

# SAFRAN

## BERNARD DELPIT - GROUP CFO

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*EXANE*  
*20<sup>TH</sup> EUROPEAN CEO CONFERENCE*  
*JUNE 12, 2018*



# Key themes

**1- Finance**

**2- Operations**

**3- Capital allocation / Acquisition of Zodiac Aerospace**

**4- Governance**

# 1- Finance - Last disclosure

Adjusted data (in Euro million)	Q1 2017	Q1 2018	Change reported	Change organic
Aerospace propulsion	2,186	2,286	4.6%	12.1%
Aircraft equipment	1,304	1,263	(3.1)%	6.6%
Zodiac Aerospace	na	369	na	na
Defense	275	298	8.4%	12.0%
Holding & others	3	6	n/s	n/s
Safran	3,768	4,222	12.0%	10.2%

## Growth drivers

### ◆ Aerospace Propulsion

- > Narrowbody engines sales: 498 deliveries compared with 426 in Q1 2017
  - ◆ LEAP: 186 deliveries compared with 81 in Q1 2017
  - ◆ CFM56: 312 units compared with 345 in Q1 2017
- > Civil aftermarket up 16.4% (in USD):
  - ◆ positive momentum in spare parts sales (low double digits growth)
  - ◆ a sharp seasonal increase in the contribution of service contracts, which is expected to reverse over the course of 2018

### ◆ Aircraft equipment

- > OE organic growth driven by higher shipments for A320 family (notably nacelles for LEAP-1A powered A320neo), for 787 and by a non recurring catch up effect in nacelles deliveries for A380
- > Organic growth in services driven by carbon brakes and nacelles aftermarket

### ◆ Defense: broad-based growth in military sales and Avionics

### Offsetting impacts

- ◆ Lower volumes of high thrust engines modules, as flagged in 2018 assumptions
- ◆ Lower helicopter turbines OE sales
- ◆ Decrease in services and OE sales for military engines

**Strong start to the year**

# 1- Finance - Full-year 2018 outlook confirmed

## Reminder:

2018 guidance is established considering the full application of the new IFRS15 revenue recognition standard and is based on continuing operations (Aerospace Propulsion, Aircraft Equipment, Defense, Holding & Others) at the group's scope as of January 1, 2018.

① **Safran confirms its expectations for 2018.** Compared to its 2017 estimated restated key metrics for the application of IFRS 15, Safran expects :

- **Adjusted revenue to grow on an organic basis at the top end of the previously indicated range (2% to 4%). At an estimated average spot rate of USD 1.23 to the Euro in 2018, adjusted revenue is expected to grow slightly.**
- **Adjusted recurring operating income to grow comfortably in the upper end of the previously indicated range (7% to 10% at a hedged rate of USD 1.18 to the Euro)**
- **Free cash flow to be above 50% of adjusted recurring operating income, an element of uncertainty being the rhythm of payments by state-clients**

② **2018 Key assumptions unchanged in terms of civil aftermarket growth, reduction of self-funded R&D and capex outflows**

# 1- Finance - IFRS 15 for Safran

## Limited change in the OE accounting:

- A conservative accounting under IAS 18 which was already « IFRS 15 compliant »
- Limited reallocations of prices related to some contracts
- Performance warranties granted to customer, extended warranties and penalties deducted from revenue

## Major changes in Services accounting :

- A change in the timing of revenue and margins recognition depending on type of contracts
  - “T&M” contracts : no change – at shop visit
  - Long term maintenance contracts : as cost incurred instead of at billing
- Performance warranties granted to customer, extended warranties and penalties deducted from revenue

## No significant change in sales of studies recognition

## No change to cash

## No change to cumulative margins over the life time of a LT contract – Phasing impacts

## Changes in the balance sheet

- **Equity** (impact on consolidated equity at Jan 1, 2017 of €(0.8)bn + impact on 2017 net result of €(0.2)bn)
- **Provisions:** decrease in the amount of provisions linked to the change in accounting for maintenance contracts and warranties
- **Contracts liabilities** include deferred revenues
- **Capitalized R&D:** increase linked to Customer Financed Development, covered by an increase in deferred revenue

