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# CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

June 30, 2020

SAFRAN

The Board of Directors' meeting of July 29, 2020 adopted and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the six-month period ended June 30, 2020.

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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 IFRS 9 applicable to transactions not qualifying for hedge accounting (see section 3.1, Note 1.f of the 2019 Universal 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 remeasured 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 and depreciation charged against intangible assets and property, plant and equipment recognized or remeasured at the time of the transaction and amortized or depreciated 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 2020 income statement items is as follows:

| | | Currency hedges | | Business combinations | | |
|---|---|---|---|---|---|---|
| *(in € millions)* | **First-half 2020 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 2020 adjusted data** |
| **Revenue** | **8,902** | **(135)** | **-** | **-** | **-** | **8,767** |
| Other recurring operating income and expenses | (8,072) | 6 | 2 | 24 | 172 | (7,868) |
| Share in profit from joint ventures | 29 | - | - | - | 19 | 48 |
| **Recurring operating income** | **859** | **(129)** | **2** | **24** | **191** | **947** |
| Other non-recurring operating income and expenses | (144) | - | - | - | - | (144) |
| **Profit from operations** | **715** | **(129)** | **2** | **24** | **191** | **803** |
| Cost of net debt | (20) | - | - | - | - | (20) |
| Foreign exchange gain/loss | (1,181) | 129 | 1,001 | - | - | (51) |
| Other financial income and expense | (46) | - | - | - | - | (46) |
| **Financial income (loss)** | **(1,247)** | **129** | **1,001** | **-** | **-** | **(117)** |
| Income tax benefit (expense) | 207 | - | (321) | (8) | (47) | (169) |
| **Profit (loss) for the period** | **(325)** | **-** | **682** | **16** | **144** | **517** |
| **Profit for the period attributable to non-controlling interests** | **(15)** | **-** | **-** | **(1)** | **-** | **(16)** |
| **Profit (loss) for the period attributable to owners of the parent** | **(340)** | **-** | **682** | **15** | **144** | **501** |

(1) Remeasurement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options) through the reclassification of changes in the fair value of instruments hedging cash flows recognized in profit or loss for the period.

(2) Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (a positive €1,001 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (a positive €2 million at June 30, 2020).

(3) Cancellation 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) Cancellation of the impact of remeasuring assets at the time of the Zodiac Aerospace acquisition for €155 million excluding deferred tax and cancellation of amortization/impairment of assets identified during other business combinations.

The impact of these adjustments in 2019 was as follows:

| (in € millions) | First-half 2019 consolidated data | Currency hedges | | Business combinations | | First-half 2019 adjusted 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) | |
| **Revenue** | **12,315** | **(213)** | **-** | **-** | **-** | **12,102** |
| Other recurring operating income and expenses | (10,502) | (2) | - | 25 | 176 | (10,303) |
| Share in profit from joint ventures | 64 | - | - | - | 20 | 84 |
| **Recurring operating income** | **1,877** | **(215)** | **-** | **25** | **196** | **1,883** |
| Other non-recurring operating income and expenses | 32 | - | - | - | - | 32 |
| **Profit from operations** | **1,909** | **(215)** | **-** | **25** | **196** | **1,915** |
| Cost of net debt | (21) | - | - | - | - | (21) |
| Foreign exchange gain/loss | 150 | 215 | (353) | - | - | 12 |
| Other financial income and expense | (23) | - | - | - | - | (23) |
| **Financial income (loss)** | **106** | **215** | **(353)** | **-** | **-** | **(32)** |
| Income tax benefit (expense) | (550) | - | 113 | (8) | (51) | (496) |
| **Profit (loss) for the period** | **1,465** | **-** | **(240)** | **17** | **145** | **1,387** |
| **Profit for the period attributable to non-controlling interests** | **(33)** | **-** | **-** | **(1)** | **-** | **(34)** |
| **Profit (loss) for the period attributable to owners of the parent** | **1,432** | **-** | **(240)** | **16** | **145** | **1,353** |

(1) Remeasurement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options) through the reclassification of changes in the fair value of instruments hedging cash flows recognized in profit or loss for the period.

(2) Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (a negative €353 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (zero at June 30, 2019).

(3) Cancellation 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) Cancellation of the impact of remeasuring assets at the time of the Zodiac Aerospace acquisition for €156 million excluding deferred tax and cancellation 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 2019<br>Adjusted data | First-half 2020<br>Adjusted data |
|---|---|---|
| **Revenue** | **12,102** | **8,767** |
| Other income | 138 | 109 |
| **Income from operations** | **12,240** | **8,876** |
| Change in inventories of finished goods and work-in-progress | 492 | (39) |
| Capitalized production | 215 | 152 |
| Raw materials and consumables used | (7,270) | (4,670) |
| Personnel costs | (3,185) | (2,760) |
| Taxes | (258) | (203) |
| Depreciation, amortization and increase in provisions, net of use | (497) | (442) |
| Asset impairment | (21) | (85) |
| Other recurring operating income and expenses | 83 | 70 |
| Share in profit from joint ventures | 84 | 48 |
| **Recurring operating income** | **1,883** | **947** |
| Other non-recurring operating income and expenses | 32 | (144) |
| **Profit from operations** | **1,915** | **803** |
| Cost of net debt | (21) | (20) |
| Foreign exchange gain (loss) | 12 | (51) |
| Other financial income and expense | (23) | (46) |
| **Financial income (loss)** | **(32)** | **(117)** |
| **Profit before tax** | **1,883** | **686** |
| Income tax expense | (496) | (169) |
| **Profit for the period** | **1,387** | **517** |
| **Attributable to:** | | |
| owners of the parent | 1,353 | 501 |
| non-controlling interests | 34 | 16 |
| **Earnings per share attributable to owners of the parent (in €)** | | |
| Basic earnings per share | 3.13 | 1.18 |
| Diluted earnings per share | 3.09 | 1.14 |

## Segment information

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

### First-half 2020

| *(in € millions)* | Aerospace Propulsion | Aircraft Equipment, Defense and Aerosystems | Aircraft Interiors | **Total operating segments** | Holding company and other | **Total adjusted data** | Currency hedges | Impacts of business combinations | **Total consolidated data** |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **4,047** | **3,638** | **1,072** | **8,757** | **10** | **8,767** | **135** | **-** | **8,902** |
| **Recurring operating income (loss)** | **699** | **343** | **(101)** | **941** | **6** | **947** | **127** | **(215)** | **859** |
| Other non-recurring operating income and expenses | (20) | (73) | (51) | **(144)** | - | **(144)** | - | - | **(144)** |
| **Profit (loss) from operations** | **679** | **270** | **(152)** | **797** | **6** | **803** | **127** | **(215)** | **715** |
| **Free cash flow** | **837** | **382** | **(342)** | **877** | **24** | **901** | **-** | **-** | **901** |

### First-half 2019

| *(in € millions)* | Aerospace Propulsion | Aircraft Equipment, Defense and Aerosystems | Aircraft Interiors | **Total operating segments** | Holding company and other | **Total adjusted data** | Currency hedges | Impacts of business combinations | **Total consolidated data** |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **5,902** | **4,553** | **1,640** | **12,095** | **7** | **12,102** | **213** | **-** | **12,315** |
| **Recurring operating income (loss)** | **1,227** | **588** | **85** | **1,900** | **(17)** | **1,883** | **215** | **(221)** | **1,877** |
| Other non-recurring operating income and expenses | - | (1) | (1) | **(2)** | 34 | **32** | - | - | **32** |
| **Profit (loss) from operations** | **1,227** | **587** | **84** | **1,898** | **17** | **1,915** | **215** | **(221)** | **1,909** |
| **Free cash flow** | **639** | **196** | **(42)** | **793** | **384** | **1,177** | **-** | **-** | **1,177** |

## Revenue (adjusted data)

| *(in € millions)* | | First-half 2019 | First-half 2020 |
|---|---|---|---|
| ***Aerospace Propulsion*** | | | |
| Original equipment and related products and services | | 2,433 | 1,474 |
| Services | | 3,410 | 2,513 |
| Sales of studies | | 29 | 41 |
| Other | | 30 | 19 |
| | Sub-total | 5,902 | 4,047 |
| ***Aircraft Equipment, Defense and Aerosystems*** | | | |
| Original equipment and related products and services | | 2,893 | 2,312 |
| Services | | 1,469 | 1,160 |
| Sales of studies | | 122 | 107 |
| Other | | 69 | 59 |
| | Sub-total | 4,553 | 3,638 |
| ***Aircraft Interiors*** | | | |
| Original equipment and related products and services | | 1,132 | 732 |
| Services | | 447 | 319 |
| Sales of studies | | 58 | 13 |
| Other | | 3 | 8 |
| | Sub-total | 1,640 | 1,072 |
| ***Holding company and other*** | | | |
| Sales of studies and other | | 7 | 10 |
| | Sub-total | 7 | 10 |
| **Total** | | **12,102** | **8,767** |

## Information by geographic area

### First-half 2020

| *(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 | | 1,999 | 1,799 | 3,162 | 1,219 | 588 | **8,767** | 135 | **8,902** |
| | % | 23% | 20% | 36% | 14% | 7% | | | |

### First-half 2019

| *(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 | | 2,334 | 2,595 | 4,426 | 1,707 | 1,040 | **12,102** | 213 | **12,315** |
| | % | 19% | 21% | 37% | 14% | 9% | | | |

# Group condensed interim consolidated financial statements

# Consolidated income statement

| (in € millions) | Note | First-half 2019 | First-half 2020 |
|---|---|---|---|
| **Revenue** | 6 | **12,315** | **8,902** |
| Other income | 7 | 138 | 109 |
| **Income from operations** | | **12,453** | **9,011** |
| Change in inventories of finished goods and work-in-progress | | 492 | (39) |
| Capitalized production | | 215 | 152 |
| Raw materials and consumables used | 7 | (7,268) | (4,677) |
| Personnel costs | 7 | (3,185) | (2,759) |
| Taxes | | (258) | (203) |
| Depreciation, amortization and increase in provisions, net of use | 7 | (698) | (639) |
| Asset impairment | 7 | (21) | (86) |
| Other recurring operating income and expenses | 7 | 83 | 70 |
| Share in profit from joint ventures | 16 | 64 | 29 |
| **Recurring operating income** | | **1,877** | **859** |
| Other non-recurring operating income and expenses | 7 | 32 | (144) |
| **Profit from operations** | | **1,909** | **715** |
| Cost of net debt | | (21) | (20) |
| Foreign exchange gain (loss) | | 150 | (1,181) |
| Other financial income and expense | | (23) | (46) |
| **Financial income (loss)** | 8 | **106** | **(1,247)** |
| **Profit (loss) before tax** | | **2,015** | **(532)** |
| Income tax benefit (expense) | 9 | (550) | 207 |
| **Profit (loss) for the period** | | **1,465** | **(325)** |
| **Attributable to:** | | | |
| owners of the parent | | 1,432 | (340) |
| non-controlling interests | | 33 | 15 |
| **Earnings per share attributable to owners of the parent (in €)** | 10 | | |
| Basic earnings (loss) per share | | 3.31 | (0.80) |
| Diluted earnings (loss) per share | | 3.27 | (0.80) |

# Consolidated statement of comprehensive income

| *(in € millions)* | Note | First-half 2019 | First-half 2020 |
|---|---|---|---|
| **Profit (loss) for the period** | | **1,465** | **(325)** |
| **Other comprehensive income** | | | |
| **Items to be reclassified to profit** | | **19** | **(55)** |
| Translation adjustments | | 43 | (51) |
| Remeasurement of hedging instruments | | (31) | (6) |
| Income tax related to components of other comprehensive income to be reclassified to profit | | 9 | 2 |
| Share in other comprehensive income (expense) of equity-accounted companies to be reclassified to profit (net of tax) | 16 | (2) | - |
| **Items not to be reclassified to profit** | | **(84)** | **4** |
| Actuarial gains and losses on post-employment benefits | | (93) | 11 |
| Income tax related to components of other comprehensive income not to be reclassified to profit | | 22 | (6) |
| Share in other comprehensive income (expense) of equity-accounted companies not to be reclassified to profit (net of tax) | | (13) | (1) |
| **Other comprehensive income (expense) for the period** | | **(65)** | **(51)** |
| **Total comprehensive income (expense) for the period** | | **1,400** | **(376)** |
| Attributable to: | | | |
| - owners of the parent | | 1,369 | (392) |
| - non-controlling interests | | 31 | 16 |

In first-half 2020, other comprehensive income relating to translation adjustments includes:

- €46 million in translation losses (€42 million in translation gains in first-half 2019) arising in the period on foreign operations;
- €5 million in translation losses (€1 million in translation gains in first-half 2019) arising in the period on long-term financing granted to 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.

