POWERED BY TRUST

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

June 30, 2019

SAFRAN

The Board of Directors' meeting of September 4, 2019 adopted and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the six-month period ended June 30, 2019.

TABLE OF CONTENTS

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 2018 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 2019 income statement items is as follows:

(in € millions)	**First-half 2019 consolidated data**	Currency hedges: Remeasurement of revenue (1)	Currency hedges: Deferred hedging gain (loss) (2)	Business combinations: Amortization of intangible assets from Sagem-Snecma merger (3)	Business combinations: PPA impacts – other business combinations (4)	**First-half 2019 adjusted data**
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 expense	(550)	-	113	(8)	(51)	(496)
Profit for the period	**1,465**	**-**	**(240)**	**17**	**145**	**1,387**
Loss for the period attributable to non-controlling interests	**(33)**	**-**	**-**	**(1)**	**-**	**(34)**
Profit 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 (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) Cancelation of amortization/impairment of intangible assets relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger.

(4) 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.

The impact of these adjustments in 2018 was as follows:

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

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 2018* Adjusted data	First-half 2019 Adjusted data
Revenue	**9,506**	**12,102**
Other income	148	138
Income from operations	**9,654**	**12,240**
Change in inventories of finished goods and work-in-progress	406	492
Capitalized production	197	215
Raw materials and consumables used	(5,575)	(7,270)
Personnel costs	(2,770)	(3,185)
Taxes	(179)	(258)
Depreciation, amortization and increase in provisions, net of use	(429)	(497)
Asset impairment	(20)	(21)
Other recurring operating income and expenses	20	83
Share in profit from joint ventures	82	84
Recurring operating income	**1,386**	**1,883**
Other non-recurring operating income and expenses	(26)	32
Profit from operations	**1,360**	**1,915**
Cost of net debt	(34)	(21)
Foreign exchange gain (loss)	(69)	12
Other financial income and expense	(11)	(23)
Financial loss	**(114)**	**(32)**
Profit before tax	**1,246**	**1,883**
Income tax expense	(272)	(496)
Profit for the period	**974**	**1,387**
Attributable to:		
owners of the parent	932	1,353
non-controlling interests	42	34
Earnings per share attributable to owners of the parent (in €)		
Basic earnings per share	2.17	3.13
Diluted earnings per share	2.11	3.09

* The data published for first-half 2018 have not been restated for the impact of the change in accounting policy resulting from the modified retrospective application of IFRS 16, “Leases” (see Note 3.a, “Application of IFRS 16”).

Segment information

The Group modified its operating segments with effect from January 1, 2019. The new segments are defined in Note 5, along with segment information.

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 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**

First-half 2018*

(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	**4,805**	**3,711**	**980**	**9,496**	**10**	**9,506**	**(113)**	**-**	**9,393**
Recurring operating income (loss)	**915**	**442**	**32**	**1,389**	**(3)**	**1,386**	**(112)**	**(362)**	**912**
Other non-recurring operating income and expenses	(1)	5	(2)	**2**	(28)	**(26)**	-	-	**(26)**
Profit (loss) from operations	**914**	**447**	**30**	**1,391**	**(31)**	**1,360**	**(112)**	**(362)**	**886**
Free cash flow	**687**	**103**	**(30)**	**760**	**60**	**820**	**-**	**-**	**820**

* The data published for first-half 2018 have not been restated for the impact of the change in accounting policy resulting from the modified retrospective application of IFRS 16, "Leases" (see Note 3.a, "Application of IFRS 16").
The data published for first-half 2018 have been restated to reflect the change in operating segments (see Note 5, "Segment information").

Revenue (adjusted data)

(in € millions)		First-half 2018*	First-half 2019
Aerospace Propulsion			
Original equipment and related products and services		2,031	2,433
Services		2,729	3,410
Sales of studies		27	29
Other		18	30
	Sub-total	4,805	5,902
Aircraft Equipment, Defense and Aerosystems			
Original equipment and related products and services		2,377	2,893
Services		1,180	1,469
Sales of studies		110	122
Other		44	69
	Sub-total	3,711	4,553
Aircraft Interiors			
Sales of equipment		665	1,132
Services		259	447
Sales of studies		42	58
Other		14	3
	Sub-total	980	1,640
Holding company and other			
Sales of studies and other		10	7
	Sub-total	10	7
Total		**9,506**	**12,102**

* The data published for first-half 2018 have been restated to reflect the change in operating segments (see Note 5, “Segment information”).

