted for as an overall performance obligation.

Note 7 - Breakdown of the other main components of profit from operations

Data for first-half 2017 do not include Zodiac Aerospace, which was acquired after the end of the reporting period.

OTHER INCOME

(in € millions)	First-half 2017	First-half 2018
Research tax credit[(1)]	74	72
Competitiveness and employment tax credit (CICE)	21	22
Other operating subsidies	39	40
Other operating income	9	14
Total	**143**	**148**

(1) Of which €5 million in connection with additional research tax credits in respect of 2017, included in first-half 2018 income (€8 million in respect of 2016 included in first-half 2017 income).

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	First-half 2017*	First-half 2018
Raw materials, supplies and other	(1,434)	(2,310)
Bought-in goods	(71)	(20)
Changes in inventories	50	38
Contract costs	1	8
Sub-contracting	(2,162)	(1,990)
Purchases not held in inventory	(223)	(188)
External service expenses	(945)	(1,112)
Total	**(4,784)**	**(5,574)**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.2, “Impact at June 30, 2017”).

PERSONNEL COSTS

(in € millions)	First-half 2017	First-half 2018
Wages and salaries	(1,386)	(1,739)
Social security contributions	(579)	(718)
Statutory employee profit-sharing	(67)	(77)
Optional employee profit-sharing	(73)	(76)
Additional contributions	(38)	(43)
Corporate social contribution	(36)	(40)
Other employee costs	(58)	(77)
Total	**(2,237)**	**(2,770)**

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE

(in € millions)	First-half 2017*	First-half 2018
Net depreciation and amortization expense		
- intangible assets	(177)	(202)
- property, plant and equipment	(198)	(247)
Total net depreciation and amortization expense(1)	**(375)**	**(449)**
Net increase in provisions	**15**	**(29)**
Depreciation, amortization and increase in provisions, net of use	**(360)**	**(478)**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3, "Change in accounting policy").

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €30 million in first-half 2018 and €33 million in first-half 2017; and during recent acquisitions: €19 million in first-half 2018 and €20 million in first-half 2017.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	First-half 2017*	First-half 2018	First-half 2017*	First-half 2018
Property, plant and equipment and intangible assets	(16)	(4)	3	2
Financial assets	-	-	3	1
Contract costs	-	-	7	6
Inventories and work-in-progress	(182)	(150)	105	131
Receivables	(26)	(24)	22	17
Contract assets	-	-	4	1
Total	**(224)**	**(178)**	**144**	**158**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2017*	First-half 2018
Capital gains and losses on asset disposals	10	(2)
Royalties, patents and licenses	(9)	(13)
Losses on irrecoverable receivables	(5)	(7)
Other operating income and expenses	56	42
Total	**52**	**20**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2017	First-half 2018
Impairment net of reversals on intangible assets	-	1
Other non-recurring items	(16)	(27)
Total	**(16)**	**(26)**

In first-half 2018, other non-recurring items chiefly include transaction costs totaling €32 million and capital gains on the disposal of property for €5 million.

In first-half 2017, other non-recurring items concern €16 million in transaction costs.

Note 8 - Financial income (loss)

(in € millions)	First-half 2017*	First-half 2018
Financial expense on interest-bearing financial liabilities	(40)	(43)
Financial income on cash and cash equivalents	12	9
Cost of net debt	**(28)**	**(34)**
Gain (loss) on foreign currency hedging instruments	2,740	(189)
Foreign exchange gains and losses	(387)	33
Net foreign exchange gains (losses) on provisions	31	(19)
Foreign exchange gain (loss)	**2,384**	**(175)**
Gain or loss on interest rate and commodity hedging instruments	4	1
Change in the fair value of assets at fair value through profit or loss	-	5
Impairment of available-for-sale financial assets	(2)	-
Dividends received	1	1
Other financial provisions	-	(1)
Interest component of IAS 19 expense	(6)	(6)
Impact of discounting	-	(8)
Other	-	(3)
Other financial income and expense	**(3)**	**(11)**
Financial income (loss)	**2,353**	**(220)**
of which financial expense	**(435)**	**(269)**
of which financial income	**2,788**	**49**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017"), but have not been restated to reflect the impact of the change in accounting policy resulting from the limited retrospective application of IFRS 9, "Financial Instruments" (see Note 3.b, "Application of IFRS 9").

Data for first-half 2017 do not include Zodiac Aerospace, which was acquired after the end of the reporting period.

In first-half 2018, the €189 million loss 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 loss results chiefly from the change in the EUR/USD closing exchange rate (1.17 at June 30, 2018 versus 1.20 at December 31, 2017).

The €33 million foreign exchange gain includes:

- €83 million in income on unwinding currency derivatives hedging operating cash flows recognized in profit or loss in the period. This foreign exchange gain reflects the fact that the currency derivatives unwound in the period broadly guaranteed a EUR/USD exchange rate of USD 1.18 for €1, which proved more favorable than the actual exchange rate observed during the period;
- €50 million in net foreign exchanges losses resulting mainly from the remeasurement of monetary items at the closing rate.

Note 9 - *Income tax*

Group tax is calculated by using the projected annual rates in each of the Group's tax jurisdictions, adjusted for the main permanent differences identified.
The tax expense in first-half 2018 amounts to €100 million.
In first-half 2018, changes in the fair value of currency derivatives recognized in financial income (loss) generated €72 million in deferred tax income.
In first-half 2017, changes in the fair value of currency instruments amounted to a positive €2,740 million and generated a deferred tax expense.