In first-half 2020, other comprehensive income resulting from the remeasurement of hedging instruments includes €6 million in negative fair value adjustments relating to cash flow hedges of interest payments on senior unsecured notes as of the end of first-quarter 2019. The outstanding balance of the ongoing cash flow hedging reserve is a negative €6 million (see the consolidated statement of changes in shareholders' equity). In first-half 2019, other comprehensive income resulting from the remeasurement of hedging instruments included €17 million in translation losses 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 (USPP), classified as a hedge of the net investment in some of the Group's US operations up to the end of first-quarter 2019. This net investment hedge expired on March 27, 2019 when the cross currency swap was set up.

Other comprehensive income relating to equity-accounted companies (net of tax) includes (see Note 16, "Investments in equity-accounted companies") €2 million in translation gains arising in the period on foreign joint ventures (€3 million in translation gains in first-half 2019) and €2 million in negative fair value adjustments relating to cash flow hedges of joint ventures (€5 million in negative fair value adjustments in first-half 2019).

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, 2018 | **June 30, 2019** | Dec. 31, 2019 | **June 30, 2020** |
|---|---|---|---|---|
| Eurozone | 1.50% | **1.00%** | 0.60% | **0.90%** |
| UK | 2.90% | **2.50%** | 1.95% | **1.70%** |

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

| | Dec. 31, 2018 | **June 30, 2019** | Dec. 31, 2019 | **June 30, 2020** |
|---|---|---|---|---|
| UK inflation rate | 3.25% | **3.25%** | 2.90% | **2.75%** |

# Consolidated balance sheet

| ASSETS<br>*(in € millions)* | *Note* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|---|
| Goodwill | *11* | 5,199 | 5,197 |
| Intangible assets | *12* | 9,479 | 9,208 |
| Property, plant and equipment | *13* | 4,398 | 4,263 |
| Right-of-use assets | *14* | 732 | 676 |
| Non-current financial assets | *15* | 429 | 410 |
| Investments in equity-accounted companies | *16* | 2,211 | 2,199 |
| Non-current derivatives (positive fair value) | *23* | 33 | 63 |
| Deferred tax assets | | 251 | 588 |
| Other non-current financial assets | | 4 | 4 |
| **Non-current assets** | | **22,736** | **22,608** |
| Current financial assets | *15* | 143 | 129 |
| Current derivatives (positive fair value) | *23* | 674 | 484 |
| Inventories and work-in-progress | | 6,312 | 6,340 |
| Contract costs | | 471 | 502 |
| Trade and other receivables | | 7,639 | 6,790 |
| Contract assets | | 1,743 | 1,741 |
| Tax assets | | 458 | 390 |
| Cash and cash equivalents | *17* | 2,632 | 4,373 |
| **Current assets** | | **20,072** | **20,749** |
| **Total assets** | | **42,808** | **43,357** |

| EQUITY AND LIABILITIES<br>*(in € millions)* | *Note* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|---|
| Share capital | *18* | 85 | 85 |
| Consolidated reserves and retained earnings | *18* | 9,839 | 12,412 |
| Profit (loss) for the period | | 2,447 | (340) |
| **Equity attributable to owners of the parent** | | **12,371** | **12,157** |
| **Non-controlling interests** | | **377** | **390** |
| **Total equity** | | **12,748** | **12,547** |
| Provisions | *19* | 2,093 | 2,250 |
| Borrowings subject to specific conditions | *20* | 505 | 468 |
| Non-current interest-bearing financial liabilities | *21* | 3,239 | 4,067 |
| Non-current derivatives (negative fair value) | *23* | 5 | 11 |
| Deferred tax liabilities | | 1,340 | 1,262 |
| Other non-current financial liabilities | *22* | 2 | 7 |
| **Non-current liabilities** | | **7,184** | **8,065** |
| Provisions | *19* | 990 | 787 |
| Current interest-bearing financial liabilities | *21* | 3,540 | 3,451 |
| Trade and other payables | | 6,164 | 5,243 |
| Contract liabilities | | 10,923 | 11,317 |
| Tax liabilities | | 111 | 111 |
| Current derivatives (negative fair value) | *23* | 1,033 | 1,785 |
| Other current financial liabilities | *22* | 115 | 51 |
| **Current liabilities** | | **22,876** | **22,745** |
| **Total equity and liabilities** | | **42,808** | **43,357** |

# Consolidated statement of changes in shareholders' equity

| *(in € millions)* | Share capital | Additional paid-in capital | Treasury shares | Remeasurement of hedging instruments | Translation adjustments | Consolidated reserves and retained earnings | Actuarial gains and losses on post-employment benefits | Profit (loss) for the period | Other | **Equity attributable to owners of the parent** | Non-controlling interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2019** | **87** | **4,686** | **(80)** | **22** | **252** | **5,954** | **(391)** | **1,283** | **137** | **11,950** | **346** | **12,296** |
| Comprehensive income (expense) for the period | - | - | - | (31) | 46 | (5) | (108) | 1,432 | 35 (a) | **1,369** | 31 | **1,400** |
| Acquisitions/disposals of treasury shares | - | - | 22 | - | - | - | - | - | - | **22** | - | **22** |
| Dividends | - | - | - | - | - | (785) | - | - | - | **(785)** | (30) | **(815)** |
| Share buyback programs | - | - | (458) | - | - | - | - | - | - | **(458)** | - | **(458)** |
| Acquisition of Zodiac Aerospace | - | 1 | - | - | - | - | - | - | - | **1** | - | **1** |
| Other movements, including appropriation of profit | - | - | - | - | - | 1,283 | - | (1,283) | 17 | **17** | - | **17** |
| **At June 30, 2019** | **87** | **4,687** | **(516)** | **(9)** | **298** | **6,447** | **(499)** | **1,432** | **189** | **12,116** | **347** | **12,463** |
| Comprehensive income (expense) for the period | - | - | - | 9 | 107 | (2) | (53) | 1,015 | 16 (a) | **1,092** | 32 | **1,124** |
| Acquisitions/disposals of treasury shares | - | - | (245) | - | - | - | - | - | - | **(245)** | - | **(245)** |
| Dividends | - | - | - | - | - | - | - | - | - | **-** | (2) | **(2)** |
| Share buyback programs | - | - | (618) | - | - | - | - | - | - | **(618)** | - | **(618)** |
| Increase/decrease in share capital | (2) | 1 | 1,076 | - | - | (1,074) | - | - | - | **1** | - | **1** |
| Other movements, including appropriation of profit | - | - | - | - | - | - | - | - | 25 | **25** | - | **25** |
| **At December 31, 2019** | **85** | **4,688** | **(303)** | **-** | **405** | **5,371** | **(552)** | **2,447** | **230** | **12,371** | **377** | **12,748** |
| Comprehensive income (expense) for the period | - | - | - | (6) | (51) | (2) | 11 | (340) | (4) (a) | **(392)** | 16 | **(376)** |
| Acquisitions/disposals of treasury shares[(b)] | - | - | 267 | - | - | (176) | - | - | 53 | **144** | - | **144** |
| Dividends | - | - | - | - | - | - | - | - | - | **-** | (3) | **(3)** |
| OCÉANE 2020-2027 bonds | - | - | - | - | - | 24 | - | - | - | **24** | - | **24** |
| Other movements, including appropriation of profit | - | - | - | - | - | 2,447 | - | (2,447) | 10 | **10** | - | **10** |
| **At June 30, 2020** | **85** | **4,688** | **(36)** | **(6)** | **354** | **7,664** | **(541)** | **(340)** | **289** | **12,157** | **390** | **12,547** |

(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 2019 (attributable to owners of the parent) | 26 | 9 | 35 |
| Comprehensive income (expense) for second-half 2019 (attributable to owners of the parent) | 18 | (2) | 16 |
| Comprehensive income (expense) for first-half 2020 (attributable to owners of the parent) | (6) | 2 | (4) |

(b) Capital loss amounting to €176 million (primarily relating to the settlement-delivery of the Safran Sharing 2020 employee shareholding plan) and the related tax effect totaling €53 million.

# Consolidated statement of cash flows

| *(in € millions)* | *Note* | First-half 2019 | First-half 2020 |
|---|---|---|---|
| **I. Cash flow from operating activities** | | | |
| Profit (loss) attributable to owners of the parent | | **1,432** | **(340)** |
| Depreciation, amortization, impairment and provisions(1) | | 740 | 833 |
| Share in profit/loss from equity-accounted companies (net of dividends received) | *16* | (33) | 5 |
| Change in fair value of currency and interest rate derivatives(2) | *23* | (317) | 957 |
| Capital gains and losses on asset disposals | | (26) | 1 |
| Profit attributable to non-controlling interests | | 33 | 15 |
| Other(3) | | 765 | (317) |
| **Cash flow from operations, before change in working capital** | | **2,594** | **1,154** |
| Change in inventories and work-in-progress | | (644) | (103) |
| Change in operating receivables and payables | | (273) | 3 |
| Change in contract costs | | (12) | (33) |
| Change in contract assets and liabilities | | 130 | 422 |
| Change in other receivables and payables | | (64) | (121) |
| **Change in working capital** | | **(863)** | **168** |
| **TOTAL I** | | **1,731** | **1,322** |
| **II. Cash flow used in investing activities** | | | |
| Capitalization of R&D expenditure(4) | *12* | (157) | (127) |
| Payments for the purchase of intangible assets, net(5) | | (65) | (21) |
| Payments for the purchase of property, plant and equipment, net(6) | | (332) | (273) |
| Payments for the acquisition of investments or businesses, net | | (4) | (13) |
| Proceeds arising from the sale of investments or businesses, net | | - | 1 |
| Proceeds (payments) arising from the sale (acquisition) of investments and loans, | | 46 | 18 |
| **TOTAL II** | | **(512)** | **(415)** |
| **III. Cash flow from (used in) financing activities** | | | |
| Change in share capital – owners of the parent | | 1 | - |
| Change in share capital – non-controlling interests | | (9) | - |
| Acquisitions and disposals of treasury shares | *18.b* | (422) | 91 |
| Repayment of borrowings and long-term debt | *21* | (731) | (73) |
| Increase in borrowings(7) | *21* | 22 | 1,373 |
| Change in repayable advances | *20* | (9) | 3 |
| Change in short-term borrowings | *21* | 883 | (547) |
| Dividends and interim dividends paid to owners of the parent | *18.e* | (785) | - |
| Dividends paid to non-controlling interests | | (30) | (3) |
| **TOTAL III** | | **(1,080)** | **844** |
| **Effect of changes in foreign exchange rates** — **TOTAL IV** | | **1** | **(10)** |
| **Net increase (decrease) in cash and cash equivalents** — **I+II+III+IV** | | **140** | **1,741** |
| Cash and cash equivalents at beginning of period | | 2,330 | 2,632 |
| Cash and cash equivalents at end of period | *17* | 2,470 | 4,373 |
| **Net increase (decrease) in cash and cash equivalents** | | **140** | **1,741** |

(1) Including in first-half 2020: depreciation and amortization for €723 million (€715 million in first-half 2019), impairment for €136 million (€24 million in first-half 2019) and additions to provisions for €26 million (€1 million in first-half 2019).

(2) Including in first-half 2020: a positive €940 million arising on currency derivatives (a negative €320 million in first-half 2019) (see Note 23, "Management of market risks and derivatives").

(3) Including in first-half 2020: cancellation of deferred tax income arising on changes in the fair value of currency derivatives for a negative €321 million (a positive €113 million in first-half 2019), cancellation of tax expense for €114 million (€437 million in first-half 2019), €39 million in taxes paid (€120 million in taxes received in first-half 2019), €34 million in interest paid (€54 million in first-half 2019) and €16 million in interest received (€27 million in first-half 2019).

(4) Including in first-half 2020: capitalized interest of €3 million (€5 million in first-half 2019).

(5) Including in first-half 2020: €19 million in disbursements for acquisitions of intangible assets (€58 million in first-half 2019) and changes in amounts payable on acquisitions of non-current assets representing a negative €2 million (a negative €7 million in first-half 2019).

(6) Including in first-half 2020: €226 million in disbursements for acquisitions of property, plant and equipment (€360 million in first-half 2019), changes in amounts payable on acquisitions of non-current assets representing a negative €52 million (a negative €35 million in first-half 2019) and €5 million in proceeds from disposals (€63 million in first-half 2019).

(7) Including in first-half 2020: €760 million relating to the OCÉANE bond issue and €564 million relating to the USPP issue.

# Notes to the 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 SA 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 July 29, 2020 adopted and authorized for issue the 2020 condensed interim consolidated financial statements.

## *Note 1 - Impacts of the Covid-19 pandemic*

The Covid-19 pandemic, which first emerged in China in December 2019, has heavily affected the Group's businesses.

The impacts of the pandemic began to materialize in March and intensified during the second quarter.

Services and the Aircraft Interiors retrofit business initially declined in line with the sharp fall in air traffic, airline companies' focus on preserving cash and temporary, local disruptions in operations.