Information by geographic area

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%			

First-half 2018

(in € millions)		France	Europe (excl. France)	Americas	Asia and Oceania	Africa & Middle East	**Total adjusted data**	Currency hedges	**Total consolidated data**
Revenue by location of customers		1,592	2,313	3,308	1,597	696	**9,506**	(113)	**9,393**
	%	17%	24%	35%	17%	7%			

Safran Group condensed interim consolidated financial statements

Consolidated income statement

(in € millions)	*Note*	**First-half 2018***	**First-half 2019**
Revenue	*6*	**9,393**	**12,315**
Other income	*7*	148	138
Income from operations		**9,541**	**12,453**
Change in inventories of finished goods and work-in-progress		112	492
Capitalized production		197	215
Raw materials and consumables used	*7*	(5,574)	(7,268)
Personnel costs	*7*	(2,770)	(3,185)
Taxes		(179)	(258)
Depreciation, amortization and increase in provisions, net of use	*7*	(478)	(698)
Asset impairment	*7*	(20)	(21)
Other recurring operating income and expenses	*7*	20	83
Share in profit from joint ventures	*16*	63	64
Recurring operating income		**912**	**1,877**
Other non-recurring operating income and expenses	*7*	(26)	32
Profit from operations		**886**	**1,909**
Cost of net debt		(34)	(21)
Foreign exchange gain (loss)		(175)	150
Other financial income and expense		(11)	(23)
Financial income (loss)	*8*	**(220)**	**106**
Profit before tax		**666**	**2,015**
Income tax expense	*9*	(100)	(550)
Profit for the period		**566**	**1,465**
Attributable to:			
owners of the parent		535	1,432
non-controlling interests		31	33
Earnings per share attributable to owners of the parent (in €)	*10*		
Basic earnings per share		1.25	3.31
Diluted earnings per share		1.21	3.27

* The data published for first-half 2018 have not been restated for the impact of the change in accounting policy resulting from the modified retrospective application of IFRS 16, “Leases” (see Note 3.a, “Application of IFRS 16”).

Consolidated statement of comprehensive income

(in € millions)	Note	First-half 2018	First-half 2019
Profit for the period		**566**	**1,465**
Other comprehensive income			
Items to be reclassified to profit		**84**	**19**
Translation adjustments		94	43
Remeasurement of hedging instruments		(29)	(31)
Income tax related to components of other comprehensive income to be reclassified to profit		9	9
Share in other comprehensive income (expense) of equity-accounted companies to be reclassified to profit (net of tax)	16	10	(2)
Items not to be reclassified to profit		**(4)**	**(84)**
Actuarial gains and losses on post-employment benefits		(6)	(93)
Income tax related to components of other comprehensive income not to be reclassified to profit		2	22
Share in other comprehensive income (expense) of equity-accounted companies not to be reclassified to profit (net of tax)		-	(13)
Other comprehensive income (expense) for the period		**80**	**(65)**
Total comprehensive income for the period		**646**	**1,400**
Attributable to:			
- owners of the parent		612	1,369
- non-controlling interests		34	31

In first-half 2019, other comprehensive income relating to translation adjustments notably includes €42 million in translation gains (€91 million in translation gains in first-half 2018) arising in the period on foreign operations.

In first-half 2019, other comprehensive income resulting from the remeasurement of hedging instruments includes:

- €17 million in translation losses (€29 million in translation losses in first-half 2018) arising in the period on the February 2012 issue by Safran of USD 1.2 billion in senior unsecured notes on the US private placement market, classified as a hedge of the net investment in some of the Group's US operations up to the end of first-quarter 2019. The outstanding balance of the reserve for the discontinued net investment hedge is €5 million (see the consolidated statement of changes in shareholders' equity);
- €14 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 €14 million (see the consolidated statement of changes in shareholders' equity).

Other comprehensive income relating to equity-accounted companies (net of tax) includes (see Note 16, "Investments in equity-accounted companies") €3 million in translation gains arising in the period on foreign joint ventures (€12 million in translation gains in first-half 2018) and €5 million in negative fair value adjustments relating to cash flow hedges of joint ventures (€2 million in negative fair value adjustments in first-half 2018).

