

## **L PRESS RELEASE**

### **Safran: Strategic milestones and new operational progress in third quarter 2016**

- *Exclusive negotiations for the sale of identity and security businesses*
- *Continuing operations: revenue grew 3.8% organically thanks to services in Equipment and Propulsion*
- *Confirmation of outlook for continuing operations in 2016*

All revenue figures in this press release refer to Adjusted<sup>[Note 1]</sup> revenue and continuing operations<sup>[Note 2]</sup>. Please refer to definitions contained in the Notes on page 9 of this press release.

### **Key figures for third quarter 2016 and first nine months of 2016**

Organic variations exclude notably the effects of significant changes in scope: the classification of Safran I&S as discontinued operations and the adoption of equity accounting for Airbus Safran Launchers.

- **Adjusted revenue for continuing operations in the first nine months of 2016 was Euro 11,504 million**, an increase of 2.9% on a reported basis, up 3.8% on an organic<sup>1</sup> basis, compared to 2015.
- **Third-quarter 2016 adjusted revenue for continuing operations was Euro 3,517 million**, down (4.1)% on a reported basis year-on-year. Adjusted revenue declined (0.8)% on an organic<sup>2</sup> basis.
- **Continuing operations: 2016 guidance confirmed**

### **Key business highlights**

- On September 29, 2016, Safran entered into exclusive negotiations with Advent International, for the sale of its identity and security activities valued at Euro 2,425 million, or 12.6x EBITDA 2015. The transaction is expected to close in 2017 as is the case for the sale of the detection activities to Smiths Group following the April 21 agreement.

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<sup>1</sup> Excludes notably Safran Identity & Security from 9M2015 and 9M2016, businesses contributed to ASL from 3Q 2015.

<sup>2</sup> Excludes notably Safran Identity & Security from 3Q2015 and 3Q2016, businesses contributed to ASL from 3Q 2015.

- LEAP-1A: CFM continued to ramp-up production of the LEAP-1A as planned. During the quarter, 22 engines were delivered to Airbus and the deliveries so far in October bring the total year-to-date to over 40 engines. The first Airbus A320neo equipped with LEAP-1A engines was delivered on July 19, 2016 to Pegasus Airlines: the entry in service was smooth and aircraft in the fleet are regularly reaching 10 cycles per day. Following entry into service at AirAsia, the LEAP-1A is now operated by 2 airlines.
- LEAP-1B: The flight test on 737MAX continued to progress on track, paving the way for entry into commercial service in the first half of 2017. So far four 737MAX are in test and more than 1,370 hours of flight tests have been logged on over 1,200 flights. Measurements show that the engine is fully on track to meet the desired specifications.
- LEAP-1C: Propulsion system ready for first flight scheduled by COMAC for before year-end.
- France and India signed the contract for the acquisition by India of 36 Rafale aircraft. This is the third export contract for Dassault Aviation's fighter for which Safran supplies a number of key systems including M88 engines, power transmission, landing gear, wheels and carbon brakes, inertial navigation, wiring and other systems. Safran is also the prime contractor for the AASM Hammer weapon system.
- Safran Helicopter Engines delivered on schedule the first Arrius 2R made in the US for the Bell 505 Jet Ranger X.
- Safran Electronics & Defense inaugurated its new R&D center in Eragny-sur-Oise (France) which consolidates its R&D capabilities on major aerospace and defense projects in France and international markets, including inertial navigation system, guidance systems, tactical information systems and long-endurance surveillance drone systems.
- Safran Landing Systems signed several carbon brakes contracts, notably with TUI to equip 70 Boeing 737MAX, Okay Airways for 12 Boeing 737NG and 21 Boeing 737MAX, and Globus for 11 Boeing 737 NG and 9 Boeing 737MAX.

**Paris, 17:40 October 24, 2016**

## **Executive commentary**

CEO Philippe Petitcolin commented:

*"Safran accomplished four crucial steps this quarter.*

*On our strategic roadmap a very important milestone was achieved as we entered into exclusive negotiations for our Identity & Security business in very satisfactory financial conditions.*

*On the operational front the LEAP programme continues to progress as planned with 2 airlines operating the engine commercially on a daily basis and further entries into service are imminent. I am particularly proud that customers are expressing their satisfaction with the engine's performance. The production ramp-up is proceeding to plan and we are fully confident in our capacity to meet our commitments.*

*Our backlog continues to grow with the finalisation of an order for 36 Rafale aircraft for India in which Safran is one of the major partners. This new contract paves the way for further export success. Lastly, Safran continues on track to meet our annual targets for adjusted revenue, adjusted recurring operating income and free cash flow."*

## First Nine Months 2016 revenue

Over the first nine months, revenue grew in line with annual guidance. Growth in revenue from continuing activities includes an increase in aerospace activities partially offset by a decline in Defence.