Note 10 - *Earnings per share*

	Index	First-half 2017*	First-half 2018
Numerator (in € millions)			
Profit for the period attributable to owners of the parent	(a)	3,221	535
Profit from continuing operations attributable to owners of the parent	(i)	2,449	535
Profit from discontinued operations attributable to owners of the parent	(j)	772	-
Denominator (in shares)			
Total number of shares	(b)	417,029,585	443,680,643
Number of treasury shares held	(c)	7,773,268	9,129,450
Number of shares excluding treasury shares	(d)=(b-c)	409,256,317	434,551,193
Weighted average number of shares (excluding treasury shares)	(d')	411,224,858	428,935,570
Potentially dilutive ordinary shares	(e)	7,277,205	12,287,283
Weighted average number of shares after dilution	(f)=(d'+e)	418,502,063	441,222,853
Ratio: earnings per share from continuing operations (in €)			
Basic earnings per share	(k)=(i*1million)/(d')	5.96	1.25
Diluted earnings per share	(l)=(i*1million)/(f)	5.85	1.21
Ratio: earnings per share from discontinued operations (in €)			
Basic earnings per share	(m)=(j*1million)/(d')	1.88	-
Diluted earnings per share	(n)=(j*1million)/(f)	1.84	-

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

At June 30, 2018, potentially dilutive ordinary shares essentially comprise shares that may be issued if all of the options issued by the Group as part of the issue of bonds convertible and/or exchangeable for new and/or existing shares (OCEANE 2016-2020 and OCEANE 2018-2023 – see Note 17.c, “Convertible bond issues”) are converted.

The calculation of earnings per share in first-half 2018 includes 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 4, “Scope of consolidation”). The Class A Preferred Shares bear dividend rights as from their date of issuance.

Note 11 - Goodwill

Goodwill breaks down as follows:

(in € millions)	**Dec. 31, 2017** Net	Changes in scope of consolidation	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments and other	**June 30, 2018** **Net**
Safran Aircraft Engines	392	-	-	-	-	392
Safran Helicopter Engines	307	-	-	-	-	307
Safran Aero Booster	47	-	-	-	-	47
Other	1	-	-	-	-	1
Total Aerospace Propulsion	**747**	**-**	**-**	**-**	**-**	**747**
Safran Nacelles	213	-	-	-	-	213
Safran Engineering Services	78	-	-	-	(2)	76
Safran Landing Systems	190	-	-	-	-	190
Technofan – Ventilation Systems	10	-	-	-	-	10
Safran Electrical & Power	464	-	-	-	5	469
Total Aircraft Equipment	**955**	**-**	**-**	**-**	**3**	**958**
Safran Electronics & Defense	129	-	-	-	1	130
Total Defense	**129**	**-**	**-**	**-**	**1**	**130**
Zodiac Aerospace	-	5,511	-	-	-	5,511
Total Zodiac Aerospace	**-**	**5,511**	**-**	**-**	**-**	**5,511**
Total	**1,831**	**5,511**	**-**	**-**	**4**	**7,346**

<u>Annual impairment tests</u>

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 2017) and at 2% for the Aerospace Propulsion and Aircraft Equipment CGUs (unchanged from 2017);
- the average USD exchange rate adopted is 1.18 for years 2019 to 2021 and 1.30 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 22, "Management of market risks and derivatives");
- the benchmark post-tax discount rate used is 7.5% (unchanged from 2017) 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 2017.

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 2018 as in 2017, 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 12 - Intangible assets

Intangible assets break down as follows:

(in € millions)	Dec. 31, 2017*			June 30, 2018		
	Gross	Amortization/ impairment	Net	Gross	Amortization/ impairment	Net
Aircraft programs	2,350	(1,450)	900	2,351	(1,502)	849
Development expenditures	4,814	(1,508)	3,306	5,791	(1,820)	3,971
Commercial agreements and concessions	661	(98)	563	672	(109)	563
Software	547	(467)	80	621	(521)	100
Commercial relationships	198	(80)	118	210	(92)	118
Technology	83	(25)	58	84	(28)	56
Other	715	(144)	571	793	(165)	628
Total	**9,368**	**(3,772)**	**5,596**	**10,522**	**(4,237)**	**6,285**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

Movements in intangible assets break down as follows:

(in € millions)	**Gross**	**Amortization/ impairment**	**Net**
At December 31, 2017*	**9,368**	**(3,772)**	**5,596**
Capitalization of R&D expenditure(1)	144	-	144
Capitalization of other intangible assets	21	-	21
Acquisitions of other intangible assets	34	-	34
Disposals and retirements	(1)	1	-
Amortization	-	(202)	(202)
Impairment losses recognized in profit or loss	-	-	-
Reclassifications	(2)	-	(2)
Changes in scope of consolidation (including Zodiac Aerospace)	929	(254)	675
Foreign exchange differences	29	(10)	19
At June 30, 2018	**10,522**	**(4,237)**	**6,285**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

(1) Including €4 million in capitalized interest on R&D expenditure at June 30, 2018 (€6 million at June 30, 2017).

Research and development expenditure recognized in recurring operating income for the period totaled €530 million including amortization (€448 million in half-year 2017). This amount does not include the research tax credit recognized in the income statement within "Other income" (see Note 7, "Breakdown of the other main components of profit from operations").

Amortization was recognized in respect of intangible assets for €49 million relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger (€30 million), and to assets identified as part of other business combinations (€19 million).

No impairment losses were recognized as a result of the impairment tests carried out in first-half 2018 or first-half 2017.