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, 2017	**June 30, 2018**	Dec. 31, 2018	**June 30, 2019**
Eurozone	1.40%	**1.40%**	1.50%	**1.00%**
UK	2.60%	**2.60%**	2.90%	**2.50%**

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

	Dec. 31, 2017	**June 30, 2018**	Dec. 31, 2018	**June 30, 2019**
UK inflation rate	3.35%	**3.35%**	3.25%	**3.25%**

Consolidated balance sheet

ASSETS *(in € millions)*	*Note*	**Dec. 31, 2018***	**June 30, 2019**
Goodwill	*11*	5,173	5,182
Intangible assets	*12*	9,757	9,590
Property, plant and equipment	*13*	4,454	4,294
Right-of-use assets	*14*	-	727
Non-current financial assets	*15*	416	357
Investments in equity-accounted companies	*16*	2,253	2,253
Non-current derivatives (positive fair value)	*23*	13	36
Deferred tax assets		391	375
Other non-current financial assets		4	4
Non-current assets		**22,461**	**22,818**
Current financial assets	*15*	185	186
Current derivatives (positive fair value)	*23*	740	762
Inventories and work-in-progress		5,558	6,247
Contract costs		470	483
Trade and other receivables		6,580	7,138
Contract assets		1,544	1,662
Tax assets		752	414
Cash and cash equivalents	*17*	2,330	2,470
Current assets		**18,159**	**19,362**
Total assets		**40,620**	**42,180**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	**Dec. 31, 2018***	**June 30, 2019**
Share capital	*18*	87	87
Consolidated retained earnings	*18*	10,585	10,597
Profit for the period		1,283	1,432
Equity attributable to owners of the parent		**11,955**	**12,116**
Non-controlling interests		**346**	**347**
Total equity		**12,301**	**12,463**
Provisions	*19*	1,588	1,746
Borrowings subject to specific conditions	*20*	585	517
Non-current interest-bearing financial liabilities	*21*	3,384	3,899
Non-current derivatives (negative fair value)	*23*	7	-
Deferred tax liabilities		1,662	1,607
Other non-current financial liabilities	*22*	2	19
Non-current liabilities		**7,228**	**7,788**
Provisions	*19*	1,189	1,129
Current interest-bearing financial liabilities	*21*	2,221	2,577
Trade and other payables		5,650	5,838
Contract liabilities		10,453	10,718
Tax liabilities		210	640
Current derivatives (negative fair value)	*23*	1,255	970
Other current financial liabilities	*22*	113	57
Current liabilities		**21,091**	**21,929**
Total equity and liabilities		**40,620**	**42,180**

* The data published for first-half 2018 have not been restated for the impact of the change in accounting policy resulting from the modified retrospective application of IFRS 16, “Leases” (see Note 3.a, “Application of IFRS 16”).