Euros millions	Propulsion	Aircraft Equipment	Defence	Holding & Others	Safran continuing operations	Safran Identity & Security (discontinued)	Safran continuing & discontinued
<b>9M2015</b>	6,706	3,594	882	3	<b>11,185</b>	1,359	12,544
<b>9M2016</b>	6,913	3,750	837	4	<b>11,504</b>	1,419	12,923
Reported growth	3.1%	4.3%	(5.1)%	n/s	2.9%	4.4%	3.0%
Impact of changes in scope	(1.6)%	n/s	0	0	(0.9)%	0	(0.8)%
Currency impact	n/s	n/s	(0.1)%	0	n/s	(2.3)%	(0.3)%
<b>Organic growth</b>	<b>4.7%</b>	<b>4.3%</b>	<b>(5.0)%</b>	<b>n/s</b>	<b>3.8%</b>	6.7%	4.1%

Organic revenue was determined by excluding the effect of changes in scope of consolidation (Euro 106 million, of which Euro 110 million in Q3 2015 for the space launcher activities since contributed to ASL). Net currency variations were negligible (Euro 1 million) reflecting a negative translation effect on non-Euro revenues, principally GBP. The average USD/EUR spot rate was 1.12 to the Euro in the first nine months of 2016, compared to 1.11 in the year-ago period. The Group's hedge rate improved to USD 1.24 to the Euro in the third-quarter 2016 from USD 1.25 in the year-ago period.

## Third-Quarter 2016 revenue

Third quarter 2016 revenue is consistent with annual guidance. As expected, from July 1, space launcher business no longer contributes to revenues whereas it had done so in 2015 (Euro 110 million in Q3 2015).

On an organic basis, revenue from continuing activities declined slightly (0.8)% compared to the same period a year ago. As planned, no M88 deliveries were recognised in Q3 2016, whereas 8 engines had been delivered in the year-ago quarter. Civil MRO and helicopter turbine support also put pressure on the top line.

Euros millions	Propulsion	Aircraft Equipment	Defence	Holding & Others	Safran continuing operations	Safran Identity & Security (discontinued)	Safran continuing & discontinued
<b>3Q2015</b>	2,220	1,180	266	1	<b>3,667</b>	474	4,141
<b>3Q2016</b>	2,056	1,208	253	0	<b>3,517</b>	470	3,987
Reported growth	(7.4)%	2.4%	(4.9)%	n/s	(4.1)%	(0.8)%	(3.7)%
Impact of changes in scope	(5.0)%	0.2%	0	0	(2.9)%	0	(2.6)%
Currency impact	(0.1)%	(0.8)%	(0.4)%	0	(0.4)%	(0.6)%	(0.4)%
<b>Organic growth</b>	<b>(2.3)%</b>	<b>3.0%</b>	<b>(4.5)%</b>	<b>n/s</b>	<b>(0.8)%</b>	(0.2)%	(0.7)%

The currency impact (Euro 16 million) reflects a negative translation effect on non-Euro revenues, particularly GBP. The average USD/EUR spot rate was 1.12 to the Euro in the third-quarter 2016, compared to 1.11 in the year-ago period. The Group's hedge rate improved to USD 1.24 to the Euro in the third-quarter 2016 from USD 1.25 in the year-ago period.

## Currency hedges

During the third quarter, steps were taken to improve the coverage of Safran's future currency exposure. Safran's hedging portfolio totalled USD 19.5 billion on October 24, 2016.

2017: Optimisation of the hedge portfolio ensured an improvement of the target rate by 1 cent to 1.21 USD/EUR (previously 1.22 USD/EUR)

2018: Coverage of net USD/EUR exposure increased to USD 6.1 billion (previously USD 5.7 billion). This coverage was built in order to improve the upper limit of the target hedge rate range by 1 cent to 1.19 USD/EUR (previously 1.20 USD/EUR). Knock-out barriers are set at various levels between USD 1.24 and USD 1.45 with maturities up to 1 year.