Safran also aligned quickly OE deliveries following significant production rate cuts announced by airframers.

At end-June 2020, the effects of the Covid-19 crisis are being felt across most of Safran's businesses, with original equipment and services impacted by the stark decline in air traffic and airlines facing financial constraints.

- Propulsion:
  - Sharp decrease in OE and spare parts sales on narrowbody engines;
  - Contained sales decline in helicopter turbines thanks to a market less affected by the sanitary crisis;
  - Military activities supported by sales of spare parts.

- Aircraft Equipment, Defense and Aerosystems:
  - Similar decrease in OE and services among almost all businesses;
  - Resilience of Electronics & Defense activities.

- Aircraft Interiors:
  - Strongly hit by widebody.

On March 26, 2020, the Group withdrew its guidance for 2020 and announced that it would cancel the previously announced dividend for 2019. It unveiled the main principles of its adaptation plan on April 29, 2020.

The plan launched at the beginning of the year in response to the shutdown of production for the 737 MAX has been significantly expanded and intensified:

- adjustment of the workforce to business needs, using all available means including furlough and short time working in France;

- scaling back of purchasing programs in line with the decline in activity, in order to adapt to new delivery levels;
- reduction of investment commitments;
- cuts in R&D expenses compared to 2019;
- cuts in operating costs.

### 1.a. GOING CONCERN AND LIQUIDITY

At June 30, 2020, consolidated cash and cash equivalents amounted to €4,373 million.

A total of €1,518 million was outstanding under the Group's commercial paper program (NEU CP), comprising several drawdowns with maturities of less than one year and €433 million subscribed by a corporate mutual fund of the Group employee savings plan.

Safran has a €2.52 billion undrawn revolving credit facility, available until December 2022. This facility primarily serves as a back-up for the NEU CP program, in the event that the commercial paper market dysfunctions. The maximum amount available under the program was increased from €2.5 billion to €3 billion in the second quarter.

On April 22, 2020, the Group set up a €3 billion bridge facility with a syndicate of French and international banks aimed at maintaining the Group's flexibility. It refinanced €800 million on May 15, 2020 by issuing seven-year bonds convertible and/or exchangeable for new and/or existing shares ("OCÉANE" bonds) paying an annual coupon of 0.875%, with a conversion premium of 40%. It also issued €564 million in senior unsecured notes on the US private placement market (USPP) on June 29, 2020. At June 30, 2020, the total amount available under the undrawn bridge loan therefore stood at €1.6 billion.

Based on the above, the Group has sufficient liquidity to fund its operations going forward.

### 1.b. ADAPTATION PLAN

The Group will significantly reduce its costs in line with the decline in demand and lower its breakeven point in order to prepare for the recovery in its businesses, which is expected in the next few years.

Safran has adjusted its workforce to the needs of the business, as reassessed in line with customer forecasts to date and management estimates. Furlough and short time working were introduced in Group companies wherever possible, resulting in an employee downtime rate of 30% worldwide and 35% in France in second-quarter 2020.

Government grants for furloughed and short time working staff were recognized as a deduction from personnel costs as from March 2020.

Restructuring costs relating to production shutdowns and site closures, along with costs incurred in respect of workforce adjustment measures (severance payments), were recognized or provisioned as soon as the adaptation plans were announced or had begun to be implemented. In first-half 2020, restructuring costs were included within non-recurring expenses in an amount of €77 million (see Note 7, "Breakdown of the other main components of profit from operations") and primarily concern sites in the United States, Mexico, Tunisia, the United Kingdom and Thailand.

The costs were included within non-recurring expenses in accordance with the criteria typically used by the Group.

### 1.c. Description of the impacts of Covid-19

The impacts of the pandemic on the Group's businesses affect the whole income statement and balance sheet and not just individual line items.

As mentioned in Note 7, "Breakdown of the other main components of profit from operations", non-recurring items, essentially impairment losses (including on equity-accounted companies), capital gains and losses on disposals of businesses, transaction and restructuring costs, are unchanged from previous periods.

### 1.d. Goodwill

The Group usually tests its cash-generating units (CGUs) for impairment in the second half of the year, once data in the medium-term business plan are updated and validated by the Group's management and by its governing bodies. Impairment tests are also carried out whenever there is an indication of impairment risk.

Given the scale of the downturn in activity, which itself is such an indication, the Group reviewed all its CGUs in the first half of 2020. This notably included the Safran Seats and Safran Cabin CGUs whose activities were particularly affected by the decline in air traffic and change in the financial situation of airlines. Furthermore, the difference between the book value of their assets and their recoverable amount was already limited prior to the epidemic.

Due to the lack of visibility about the conditions in which air traffic will recover as well as customers' outlook, the Group adapted its approach for calculating value in use accordingly.

Value in use was calculated using a multi-scenario approach based on pre-Covid cash flows as projected in the 2019-2023 medium-term business plan and adjusted to reflect different assumptions as to the duration and scale of the current crisis in order to measure its impact on the value of assets.

Lastly, the Group tested sensitivity to changes in the assumptions regarding the perpetuity growth rate, the discount rate and the long-term US dollar price.

The results are described in more detail in Note 11, "Goodwill".

As a result of these tests, no impairment was recognized by the Group at June 30, 2020, even if the difference between the value in use and the carrying amount is lower and may still be revised downward at December 31, 2020.

### 1.e. Other assets

<u>Intangible assets</u>

The Group carried out a detailed analysis of its other intangible assets (development expenditures, programs, etc.).

As in every half-year period, the Group tested assets allocated to programs for which there could be an indication of impairment.

These impairment tests were carried out based on projections updated to reflect the best information available at the reporting date.

Due to the significant prevailing uncertainties, the Group tested sensitivity to changes in volumes and the discount rate.

The results of the tests are set out in Note 12, “Intangible assets”.

Right-of-use assets

In first-half 2020, rent concessions granted to lessees in the context of the Covid-19 pandemic did not have a material impact on the Group.

Measurement of inventories and work-in-progress

The carrying amount of inventories and work-in-progress takes into account adjustments for idle capacity (under-absorption of overhead expenses), which was deemed to represent an expense for the period.

Trade receivables.

The Group has stepped up the monitoring of its bad debt risks to ensure the collection of its current and future receivables.

It has paid close attention to struggling airline companies that have announced restructuring plans, and provisions have been set aside on a case-by-case basis for any receivables or assets presenting a bad debt risk.

At June 30, 2020, the net amount of impairment losses recognized in this respect against trade and other receivables was €39 million.

### 1.f. ESTIMATED PROFIT (LOSS) ON COMPLETION OF CONTRACTS ACCOUNTED FOR ON A PERCENTAGE-OF-COMPLETION BASIS

Contracts accounted for on a percentage-of-completion basis have been adjusted to reflect the latest available data.

In light of the uncertainties caused by the current crisis, the Group analyzed the service contracts that were considered to be most high-risk. Where necessary, the Group adjusted its estimates of profit (loss) on completion of these contracts following a risk review based on a multi-criteria analysis. The review took into account fleet decommissioning announcements, bad debt risk, known fluctuations in costs and projected shop visits, changes in incurred costs and contractual modifications.

Where the review led the Group to estimate a loss on completion, the expected loss was recognized in provisions for losses on completion.

Idle capacity was recognized in profit for the period and was not therefore included as part of the contract costs used to calculate the percentage of completion.

### 1.g. SUBSEQUENT EVENTS

A Group “Activity Transformation” agreement was signed on July 8, 2020 between Safran management and trade unions in force at the Group level. The purpose of the agreement is to enable the Group to adapt its costs to weather the crisis, while protecting jobs and skills needed to safeguard the recovery.

The plan is effective until December 31, 2021 and is applicable in all Group entities in France.

The key measures of the agreement include:

- encouraging voluntary early retirement;
- promoting internal and external mobility, based in particular on secondment arrangements and special leave;
- capping statutory and optional profit-sharing for two years;
- suspending the Company top-up contribution to invested employee savings in 2021;
- suspending supplementary retirement contributions for engineers and managerial-grade employees (*cadres*) in 2021;
- making use of training and other new schemes made available to businesses.

Pursuant to the agreement, Safran will implement the long-term furlough scheme (*Activité Partielle Longue Durée*) passed by the French Parliament on June 17, 2020.

The agreement also includes a clause whereby some or all specified measures may be adjusted in 2021 depending on the level of recovery in the Group's businesses.

A progress review of the agreement will be conducted at the end of 2021, enabling the Group to determine whether or not the existing agreement should be extended or a new agreement signed, depending on the Group's position.

Some of the measures under the agreement still require amendments to be signed to local existing agreements. The accounting impacts on statutory and optional profit-sharing, employee savings plans and voluntary early retirement schemes will be reflected in the financial statements for the second half of 2020.

# *Note 2 - 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 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, 2020 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, 2020.

In preparing these condensed interim consolidated financial statements at June 30, 2020, 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, 2019 (see section 3.1, Note 1 of the 2019 Universal 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, 2020:***

- Amendments to IFRS standards following the publication of the Conceptual Framework;
- Amendments to IAS 1, "Presentation of Financial Statements" and IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material;
- Amendments to IFRS 3, "Business Combinations" – Definition of a Business;

- Amendments to IFRS 9, “Financial Instruments” and IFRS 7, “Financial Instruments: Disclosures” – Interest Rate Benchmark Reform Phase 1.

In 2019, the Group chose to early adopt the amendments to IFRS 9 and IFRS 7 published by the IASB in September 2019 and adopted by the European Union as part of the interest rate benchmark reform.

The amendments allow the Group to disregard uncertainties about the future of benchmark rates when assessing hedge effectiveness and/or when assessing the highly probable nature of the hedged risk, thereby securing current or future hedging relationships until those uncertainties are resolved.

Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are described in Note 23, “Management of market risks and derivatives”.

In addition, the Group is currently analyzing the impacts of future changes to benchmark indices. The potential financial reporting impact of replacing an existing benchmark rate by another rate will be seen as from the date of application of Phase 2 of the reform.
The Group has noted the IFRIC decision of December 2019 regarding IFRS 16, specifically concerning the terms of leases with automatic renewal clauses. At June 30, 2020, the Group was in the process of identifying and analyzing the leases concerned by the decision and the terms currently used for such contracts will be reviewed during the second half of the year, to ensure their compliance with the IFRIC clarifications. At the reporting date, the Group does not expect the reform to have a material impact on its financial statements.

The other standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2020 do not have a material impact on the Group’s consolidated financial statements.

***New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2020:***

None.

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

- IFRS 17, “Insurance Contracts”;
- Amendments to IAS 1, “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-Current;
- Amendments to IAS 28, “Investments in Associates and Joint Ventures” and IFRS 10, “Consolidated Financial Statements” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 16, “Leases” – Covid-19-Related Rent Concessions.

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 where early adoption is permitted by the texts concerned.

# Note 3 - 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. They were updated in light of the Covid-19 epidemic to reflect the latest information available at the reporting date in an environment that remains highly uncertain

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 analyze 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 program and 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.m of the 2019 Universal Registration Document. The recoverable amount of these assets is generally determined using cash flow forecasts;

**- capitalization of development expenditures:** the conditions for capitalizing development expenditures are set out in section 3.1, Note 1.j of the 2019 Universal 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. 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, in particular, 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.

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.

Restructuring provisions are recognized when the plan has raised a valid expectation in third parties and has been announced before the end of the reporting period.

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 customers 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 on a regular basis. 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 4 - Scope of consolidation

### MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2020

There were no significant changes in the scope of consolidation in first-half 2020.

### MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2019

#### Acquisition of ElectroMechanical Systems from Collins Aerospace

Upon completion of the clearance procedures, Safran finalized the acquisition of the ElectroMechanical Systems business from Collins Aerospace on February 8, 2019.

The acquisition bolsters the Group's market position and creates synergies in the electrical actuation and flight control segments. Safran thus becomes a major player in pilot controls and also strengthens its electrical actuation product line.

The acquisition expands the business portfolio of Safran Electronics & Defense.

The business has been part of the Aircraft Equipment, Defense and Aerosystems segment since the acquisition date.

The transaction meets the definition of a business combination under IFRS 3.

The allocation of the purchase price to the assets and liabilities measured at fair value generated zero goodwill.

## *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”).

For monitoring purposes, Safran has three operating segments which are 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 and mechanical power transmission 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, Defense and Aerosystems

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, nacelles and reversers, avionics (flight controls and onboard information systems), security systems (evacuation slides, emergency arresting systems and oxygen masks), onboard computers and fuel systems.

It also operates at the different phases of the electrical cycle and provides electrical power management systems and associated engineering services.

This segment includes all activities serving the naval and land defense markets, including optronic equipment and sights, navigation equipment and sensors, modernized infantry and drones.

This segment also includes maintenance, repair and overhaul (MRO) activities and the sale of spare parts.