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, 2018	**83**	**3,360**	**(509)**	**69**	**9**	**2,073**	**(433)**	**4,550**	**143**	**9,345**	**301**	**9,646**
Comprehensive income (expense) for the period	-	-	-	(29)	103	(2)	(6)	535	11 (a)	**612**	34	**646**
Acquisitions/disposals of treasury shares	-	-	4	-	-	-	-	-	-	**4**	-	**4**
Dividends	-	-	-	-	-	(695)	-	-	-	**(695)**	(26)	**(721)**
OCÉANE 2018-2023 bonds	-	-	-	-	-	31	-	-	-	**31**	-	**31**
Share buyback programs	-	-	(122)	-	-	(400)	-	-	-	**(522)**	-	**(522)**
Acquisition of Zodiac Aerospace[b]	6	2,238	-	-	-	(283)	-	-	-	**1,961**	-	**1,961**
Reclassification of the Zodiac Aerospace hybrid loan	-	-	-	-	-	(251)	-	-	-	**(251)**	-	**(251)**
Other movements, including appropriation of profit	-	-	-	-	-	4,550	-	(4,550)	2	**2**	-	**2**
At June 30, 2018	**89**	**5,598**	**(627)**	**40**	**112**	**5,023**	**(439)**	**535**	**156**	**10,487**	**309**	**10,796**
Comprehensive income (expense) for the period	-	-	-	(18)	140	(3)	48	748	(3) (a)	**912**	31	**943**
Acquisitions/disposals of treasury shares	-	-	(18)	-	-	-	-	-	-	**(18)**	-	**(18)**
OCÉANE 2016-2020 bond redemption	-	-	15	-	-	(113)	-	-	-	**(98)**	-	**(98)**
Share buyback programs	(2)	(950)	550	-	-	400	-	-	-	**(2)**	-	**(2)**
Acquisition of Zodiac Aerospace	-	-	-	-	-	445	-	-	-	**445**	-	**445**
Acquisition of non-controlling interests	-	38	-	-	-	(44)	-	-	-	**(6)**	6	**-**
Reclassification of the Zodiac Aerospace hybrid loan	-	-	-	-	-	251	-	-	-	**251**	-	**251**
Other movements, including appropriation of profit	-	-	-	-	-	-	-	-	(16)	**(16)**	-	**(16)**
At December 31, 2018	**87**	**4,686**	**(80)**	**22**	**252**	**5,959**	**(391)**	**1,283**	**137**	**11,955**	**346**	**12,301**
Change in accounting policy (IFRS 16)	-	-	-	-	-	(5)	-	-	-	**(5)**	-	**(5)**
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)**
Other movements, including appropriation of profit	-	1	-	-	-	1,283	-	(1,283)	17	**18**	-	**18**
June 30, 2019	**87**	**4,687**	**(516)**	**(9)**	**298**	**6,447**	**(499)**	**1,432**	**189**	**12,116**	**347**	**12,463**

(a) See table below:

(in € millions)	Tax impact on actuarial gains and losses	Tax impact on foreign exchange	Total
Comprehensive income (expense) for first-half 2018 (attributable to owners of the parent)	2	9	11
Comprehensive income (expense) for second-half 2018 (attributable to owners of the parent)	(9)	6	(3)
Comprehensive income (expense) for first-half 2019 (attributable to owners of the parent)	26	9	35

(b) Including €2,244 million relating to the public exchange offer (see Note 4, "Scope of consolidation").

Consolidated statement of cash flows

(in € millions)	*Note*	First-half 2018*	First-half 2019
I. Cash flow from operating activities			
Profit attributable to owners of the parent		**535**	**1,432**
Depreciation, amortization, impairment and provisions(1)		523	740
Share in profit (loss) from equity-accounted companies (net of dividends received)	*16*	(29)	(33)
Change in fair value of currency derivatives(2)	*23*	207	(317)
Capital gains and losses on asset disposals		(3)	(26)
Profit attributable to non-controlling interests		31	33
Other(3)		455	765
Cash flow from operations, before change in working capital		**1,719**	**2,594**
Change in inventories and work-in-progress		(444)	(644)
Change in operating receivables and payables(4)		(242)	(273)
Change in contract costs		(7)	(12)
Change in contract assets and liabilities		446	130
Change in other receivables and payables	,	(52)	(64)
Change in working capital		**(299)**	**(863)**
TOTAL I		**1,420**	**1,731**
II. Cash flow used in investing activities			
Capitalization of R&D expenditure(5)	*12*	(144)	(157)
Payments for the purchase of intangible assets, net of proceeds(6)		(69)	(65)
Payments for the purchase of property, plant and equipment, net of proceeds(7)		(387)	(332)
Payments arising from the acquisition of investments or businesses, net(8)		(4,129)	(4)
Proceeds (payments) arising from the sale (acquisition) of investments and loans(9)		1,991	46
TOTAL II		**(2,738)**	**(512)**
III. Cash flow used in financing activities			
Change in share capital – owners of the parent		-	1
Change in share capital – non-controlling interests		(1)	(9)
Acquisitions and disposals of treasury shares	*18.b*	(117)	(422)
Repayment of borrowings and long-term debt(10)	*21*	(477)	(731)
Increase in borrowings	*21*	702	22
Change in repayable advances	*20*	1	(9)
Change in short-term borrowings	*21*	(601)	883
Dividends and interim dividends paid to owners of the parent	*18.d*	(695)	(785)
Dividends paid to non-controlling interests		(26)	(30)
TOTAL III		**(1,214)**	**(1,080)**
Effect of changes in foreign exchange rates	**TOTAL IV**	**(2)**	**1**
Net increase (decrease) in cash and cash equivalents	**I+II+III+IV**	**(2,534)**	**140**
Cash and cash equivalents at beginning of period		4,914	2,330
Cash and cash equivalents at end of period	*17*	2,380	2,470
Net increase (decrease) in cash and cash equivalents		**(2,534)**	**140**

* The data published for first-half 2018 have not been restated for the impact of the change in accounting policy resulting from the modified retrospective application of IFRS 16, "Leases" (see Note 3.a, "Application of IFRS 16").