2019: The upper limit of the target hedge rate range improved by 1 cent to 1.19 USD/EUR (previously 1.20 USD/EUR). Knock-out barriers are set at various levels between USD 1.19 and USD 1.45 with maturities up to 2 years.

No other significant changes to the Group's foreign exchange coverage are to be noted since the publication of first half 2016 results on July 29, 2016.

## Full-year 2016 outlook

All the businesses comprising Safran Identity & Security, including Detection, have been classified as "discontinued operations" at the end of September 2016. As a result, 2016 guidance and the 2015 comparison are based on continuing operations<sup>3</sup>: Propulsion, Aircraft Equipment, Defence, Holding & Others.

In addition, starting on July 1, 2016, Safran accounts for its share in Airbus Safran Launchers using the equity method and no longer records revenue from space activities. In 2016 the change is expected to reduce revenue by approximately Euro 400 million compared to 2015, including Euro 110 million in Q3

Safran expects for 2016 on a full-year basis,

- **Organic revenue growth by a percentage rate in the low single digits compared to 2015.** As a result of the equity accounting of the ASL joint venture, reported adjusted revenue of continuing operations is expected to show growth of close to 1% in 2016 with an estimated average spot rate of USD 1.11 to the Euro.
- **Adjusted recurring operating income likely to increase by around 5%** with a further increase in margin rate compared to 2015 (at a hedged rate of USD 1.24 to the Euro).
- **Free cash flow representing more than 40% of adjusted recurring operating income,** an element of uncertainty being the rhythm of payments by state-clients.

This guidance also confirms the outlook issued in February 2016 and reiterated in July 2016, applicable to the Group structure as of December 31, 2015.

Safran updates certain assumptions on which the guidance is based as a result of the classification of Safran I&S as discontinued activities. Comparisons are made to 2015 metrics on the basis of continuing operations.

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<sup>3</sup> Key Figures, page 8

- Reduction of self-funded R&D of the order of Euro 100-150 million with a greater drop in capitalised amounts as spending declines on LEAP, A320neo, A350 as they come closer to certification and entry into service. As a result of decreasing capitalisation and increasing amortisation of R&D costs, expensed R&D is expected to rise by around Euro 50 million.
- Sustained level of tangible capex, including expansions, new production capacity and tooling, trending below Euro 800 million, as required by production transitioning and ramp-up
- All the other assumptions presented in February and July 2016 are integrated into the updated outlook for full-year 2016.

## **Business commentary for the third quarter 2016**

### **Continuing activities**

#### **▪ Aerospace Propulsion**

In the third quarter 2016, Aerospace Propulsion recorded revenue of Euro 2,056 million impacted in particular by the delivery programme of military engines for the Rafale fighter aircraft.

Services revenue fell slightly (1.2)% as declines in civil aftermarket and helicopter turbine support offset strong growth in military services. The civil aftermarket (measured in USD) declined (1.6)% compared to the third quarter 2015. Sales of spare parts for narrowbody and widebody engines continue to increase. This growth was, however, offset by a drop in MRO revenue. Helicopter turbines support declined in the mid teens, impacted by a fall in flight hours particularly at Oil and Gas customers and the grounding of the H225 Super Puma fleet.

OE Propulsion revenue was impacted by the change in scope related to ASL. Space launchers had contributed Euro 110 million to Propulsion revenue in Q3 2015. On an organic basis, OE revenue fell (4.6)%, notably due to unfavourable phasing of deliveries as no M88 sales were recognised in Q3, compared with 8 engines delivered for Egypt in Q3 2015, offsetting higher TP400 deliveries. In civil, CFM56 deliveries continue at a strong pace with 407 shipments compared with 398 in the year-ago period. LEAP deliveries amounted to 22 in the quarter. Sales from helicopter turbines rose slightly.

Year-to-date, revenue growth of the Propulsion activities was 3.1%, or 4.7% on an organic basis. Civil aftermarket grew 5% in USD. The momentum is driven notably by services and recent CFM56, GE90 engine overhauls.

In the first 9 months, deliveries of CFM56 engines amount to 1,293 engines, up 6.5% from last year. Deliveries of LEAP amount to 33 engines as of September 30, and over 40 at the date of this statement.

#### **▪ Aircraft Equipment**

The Aircraft Equipment segment reported third-quarter 2016 revenue of Euro 1,208 million, up 3.0% on an organic basis, compared to Euro 1,180 million in the year-ago period. Service revenue grew by 8.6% and accounts for 32.4% of sales.