Note 13 - Property, plant and equipment

Property, plant and equipment break down as follows:

	Dec. 31, 2017			June 30, 2018		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	204	-	204	219	-	219
Buildings	1,624	(750)	874	1,941	(890)	1,051
Technical facilities, equipment and tooling	4,711	(3,127)	1,584	5,300	(3,479)	1,821
Assets in progress, advances	750	(76)	674	849	(69)	780
Site development and preparation costs	51	(30)	21	56	(32)	24
Buildings on land owned by third parties	90	(31)	59	83	(32)	51
Computer hardware and other equipment	459	(357)	102	644	(474)	170
Total	**7,889**	**(4,371)**	**3,518**	**9,092**	**(4,976)**	**4,116**

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

(in € millions)	**Gross**	**Depreciation/ impairment**	**Net**
At December 31, 2017	**7,889**	**(4,371)**	**3,518**
Internally produced assets	34	-	34
Additions[(1)]	332	-	332
Disposals and retirements	(53)	40	(13)
Depreciation	-	(247)	(247)
Impairment losses recognized in profit or loss	-	(2)	(2)
Reclassifications	(5)	6	1
Changes in scope of consolidation (including Zodiac Aerospace)	852	(380)	472
Foreign exchange differences	43	(22)	21
At June 30, 2018	**9,092**	**(4,976)**	**4,116**

(1) Including €6 million in assets held under finance leases.

Note 14 - Current and non-current financial assets

Financial assets include:

	Dec. 31, 2017			June 30, 2018		
(in € millions)	Gross	Impairment	Net	Gross	Impairment	Net
Non-consolidated investments	N/A	N/A	226	N/A	N/A	310
Other financial assets	2,298	(87)	2,211	362	(86)	276
Total	**N/A**	**N/A**	**2,437**	**N/A**	**N/A**	**586**

Non-consolidated investments are measured at fair value or at cost if cost appropriates fair value.

Other financial assets are measured at amortized cost.
The Group reviewed the value of its other financial assets in order to determine whether any items needed to be written down based on available information.

No material write-downs were recognized in first-half 2018.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2017	June 30, 2018
Loans to non-consolidated companies	108	157
Loans to employees	31	31
Deposits and guarantees	2,007	7
Other	65	81
Total	**2,211**	**276**
Non-current	**98**	**149**
Current	**2,113**	**127**

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

The table below shows movements in other financial assets:

(in € millions)	
At December 31, 2017	**2,211**
Increase	33
Decrease	(2,024)
Impairment (reversals/additions)	1
Changes in scope of consolidation (including Zodiac Aerospace)	55
At June 30, 2018	**276**

The decrease in other financial assets at June 30, 2018 is mainly due to the transfer to cash and cash equivalents 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”).

The fair value of other financial assets approximate their carrying amount.

Note 15 - 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, 2017*	June 30, 2018
ArianeGroup	1,557	1,546
Other joint ventures	570	598
Total	**2,127**	**2,144**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

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

(in € millions)	
At December 31, 2017*	**2,127**
Share in profit from ArianeGroup	20
Share in profit from other joint ventures	43
Dividends received from joint ventures(1)	(61)
Changes in scope of consolidation	2
Foreign exchange differences	17
Other movements	(4)
At June 30, 2018	**2,144**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

(1) Including €27 million in dividends receivable at June 30, 2018.

The Group's off-balance sheet commitments with joint ventures are described in Note 24, "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: space 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;
- EZ Air Interior Ltd: cabin interiors.

ArianeGroup is the Group's sole material joint venture.

Financial information for ArianeGroup can be summarized as follows:

(in € millions)	Dec. 31, 2017*	June 30, 2018
Non-current assets	1,134	1,277
Current assets	5,360	5,773
of which: cash and cash equivalents	*807*	*487*
Non-current liabilities	(496)	(566)
of which: non-current financial liabilities	*(31)*	*(32)*
Current liabilities	(6,448)	(6,924)
of which: current financial liabilities	*(36)*	*(139)*
Non-controlling interests	7	3
Net assets of ArianeGroup (excl. goodwill and PPA) – attributable to owners of the parent (based on a 100% interest)	**(457)**	**(443)**
Equity share in net assets of ArianeGroup (excl. goodwill and PPA) (based on a 50% interest)	(229)	(222)
Purchase price allocation, net of deferred taxes	609	591
Safran equity share – Net assets of ArianeGroup	**381**	**370**
Goodwill	**1,176**	**1,176**
Carrying amount of investment in ArianeGroup	**1,557**	**1,546**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers".

(in € millions)	First-half 2017*	First-half 2018
Profit for the period attributable to owners of the parent	**113**	**77**
Other comprehensive income (expense)	20	(4)
Total comprehensive income attributable to owners of the parent	**133**	**73**
Safran equity share – Profit for the period	56	39
Amortization of purchase price allocation, net of deferred taxes	(25)	(19)
Safran equity share in profit of ArianeGroup	**31**	**20**
Safran equity share – Other comprehensive income (expense)	10	(2)
Safran equity share in comprehensive income of ArianeGroup	**41**	**18**

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers".

No dividends were paid by ArianeGroup in first-half 2018.