(1) Including in first-half 2019: depreciation and amortization for €715 million (€449 million in first-half 2018), impairment for €24 million (€21 million in first-half 2018) and additions to provisions for €1 million (€53 million in first-half 2018).

(2) Including in first-half 2019: a negative €320 million arising on currency derivatives (a positive €210 million in first-half 2018) (see Note 23, "Management of market risks and derivatives").

(3) Including in first-half 2019: deferred tax income of €113 million arising on changes in the fair value of currency derivatives (deferred tax expense of €65 million in first-half 2018), €120 million in taxes paid (€103 million in first-half 2018), €54 million in interest paid (€35 million in first-half 2018) and €27 million in interest received (€9 million in first-half 2018).

(4) Including in first-half 2019: no net premiums on currency options (see Note 23, "Management of market risks and derivatives"), shown on the balance sheet under current derivatives with a negative fair value (net premiums for €1 million in first-half 2018).

(5) Including in first-half 2019: capitalized interest for €5 million (€4 million in first-half 2018).

(6) Including in first-half 2019: €58 million in disbursements for acquisitions of intangible assets (€55 million in first-half 2018), no proceeds from disposals (€5 million in first-half 2018), and changes in amounts payable on acquisitions of non-current assets representing a negative €7 million (a negative €19 million in first-half 2018).

(7) Including in first-half 2019: €360 million in disbursements for acquisitions of property, plant and equipment (€360 million in first-half 2018), changes in amounts payable on acquisitions of non-current assets representing a negative €35 million (a negative €34 million in first-half 2018), €63 million in proceeds from disposals (€11 million in first-half 2018), and zero changes in amounts receivable on disposals of non-current assets (changes representing a negative €4 million in first-half 2018).

(8) Including in first-half 2018: the acquisition of Zodiac Aerospace for €4,092 million (amount paid as part of the tender offer net of cash and cash equivalents acquired).

(9) Including in first-half 2018: the transfer to cash and cash equivalents of €2,000 million in money market funds pledged during the tender offer for Zodiac Aerospace and previously classified under other financial assets (see Note 15, "Current and non-current financial assets").

(10) Including in first-half 2018: repayment of the €250 million Zodiac Aerospace hybrid loan (see Note 21, "Interest-bearing financial liabilities").

Notes to the Safran Group condensed interim consolidated financial statements

Safran (2, boulevard du Général Martial-Valin – 75724 Paris Cedex 15, France) is a *société anonyme* (joint-stock corporation) incorporated in France and permanently listed on Compartment A of the Euronext Paris Eurolist market.

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

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

The Board of Directors' meeting of September 4, 2019 adopted and authorized for issue the 2019 condensed interim consolidated financial statements.

Note 1 - Accounting policies

The consolidated financial statements of Safran and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and adopted by the European Union (available from http://ec.europa.eu/internal_market/accounting/ias/index_en.htm) at the date the condensed interim consolidated financial statements were approved by the Board of Directors. They include standards approved by the IASB, namely the IFRSs, International Accounting Standards (IAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC).

The condensed interim consolidated financial statements at June 30, 2019 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, 2019.

In preparing these condensed interim consolidated financial statements at June 30, 2019, 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, 2018 (see section 3.1, Note 1 of the 2018 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, 2019:

- IFRS 16, "Leases";
- Amendments to IFRS 9, "Financial Instruments" – Prepayment Features with Negative Compensation;
- Amendments to IAS 19, "Employee Benefits" – Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28, "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRSs published in December 2017 (2015-2017 cycle);
- IFRIC 23, "Uncertainty over Income Tax Treatments".

The impacts resulting from the application of IFRS 16 are set out in Note 3, "Change in accounting policy".

The other standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2019 do not have a material impact on the Group's financial statements.