Equipment OE sales were flat at (0.4)% as higher deliveries of A350 wiring and landing gear shipsets, A380 and LEAP nacelles, A320ceo thrust reversers offset lower A330 volumes. Shipments to Boeing on the 787 programme were broadly stable compared to the year-ago quarter.

Services growth of 8.6% was driven primarily by landing gear and carbon brakes aftermarket. Safran is the world leader in carbon brakes for commercial aircraft over 100 seats. Nacelle aftermarket activity grew as initial provisioning commenced with A320neo-LEAP airline customers.

Year-to-date growth of the Aircraft Equipment activities was 4.3%, driven by growth in landing gear, carbon brakes and nacelles aftermarket, as well as higher shipments of A380 nacelles and equipment for A320neo, A320ceo and A350 programmes offsetting notably lower A330 volumes. On an organic basis, revenue is up 4.3%.

▪ **Defence**

Third-quarter 2016 revenue of Euro 253 million was down (4.9)%, or (4.5)% on an organic basis, compared to revenue of Euro 266 million in the year-ago period. The decline in revenue was primarily driven by the optronics activity, particularly the end of the FELIN programme. Sales in Avionics slightly declined compared to the year-ago period.

Revenue in the Defence activities declined (5.1)% in the first 9 months of 2016. On an organic basis, revenue declined (5.0)% driven by a drop in optronics sales.

**Discontinued activities**

▪ **Security**

The Security activities reported third-quarter 2016 revenue of Euro 470 million, slightly down (0.8)% compared to revenue in the year-ago period of Euro 474 million. On an organic basis, revenue declined (0.2)%.

Revenue in the Security activities grew 4.4% in the first 9 months of 2016, or 6.7% on an organic basis.

## Agenda

Safran's Board of Directors will consider the distribution of an interim 2016 dividend. If such a dividend were decided its ex-date would be December 19, 2016 and its payment date December 21, 2016.

2016 annual results                      February 24, 2017

Annual shareholders meeting    June 15, 2017

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Safran will host today a conference call open to analysts, investors and media at 18:30 CET which can be accessed at +33 (0)1 70 77 09 44 (France), +44 (0) 203 367 9457 (UK) and +1 866 907 5925 (US). A replay will be available at +33 (0)1 72 00 15 00, +44 (0) 203 367 9460 and +1 877 642 3018 (access code 303579#).

The press release, presentation and consolidated financial statements are available on the website at [www.safran-group.com](http://www.safran-group.com).

## Key figures

Segment breakdown of revenue (In Euro million)	Q3 2015	Q3 2016	% change reported	% change organic
Aerospace Propulsion	2,220	2,056	(7.4)%	(2.3)%
Aircraft Equipment	1,180	1,208	2.4%	3.0%
Defence	266	253	(4.9)%	(4.5)%
Others	1	-	Na	Na
<b>Safran (continuing operations)</b>	<b>3,667</b>	<b>3,517</b>	<b>(4.1)%</b>	<b>(0.8)%</b>
Security (discontinued)	474	470	(0.8)%	(0.2)%
<b>Safran continuing &amp; discontinued</b>	<b>4,141</b>	<b>3,987</b>	<b>(3.7)%</b>	<b>(0.7)%</b>

Segment breakdown of revenue (In Euro million)	9m 2015	9m 2016	% change reported	% change Organic
Aerospace Propulsion	6,706	6,913	3.1%	4.7%
Aircraft Equipment	3,594	3,750	4.3%	4.3%
Defence	882	837	(5.1)%	(5.0)%
Others	3	4	Na	Na
<b>Safran (continuing operations)</b>	<b>11,185</b>	<b>11,504</b>	<b>2.9%</b>	<b>3.8%</b>
Security (discontinued)	1,359	1,419	4.4%	6.7%
<b>Safran continuing &amp; discontinued</b>	<b>12,544</b>	<b>12,923</b>	<b>3.0%</b>	<b>4.1%</b>

2016 revenue by quarter (In Euro million)	Q1 2016	Q2 2016	Q3 2016
Aerospace Propulsion	2,301	2,556	2,056
Aircraft Equipment	1,219	1,323	1,208
Defence	269	315	253
Others	2	2	-
<b>Safran (continuing operations)</b>	<b>3,791</b>	<b>4,196</b>	<b>3,517</b>
Security (discontinued)	449	500	470
<b>Safran continuing &amp; discontinued</b>	<b>4,240</b>	<b>4,696</b>	<b>3,987</b>