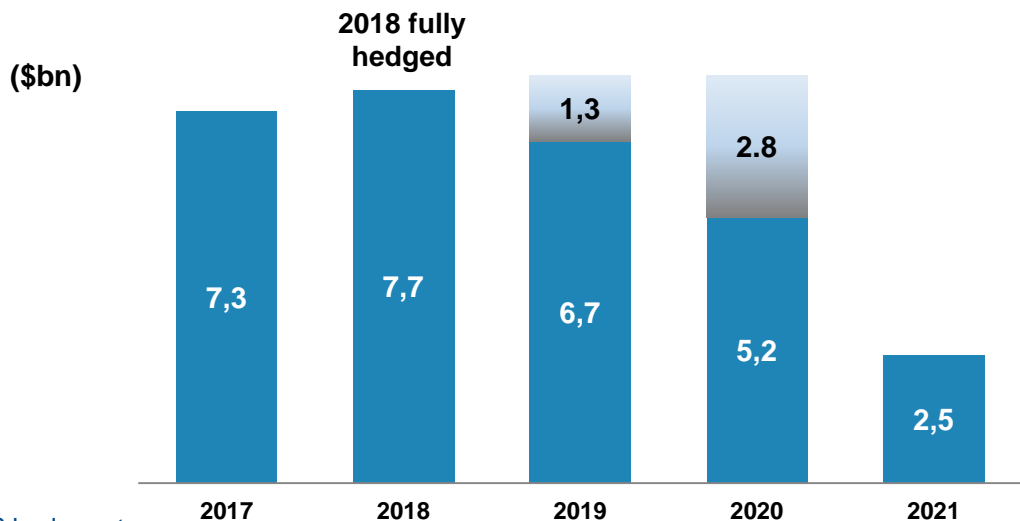
## Impact on FY2017 restated

- **Revenue** : €(568)m
- **Recurring operating income** : €(278)m

# 1- Finance - hedging policy (\$20.3bn hedge portfolio\* (April 17, 2018))

Yearly exposure: \$7.7bn to \$8.0bn

Increasing level of net USD exposure for 2018-21 in line with the growth of businesses with exposed USD revenue



€/ \$ hedge rate

Target	1.21	1.18	1.16-1.18	1.16-1.18	1.16-1.20
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\*Approx. 45% of Safran US\$ revenue are naturally hedged by US\$ procurement

- **Safran hedges its net exposure** (revenue in \$ exposed to the transaction effect) **3-4 years foward and uses a combination of various instruments** (such as options with or without KO barriers)
- Targeted hedge rates over 2018-2021 are unchanged compared to last disclosure at Q1-18 revenue
  - 2018 : fully hedged
  - 2019 : almost fully hedged  
As long as spot is below 1.26, the instruments put in place allow Safran to secure additional hedging volumes
  - 2020 : part of the portfolio is still not hedged  
Same as 2019 as long as spot is below 1.27,
  - 2021 : coverage has started  
Same as 2020 as long as spot is below 1.29
- **Sensitivity** : 1c change in the EUR/USD rate impacts EBIT by c.EUR55m

## 2- Operations - Commercial success and recent announcements

### Commercial success

#### ➤ Aerospace Propulsion

**Combined backlog (CFM56 + LEAP) at March 31, 2018:** 15,090 engines

**LEAP orders and commitments taken in Q1-2018:** 827

**Qatar selected Safran as engine supplier of its new NH90 fleet** (The 28 NH90 military helicopters will all feature RTM322 engines)

#### ➤ Aircraft Equipment

**Delivery of the 1<sup>st</sup> LEAP-1A propulsion system integrated** at the Safran Nacelles site in Mobile (USA), on May 19, 2018 to the Airbus Final assembly line teams.

**Carbon brakes : signature of several contracts including** Flynas for 60 A320neo; ANA for 11 A320neo; Shandong for 34 Boeing 737 MAX

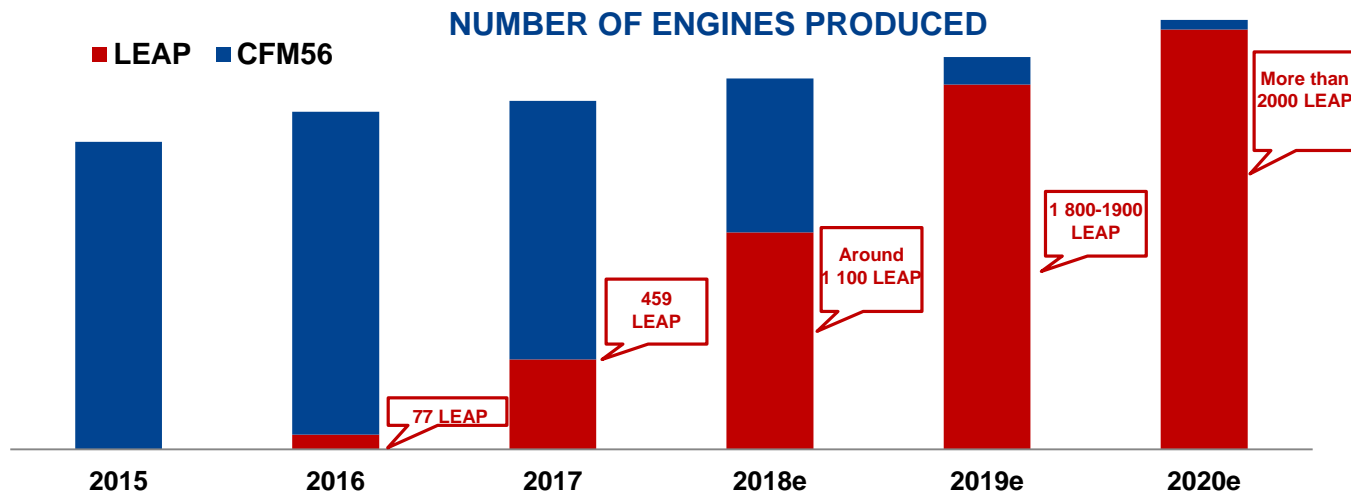
**Electrical & Power:** Safran will open a factory to manufacture electrical wiring interconnection systems based in Hyderabad, in the Indian state of Telangana.