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

(in € millions)	First-half 2017	First-half 2018
Profit from continuing operations	25	43
Other comprehensive income (expense)	(29)	12
Total comprehensive income (expense)	**(4)**	**55**

Note 16 - Cash and cash equivalents

(in € millions)	Dec. 31, 2017	June 30, 2018
Money-market funds	1,293	10
Short-term investments	2,077	1,072
Sight deposits	1,544	1,298
Total	**4,914**	**2,380**

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, 2017	**4,914**
Movements during the period	(2,914)
Changes in scope of consolidation (including Zodiac Aerospace)	382
Foreign exchange differences	(2)
At June 30, 2018	**2,380**

Changes in cash and cash equivalents in first-half 2018 notably include the payment made as part of the tender offer for Zodiac Aerospace, representing an outflow of €4,474 million, and the transfer to cash and cash equivalents of money market funds which were pledged during the Zodiac tender offer, representing an inflow of €2,000 million. These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction (see Note 14, "Current and non-current financial assets").

Note 17 - Consolidated shareholders' equity

17.a. Share capital

At June 30, 2018, Safran's share capital was fully paid up and comprised 443,680,643 shares, each with a par value of €0.20.

Safran's equity does not include any equity instruments issued other than its shares.

17.b. Breakdown of share capital and voting rights

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

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 (*Code de commerce*).

June 30, 2018

Shareholders	Number of shares	% share capital	Number of voting rights(1)	% voting rights(1)
Private investors	345,362,187	77.84%	360,935,513	67.73%
French State	58,393,131	13.16%	116,786,262	21.91%
Employees(2)	30,795,875	6.94%	55,195,215	10.36%
Treasury shares	9,129,450	2.06%	-	-
Total	**443,680,643**	**100.00%**	**532,916,990**	**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 9,129,450 treasury shares have no voting rights.

At June 30, 2018, the total number of shares includes the 26,651,058 preferred shares issued on February 13, 2018 in consideration for the 88,847,828 Zodiac Aerospace shares tendered to the subsidiary exchange offer.

Treasury shares

The number of treasury shares has increased since December 31, 2017 following:

- the sale of 44,657 shares under the Group's liquidity agreement, net of shares purchased;
- the purchase of 1,431,483 shares in connection with the implementation of the share buyback program.

On June 15, 2017, 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 €95 per share. This authorization was renewed by the Shareholders' Meeting of May 25, 2018, which set the maximum purchase price at €118 per share.

Pursuant to these authorizations and to the liquidity agreement signed in 2012 with Oddo BHF, the Company purchased 865,909 shares for €81 million, and sold 910,566 shares for €85 million. At June 30, 2018, 150,699 shares were held in connection with the liquidity agreement.

On May 24, 2017, Safran announced that it intended to buy back up to €2,300 million in shares over a two-year period, starting as soon as its tender offer for Zodiac Aerospace had been completed. Since the offer was completed on March 23, 2018 following the mandatory squeeze-out of Zodiac Aerospace shares, Safran signed:

- a share purchase agreement with an investment services firm on March 27, 2018 for an initial buyback tranche of up to €230 million;
- a share purchase agreement with a different investment services firm on June 29, 2018 for a second tranche of up to €400 million.

At June 30, 2018, the first buyback tranche had been completed, concerning the purchase of 1,431,483 shares for €122 million. No shares have been bought back as yet under the second buyback tranche.

17.c. Convertible bond issues

Océane 2016-2020

On January 8, 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.

This bond comes 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.

Océane 2018-2023

On June 21, 2018, Safran issued 4,996,431 bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) for a total nominal amount of €700 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.

This bond comes 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 June 21, 2023.

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

After deducting issuance fees, a total of €653 million is recognized under interest-bearing financial liabilities, which corresponds to the discounted value of cash flows from a similar bond with no Conversion Rights (see Note 20, “Interest-bearing financial liabilities”).

The effective annual interest rate on the liability component is 1.40% including issuance fees.

The option component recognized in equity was valued at €44 million on the issue date, or €31 million after the deferred tax impact (see the consolidated statement of changes in shareholders’ equity).

17.d. DIVIDEND DISTRIBUTION

A dividend payout of €1.60 per share in respect of 2017 was approved and paid in first-half 2018, representing a total amount of €695 million.

Note 18 - Provisions

Provisions break down as follows:

(in € millions)	**Dec. 31, 2017***	Additions	Reversals: Utilizations	Reversals: Reclassifications	Reversals: Surplus	Changes in scope of consolidation (including Zodiac Aerospace)	Other	**June 30, 2018**
Performance warranties	637	210	(57)	-	(74)	96	7	819
Financial guarantees	5	1	-	-	(1)	-	-	5
Post-employment benefits	813	33	(50)	-	-	125	7	928
Sales agreements and long-term receivables	392	60	(23)	-	(19)	68	4	482
Provisions for losses on completion and losses arising on delivery commitments	72	11	(17)	-	(7)	27	(5)	81
Disputes and litigation	39	4	(4)	-	(1)	4	(2)	40
Other	230	43	(49)	-	(7)	61	(1)	277
Total	**2,188**	362	(200)	-	(109)	381	10	**2,632**
Non-current	1,263							**1,506**
Current	925							**1,126**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, “Revenue from Contracts with Customers” (see Note 3.a.3, “Impact at December 31, 2017”).

For the Silvercrest program, the Group has recorded provisions to cover its contractual obligations as they currently stand, including penalties payable to Dassault in connection with the development phase.