New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2019:

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" and to IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material;
- 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 3, "Business Combinations" – Definition of a Business.

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 2 - Main sources of estimates

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) described above requires management to make certain estimates and assumptions that affect the reported amounts of consolidated assets, liabilities, income and expenses.

The assumptions used vary from one business to the next, but are considered reasonable and realistic in all cases. The resulting estimates are based on the Group's past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements, in particular of a contractual or commercial nature.

Estimates and underlying assumptions are reviewed on an ongoing basis.

When unforeseen developments in events and circumstances occur, particularly as regards global economic trends and the Group's own business environment, actual results may differ from these estimates. In such cases, the assumptions and where appropriate the reported amounts of assets and liabilities concerned, are adjusted accordingly.

The Group also tests its sensitivity to changes in the assumptions underlying its main estimates in order to anticipate the impact of volatility and lack of visibility in the global economic environment and particularly in certain Group segments. These analyses are regularly reviewed by management.

The main accounting policies which require the use of estimates are described below.

a) Estimates relating to programs and contracts

The main material estimates used by the Group to prepare its financial statements relate to forecasts of future cash flows under programs and contracts (business plans). Forecast future total cash flows under programs and contracts represent management's best estimate of the rights and obligations expected to derive from the program or contract.

The assumptions applied and resulting estimates used for programs and contracts cover periods that are sometimes very long (up to several decades), and take into account the technological, commercial and contractual constraints of each such program and contract.

These estimates primarily draw on assumptions about the volumes, output and selling prices of products sold, associated production costs, exchange rates for foreign-currency denominated sales and purchases as well as normal risks and uncertainties in respect of forecast cost overruns and, for discounted future cash flows, the discount rate adopted for each contract. Where such information is available, particularly for major civil aviation programs and contracts, volume and output assumptions used by the Group for products sold are analyzed in light of the assumptions published by major contractors.

Cash flow forecasts, which may or may not be discounted, are used to determine the following:

- **impairment of non-current assets**: goodwill and assets allocated to programs (aircraft programs, development expenditures and property, plant and equipment used in production) are tested for impairment as described in section 3.1, Note 1.l of the 2018 Registration Document. The recoverable amount of these assets is generally determined using cash flow forecasts based on the key assumptions described above;

- **capitalization of development expenditures**: the conditions for capitalizing development expenditures are set out in section 3.1, Note 1.j of the 2018 Registration Document. Determining whether future economic benefits are expected to flow to the Group is instrumental in deciding whether project costs can be capitalized. This analysis is carried out based on future cash flow forecasts drawing on the key assumptions described above. The Group also uses estimates when determining the useful life of its projects;

- **profit (loss) on completion of contracts accounted for on a percentage-of-completion basis**: the Group accounts for contracts on a percentage-of-completion basis (cost-to-cost method). Under this method, revenue is recognized based on the percentage of work completed, calculated by reference to the costs incurred. This method requires an estimate of results on completion using future cash flow forecasts that take into account contractual indexes and commitments as well as other factors inherent to the contract based on historical and/or forecast data. This method also requires an estimate of the contract's stage of completion.

When the total costs that are necessary to cover the Group's risks and obligations under the contract are likely to exceed total contract revenue, the expected loss (i) is recognized within provisions for losses on completion or (ii) leads to the write-down of contract fulfillment costs (if any) and to the subsequent recognition of a provision for losses on completion for the remaining amount of the loss;

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

- **variable consideration**: the transaction price may be comprised of both a fixed amount and a variable amount. This variable amount may 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 using the main assumptions discussed above.

Any changes in estimates and assumptions underlying cash flow forecasts for programs and contracts could have a material impact on the Group's future earnings and/or the amounts reported in its balance sheet. Consequently, the sensitivity of key estimates and assumptions to such changes is systematically tested and the results of these tests reviewed by management on a regular basis.

b) Provisions

Provisions reflect management's best estimates using available information, past experience and, in some cases, estimates by independent experts.

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

Contractual provisions relating to performance warranties given by the Group take into account factors such as the estimated cost of repairs and, where appropriate, the discount rate applied to cash flows. The value of these commitments may be based on a statistical assessment.

Provisions relating to financial guarantees given by the Group are based on the estimated value of the underlying assets, the probability that the customers concerned will default, and, where appropriate, the discount rate applied to cash flows.