### Recent announcement

#### ➤ **New 50/50 JV with Boeing to design, build and service APUs**

- Subject to regulatory and antitrust clearance, the deal is expected to close in H2-18
- No impact on Safran's FY 2018 guidance nor to the plan to return €2,3bn cash to shareholders over 18 to 24 months
- Additional business for Safran based on its LT and valuable experience producing APU's for military aircraft, helicopters and business jets (4 to 5% of market share for APU's)
- The JV will be accounted for by using the equity method and will be progressively capitalized once the regulatory authorizations are obtained

## 2- Operations - CFM56-LEAP transition

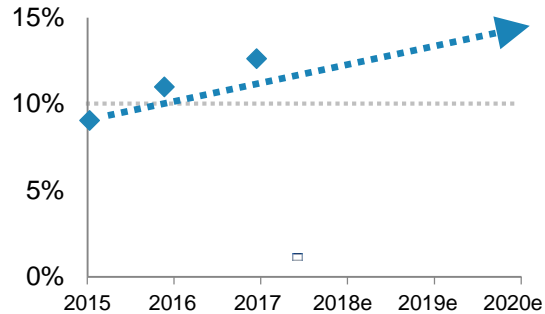


- ◆ Targeting around 1 100 LEAP deliveries in 2018 (compared to 459) and further cut in production cost
- ◆ CFM56 deliveries expected to amount to around 1 000 units in 2018 (compared to 1 444 in 2017)
- ◆ FY 2018: overall negative impact on Propulsion recurring operating income variation in the range €150-200M, which represents a significant reduction compared to 2017:
  - > Lower CFM56 OE volumes
  - > Negative margin on LEAP deliveries



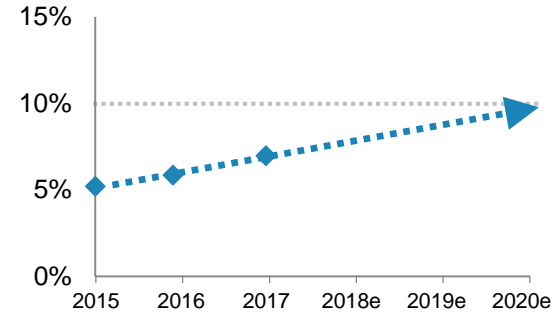
## 2- Operations - Aircraft Equipment and Defense

### Financial ambition in Aircraft Equipment



- ◆ Growth in services, notably thanks to carbon brakes
- ◆ New programs contribution: A320neo, A330neo, A350, 787...

### Financial ambition in Defense



- ◆ Commercial success of new products
- ◆ Export contracts

**Continuing benefits of productivity gains, cost control measures and optimization of industrial footprint**

### 3- Capital Allocation / Acquisition of Zodiac Aerospace

#### Capital Allocation : beginning of the share buyback program of €2.3Bn

- Following the completion of the acquisition of Zodiac Aerospace, launch of an initial repurchase tranche of up to Euro 230 million.
- Half of the initial tranche was completed before Safran's AGM.
- Several subsequent tranches will follow over a period of 18 to 24 months

#### Acquisition of Zodiac Aerospace

- Success of the tender offer and delisting of Zodiac Aerospace with effect from March 23, 2018
- Envisaged merger by absorption of Zodiac Aerospace by Safran
  - Subject to prior authorizations and consultation of the employee representative bodies, completion of the contemplated merger is expected by the end of 2018