The impacts on the income statement of overall movements in provisions can be analyzed as follows:

(in € millions)	**First-half 2018**
Net additions recognized in recurring operating income (loss)	(29)
Net additions recognized in financial income (loss)	(24)
Total	**(53)**

Note 19 - 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, 2017	**569**
New advances received	21
Advances repaid	(20)
Sub-total: changes giving rise to cash flows	**1**
Cost of borrowings and discounting	16
Foreign exchange differences	(1)
Other	1
Changes in scope of consolidation (including Zodiac Aerospace)	24
Adjustments to the probability of repayment of advances	-
Sub-total: changes with no cash impacts	**40**
At June 30, 2018	**610**

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 20 - Interest-bearing financial liabilities

Breakdown of interest-bearing financial liabilities:

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Bond issue	1,209	912
OCEANE convertible bond	622	1,280
Senior unsecured notes in USD	1,006	877
Finance lease liabilities	140	134
Other long-term borrowings	269	393
Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)	**3,246**	**3,596**
Bond issue	-	499
Senior unsecured notes in USD	-	133
Finance lease liabilities	26	27
Other long-term borrowings	258	540
Accrued interest not yet due	15	21
Current interest-bearing financial liabilities, long-term at inception	**299**	**1,220**
Commercial paper	850	764
Short-term bank facilities and equivalent	241	325
Current interest-bearing financial liabilities, short-term at inception	**1,091**	**1,089**
Total current interest-bearing financial liabilities (less than 1 year)	**1,390**	**2,309**
Total interest-bearing financial liabilities(1)	**4,636**	**5,905**

(1) The fair value of interest-bearing financial liabilities amounts to €6,053 million (€4,710 million at December 31, 2017).

Movements in this caption break down as follows:

(in € millions)	
At December 31, 2017	**4,636**
Increase in long-term borrowings at inception (excluding finance lease liabilities)	702
Decrease in long-term borrowings at inception[1]	(477)
Change in short-term borrowings	(601)
Sub-total: changes giving rise to cash flows	**(376)**
Increase in finance lease liabilities	6
Accrued interest	8
Changes in scope of consolidation (including Zodiac Aerospace)	1,415
Reclassification of Zodiac Aerospace hybrid debt	250
Foreign exchange differences	19
Option component of the OCEANE convertible bond[2]	(44)
Change in the fair value of borrowings hedged with interest rate instruments[3]	(24)
Reclassifications and other	15
Sub-total: changes with no cash impacts	**1,645**
At June 30, 2018	**5,905**

(1) Including €250 million relating to the repayment of Zodiac Aerospace hybrid debt.
(2) See Note 17.c, “Convertible bond issues”.
(3) See Note 22, “Management of market risks and derivatives”.

Analysis by maturity:

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Maturing in:		
1 year or less	1,390	2,309
More than 1 year and less than 5 years	2,552	2,895
Beyond 5 years	694	701
Total	**4,636**	**5,905**

Analysis by currency:

	Dec. 31, 2017		**June 30, 2018**	
(in millions of currency units)	**Currency**	**EUR**	**Currency**	**EUR**
EUR	3,450	3,450	4,744	4,744
USD	1,384	1,154	1,337	1,148
CAD	-	-	2	1
Other	N/A	31	N/A	12
Total		**4,636**		**5,905**

Analysis by type of interest rate:

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

	Total		**Non-current**				**Current**			
	Dec. 31, 2017	**June 30, 2018**	Dec. 31, 2017		**June 30, 2018**		Dec. 31, 2017		**June 30, 2018**	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	2,912	3,839	1,892	3.17%	2,746	2.73%	1,020	0.10%	1,093	0.70%
Floating rate	1,724	2,066	1,354	0.33%	850	0.48%	370	0.56%	1,216	0.48%
Total	**4,636**	**5,905**	**3,246**	**1.99%**	**3,596**	**2.20%**	**1,390**	**0.22%**	**2,309**	**0.58%**

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

	Total		**Non-current**				**Current**			
	Dec. 31, 2017	**June 30, 2018**	Dec. 31, 2017		**June 30, 2018**		Dec. 31, 2017		**June 30, 2018**	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	1,823	**2,744**	805	1.97%	1,658	1.85%	1,018	0.10%	1,086	0.70%
Floating rate	2,813	**3,161**	2,441	1.62%	1,938	2.32%	372	0.56%	1,223	0.48%
Total	**4,636**	**5,905**	**3,246**	**1.71%**	**3,596**	**2.10%**	**1,390**	**0.22%**	**2,309**	**0.58%**

The Group's net debt position is as follows:

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Cash and cash equivalents (A)	4,914	2,380
Interest-bearing financial liabilities (B)	4,636	5,905
Fair value of interest rate derivatives hedging borrowings (C)	16	(8)
Total (A) - (B) + (C)	**294**	**(3,533)**

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 negative impact of €29 million on the Group's net debt at June 30, 2018. Since this issue classified as a net investment hedge, the offsetting entry was a reduction in consolidated equity (see the consolidated statement of comprehensive income).

The Group's gearing ratio is shown below:

(in € millions)	**Dec. 31, 2017***	**June 30, 2018**
Net debt	294	(3,533)
Total equity	9,648	10,796
Gearing ratio	**N/A**	**32.73%**

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

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 4.28% in 2018 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 2-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 4-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 8, 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 17.c, "Convertible bond issues").

- Bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) on June 21, 2018 for a nominal total amount of €700 million. These bonds do not carry a coupon and were offered at an issue price of €700 million, or 100% of par, corresponding to a gross yield-to-maturity of 0.00%. Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on June 21, 2023. The effective annual interest rate on the liability component is 1.40% including issuance fees (see Note 17.c, "Convertible bond issues").

- 10-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 1.21% in 2018 after taking account of interest rate derivatives.