Aircraft Interiors

The Aircraft Interiors business 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.

This segment also includes complex cabin equipment and passenger comfort-focused solutions such as water distribution, lavatories, air systems and in-flight entertainment and connectivity (IFEC).

Holding company and other

In “Holding company and other”, the Group includes Safran SA’s activities and holding companies in various countries.

**Business segment performance indicators**

Segment information presented in the tables on page 8 is included within the information 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 2019 Universal 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 2019 and 2020 is presented on pages 8 to 10.

# *Note 6 - Revenue*

## BREAKDOWN OF REVENUE BY BUSINESS

First-half 2020

| *(in € millions)* | Aerospace Propulsion | Aircraft Equipment, Defense and Aerosystems | Aircraft Interiors | Holding company and other | Total |
|---|---|---|---|---|---|
| **Description of products/services** | | | | | |
| Sales of original equipment and other equipment | 1,499 | 2,334 | 735 | - | **4,568** |
| Services | 2,553 | 1,171 | 321 | - | **4,045** |
| Sales of studies | 42 | 108 | 13 | 6 | **169** |
| Other | 38 | 70 | 8 | 4 | **120** |
| **Total revenue** | **4,132** | **3,683** | **1,077** | **10** | **8,902** |
| | | | | | |
| **Timing of revenue recognition** | | | | | |
| At a point in time | 3,372 | 3,275 | 1,067 | 8 | **7,722** |
| Over time | 760 | 408 | 10 | 2 | **1,180** |
| **Total revenue** | **4,132** | **3,683** | **1,077** | **10** | **8,902** |

First-half 2019

| *(in € millions)* | Aerospace Propulsion | Aircraft Equipment, Defense and Aerosystems | Aircraft Interiors | Holding company and other | Total |
|---|---|---|---|---|---|
| **Description of products/services** | | | | | |
| Sales of original equipment and other equipment | 2,496 | 2,930 | 1,134 | - | 6,560 |
| Services | 3,497 | 1,488 | 448 | - | 5,433 |
| Sales of studies | 30 | 123 | 58 | 4 | 215 |
| Other | 31 | 70 | 3 | 3 | 107 |
| **Total revenue** | **6,054** | **4,611** | **1,643** | **7** | **12,315** |
| | | | | | |
| **Timing of revenue recognition** | | | | | |
| At a point in time | 5,116 | 4,156 | 1,608 | 7 | 10,887 |
| Over time | 938 | 455 | 35 | - | 1,428 |
| **Total revenue** | **6,054** | **4,611** | **1,643** | **7** | **12,315** |

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 delivered under contracts or aircraft programs as well as contractual financing received from customers to develop these products.

- Services, which include deliveries of spare parts and maintenance contracts

These sales are contingent on repairs and maintenance requested by airline companies and correspond to 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 category 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 the business segments 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 segment and aerospace activities in the Aircraft Equipment, Defense and Aerosystems segment.

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

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

### OTHER INCOME

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Research tax credit(1) | 83 | 74 |
| Other operating subsidies | 40 | 25 |
| Other operating income | 15 | 10 |
| **Total** | **138** | **109** |

(1) Including €4 million in connection with additional research tax credits in respect of 2019, included in 2020 income (€5 million in respect of 2018 included in 2019 income).

### RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Raw materials, supplies and other | (3,202) | (2,135) |
| Bought-in goods | (16) | (12) |
| Changes in inventories | 151 | 142 |
| Contract costs | 12 | 33 |
| Sub-contracting | (2,618) | (1,511) |
| Purchases not held in inventory | (276) | (229) |
| External service expenses | (1,319) | (965) |
| **Total** | **(7,268)** | **(4,677)** |

The decrease in raw materials and consumables used reflects the downturn in business related to the Covid-19 crisis.

## PERSONNEL COSTS

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Wages and salaries | (2,062) | (1,798) |
| Social security contributions | (748) | (699) |
| Statutory employee profit-sharing | (111) | (58) |
| Optional employee profit-sharing | (84) | (65) |
| Additional contributions | (47) | (38) |
| Corporate social contribution | (45) | (33) |
| Other employee costs | (88) | (68) |
| **Total** | **(3,185)** | **(2,759)** |

Government grants for furloughed staff were recognized as a deduction from personnel costs.

## DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| **Net depreciation and amortization expense** | | |
| - intangible assets | (358) | (365) |
| - property, plant and equipment | (301) | (302) |
| - right-of-use assets | (56) | (56) |
| **Total net depreciation and amortization expense[(1)]** | **(715)** | **(723)** |
| **Net increase in provisions** | **17** | **84** |
| **Depreciation, amortization and increase in provisions, net of use** | **(698)** | **(639)** |

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €24 million in first-half 2020 and €25 million in first-half 2019; during the acquisition of the former Zodiac Aerospace: €155 million in first-half 2020 and €156 million in first-half 2019; and during other acquisitions: €17 million in first-half 2020 and €20 million in first-half 2019.

## ASSET IMPAIRMENT

| | Impairment expense | | Reversals | |
|---|---|---|---|---|
| *(in € millions)* | First-half 2019 | First-half 2020 | First-half 2019 | First-half 2020 |
| Intangible assets, property, plant and equipment, and right-of-use assets | (35) | (4) | 6 | 2 |
| Financial assets | (1) | (4) | 1 | - |
| Contract costs | - | (3) | 3 | 1 |
| Inventories and work-in-progress | (118) | (119) | 119 | 81 |
| Receivables | (23) | (64) | 26 | 24 |
| Contract assets | - | - | 1 | - |
| **Total** | **(177)** | **(194)** | **156** | **108** |

### OTHER RECURRING OPERATING INCOME AND EXPENSES

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Capital gains and losses on asset disposals | (9) | (1) |
| Royalties, patents and licenses | (13) | (16) |
| Losses on irrecoverable receivables | (8) | (4) |
| Other operating income and expenses(1) | 113 | 91 |
| **Total** | **83** | **70** |

(1) Of which income of €69 million in 2019 and €49 million in 2020 relating to the revised repayment probability for borrowings subject to specific conditions (see Note 20, "Borrowings subject to specific conditions").

### OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Capital gains on asset disposals | - | - |
| Asset impairment net of reversals | - | (66) |
| Other non-recurring items | 32 | (78) |
| **Total** | **32** | **(144)** |

In first-half 2020, other non-recurring items chiefly comprise restructuring costs for €77 million related essentially to the Covid-19 pandemic. Impairment primarily consists of the write-down of intangible assets relating to an aircraft program in the amount of €48 million.

In first-half 2019, other non-recurring items chiefly included transaction costs totaling €2 million and capital gains on the disposal of property for €34 million.

# Note 8 - Financial income (loss)

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Financial expense on interest-bearing financial liabilities | (47) | (30) |
| Financial income on cash and cash equivalents | 26 | 10 |
| **Cost of net debt** | **(21)** | **(20)** |
| Gain (loss) on foreign currency hedging instruments | 353 | (1,001) |
| Foreign exchange gain (loss) | (198) | (178) |
| Net foreign exchange gain (loss) on provisions | (5) | (2) |
| **Foreign exchange gain (loss)** | **150** | **(1,181)** |
| Gain (loss) on interest rate hedging instruments | - | (6) |
| Change in the fair value of assets at fair value through profit or loss | (1) | (8) |
| Impairment of loans and other financial receivables | (4) | - |
| Dividends received | 1 | 1 |
| Other financial provisions | - | - |
| Interest component of IAS 19 expense | (7) | (3) |
| Impact of unwinding the discount | (12) | (20) |
| Other | - | (10) |
| **Other financial income and expense** | **(23)** | **(46)** |
| **Financial income (loss)** | **106** | **(1,247)** |
| **of which financial expense** | **(274)** | **(1,258)** |
| **of which financial income** | **380** | **11** |

In first-half 2020, the €1,001 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.

The €178 million foreign exchange loss includes:

- a €129 million foreign exchange loss, reflecting the loss on unwinding currency derivatives hedging operating cash flows recognized in profit or loss in the period. This foreign exchange loss reflects the difference between the EUR/USD exchange rate guaranteed by the currency derivatives unwound in the period (USD 1.16 for €1) and the actual EUR/USD exchange rate observed during the period;
- a net foreign exchange loss of €49 million primarily attributable to the remeasurement of monetary items at the closing exchange 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.

In France, the Finance Law for 2017 introduced a gradual decrease in the income tax rate from 33.33% to 25% (34.43% to 25.83% including additional income tax contributions) through to 2022.

An income tax rate of 30% was used to calculate the effective tax rate applicable to French entities in first-half 2020.

Tax income in first-half 2020 amounts to €207 million.

In first-half 2020, changes in the fair value of outstanding currency derivatives generated deferred tax income of €317 million.

In first-half 2019, such fair value changes generated a deferred tax expense of €110 million.

# Note 10 - Earnings per share

| | Index | First-half 2019 | First-half 2020 |
|---|---|---|---|
| **Numerator (in € millions)** | | | |
| Profit (loss) for the period attributable to owners of the parent | (a) | 1,432 | (340) |
| **Denominator (in shares)** | | | |
| Total number of shares | (b) | 435,782,157 | 427,235,939 |
| Number of treasury shares held | (c) | 5,102,652 | 363,521 |
| Number of shares excluding treasury shares | (d)=(b-c) | 430,679,505 | 426,872,418 |
| Weighted average number of shares (excluding treasury shares) | (d') | 432,218,259 | 425,155,180 |
| Potentially dilutive ordinary shares | (e) | 5,615,743 | 12,590,064 |
| Weighted average number of shares after dilution | (f)=(d'+e) | 437,834,002 | 437,745,244 |
| **Ratio: earnings per share (in €)** | | | |
| Basic earnings (loss) per share | (g)=(a*1million)/(d') | 3.31 | (0.80) |
| Diluted earnings (loss) per share | (h)=(a*1million)/(f) | 3.27 | (0.80) |

At June 30, 2020, potentially dilutive ordinary shares essentially comprise shares that may be issued if all of the bonds convertible and/or exchangeable for new and/or existing shares issued by the Group (OCÉANE 2018-2023 bonds and OCÉANE 2020-2027 bonds: see Note 18.d, "Convertible bond issues") are converted.

# Note 11 - Goodwill

Goodwill breaks down as follows:

| (in € millions) | Dec. 31, 2019 Net | Changes in scope of consolidation | Reallocation | Impairment | Effect of changes in foreign exchange rates and other | June 30, 2020 Net |
|---|---|---|---|---|---|---|
| Safran Aircraft Engines | 392 | - | - | - | - | 392 |
| Safran Helicopter Engines | 307 | - | - | - | 1 | 308 |
| Safran Aero Boosters | 47 | - | - | - | - | 47 |
| Other Propulsion | 1 | - | - | - | - | 1 |
| Safran Electronics & Defense | 348 | - | - | - | 1 | 349 |
| Safran Nacelles | 213 | - | - | - | - | 213 |
| Safran Engineering Services | 76 | - | - | - | - | 76 |
| Safran Electrical & Power | 701 | - | - | - | (8) | 693 |
| Safran Landing Systems | 190 | - | - | - | - | 190 |
| Safran Aerosystems | 798 | - | - | - | - | 798 |
| Safran Seats | 765 | - | - | - | - | 765 |
| Safran Cabin | 805 | - | - | - | 2 | 807 |
| Safran Passenger Solutions | 556 | - | - | - | 2 | 558 |
| **Total** | **5,199** | **-** | **-** | **-** | **(2)** | **5,197** |

Impairment tests:

The Group tested all its cash-generating units (CGUs) for impairment in second-half 2019 as part of its annual impairment testing exercise.

Given the scale of the downturn in activity, which itself is an indication of risk of impairment, the Group reviewed all its CGUs in the first half of 2020. This notably included the Safran Seats and Safran Cabin CGUs whose activities were particularly affected by the decline in air traffic and change in the financial situation of airlines. Furthermore, the difference between the book value of their assets and their recoverable amount was already limited prior to the epidemic.

Due to the lack of visibility about the conditions in which air traffic will recover as well as customers' outlook, the Group adapted its approach for calculating value in use accordingly.

Value in use was calculated using a multi-scenario approach based on pre-Covid cash flows as projected in the 2019-2023 medium-term business plan and adjusted to reflect different assumptions as to the duration and scale of the current crisis in order to measure its impact on the value of assets.

The main assumptions used in determining the value in use of CGUs are as follows:

- 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 ten 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.