#### Impacts on Safran / Targeting :

- A post-synergies ROCE above Safran's cost of capital (8%) from 2020-21
- An improvement of 5-10% of Safran EPS in 2018
- A 12% operating margin (excl synergies) and 15% (incl synergies) as of 2021
- €200M of pre-tax run rate cost synergies (of which around 90% should be achieved by 2020
- Net debt post acquisition (as of 03/31/18): €3.1bn

### 3- Acquisition of Zodiac Aerospace

On April 24, 2018, Zodiac Aerospace has reported its H1 2017/2018 results representative of a period (09/01/2017 to 02/28/2018) prior to Safran taking control of the company

These figures were in line with the previous analysis made by Safran in 2017:

- **Sales** were down due to industrial issues with customers (€2,142.8m, -12.4% compared to the year-ago period and -6.8% on an organic basis):
  - Aerosystems : €1,007.2bn (+2.7% on an organic basis)
  - Aircraft Interiors : €1,137.6bn (-13.9% on an organic basis of which Seats -21.8% and Cabin -7.5%)
- **Profitability** was affected by the level of activity and high costs (current operating income of €35.3m, a 1.6% operating margin)
- **Negative cash flow generation** (-€119m) partially due to seasonal factors

**The outlook for the 10-months contribution of Zodiac Aerospace to Safran adjusted revenue, recurring operating income and free cash flow will be provided with the publication of H1 2018 earnings on September 6, 2018**

## 3- Acquisition of Zodiac Aerospace

### Integration work is proceeding in three areas

- ◆ Organizational with the objective notably of streamlining and reducing overheads and improving operational responsiveness
- ◆ Functional with methodologies to recover critical programs. Group processes will be fully deployed in June (engineering, manufacturing and financial reporting)
- ◆ Operational performance with reinforced management of recovery plans for sites experiencing difficulties

**Around 120 Safran and Zodiac Aerospace staff are currently working on integration in different capacities**

**Implementation of a detailed work plan on synergies. Safran maintains its target of €200m annual pre-tax run rate cost synergies of which around 90% should be achieved by 2020**

**The acquisition of Zodiac Aerospace should improve Safran's 2018 earnings per share by between 5% and 10%.**  
(on the basis of a Zodiac Aerospace contribution of 10 months in 2018 and the share repurchase program which started at the end of March)

## Governance

**Safran's 2018 Annual General Meeting of Shareholders approves dividend payment of €1.60 per share and all proposed resolutions.**

- In accordance with the agreement entered into with Zodiac Aerospace, appointment of 2 new Directors : Didier Domange and F&P, represented by Robert Peugeot as an independant Director
- A dedicated Board of Directors : 53.8% independant Directors, 7 women, 13 meetings in 2017 and 92% attendance rate at meetings in 2017
- 3 specialized standing committees with a new Board committee set up on October 2017: the Innovation and Technology Committee (5 members of which 80% independant)
- Appointment of Monique Cohen (Apax Partners), Chair of the Appointments and compensation committee as Lead Independent Director

**Board's decision to renew the term of office of the Chief Executive Officer until the close of the Annual General Meeting to be held in 2020**

# APPENDICES

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## **Application of IFRS 15**

All figures are presented in application of IFRS 15 and comparisons are established against 2017 figures restated for the application of IFRS 15. The restatements for 2017 are detailed in Appendix.

## **Consolidation of Zodiac Aerospace**

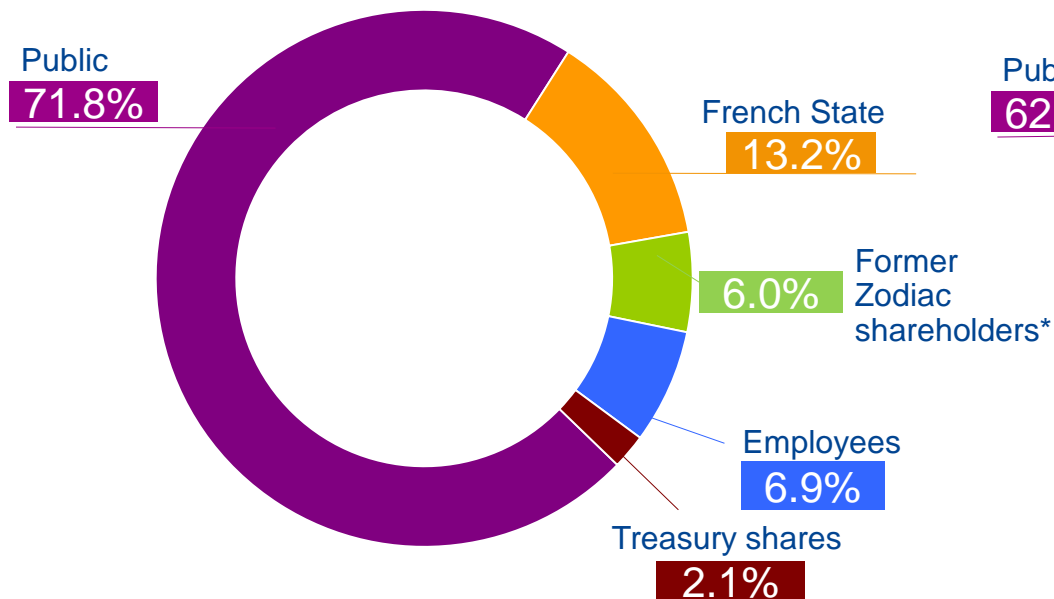
Zodiac Aerospace is fully consolidated in Safran's financial statements starting March 1, 2018.  
Safran Q1 2018 revenue includes one month of revenue from Zodiac Aerospace