2015 adjusted revenue by quarter (In Euro million)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015
Aerospace Propulsion	2,070	2,416	2,220	2,613	9,319
Aircraft Equipment	1,172	1,242	1,180	1,349	4,943
Defence	278	338	266	384	1,266
Others	1	1	1	5	8
<b>Safran (continuing operations)</b>	<b>3,521</b>	<b>3,997</b>	<b>3,667</b>	<b>4,351</b>	<b>15,536</b>
Security (discontinued)	414	471	474	519	1,878
<b>Safran continuing &amp; discontinued</b>	<b>3,935</b>	<b>4,468</b>	<b>4,141</b>	<b>4,870</b>	<b>17,414</b>

Segment breakdown of recurring operating income (In Euro million)	H1 2015	FY 2015	H1 2016
Aerospace Propulsion	944	1,833	942
Aircraft Equipment	199	466	271
Defence	15	64	22
Others	(53)	(82)	(5)
<b>Safran (continuing operations)</b>	<b>1,105</b>	<b>2,281</b>	<b>1,230</b>
Security (discontinued)	66	151	79
<b>Safran continuing &amp; discontinued</b>	<b>1,171</b>	<b>2,432</b>	<b>1,309</b>

Euro/USD rate	Third quarter 2015	Third quarter 2016	9 months 2015	9 months 2016
Average spot rate	1.11	1.12	1.11	1.12
Spot rate (end of period)	1.12	1.12	1.12	1.12
Hedge rate	1.25	1.24	1.25	1.24



## Notes

### [1] Adjusted revenue

To reflect the Group's actual economic performance and enable it to be monitored and benchmarked against competitors, Safran prepares an adjusted revenue.

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

- 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 foreign currency derivatives hedging future cash flows are neutralized.

Third-quarter 2016 and 9m 2016 reconciliation between consolidated revenue and adjusted revenue:

Q3 2016  <i>(In Euro million)</i>	Consolidated revenue	Hedge accounting		Business combinations		Adjusted revenue
		Remeasurement of revenue	Deferred hedging gain (loss)	Amortization intangible assets - Sagem- Snecma	PPA impacts - other business combinations	
<b>Revenue</b>	3,671	(154)	n/a	n/a	n/a	<b>3,517</b>

9m 2016  <i>(In Euro million)</i>	Consolidated revenue	Hedge accounting		Business combinations		Adjusted revenue
		Remeasurement of revenue	Deferred hedging gain (loss)	Amortization intangible assets - Sagem- Snecma	PPA impacts - other business combinations	
<b>Revenue</b>	11,977	(473)	na	na	na	<b>11,504</b>

### [2] Discontinued operations

Safran entered into exclusive negotiations with Advent International/Oberthur Technologies to sell Safran's identity and security activities (announced September 29, 2016). Following this decision, all the businesses comprising Safran Identity & Security activities have been classified as "discontinued operations" at the end of September 2016, including Detection activities which had been classified as assets and liabilities held for sale since the announcement on April 21, 2016 of the signing of an agreement for their sale to Smiths Group. The contribution of the I&S activities to Safran's financial statements is therefore presented separately from Safran's continuing operations: Propulsion, Aircraft Equipment, Defence and Holding & Others.

### [3] Civil aftermarket (expressed in USD)

This non-accounting indicator (non-audited) comprises spares and MRO (Maintenance, Repair & Overhaul) revenue for all civil aircraft engines for Safran Aircraft Engines and its subsidiaries and reflects the Group's performance in civil aircraft engines aftermarket compared to the market.

**Safran** is a leading international high-technology group with three core businesses: Aerospace (propulsion and equipment), Defence and Security. Operating worldwide, the Group has 70,000 employees and generated sales of 17.4 billion euros in 2015. Working independently or in partnership, Safran holds world or European leadership positions in its core markets. The Group invests heavily in Research & Development to meet the requirements of changing markets, including expenditures of more than 2 billion euros in 2015. Safran is listed on Euronext Paris and is part of the CAC40 index, as well as the Euro Stoxx 50 European index.

For more information : [www.safran-group.com](http://www.safran-group.com) / Follow @Safran on Twitter 

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