  In light of the significant prevailing uncertainties, the forecasts and assumptions used were adjusted as follows:
  - estimates for 2020 updated to reflect the latest information known at the reporting date,
  - future cash flows for 2021-2023 revised downwards based on three assumptions about the magnitude of the crisis (i.e., a negative crisis impact of 25%, 50% or 75%),
  - assumptions whereby the Group returns to pre-Covid cash flow levels in 2024 at the latest,
  - forecasts validated by the Group at the end of 2019 for the terminal year of the plan;

- the value in use of CGUs in each scenario 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 business plan;

- the growth rate used to calculate terminal value was set at 2% for all CGUs;

- the average USD exchange rate adopted is 1.17 for years 2020 to 2023 and 1.30 thereafter. These exchange rate assumptions take into account the foreign currency hedging portfolio;

- the benchmark post-tax discount rate used is 7.5% (unchanged from 2019 but for which the components have been revised and approved) and is applied to post-tax cash flows.

As a result of these tests, the Group did not recognize any impairment against these CGUs in any of the scenarios tested. The recoverable amount of each CGU wholly justifies the goodwill balances recorded in Group assets.

The Group also tested the sensitivity of the various scenarios analyzed to the following changes in the main assumptions used for its forecasts as from 2024:

- 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.

Taken individually in the worst-case scenario, changes in these assumptions would have led the Group to recognize an impairment loss of €200 million against these two CGUs.

No impairment of goodwill was recognized as a result of the annual impairment tests in 2019.

# Note 12 - Intangible assets

Intangible assets break down as follows:

| *(in € millions)* | Dec. 31, 2019 Gross | Dec. 31, 2019 Amortization/ impairment | Dec. 31, 2019 Net | June 30, 2020 Gross | June 30, 2020 Amortization/ impairment | June 30, 2020 Net |
|---|---|---|---|---|---|---|
| Aircraft programs | 2,334 | (1,633) | 701 | 2,335 | (1,709) | 626 |
| Development expenditures | 6,292 | (2,215) | 4,077 | 6,409 | (2,335) | 4,074 |
| Commercial agreements | 784 | (151) | 633 | 786 | (165) | 621 |
| Software | 684 | (599) | 85 | 697 | (619) | 78 |
| Trademarks[(1)] | 703 | - | 703 | 703 | - | 703 |
| Commercial relationships | 1,953 | (362) | 1,591 | 1,956 | (433) | 1,523 |
| Technology | 1,387 | (318) | 1,069 | 1,385 | (396) | 989 |
| Other | 836 | (216) | 620 | 828 | (234) | 594 |
| **Total** | **14,973** | **(5,494)** | **9,479** | **15,099** | **(5,891)** | **9,208** |

(1) As trademarks are not amortized, they are tested for impairment based on their respective CGUs.

Movements in intangible assets break down as follows:

| *(in € millions)* | **Gross** | **Amortization/ impairment** | **Net** |
|---|---|---|---|
| **At December 31, 2019** | **14,973** | **(5,494)** | **9,479** |
| Capitalization of R&D expenditure[(1)] | 127 | - | 127 |
| Capitalization of other intangible assets | 6 | - | 6 |
| Acquisitions of other intangible assets | 13 | - | 13 |
| Disposals and retirements | - | 1 | 1 |
| Amortization | - | (365) | (365) |
| Impairment losses recognized in profit or loss | - | (48) | (48) |
| Reclassifications | 4 | - | 4 |
| Foreign exchange differences | (24) | 15 | (9) |
| **At June 30, 2020** | **15,099** | **(5,891)** | **9,208** |

(1) Including €3 million in capitalized interest on R&D expenditure at June 30, 2020 (€5 million at June 30, 2019).

Research and development expenditures recognized in recurring operating income for the period totaled €447 million including amortization (€643 million in first-half 2019). 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 recognized in the period includes €141 million relating to the remeasurement of intangible assets within the scope of the acquisition of the former Zodiac Aerospace, €24 million relating to the remeasurement of aircraft programs in connection with the Sagem-Snecma merger, and €17 million relating to assets identified as part of other business combinations.

The impairment tests carried out at June 30, 2020 on assets allocated to programs, projects or product families were based on the approach described in section 3.1, Note 1.m of the 2019 Universal Registration Document.

In the current uncertain environment, expected future cash flows were updated to reflect the latest information available at the reporting date.

A 7.5% discount rate was used, plus a risk premium depending on the programs tested.

As a result of the impairment tests carried out at June 30, 2020, intangible assets relating to a program were written down by €48 million.

Furthermore, analyses of sensitivity to the following changes in the main assumptions were also carried out across all the programs, projects and product families tested:

- a 1% increase in the benchmark discount rate;
- a 10% decrease in volumes.

Neither of these changes in assumptions would give rise to an impairment loss.

As a result of the impairment tests carried out at June 30, 2019, intangible assets relating to a program were written down by €30 million.

## Note 13 - *Property, plant and equipment*

Property, plant and equipment break down as follows:

| | **Dec. 31, 2019** | | | **June 30, 2020** | | |
|---|---|---|---|---|---|---|
| *(in € millions)* | Gross | Depreciation/ impairment | Net | Gross | Depreciation/ impairment | Net |
| Land | 231 | - | 231 | 230 | - | 230 |
| Buildings | 2,028 | (936) | 1,092 | 2,021 | (969) | 1,052 |
| Technical facilities, equipment and tooling | 6,231 | (4,003) | 2,228 | 6,272 | (4,165) | 2,107 |
| Assets in progress, advances | 656 | (57) | 599 | 698 | (61) | 637 |
| Site development and preparation costs | 63 | (34) | 29 | 64 | (36) | 28 |
| Buildings on land owned by third parties | 70 | (37) | 33 | 89 | (49) | 40 |
| Computer hardware and other equipment | 655 | (469) | 186 | 663 | (494) | 169 |
| **Total** | **9,934** | **(5,536)** | **4,398** | **10,037** | **(5,774)** | **4,263** |

Movements in property, plant and equipment break down as follows:

| *(in € millions)* | **Gross** | **Depreciation/ impairment** | **Net** |
|---|---|---|---|
| **At December 31, 2019** | **9,934** | **(5,536)** | **4,398** |
| Internally produced assets | 22 | - | 22 |
| Additions | 204 | - | 204 |
| Disposals and retirements | (35) | 28 | (7) |
| Depreciation(1) | - | (302) | (302) |
| Impairment losses recognized in profit or loss | - | (3) | (3) |
| Reclassifications | (3) | (3) | (6) |
| Changes in scope of consolidation | 8 | (3) | 5 |
| Foreign exchange differences | (93) | 45 | (48) |
| **At June 30, 2020** | **10,037** | **(5,774)** | **4,263** |

(1) Including €14 million relating to the remeasurement of property, plant and equipment as part of the acquisition of the former Zodiac Aerospace.

# *Note 14 - Leases*

## *14.a.* Right-of-use assets

Right-of-use assets break down as follows:

| | **Dec. 31, 2019** | | | **June 30, 2020** | | |
|---|---|---|---|---|---|---|
| *(in € millions)* | Gross | Depreciation/ impairment | Net | Gross | Depreciation/ impairment | Net |
| Right-of-use assets relating to property | 817 | (105) | 712 | 804 | (148) | 656 |
| Right-of-use assets relating to transport equipment | 6 | (2) | 4 | 6 | (3) | 3 |
| Right-of-use assets relating to other assets | 18 | (2) | 16 | 20 | (3) | 17 |
| **Total** | **841** | **(109)** | **732** | **830** | **(154)** | **676** |

Movements in right-of-use assets break down as follows:

| *(in € millions)* | **Gross** | **Depreciation/ impairment** | **Net** |
|---|---|---|---|
| **At December 31, 2019** | **841** | **(109)** | **732** |
| Increases | 18 | - | 18 |
| Disposals and retirements | (12) | 6 | (6) |
| Depreciation | - | (56) | (56) |
| Impairment losses recognized in profit or loss | - | 1 | 1 |
| Foreign exchange differences | (17) | 4 | (13) |
| **At June 30, 2020** | **830** | **(154)** | **676** |

### *14.b.* Lease liabilities

The maturity of lease liabilities can be analyzed as follows at June 30, 2020:

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Maturing in: | | |
| 1 year or less | 121 | 112 |
| More than 1 year and less than 5 years | 390 | 352 |
| Beyond 5 years | 218 | 212 |
| **Total** | **729** | **676** |

### *14.c.* Lease items presented in the income statement

In first-half 2020, rental expenses recognized in “Profit from operations” (see Note 7, “Breakdown of the other main components of profit from operations”) under “External services” totaled €39 million. These expenses have not been restated due to the application of the practical expedients allowed under IFRS 16 (exemption for short-term leases, leases of low-value assets and licensing agreements, such as for IT equipment), or because they relate to a “service” component identified in the lease.
Interest expense on lease liabilities recognized in “Financial income (loss)” under “Cost of net debt” amounted to €4 million in first-half 2020 (see Note 8, “Financial income (loss)”).

### *14.d.* Lease items presented in the cash flow statement

In first-half 2020, disbursements under leases recognized in the cash flow statement and relating to the repayment of lease liabilities represented €63 million and are shown within “Cash flow from (used in) financing activities”. These are increased by payments of interest on lease liabilities, which are included within “Cash flow from operating activities”.

## *Note 15 - Current and non-current financial assets*

Financial assets include:

| | **Dec. 31, 2019** | | | **June 30, 2020** | | |
|---|---|---|---|---|---|---|
| *(in € millions)* | Gross | Impairment | Net | Gross | Impairment | Net |
| Non-consolidated investments | | | 284 | | | 277 |
| Other financial assets | 374 | (86) | 288 | 349 | (87) | 262 |
| **Total** | | | **572** | | | **539** |

Equity investments in non-consolidated companies are classified at fair value through profit or loss.

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 2020.

### OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Loans to non-consolidated companies | 150 | 148 |
| Loans to employees | 35 | 35 |
| Deposits and guarantees | 16 | 16 |
| Other | 87 | 63 |
| **Total** | **288** | **262** |
| **Non-current** | **145** | **133** |
| **Current** | **143** | **129** |

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

The table below shows movements in other financial assets:

| *(in € millions)* | |
|---|---|
| **At December 31, 2019** | **288** |
| Increase | 5 |
| Decrease | (23) |
| Reclassifications | (6) |
| Changes in scope of consolidation | (2) |
| **At June 30, 2020** | **262** |

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

## *Note 16 - 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, 2019 | June 30, 2020 |
|---|---|---|
| ArianeGroup | 1,559 | 1,522 |
| Other joint ventures | 652 | 677 |
| **Total** | **2,211** | **2,199** |

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

| *(in € millions)* | |
|---|---|
| **At December 31, 2019** | **2,211** |
| Share in profit (loss) from ArianeGroup | (16) |
| Share in profit from other joint ventures | 46 |
| Impairment losses | (18) |
| Dividends received from joint ventures | (17) |
| Foreign exchange differences | 1 |
| Other movements | (8) |
| **At June 30, 2020** | **2,199** |

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:

- ArianeGroup: space launchers and military activities;
- Shannon Engine Support Ltd: leasing of CFM56 and LEAP engines, modules, equipment and tooling to airline companies;
- Lynred: manufacture of 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;
- Xi'an Cea Safran Landing Systems Co., Ltd: landing gear maintenance;
- EZ Air Interior Ltd: cabin interiors;
- Initium Aerospace: design and manufacture of auxiliary power units.

ArianeGroup is the Group's sole material joint venture.

Financial information for ArianeGroup can be summarized as follows:

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Non-current assets | 1,763 | 1,718 |
| Current assets | 6,610 | 6,896 |
| *of which: cash and cash equivalents* | 828 | 983 |
| Non-current liabilities | (1,067) | (1,082) |
| *of which: non-current financial liabilities* | (517) | (492) |
| Current liabilities | (7,601) | (7,836) |
| *of which: current financial liabilities* | (57) | (63) |
| Non-controlling interests | (4) | 6 |
| **Net assets of ArianeGroup (excl. goodwill and PPA) – Attributable to owners of the parent (based on a 100% interest)** | **(299)** | **(298)** |
| | | |
| Equity share in net assets of ArianeGroup (excl. goodwill and PPA) (based on a 50% interest) | (150) | (149) |
| Purchase price allocation, net of deferred taxes | 532 | 495 |
| **Safran equity share – Net assets of ArianeGroup** | **383** | **346** |
| **Goodwill** | **1,176** | **1,176** |
| **Carrying amount of investment in ArianeGroup** | **1,559** | **1,522** |

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| **Profit for the period attributable to owners of the parent** | **54** | **6** |
| Other comprehensive income (expense) | (34) | (4) |
| **Total comprehensive income attributable to owners of the parent** | **20** | **2** |
| Safran equity share – Profit for the period | 27 | 3 |
| Amortization of purchase price allocation, net of deferred taxes | (19) | (19) |
| **Safran equity share – Profit (loss) of ArianeGroup** | **8** | **(16)** |
| Impairment losses | | (18) |
| Safran equity share – Other comprehensive income (expense) | (17) | (2) |
| **Safran equity share – Comprehensive income (expense) of ArianeGroup** | **(9)** | **(36)** |

No dividends were paid by ArianeGroup in first-half 2020.