- Euro placement ("Euro PP") in the form of a syndicated loan with an original maturity of seven years, contracted by Zodiac Aerospace on March 10, 2016 and falling due on March 10, 2023, on which €180 million was outstanding at June 30, 2018 at an adjustable rate of 3.302%. This loan for an initial amount of €230 million also included a €50 million floating-rate tranche which the Group chose to repay early on March 20, 2018.

- European Investment Bank (EIB) borrowings: €112.5 million (€112.5 million at December 31, 2017). 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: €369.6 million (€351.2 million at December 31, 2017).
  The maximum maturity is five years and the amount falling due within one year is €232.7 million. The interest rate is set annually and indexed to the 5-year French treasury bill rate (BTAN), i.e., 0.722% for 2018 and 0.70% for 2017.

- Schuldschein loan set up by Zodiac Aerospace on July 25, 2013, breaking down as follows at June 30, 2018:

  - a tranche with an initial maturity of five years, maturing on July 25, 2018, on which €212.5 million was outstanding, including €168.5 million at 6-month Euribor +1.90% floating-rate interest and €44 million at fixed-rate interest of 2.936%;

  - a tranche with an initial maturity of seven years, maturing on July 27, 2020, on which €152.5 million was outstanding, including €53.5 million at 6-month Euribor +2.20% floating-rate interest and €99 million at fixed-rate interest of 3.605%. Since an agreement was reached with the lenders prior to June 30, 2018 providing for early repayment of the €53.5 million floating-rate portion on July 25, 2018, this liability was classified within current financial liabilities in the consolidated balance sheet at June 30, 2018. On July 25, 2018, Zodiac Aerospace repaid €95 million of the fixed-interest portion of the facility ahead of maturity. As the facility was replaced by one contracted by Safran with the same lenders, for the same amount, under the same financial terms and with the same residual maturity, the €95 million was not reclassified within current financial liabilities at June 30, 2018. Following this early repayment, only €4 million of this debt remains outstanding at fixed-rate interest.

  At June 30, 2018, outstanding borrowings reflect the fact that between March 1, 2018 and June 30, 2018, certain lenders requested early repayment of the loans following the change of control of Zodiac Aerospace. Accordingly, the amount outstanding on the initial 5-year tranche was reduced by €8.5 million, while the amount outstanding on the initial 7-year tranche was reduced by €1.5 million during this period.

- Safran Helicopter Engines real estate lease financing contract: €21.3 million (€24 million at December 31, 2017), 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: €37 million (€39 million at December 31, 2017), 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: €40 million (€36 million at December 31, 2017), of which €4.7 million was due within one year. The lease bears floating-rate interest and expires in February 2026.

- Following the change of control of Zodiac Aerospace, the €1,030 million "Club Deal" set up on March 14, 2014 with a contractual maturity of March 11, 2021 was terminated on

February 28, 2018 following repayment of the amounts drawn (GBP 20 million and USD 154 million).

- On March 22, 2018, Zodiac Aerospace's €250 million hybrid loan set up on March 10, 2016 was repaid in full ahead of maturity. Given the terms applicable to this loan, it was shown within equity at the date of the Zodiac Aerospace acquisition. Implementation of the repayment procedure led the Group to reclassify this amount from equity to financial liabilities (see the consolidated statement of changes in shareholders' equity).

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

MAIN SHORT-TERM BORROWINGS

- Commercial paper: €763.5 million (€850 million at December 31, 2017).
  This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

- Financial current accounts with joint ventures: €207 million (€93 million at December 31, 2017). Interest is indexed to Euribor.

Other short-term borrowings consist mainly of bank overdrafts.

SALE OF RECEIVABLES WITHOUT RECOURSE

Net debt at both June 30, 2018 and December 31, 2017 does not include trade receivables assigned without recourse, relating mainly to CFM Inc.
This confirmed facility for USD 1,375 million, maturing in December 2018 and renewed in February 2018 by a syndicate of seven banks led by Crédit Agricole CIB (USD 2,350 million at December 31, 2017), had been drawn in an amount of USD 1,374 million at June 30, 2018 (USD 687 million at 50%) versus USD 1,862 million (USD 931 million at 50%) at December 31, 2017.

Note 21 - Other current and non-current financial liabilities

(in € millions)	**Dec. 31, 2017**	Movements during the period	Changes in scope of consolidation (including Zodiac Aerospace)	Foreign exchange differences	Other	**June 30, 2018**
Payables on purchases of property, plant and equipment and intangible assets	147	(54)	3	-	-	**96**
Payables on purchases of investments	5	408	348	-	2	**763**
Total	**152**	**354**	**351**	**-**	2	**859**
Non-current	8					**765**
Current	144					**94**

The increase in amounts payable on purchases of investments in the period relates to the firm commitment under the share buyback program launched on June 29, 2018 for €400 million (see Note 17.b, "Breakdown of share capital and voting rights") and to the purchase commitment (put option) granted to non-controlling shareholders of Zodiac Aerospace for €339 million. These liabilities are not included in the Group's net financial position at June 30, 2018.

Note 22 - Management of market risks and derivatives

The main market risks to which the Group is exposed are foreign currency risk, interest rate risk, counterparty risk and liquidity risk.

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

	Dec. 31, 2017		June 30, 2018	
(in € millions)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate risk management	***16***	***-***	***12***	***(20)***
Fixed-for-floating interest rate swaps	16	-	12	(20)
Foreign currency risk management	***566***	***(805)***	***819***	***(1,230)***
Currency swaps	-	-	-	-
Purchase and sale of forward currency contracts	135	(349)	98	(406)
Currency option contracts	431	(455)	721	(824)
Total	**582**	**(805)**	**831**	**(1,250)**

All derivatives are categorized within level 2 of the fair value hierarchy set out in IFRS 13 (as at December 31, 2017).
Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) are taken into account when measuring the fair value of derivatives.