The costs and penalties actually incurred or paid may differ significantly from these initial estimates when the obligations unwind, and this may have a material impact on the Group's future earnings.

At the date of this report, the Group has no information suggesting that these inputs are not appropriate taken as a whole.

c) Post-employment benefits

The Group uses statistical data and other forward-looking inputs to determine assets and liabilities relating to post-employment benefits. These inputs include actuarial assumptions such as the discount rate, salary increase rate, retirement age, and employee turnover and mortality. Actuarial calculations are performed by independent actuaries. At the date of preparation of the consolidated financial statements, the Group considers that the assumptions used to measure its commitments are appropriate and justified.

However, if circumstances or actuarial assumptions – especially the discount rate – prove significantly different from actual experience, the amount of post-employment liabilities shown in the balance sheet could change significantly, along with equity.

d) Trade and other receivables

The Group estimates any collection risks based on commercial information, prevailing economic trends, and information concerning the solvency of each customer, in order to determine any necessary write-downs on a case-by-case basis. These write-downs are in addition to any allowances recognized for expected losses, which are calculated on a collective basis for all 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.

Acquisition of Zodiac Aerospace:

The following methods were used to measure the intangible assets acquired:

- customer relationships: the multi-period excess earnings method, which takes into account cash flows less a return attributable to the other assets;
- technology: royalties-based method;
- trademarks: royalties-based method assuming an indefinite useful life.

Property, plant and equipment and software were measured based on their replacement cost.

Operating items were measured at market value.

f) Disputes and litigation

Certain Group subsidiaries may be party to regulatory, legal or arbitration proceedings which, because of their inherent uncertainty, could have a material impact on the Group's financial position (see Note 26, "Disputes and litigation").

The Group's management takes stock of any outstanding proceedings and monitors their progress. It also decides whether to book a provision or adjust the amount of any existing provision if events arise during the proceedings that require a reassessment of the risk involved. The Group consults legal experts both within and outside the Group in determining the costs that may be incurred.

The decision to book a provision in respect of a given risk and the amount of any such provisions are based on an assessment of the risk associated with each individual case, management's estimate of the likelihood that an unfavorable decision will be issued in the proceedings in question, and the Group's ability to estimate the amount of the provision reliably.

Note 3 - Change in accounting policy

APPLICATION OF IFRS 16

The Group has applied IFRS 16, “Leases” with effect from January 1, 2019.

All property leases together with the Group’s main leases of groups of assets (vehicles, handling equipment, etc.) are accounted for in accordance with IFRS 16.

At the commencement of the lease:

- a lease liability is recognized for the present value of the lease payments to be made over the estimated term of the lease (fixed payments, plus variable lease payments that depend on an index or rate plus amounts expected to be payable by the lessee under residual value guarantees plus the exercise price of a purchase or extension option if the lessee is reasonably certain to exercise that option plus payments of penalties for terminating the lease, unless these are unlikely);
- a right-of-use asset is recognized for the amount of the lease liability, plus the amount of any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee (fees and commission) and an estimate of costs to be incurred in dismantling and removing the asset and/or restoring the site on which it is located or restoring the asset to the condition required by the lease.

A deferred tax asset is recognized based on the amount of the lease liability, while a deferred tax liability is recognized based on the carrying amount of the right-of-use asset.

The term of the lease is determined taking into account contractual provisions and provisions resulting from applicable laws and regulations. Generally speaking, a nine-year term is initially adopted for “3/6/9”-type commercial leases in France.

Subsequent measurement:

- the lease liability is measured at amortized cost using the effective interest rate, which is equal to the discount rate initially applied;
- the right-of-use asset is depreciated on a straight-line basis over the term of the lease or over the useful life of the underlying asset if the purchase option is reasonably certain to be exercised. Where appropriate, an impairment loss may be recognized against the right-of-use asset.

In the event of a change in future lease payments resulting from a change in an index or rate used to determine those payments, the lease liability is remeasured using the initial discount rate.

If the lease term is extended following the exercise of an extension option that was not initially taken into account, the lease liability is remeasured using a revised discount rate as determined at the date the option is exercised.

In such cases, the change in the amount of the lease liability is recognized against a matching change in the amount of the right-of-use asset.