No impairment loss was recognized in first-half 2020 against the value of investments in this equity-accounted company tested for impairment.

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

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Profit for the period | 56 | 46 |
| Other comprehensive income | 2 | 1 |
| **Total comprehensive income** | **58** | **47** |

## Note 17 - Cash and cash equivalents

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Money-market funds | 22 | 32 |
| Short-term investments | 1,475 | 1,104 |
| Sight deposits | 1,135 | 3,237 |
| **Total** | **2,632** | **4,373** |

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, 2019** | **2,632** |
| Movements during the period | 1,750 |
| Changes in scope of consolidation | 1 |
| Foreign exchange differences | (10) |
| **At June 30, 2020** | **4,373** |

# Note 18 - Consolidated shareholders' equity

## 18.a. SHARE CAPITAL

At June 30, 2020, Safran's share capital was fully paid up and comprised 427,235,939 shares, each with a par value of €0.20.

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

## 18.b. BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

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

December 31, 2019

| Shareholders | Number of shares | % share capital | Number of voting rights[1] | % voting rights[1] |
|---|---|---|---|---|
| Free float | 347,840,451 | 81.42% | 376,557,055 | 71.07% |
| French State | 47,983,131 | 11.23% | 95,966,262 | 18.11% |
| Employees[2] | 28,860,491 | 6.75% | 57,301,029 | 10.82% |
| Treasury shares | 2,550,082 | 0.60% | - | - |
| **Total** | **427,234,155** | **100.00%** | **529,824,346** | **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, 2020

| Shareholders | Number of shares | % share capital | Number of voting rights[1] | % voting rights[1] |
|---|---|---|---|---|
| Free float | 347,874,331 | 81.42% | 401,379,920 | 72.18% |
| French State | 47,983,131 | 11.23% | 95,966,262 | 17.26% |
| Employees[2] | 31,014,956 | 7.26% | 58,761,741 | 10.56% |
| Treasury shares | 363,521 | 0.09% | - | - |
| **Total** | **427,235,939** | **100.00%** | **556,107,923** | **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 363,521 treasury shares have no voting rights.

At June 30, 2020, the total number of shares includes 1,784 shares issued throughout the first half of the year further to the exercise of stock subscription options resulting from employee commitments undertaken by Zodiac Aerospace, transferred to Safran following the Zodiac Aerospace merger on December 1, 2018 based on the exchange ratio used for the merger.

### Treasury shares

The number of treasury shares has decreased since December 31, 2019 following:

- the purchase of 121,298 shares under the Group's liquidity agreement, net of shares sold;
- the purchase of 62,500 shares in connection with the implementation of a share buyback program as part of employee shareholding plans;

- the delivery of a total of 570,367 shares under employee shareholding plans and a multi-year variable compensation plan;
- the "Sharing 2020" employee shareholding plan covering 1,799,992 shares.

On May 25, 2018, the Annual General 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 €118 per share.
A new authorization granted by the Annual General Meeting of May 28, 2020 set the maximum purchase price at €165 per share, thereby replacing the authorization granted at the Annual General Meeting of May 23, 2019.
Pursuant to these authorizations and to the liquidity agreement signed in 2012 with Oddo BHF, the Company purchased 1,286,033 shares for €142 million, and sold 1,164,735 shares for €128 million. At June 30, 2020, 309,865 shares were held in connection with the liquidity agreement.

## 18.c. SHARE-BASED PAYMENT

Performance shares

The Board of Directors periodically grants performance shares to Group employees and corporate officers.

The vesting of these performance shares is subject to the achievement of internal and external performance conditions, which are assessed over three full consecutive fiscal years, including the year in which the performance shares are granted. In addition, the shares will only vest if the beneficiaries still form part of the Group at the vesting date (see section 6.6.4.2 of the 2019 Universal Registration Document).

In first-half 2020, the Group set up a performance share plan covering 756,000 shares. Shares under this plan will only vest if certain internal and external performance conditions are met, as assessed over three fiscal years, and provided the beneficiaries still form part of the Group at the vesting date.

Key details of outstanding performance share plans at June 30, 2020 are shown below:

| | 2018 performance shares | 2019 performance shares | 2020 performance shares |
|---|---|---|---|
| Shareholder authorization | May 25, 2018 | May 25, 2018 | May 23, 2019 |
| Grant date by the Board of Directors | July 24, 2018 | March 27, 2019 | March 26, 2020 |
| Vesting date | July 26, 2021 | March 29, 2022 | March 27, 2023 |
| Share price at the grant date | €107.05 | €116.90 | €91.92 |
| Number of beneficiaries at the grant date | 440 | 589 | 797 |
| Number of performance shares granted | 574,712 | 732,130 | 759,360 |
| Number of shares canceled or forfeited | (23,705) | (66,186) | (3,200) |
| **Number of performance shares outstanding at June 30, 2020** | **551,007** | **665,944** | **756,160** |

The share-based payment expense for these performance share plans, recognized within personnel expenses under "Other employee costs" (see Note 7, "Breakdown of the other main components of profit from operations") totaled €8 million in first-half 2020 following adjustments to assumptions about the achievement of the internal performance conditions, versus €22 million in first-half 2019, excluding the employer contribution.

Employee shareholding plan ("Sharing 2020")

In March 2020, the Group launched "Safran Sharing 2020", an employee shareholding plan based on the sale of existing shares. Offered to more than 87,000 employees in 16 countries, the plan is consistent with Safran's policy of increasing employee share ownership and aims to forge a more lasting association between employees and the Group's development and performance. The plan also helps strengthen the integration of employees who joined the Group at the time of the acquisition of the former Zodiac Aerospace in 2018.

The plan includes a leveraged formula based on an exchange contract with a bank which supplements the employee's investment, bringing the total amount invested to ten times the employee's personal contribution. Upon expiration of the plan (five-year lock-up period except if an early release event occurs), employees receive at least their personal contribution plus a percentage of the capital gain recognized on all subscribed shares (with "ratchets" applicable if the share price increases by 10%, 30% and 50% over the reference price).

Each employee's personal contribution is capped at €800. The offer concerns a maximum of 1.8 million shares.

The shares were subscribed by beneficiaries either through a corporate mutual fund (the Group's French companies' savings plan and the Group's international savings plan) or directly, depending on the country in which the beneficiary is based.

Subscribers to the plan will be required to hold the shares or units until June 4, 2025, except if an early release event occurs. The purchase price was set at €60.98 on May 5, 2020 and reflects the reference price (volume-weighted average price of Safran shares on the Euronext Paris market during the 20 trading days preceding the date on which the purchase price was set), less a discount of 20%.

At the end of the revocation period (May 7-12, 2020), as subscriptions to the offer exceeded the maximum limit, the quantities were capped. A total of 1,799,992 shares were purchased. The offer closed on June 4, 2020 and was subscribed by 34,928 employees in 16 countries. An amount of €5 million reflecting the fair value of the discount granted to employees was expensed in the income statement, corresponding to the value of the discount less the cost of the lock-up requirement for employees, plus the opportunity gain.

## 18.d. CONVERTIBLE BOND ISSUES

OCÉANE 2018-2023 bonds

On June 21, 2018, Safran issued 4,996,431 bonds convertible and/or exchangeable for new and/or existing shares ("OCÉANE" bonds), each with a par value of €140.10, i.e., representing a total nominal amount of €700 million.

The bonds do not carry any coupon.

Bondholders have the option of converting their bonds into shares. 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. Following the 2018 dividend payment and in accordance with the terms and conditions of the bond issue, the bond conversion ratio has been 1.001 shares for 1 bond since May 29, 2019. This adjusted conversion ratio was calculated by the bond calculation agent in accordance with the calculation formula stipulated in the terms and conditions of the bonds based on the following inputs:

- previous bond conversion ratio: 1 share for 1 bond;
- share price: €121.54719;
- dividend per share paid in 2019: €1.82;
- dividend per share threshold for 2019: €1.70.

This bond comes with an early redemption option that the bearer may trigger in the event of a change of control and, from June 21, 2021, that the issuer may trigger if the share price multiplied by the bond conversion ratio exceeds 130% of par value.

Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on June 21, 2023.

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

After deducting issuance fees, a total of €653 million was recognized under interest-bearing financial liabilities, corresponding to the present value of cash flows from a similar bond with no conversion rights (see Note 21, “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.

<u>OCÉANE 2020-2027 bonds</u>

On May 15, 2020, Safran issued 7,391,665 bonds convertible and/or exchangeable for new and/or existing shares (“OCÉANE” bonds), each with a par value of €108.23, i.e., representing a total nominal amount of €800 million.

The bonds bear interest at an annual rate of 0.875%, payable annually in arrears.

Bondholders have the option of converting their bonds into shares. 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.

At June 30 and since the bond issuance date, the bond conversion ratio represents 1 share for 1 bond.

This bond comes with an early redemption option that the bearer may trigger in the event of a change of control and, from June 5, 2024, that the issuer may trigger if the share price multiplied by the bond conversion ratio exceeds 130% of par value.

Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on May 15, 2027.

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

After deducting issuance fees, a total of €760 million was recognized under interest-bearing financial liabilities, corresponding to the present value of cash flows from a similar bond with no conversion rights (see Note 21, “Interest-bearing financial liabilities”).

The effective annual interest rate on the liability component is 1.63% including issuance fees.

The option component recognized in equity was valued at €33 million on the issue date, or €24 million after the deferred tax impact (see the consolidated statement of changes in shareholders’ equity).

### 18.e. Dividend distribution

In light of the Covid-19 pandemic, at its meeting on March 26, 2020 Safran’s Board of Directors decided not to propose to the Annual General Meeting the payment of a dividend in 2020 for the 2019 financial year.

The previously announced dividend of €2.38 per share reflected Safran’s very good performance in 2019 and the outlook for 2020 as it prevailed at the start of 2020 when the Board met. Based on the number of shares in circulation, the payment of the dividend would have represented an outflow of around €1 billion in June 2020.

In a spirit of responsibility vis-à-vis Safran's stakeholders, this decision preserved the Group's resources in order to protect its employees, maintain the continuity of its operations, notably for its suppliers, support its customers and ensure liquidity in uncertain times.

## Note 19 - Provisions

Provisions break down as follows:

| (in € millions) | Dec. 31, 2019 | Additions | Reversals: Utilizations[1] | Reversals: Reclassifications[1] | Reversals: Surplus | Changes in scope of consolidation | Other | June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| Performance warranties | 1,214 | 140 | (76) | - | (90) | - | 9 | 1,197 |
| Financial guarantees | 2 | - | - | - | - | - | - | 2 |
| Post-employment benefits | 990 | 37 | (33) | - | (1) | - | (20) | 973 |
| Sales agreements and long-term receivables | 258 | 20 | (19) | - | (9) | - | 2 | 252 |
| Provisions for losses on completion and losses arising on delivery commitments | 245 | 18 | (26) | - | (5) | - | 1 | 233 |
| Disputes and litigation | 39 | 5 | (6) | - | (1) | - | (2) | 35 |
| Other | 335 | 76 | (47) | - | (9) | - | (10) | 345 |
| **Total** | **3,083** | 296 | (207) | - | (115) | - | (20) | **3,037** |
| **Non-current** | 2,093 | | | | | | | **2,250** |
| **Current** | 990 | | | | | | | **787** |

(1) These reversals in respect of expenses for the period or reclassifications had no impact on profit for the period.

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

| (in € millions) | June 30, 2020 |
|---|---|
| Net additions recognized in profit from operations | 46 |
| Net additions recognized in financial income (loss) | (20) |
| **Total** | **26** |

## Note 20 - 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, 2019** | **505** |
| New advances received | 12 |
| Advances repaid | (9) |
| **Sub-total: changes with a cash impact** | **3** |
| Cost of borrowings and discounting | 10 |
| Foreign exchange differences | (1) |
| Adjustments to the probability of repayment of advances | (49) |
| **Sub-total: changes with no cash impact** | **(40)** |
| **At June 30, 2020** | **468** |

Estimates as to the repayable amounts and the timing of repayments are made regarding borrowings subject to specific conditions.

## Note 21 - Interest-bearing financial liabilities

Breakdown of interest-bearing financial liabilities:

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Bond issue | 712 | 212 |
| OCÉANE convertible bond | 667 | 1,433 |
| Senior unsecured notes in USD | 950 | 1,556 |
| Lease liabilities | 608 | 564 |
| Long-term borrowings | 302 | 302 |
| **Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)** | **3,239** | **4,067** |
| Bond issue | 601 | 1,099 |
| Lease liabilities | 121 | 112 |
| Long-term borrowings | 362 | 391 |
| Accrued interest not yet due | 9 | 13 |
| **Current interest-bearing financial liabilities, long-term at inception** | **1,093** | **1,615** |
| Negotiable European Commercial Paper (NEU CP) | 1,772 | 1,518 |
| Short-term bank facilities and equivalent | 675 | 318 |
| **Current interest-bearing financial liabilities, short-term at inception** | **2,447** | **1,836** |
| **Total current interest-bearing financial liabilities (less than 1 year)** | **3,540** | **3,451** |
| **Total interest-bearing financial liabilities**(1) | **6,779** | **7,518** |

(1) The fair value of interest-bearing financial liabilities amounts to €7,685 million (€6,851 million at December 31, 2019).