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 operating expenses for these activities totaled USD 4.2 billion in first-half 2018 (USD 3.9 billion in first-half 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 an unfavorable monetary environment.

HEDGING POLICY

The Group's foreign currency risk management policy is described in section 3.1, Note 26 of the 2017 Registration Document.
It also applies to Zodiac Aerospace. During a transition period running from the acquisition date (February 28, 2018) to August 31, 2018, Zodiac Aerospace's foreign currency risk is managed using the portfolio of currency derivatives which were outstanding at the acquisition date.

FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

(in millions of currency units)	Dec. 31, 2017				June 30, 2018			
	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	**(215)**				**(308)**			
Short USD position	(164)	10,253	10,203	50	(328)	5,129	5,129	-
Of which against EUR	*(165)*	*10,097*	*10,097*	*-*	*(325)*	*5,038*	*5,038*	*-*
Long USD position	(16)	(1,069)	(869)	(200)	42	(2,407)	(1,507)	(900)
Of which against EUR	*(14)*	*(851)*	*(651)*	*(200)*	*37*	*(2,249)*	*(1,349)*	*(900)*
Short USD position against GBP	-	-	-	-	-	-	-	-
Short EUR position against GBP	-	-	-	-	(1)	(166)	(166)	-
Short EUR position against CAD	7	16	3	13	3	53	4	49
Long ZAR position against EUR	-	-	-	-	-	(4)	(4)	-
Long THB position against USD	-	-	-	-	-	(221)	(221)	-
Long CZK position against USD	-	-	-	-	-	(166)	(166)	-
Long MXN position against EUR	-	-	-	-	5	(8,412)	-	(8,412)
Long PLN position against EUR	-	(40)	(40)	-	-	-	-	-
Long MXN position against USD	(42)	(4,000)	(2,650)	(1,350)	(29)	(3,090)	(3,090)	-
Currency option contracts	**(24)**				**(103)**			
USD put purchased	309	13,795	12,795	1,000	538	22,854	11,104	11,750
USD call purchased	23	(4,160)	(2,800)	(1,360)	84	(2,860)	(2,360)	(500)
USD call sold	(239)	29,859	25,867	3,992	(751)	50,820	26,920	23,900
USD put sold	(175)	(6,520)	(3,800)	(2,720)	(66)	(7,258)	(5,420)	(1,838)
EUR put purchased	7	300	300	-	23	680	680	-
EUR call sold	(4)	600	600	-	(2)	1,360	1,360	-
Accumulators – sell USD(2)	10	774	-	774	30	384	-	384
Accumulators – buy USD(2)	44	(2,580)	(2,580)	-	41	(938)	(938)	-
Accumulators – buy GBP(2)	1	(541)	(541)	-	-	-	-	-
Total	**(239)**				**(411)**			

(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 €172 million decrease in the fair value of foreign currency derivatives between December 31, 2017 and June 30, 2018 reflects a €171 million decrease in the fair value of currency hedging instruments not yet settled at June 30, 2018 and a €1 million decrease in net premiums.

In the income statement, the Group does not apply hedge accounting to these derivatives. As a result, any changes in the fair value of these instruments are recognized in full in financial income (loss).

As previously noted, Zodiac Aerospace applied hedge accounting, which was discontinued as of the acquisition date.

INTEREST RATE RISK MANAGEMENT

The Group's interest rate risk management policy is described in section 3.1, Note 26 of the 2017 Registration Document.

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, 2017					June 30, 2018				
(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	12	200	-	-	200	12	200	-	-	200
Total	**12**					**12**				

Zodiac Aerospace also set up a fixed-rate borrower/floating-rate lender swap to hedge against fluctuations in the 6-month Euribor rate. The swap was taken out for €50 million and matures on July 25, 2018.

	Dec. 31, 2017					June 30, 2018				
(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										
Floating-for-fixed						(1)	50	50	-	-
Total						**(1)**				

Between February 28, 2018 and June 30, 2018, changes in the fair value of interest rate derivatives included within "Other comprehensive income" were virtually nil.

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 1,000 million were contracted in January 2018 in connection with the assignment of trade receivables without recourse. The swaps are for a term of 11 months and were taken out on behalf of a joint arrangement 50%-owned by the Group. This transaction also gives rise to a floating-rate borrower/fixed-rate lender swap for a nominal amount of USD 500 million after elimination of intragroup items. These swaps are not eligible for hedge accounting.

(in € millions)	Dec. 31, 2017 Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years	June 30, 2018 Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years
USD interest rate swaps										
Fixed-for-floating	4	1,525	480	540	505	(20)	1,545	500	540	505
Floating-for-fixed	-	960	960	-	-	-	1,000	1,000	-	-
Total	**4**					**(20)**				

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 June 30, 2018, 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.

A number of financial covenants apply to the EIB borrowings set up in 2010 (see Note 20, "Interest-bearing financial liabilities").
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 20, "Interest-bearing financial liabilities").

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: interest-bearing 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.

The following covenant applies to the euro private placement ("Euro PP") in the form of a syndicated loan, set up by Zodiac Aerospace on March 10, 2016 and with an original maturity of seven years (see Note 20, "Interest-bearing financial liabilities"):
- net debt/EBITDA <3.5.