## **Organic growth**

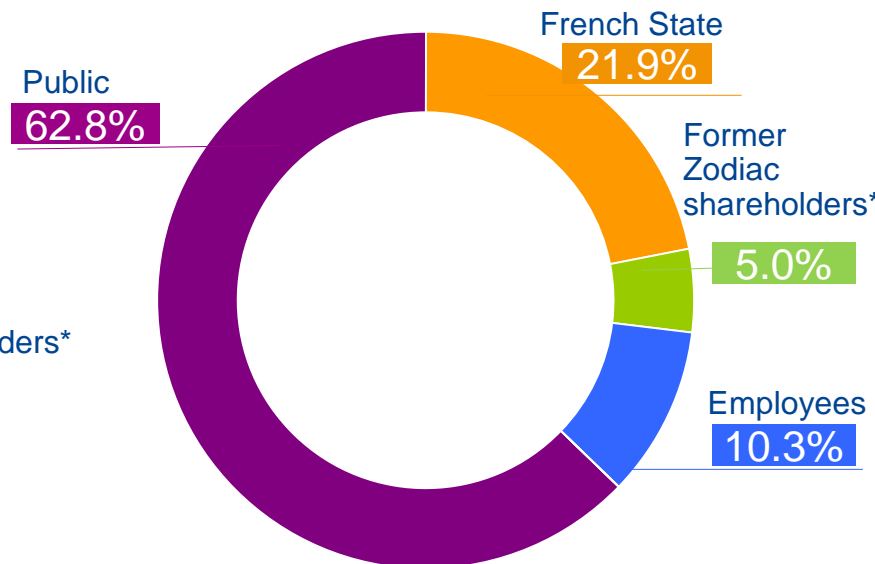
Organic variations were determined by excluding the effect of changes in scope of consolidation (notably the one-month contribution of Zodiac Aerospace) and the impact of foreign currency variations.

## Shareholding status 04/30/18 (post issue of preference shares)

**Equity as of April 30, 2018**  
**Number of shares : 443,680,643**



**Voting rights as of April 30, 2018**  
**Number of exercisable voting rights : 533,399,913**



\* o/w former reference shareholders (Fidoma FFP Invest and FSP)



# Disclaimer

## > FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements relating to Safran, Zodiac Aerospace and their combined businesses, which do not refer to historical facts but refer to expectations based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those included in such statements. These statements or disclosures may discuss goals, intentions and expectations as to future trends, synergies, value accretions, plans, events, results of operations or financial condition, or state other information relating to Safran, Zodiac Aerospace and their combined businesses, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "plan," "could," "would," "estimate," "expect," "forecast," "guidance," "intend," "may," "possible," "potential," "predict," "project" or other similar words, phrases or expressions. Many of these risks and uncertainties relate to factors that are beyond Safran's or Zodiac Aerospace's control. Therefore, investors and shareholders should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: uncertainties related in particular to the economic, financial, competitive, tax or regulatory environment; the risks that the new businesses will not be integrated successfully or that the combined company will not realize estimated cost savings and synergies; Safran's or Zodiac Aerospace's ability to successfully implement and complete its plans and strategies and to meet its targets; the benefits from Safran's or Zodiac Aerospace's (and their combined businesses) plans and strategies being less than anticipated; and the risks described in the registration document (document de référence). The foregoing list of factors is not exhaustive. Forward-looking statements speak only as of the date they are made. Safran and Zodiac Aerospace do not assume any obligation to update any public information or forward-looking statement in this document to reflect events or circumstances after the date of this document, except as may be required by applicable laws.

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