Movements in this caption break down as follows:

| *(in € millions)* | |
|---|---|
| **At December 31, 2019** | **6,779** |
| Increase in long-term borrowings at inception (excluding lease liabilities) | 1,373 |
| Decrease in long-term borrowings at inception | (73) |
| Change in short-term borrowings | (547) |
| **Sub-total: changes with a cash impact** | **753** |
| Net increase in lease liabilities | 12 |
| Accrued interest | 3 |
| Changes in scope of consolidation | 1 |
| Foreign exchange differences | (55) |
| Change in the fair value of borrowings hedged with interest rate instruments[1] | 39 |
| Reclassifications and other | (14) |
| **Sub-total: changes with no cash impact** | **(14)** |
| **At June 30, 2020** | **7,518** |

(1) See Note 23, "Management of market risks and derivatives".

## Analysis by maturity:

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Maturing in: | | |
| 1 year or less | 3,540 | 3,451 |
| More than 1 year and less than 5 years | 3,016 | 2,528 |
| Beyond 5 years | 223 | 1,539 |
| **Total** | **6,779** | **7,518** |

## Analysis by currency before hedging:

| | **Dec. 31, 2019** | | **June 30, 2020** | |
|---|---|---|---|---|
| *(in millions of currency units)* | **Currency** | **EUR** | **Currency** | **EUR** |
| EUR | 5,335 | 5,335 | 5,819 | 5,819 |
| USD | 1,431 | 1,294 | 1,750 | 1,563 |
| CAD | 8 | 6 | 10 | 6 |
| GBP | 26 | 30 | 25 | 28 |
| Other | N/A | 114 | N/A | 102 |
| **Total** | | **6,779** | | **7,518** |

## Analysis by currency after hedging:

| | **Dec. 31, 2019** | | **June 30, 2020** | |
|---|---|---|---|---|
| *(in millions of currency units)* | **Currency** | **EUR** | **Currency** | **EUR** |
| EUR | 6,283 | 6,283 | 6,809 | 6,809 |
| USD | 386 | 346 | 639 | 573 |
| CAD | 8 | 6 | 10 | 6 |
| GBP | 26 | 30 | 25 | 28 |
| Other | N/A | 114 | N/A | 102 |
| **Total** | | **6,779** | | **7,518** |

Analysis by type of interest rate:

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

| | Total | | Non-current | | | | Current | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2019 | **June 30, 2020** | Dec. 31, 2019 | | **June 30, 2020** | | Dec. 31, 2019 | | **June 30, 2020** | |
| *(in € millions)* | Base | **Base** | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate |
| Fixed rate | 5,073 | 5,769 | 2,648 | 2.77% | 3,974 | 2.55% | 2,425 | 0.04% | 1,795 | 0.47% |
| Floating rate | 1,706 | 1,749 | 591 | 0.37% | 93 | 0.92% | 1,115 | 0.45% | 1,656 | 0.25% |
| **Total** | **6,779** | **7,518** | **3,239** | **2.33%** | **4,067** | **2.51%** | **3,540** | **0.17%** | **3,451** | **0.36%** |

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

| | Total | | Non-current | | | | Current | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2019 | **June 30, 2020** | Dec. 31, 2019 | | **June 30, 2020** | | Dec. 31, 2019 | | **June 30, 2020** | |
| *(in € millions)* | Base | **Base** | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate |
| Fixed rate | 4,860 | **5,557** | 2,435 | 1.70% | 3,762 | 1.82% | 2,425 | 0.04% | 1,795 | 0.47% |
| Floating rate | 1,919 | **1,961** | 804 | 0.57% | 305 | 1.19% | 1,115 | 0.45% | 1,656 | 0.25% |
| **Total** | **6,779** | **7,518** | **3,239** | **1.42%** | **4,067** | **1.77%** | **3,540** | **0.17%** | **3,451** | **0.36%** |

The Group's net debt position is as follows:

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Cash and cash equivalents (A) | 2,632 | 4,373 |
| Interest-bearing financial liabilities (B) | 6,779 | 7,518 |
| Fair value of interest rate derivatives used as fair value hedges of borrowings (C) | 33 | 63 |
| **Total (A) - (B) + (C)** | **(4,114)** | **(3,082)** |

The Group's gearing ratio is shown below:

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Net debt | (4,114) | (3,082) |
| Total equity | 12,748 | 12,547 |
| **Gearing ratio** | **32.27%** | **24.56%** |

MAIN LONG-TERM BORROWINGS AT INCEPTION

- US private placement (USPP) set up on February 9, 2012 for a total amount of USD 1.045 billion, including:

  - 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).

  An interest rate hedge in the form of a cross currency swap (USD floating-rate borrower at inception, followed by EUR fixed-rate borrower from March 2019) was set up on tranches B and C, allowing the USD fixed-rate debt to be fully swapped for EUR fixed□rate debt.
  The issue's interest came out at 1.64% in 2020 after taking into account the impact of interest rate derivatives.

This loan for an initial amount of USD 1.2 billion also included USD 155 million of fixed-rate seven-year notes (tranche A) repaid at maturity on February 9, 2019.

- US private placement (USPP) set up on June 29, 2020 for a total equivalent amount of €564 million, including:
  - USD 181 million of 10-year notes due June 2030 at a 3.10% fixed-rate coupon (tranche A);
  - USD 133 million of 12-year notes due June 2032 at a 3.30% fixed-rate coupon (tranche B);
  - €122 million of 10-year notes due June 2030 at a 2.00% fixed-rate coupon (tranche C);
  - €164 million of 12-year notes due June 2032 at a 2.05% fixed-rate coupon (tranche D).

  A EUR/USD cross currency swap (EUR fixed-rate borrower and USD fixed-rate lender) was set up on tranches A and B on July 21, 2020 (i.e., after the reporting date), swapping USD fixed-rate debt for EUR fixed-rate debt.
  After taking this hedge into account, tranche A bears fixed-rate interest at 2.04% and has a notional amount of €158 million, while tranche B bears fixed-rate interest at 2.22% and has a notional amount of €116 million.
  After taking this hedge into account, the 10-year notes (tranches A and C) of the USPP carry an effective coupon of 2.02% and have a notional amount of €280 million, while the 12-year notes (tranches B and D) carry an effective coupon of 2.12% and have a notional amount of €280 million.

- Issuance on April 11, 2014 of 10-year, 2.875% fixed-rate bonds for €200 million (maturing in April 2024). The bonds were issued at 99.529% of par. A floating-rate swap was set up on this issue. The effective coupon in 2020 is 1.31% after taking into account the impact of interest rate derivatives.

- Issuance on June 28, 2017 of four-year floating-rate bonds at 3-month Euribor +57 basis points (coupon floored at 0%) for €500 million (maturing in June 2021). The bonds were issued at 100% of par.

- Issuance on July 13, 2018 of two-year floating-rate bonds at 3-month Euribor +33 basis points (coupon floored at 0%) for €500 million (maturing in July 2020). The bonds were issued at 100% of par.

- Bonds convertible and/or exchangeable for new and/or existing shares ("OCÉANE" bonds) on June 21, 2018 for a nominal amount of €700 million. These bonds do not carry a coupon and were offered at an issue price representing 100% of par, or a gross yield to maturity of 0%. Unless converted, redeemed or bought back and canceled prior to maturity, the OCÉANE bonds are redeemable at par on June 21, 2023. The effective annual interest rate on the liability component of the OCÉANE bonds is 1.40% including issuance fees (see Note 18.d, "Convertible bond issues").

- Bonds convertible and/or exchangeable for new and/or existing shares ("OCÉANE" bonds) on May 15, 2020 for a nominal amount of €800 million. These OCÉANE bonds bear interest at 0.875% and were offered at an issue price representing 100% of par, or a gross yield to maturity of 0.875%. Unless converted, redeemed or bought back and canceled prior to maturity, the OCÉANE bonds are redeemable at par on May 15, 2027. The effective annual interest rate on the liability component of the OCÉANE bonds is 1.63% including issuance fees (see Note 18.d, "Convertible bond issues").

- Euro private placement ("Euro PP") in the form of a syndicated loan with an original maturity of seven years, contracted by the former Zodiac Aerospace group on March 10, 2016 and falling due on March 10, 2023, on which €180 million was outstanding at June 30, 2020 at an adjustable rate of 2.902%.

- Seven-year, 3.605% fixed-rate *Schuldschein* loan for €99 million set up by the former Zodiac Aerospace group on July 25, 2013 (maturing in July 2020) and restructured on July 25, 2018: €95 million was repaid ahead of maturity by the former Zodiac Aerospace group and simultaneously replaced by a liability in the form of Negotiable European Medium Term Notes taken out by Safran with the same lenders for the same amount, under the same financial conditions and with the same maturity. Following this transaction, only €4 million of the original *Schuldschein* loan remains outstanding.

- European Investment Bank (EIB) floating-rate loan, bearing interest at 3-month Euribor +73.4 basis points and maturing in December 2020. At June 30, 2020, €37.5 million was outstanding.

- Negotiation European Commercial Paper (NEU CP) subscribed by a corporate mutual fund of the Group employee savings plan and amounting to €433 million at June 30, 2020. The average interest rate payable by Safran on this commercial paper was 0.93% at June 30, 2020. The sums managed by the corporate mutual fund and reinvested in Safran NEU CP are frozen for an initial period of five years. In view of the fund's commitments, this NEU CP is classified within long-term borrowings. At June 30, 2020, 79% of the sums managed by the corporate mutual fund will be available within one year. Accordingly, 79% of the €433 million in NEU CP is classified within the current portion of long-term borrowings.

- Lease liabilities (including former finance lease liabilities) totaling €676 million at June 30, 2020 as a result of the first□time application of IFRS 16.

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

MAIN SHORT-TERM BORROWINGS

- Negotiable European Commercial Paper (NEU CP): €1,518 million (€1,772 million at December 31, 2019).
  This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

- Financial current accounts with non-consolidated subsidiaries and joint ventures: €278 million (€263 million at December 31, 2019). 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, 2020 and December 31, 2019 does not include trade receivables sold without recourse, including the two lines below relating to CFM Inc. (joint operation).

- The confirmed USD 2,370 million facility renewed in December 2019 and maturing in December 2021, contracted with a syndicate of six banks led by Crédit Agricole CIB, reduced to USD 1,500 million in mid-January 2020, had been drawn in an amount of USD 1,244 million at June 30, 2020 (USD 622 million based on a 50% interest) versus USD 1,423 million (USD 712 million based on a 50% interest) at December 31, 2019.

- The confirmed USD 300 million facility maturing in December 2020, contracted in June 2020 with a syndicate of three banks led by Crédit Agricole CIB and set to be increased to USD 510 million in July 2020 provided that certain conditions are met, had been drawn in an amount of USD 297 million at June 30, 2020 (USD 149 million based on a 50% interest).

## Note 22 - *Other current and non-current financial liabilities*

| *(in € millions)* | Dec. 31, 2019 | Movements during the period | Changes in scope of consolidation | Foreign exchange differences | Reclassifications | June 30, 2020 |
|---|---|---|---|---|---|---|
| Payables on purchases of property, plant and equipment and intangible assets | 108 | (54) | - | - | (1) | **53** |
| Payables on purchases of investments | 9 | (1) | - | - | (3) | **5** |
| **Total** | **117** | **(55)** | **-** | **-** | **(4)** | **58** |
| **Non-current** | 2 | | | | | **7** |
| **Current** | 115 | | | | | **51** |

These liabilities are not included in the Group's net financial position at June 30, 2020.

## Note 23 - *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, 2019 | | June 30, 2020 | |
|---|---|---|---|---|
| *(in € millions)* | Assets | Liabilities | Assets | Liabilities |
| ***Interest rate risk management*** | ***33*** | ***(5)*** | ***65*** | ***(15)*** |
| Floating-for-fixed interest rate swaps | - | (5) | - | (15) |
| Fixed-for-floating interest rate swaps | 33 | - | 65 | - |
| ***Foreign currency risk management*** | ***674*** | ***(1,033)*** | ***482*** | ***(1,781)*** |
| Currency swaps | 2 | - | 5 | - |
| Purchase and sale of forward currency contracts | 200 | (241) | 36 | (147) |
| Currency option contracts | 472 | (792) | 441 | (1,634) |
| **Total** | **707** | **(1,038)** | **547** | **(1,796)** |

All derivatives are categorized within Level 2 of the fair value hierarchy set out in IFRS 13 (as at December 31, 2019).
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 Group 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 4.5 billion in first-half 2020 (USD 5.7 billion in first-half 2019).