The following covenant applies to the Schuldschein loan contracted by Zodiac Aerospace on July 25, 2013 (see Note 20, "Interest-bearing financial liabilities"):
- net debt/EBITDA <3.5.

Note 23 - Discontinued operations

There were no discontinued operations in first-half 2018. All of the businesses in the Group's Security sector were sold in 2017.

The vendor warranties granted in connection with these disposals are presented in Note 25.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 the first half of 2017 includes the contribution of discontinued operations up to the finalization date of each of the disposals (i.e., three months for the detection activities, five months for the identity and security businesses), the disposal gain net of disposal costs and the associated tax effect:

(in € millions)	First-half 2017*	First-half 2018
Revenue	748	-
Recurring operating income	39	-
Profit (loss) for the period	(1)	-
Post-tax disposal gain on detection and security businesses	774	-
Profit from discontinued operations	773	-
Attributable to:	-	-
Owners of the parent	772	-
Non-controlling interests	1	-

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

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 24 - 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 allowing it to veto any change in control of the Company or sale of company assets.

Data for 2017 do not include Zodiac Aerospace, which was acquired after the end of the reporting period.

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

(in € millions)	**First-half 2017***	**First-half 2018**
Sales to related parties other than joint ventures	1,521	1,855
Purchases from related parties other than joint ventures	(34)	(41)

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

(in € millions)	**Dec. 31, 2017***	**June 30, 2018**
Amounts receivable from related parties other than joint ventures	1,352	1,797
Amounts payable to related parties other than joint ventures	2,447	3,000

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Commitments given to related parties other than joint ventures(1)	2,158	1,989

(1) See Note 25.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)	**First-half 2017***	**First-half 2018**
Sales to joint ventures	136	104
Purchases from joint ventures(1)	(55)	(40)

* The data published for first-half 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.2, "Impact at June 30, 2017").

(1) Mainly with Shannon Engine Support Limited.

(in € millions)	**Dec. 31, 2017***	**June 30, 2018**
Amounts receivable from joint ventures	160	158
Amounts payable to joint ventures	20	20

* The data published for December 31, 2017 have been restated to reflect the impact of the change in accounting policy resulting from the retrospective application of IFRS 15, "Revenue from Contracts with Customers" (see Note 3.a.3, "Impact at December 31, 2017").

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Commitments given to joint ventures(2)	131	121

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

Note 25 - Off-balance sheet commitments and contingent liabilities

Data for 2017 do not include Zodiac Aerospace, which was acquired after the end of the reporting period.

25.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, 2017	June 30, 2018
Purchase commitments on intangible assets	95	86
Purchase commitments on property, plant and equipment	363	338
Guarantees given in connection with the performance of operating agreements	3,590	5,219
Operating lease commitments	317	566
Financial guarantees granted on the sale of Group products	29	25
Other commitments given	369	363
Total	**4,763**	**6,597**

<u>Guarantees given in connection with the performance of operating agreements</u>

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 24, "Related parties".

The increase in this caption in first-half 2018 reflects new partnerships signed by the Group, in particular with an aircraft manufacturer in the area of auxiliary power units (APU).

<u>Operating lease commitments</u>

Commitments under operating leases can be analyzed as follows:

	Dec. 31, 2017	**June 30, 2018**	Period to maturity		
(in € millions)	Total	**Total**	Less than 1 year	1 to 5 years	Beyond 5 years
Operating lease commitments	317	**566**	101	304	161
Total	**317**	**566**	**101**	**304**	**161**

<u>Financial guarantees granted on the sale of Group products</u>

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 29 million at June 30, 2018 (USD 35 million at December 31, 2017), or €25 million (€29 million at December 31, 2017). 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 14 million at June 30, 2018 (USD 20 million at December 31, 2017), for which a provision, based on an assessment of the risk, is booked in the financial statements (see Note 18, “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 18, “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 26, “Disputes and litigation”.

(ii) Commitments received

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

(in € millions)	**Dec. 31, 2017**	**June 30, 2018**
Commitments received from banks on behalf of suppliers	18	17
Completion warranties	21	27
Endorsements and guarantees received	3	3
Other commitments received	96	152
Total	**138**	**199**

25.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, 2017	June 30, 2018
Vendor warranties given[1]	333	330

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

(ii) Vendor warranties received

(in € millions)	Dec. 31, 2017	June 30, 2018
Vendor warranties received	-	-

Vendor warranties granted in connection with the disposal of the Security businesses (see Note 4, "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 June 30, 2018, as well as a specific indemnity capped at BRL 200 million (€45 million at June 30, 2018) 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 (€63 million at June 30, 2018).

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 June 30, 2018.

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

Commitments received in respect of financing relate to:

- an unused portion of the trade receivable assignment facility (see Note 20, "Interest-bearing financial liabilities"); and
- the confirmed, undrawn syndicated credit line for €2,520 million set up in December 2015 (see Note 22, "Management of market risks and derivatives").

Note 26 - 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.

- 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 27 - Subsequent events

Issue of €500 million in 2-year bonds paying floating-rate interest

On July 5, 2018, Safran issued €500 million in 2-year floating-rate bonds. These notes carry a coupon at 3-month Euribor +33 bps (0% floor) and were issued at 100% of par.
The settlement date for the issue was July 13, 2018, and the funds raised will be used by Safran for general corporate purposes.

Silvercrest

Safran and Dassault Aviation reached an agreement regarding the indemnity to be paid to Dassault Aviation related to the termination of the Silvercrest engine for the Falcon 5X.
The amount is covered by the provisions previously booked by the Group, and the payment will be spread over three years from 2018.

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