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 31 of the 2019 Universal Registration Document.

## FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

| | Dec. 31, 2019 | | | | June 30, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in millions of currency units)* | Fair value(1) | Notional amount(1) | Less than 1 year | 1 to 5 years | Fair value(1) | Notional amount(1) | Less than 1 year | 1 to 5 years |
| **Forward exchange contracts** | **(40)** | | | | **(111)** | | | |
| Short USD position | (238) | 2,661 | 2,661 | - | (132) | 2,513 | 2,513 | - |
| *Of which against EUR* | *(238)* | *2,661* | *2,661* | *-* | *(132)* | *2,513* | *2,513* | *-* |
| Long USD position | 75 | (957) | (957) | - | 9 | (200) | (200) | - |
| *Of which against EUR* | *75* | *(957)* | *(957)* | *-* | *9* | *(200)* | *(200)* | *-* |
| Short EUR position against GBP | 9 | 107 | 100 | 7 | 1 | 42 | 35 | 7 |
| Short EUR position against CAD | 7 | 49 | 49 | - | - | - | - | - |
| Long MXN position against EUR | 107 | (13,304) | (4,086) | (9,217) | 11 | (13,613) | (2,699) | (10,914) |
| **Currency swaps** | **2** | | | | **5** | | | |
| Cross currency swaps | 2 | 1,045 | - | 1,045 | 5 | 1,045 | - | 1,045 |
| **Currency option contracts** | **(321)** | | | | **(1,193)** | | | |
| USD put purchased | 275 | 26,555 | 26,055 | 500 | 285 | 25,455 | 25,455 | - |
| USD call purchased | 83 | (2,300) | (1,300) | (1,000) | 70 | (2,100) | (700) | (1,400) |
| USD call sold | (718) | 45,471 | 44,471 | 1,000 | (894) | 42,310 | 41,960 | 350 |
| USD put sold | (41) | (4,600) | (2,600) | (2,000) | (42) | (4,000) | (1,200) | (2,800) |
| EUR put purchased | 89 | 1,690 | 1,540 | 150 | 66 | 1,630 | 1,530 | 100 |
| EUR call sold | (19) | 3,200 | 2,900 | 300 | (58) | 3,080 | 2,880 | 200 |
| Accumulators – sell USD for EUR(2) | 6 | 2,539 | 686 | 1,853 | (129) | 10,425 | 3,473 | 6,952 |
| Accumulators – buy USD for EUR(2) | - | - | - | - | (349) | (8,619) | (3,296) | (5,323) |
| Accumulators – sell EUR for GBP(2) | 2 | (520) | (520) | - | (19) | (105) | (105) | - |
| Accumulators – sell EUR for CAD(2) | - | - | - | - | (52) | (240) | (240) | - |
| Accumulators – sell EUR for MXN(2) | 2 | (500) | (500) | - | (71) | (345) | (345) | - |
| **Total** | **(359)** | | | | **(1,299)** | | | |

(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, changes in the fair value of outstanding currency hedging instruments between December 31, 2019 and June 30, 2020 represent a negative €940 million.

In the income statement, the Group has chosen not to 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)".

## INTEREST RATE RISK MANAGEMENT

The Group's interest rate risk management policy is described in section 3.1, Note 31 of the 2019 Universal Registration Document.

## EXPOSURE TO EUR INTEREST RATE RISK

Interest rate swaps were 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, 2019 | | | | | June 30, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(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 | 14 | 200 | - | 200 | - | 14 | 200 | - | 200 | - |
| **Total** | **14** | | | | | **14** | | | | |

## 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) was partially converted to a floating rate at 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. These swaps are eligible for fair value hedge accounting. The seven-year tranche for USD 155 million was kept at a fixed rate and repaid in February 2019.
In March 2019, the two 10-year and 12-year tranches for USD 540 million and USD 505 million, respectively, were reset to euros by means of a cross currency swap (USD floating-rate lender/EUR fixed-rate borrower).
The interest rate portion of the cross currency swap was eligible for hedge accounting.

On July 21, 2020 (i.e., after the reporting date), a cross currency swap (USD fixed-rate lender/EUR fixed-rate borrower) was set up on two USD tranches of the June 29, 2020 senior unsecured notes issue on the US private placement market (USPP), amounting to USD 181 million bearing fixed-rate interest over a period of 10 years (tranche A) and USD 133 million bearing fixed-rate interest over a period of 12 years (tranche B).
The interest rate portion of the cross currency swap will be eligible for hedge accounting.

Fixed-rate borrower/floating-rate lender swaps were set up in connection with the sale of trade receivables without recourse. The swaps are for a nominal amount of USD 800 million and a term of up to 12 months, and were taken out on behalf of a joint arrangement 50%-owned by the Group. This transaction gives rise to a floating-rate borrower/fixed-rate lender swap for a nominal amount of USD 400 million after elimination of intragroup items. These swaps are not eligible for hedge accounting. The aim of these transactions is to fix the borrowing cost applicable to the customer.

| | Dec. 31, 2019 | | | | | June 30, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(in € millions)* | Fair value | Notional amount (USD) | Less than 1 year | 1 to 5 years | More than 5 years | Fair value | Notional amount (USD) | Less than 1 year | 1 to 5 years | More than 5 years |
| **USD interest rate swaps** | | | | | | | | | | |
| Fixed-for-floating | 19 | 1,670 | 625 | 1,045 | - | 51 | 1,445 | 400 | 1,045 | - |
| Floating-for-fixed | (5) | 2,295 | 1,250 | 1,045 | - | (15) | 1,845 | 800 | 1,045 | - |
| **Total** | **14** | | | | | **36** | | | | |

### COUNTERPARTY RISK MANAGEMENT

The Group is exposed to counterparty risk on the following:

- short-term financial investments;
- derivatives;
- trade receivables;
- financial guarantees granted to customers.

Financial investments are diversified and consist of blue-chip securities that are traded with top-tier banks.

The sole purpose of the Group's derivative transactions is to reduce the overall exposure to foreign currency and interest rate risks resulting from its ordinary business activities. Transactions are either carried out on organized markets or over-the-counter with top-tier intermediaries.

In the context of the Covid-19 pandemic, the Group has stepped up the monitoring of its bad debt risks to ensure the collection of its current and future receivables. It has paid close attention to struggling airline companies and has set aside a provision on a case-by-case basis for any receivables or assets presenting a bad debt risk.

### 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.

At June 30, 2020, the Group had a confirmed, undrawn €2,520 million liquidity line. This line was set up in December 2015 and expires in December 2020, with 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.

On April 22, 2020, the Group set up an additional confirmed liquidity line for an initial amount of €3,000 million, which remained undrawn at June 30, 2020. The amount of this line was reduced to €1,643 million following the OCÉANE bond issue on May 15, 2020 and the USPP dated June 29, 2020 (see Note 21, "Interest-bearing financial liabilities"). This line has a one-year term and includes two six-month extension options which can be exercised at Safran's discretion.

The EIB borrowings set up in 2010 are subject to certain half-yearly financial covenants (see Note 21, "Interest-bearing financial liabilities"). The Group complied with the covenants at June 30, 2020:
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 (USPP) in 2012 and on June 29, 2020 (see Note 21, "Interest-bearing financial liabilities"). The covenant is tested every six months and the Group complied with the applicable ratio at June 30, 2020.

The following annual covenant applies to the euro private placement ("Euro PP") in the form of a syndicated loan, set up by the former Zodiac Aerospace on March 10, 2016 and with an original maturity of seven years (see Note 21, "Interest-bearing financial liabilities"):

- net debt/EBITDA <3.5.

The terms “net debt”, “EBITDA” and “total equity” used in the aforementioned covenants 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.

## 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.

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

| *(in € millions)* | **First-half 2019** | **First-half 2020** |
|---|---|---|
| Sales to related parties other than joint ventures | 2,689 | 2,168 |
| Purchases from related parties other than joint ventures | (75) | (48) |

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Amounts receivable from related parties other than joint ventures | 1,930 | 1,755 |
| Amounts payable to related parties other than joint ventures | 2,639 | 2,466 |

| *(in € millions)* | **Dec. 31, 2019** | **June 30, 2020** |
|---|---|---|
| Commitments given to related parties other than joint ventures(1) | 2,110 | 2,120 |

(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 Directorate General of Weapons Procurement (DGA).

The following transactions were carried out with joint ventures:

| *(in € millions)* | First-half 2019 | First-half 2020 |
|---|---|---|
| Sales to joint ventures[(1)] | 204 | 45 |
| Purchases from joint ventures | (40) | (39) |

(1) Mainly with Shannon Engine Support Limited.

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Amounts receivable from joint ventures | 180 | 94 |
| Amounts payable to joint ventures | 57 | 42 |

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Commitments given to joint ventures[(2)] | 367 | 299 |

(2) See Note 16, "Investments in equity-accounted companies".

# Note 25 - Off-balance sheet commitments and contingent liabilities

## 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, 2019 | June 30, 2020 |
|---|---|---|
| Purchase commitments on intangible assets | 38 | 37 |
| Purchase commitments on property, plant and equipment | 250 | 169 |
| Guarantees given in connection with the performance of operating agreements | 5,476 | 5,728 |
| Lease commitments | 98 | 113 |
| Financial guarantees granted on the sale of Group products | 23 | 11 |
| Other commitments given | 636 | 547 |
| **Total** | **6,521** | **6,605** |

Guarantees given in connection with the performance of operating agreements

These guarantees relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers) in which Safran or the subsidiary provide a joint and several guarantee that its subsidiaries will perform their duties under their contractual obligations. These guarantees are given in respect of research, design, development, manufacturing, marketing and product support programs in place at Group subsidiaries. They are generally granted for the term of the program concerned, and are capped at a certain amount.

Guarantees granted to Airbus are shown within "Guarantees granted to related parties" in Note 24, "Related parties".

Lease commitments

As of January 1, 2019, lease commitments given concern leases qualifying for the IFRS 16 exemption criteria (short-term leases or leases of low-value assets), as well as leases signed but not yet started.

Financial guarantees granted on the sale of Group products

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

The Group's gross exposure in respect of these financing commitments in their transaction currency represents USD 12 million at June 30, 2020 (USD 29 million at June 30, 2019), or €11 million (€25 million at June 30, 2019). 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 2 million at June 30, 2020 (USD 5 million at June 30, 2019), for which a provision, based on an assessment of the risk, is booked in the financial statements (see Note 19, "Provisions").

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

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 3.b, "Provisions", and Note 19, "Provisions"). While the initial amount of any such claim may be material in certain cases, it does not necessarily have any bearing on the costs that may be ultimately incurred to satisfy the customer. As these claims represent contingent liabilities, no provision has been recognized beyond contractual liability limits, if any.

In the absence of an agreement between the parties, some 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, 2019 | June 30, 2020 |
|---|---|---|
| Commitments received from banks on behalf of suppliers | 9 | 8 |
| Completion warranties | 10 | 10 |
| Endorsements and guarantees received | 1 | 2 |
| Other commitments received | 85 | 99 |
| **Total** | **105** | **119** |

## 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, 2019 | June 30, 2020 |
|---|---|---|
| Vendor warranties given[1] | 331 | 320 |

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

(ii) Vendor warranties received

| *(in € millions)* | Dec. 31, 2019 | June 30, 2020 |
|---|---|---|
| Vendor warranties received | - | - |

Vendor warranties granted in connection with the disposal of the Security businesses

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, 2020, as well as a specific indemnity capped at BRL 200 million (€33 million at June 30, 2020) 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 73 million (€65 million at June 30, 2020).

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, 2020.

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

Commitments received in respect of financing relate to:

- any unused portion of trade receivables factoring facilities requiring deconsolidation of the receivables concerned (see Note 21, "Interest-bearing financial liabilities");
- the confirmed, undrawn syndicated credit line for €2,520 million set up in December 2015 (see Note 23, "Management of market risks and derivatives"); and
- the additional confirmed, undrawn syndicated credit line totaling €1,643 million at June 30, 2020, set up on April 22, 2020 (see Note 23, "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, investigations, legal action and regulatory proceedings outside the scope of their ordinary operations.

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.

The most important proceedings are described below.

- 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 claiming damages 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. The lawsuits are still in progress. Upon the Court's authorization, the claimant notified the joint defendants at the end of 2018 of its intention to broaden the scope of its action. The joint defendants submitted a response in 2019. The parties' experts have submitted their reports on the alleged harm suffered by the plaintiff. The reports differ significantly in their estimates. According to the current procedural timetable, a preliminary hearing will be held at the end of July 2020. The final hearing should start at the end of this year.
  At the date of this report, it is not possible to reasonably 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

Signature of a Group "Activity Transformation" agreement (see Note 1.g).

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