In accordance with the practical expedients offered by the standard, the Group has chosen not to apply IFRS 16 to short-term leases or leases of low-value assets. Payments made under such leases are expensed over the term of the lease.

3.a.1 Impact at January 1, 2019

The Group applied the modified retrospective approach to IFRS 16 with effect from January 1, 2019. Accordingly, the impact of IFRS 16 is reflected in equity at that date and the 2018 financial statements are not restated.

At the transition date, the impacts of IFRS 16 essentially relate to property leases.

Restatement of leases previously classified as operating leases (IAS 17)

At the transition date:

- the lease liability is equal to the present value of the residual lease payments due, discounted at an average interest rate of 1.50% at January 1, 2019;
- the gross carrying amount of the right-of-use asset is equal to the lease liability at that date, plus any lease payments made at or before the commencement date.

To the extent permitted by IFRS 16, the Group adopted the following practical expedients in its transition to the standard:

- leases with a residual term of less than 12 months or leases of low-value assets were not restated;
- initial direct costs were not included in measuring the right-of-use asset;
- if a lease includes an extension or early termination option, the term of that lease was determined taking into account the information obtained at the transition date;
- IFRS 16 was applied solely to leases classified as leases under IAS 17 and IFRIC 4.

Restatement of leases previously classified as finance leases (IAS 17)

At the transition date:

- the net carrying amount of the underlying leased assets at December 31, 2018 was reclassified as part of the gross value of right-of-use assets;
- the carrying amount of finance lease liabilities at December 31, 2018 was reclassified within lease liabilities.

The impacts of this change in accounting policy on the balance sheet at January 1, 2019 are shown below.

Consolidated opening balance sheet at January 1, 2019 (excerpt):

ASSETS *(in € millions)*	**Dec. 31, 2018 (published)**	**IFRS 16 impact**	**Jan. 1, 2019**
Property, plant and equipment, net	4,454	(208)	4,246
Right-of-use assets		716	716
Non-current and current financial assets	601	19	620
Investments in equity-accounted companies	2,253	(1)	2,252
Deferred tax assets	391	1	392
Trade and other receivables	6,580	(3)	6,577
Total assets		**524**	

EQUITY AND LIABILITIES *(in € millions)*	**Dec. 31, 2018 (published)**	**IFRS 16 impact**	**Jan. 1, 2019**
Equity	**12,301**	**(5)**	**12,296**
Interest-bearing financial liabilities	5,605	529	6,134
Deferred tax liabilities	1,662	-	1,662
Total equity and liabilities		**524**	

At January 1, 2019:

- right-of-use assets totaled €716 million, including €508 million relating to leases previously classified as operating leases and €208 million relating to leases previously classified as finance leases;
- lease liabilities amounted to €677 million, of which €529 million relating to leases previously classified as operating leases and €148 million relating to leases previously classified as finance leases;
- lease payments receivable under sub-letting arrangements amounted to €19 million;
- the change in accounting policy had a negative equity impact of €5 million after tax (negative impact of €6 million before tax).

3.a.2 Reconciliation with off-balance sheet commitments at December 31, 2018

The table below reconciles operating lease commitments at December 31, 2018 with liabilities under leases previously classified as operating leases at January 1, 2019:

(in € millions)	
Off-balance sheet commitments under operating leases at December 31, 2018	**641**
Leases signed but not started	(66)
Impact of discounting	(34)
Leases qualifying for IFRS 16 practical expedients (short-term and low-value leases) and other	(12)
Liabilities under leases previously classified as operating leases at January 1, 2019	**529**

Note 4 - Scope of consolidation

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.

This transaction meets the definition of a business combination under IFRS 3 and generated zero goodwill.

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2018

Acquisition of Zodiac Aerospace

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

The settlement of the initial Offer took place on February 13, 2018 and accordingly:

- an amount of €3,620 million was paid to Zodiac Aerospace shareholders in consideration for the 144,816,396 Zodiac Aerospace shares tendered or carried over to the Principal Tender Offer;
- a total of 26,651,058 Safran preferred shares were issued at a price of €84.18 in consideration for the 88,847,828 Zodiac Aerospace shares effectively tendered to the Subsidiary Exchange Offer.
- Accordingly, Safran's share capital increased by €6 million from €83 million to €89 million, with an issue premium of €2,238 million.

The Offer was reopened from February 19, 2018 to March 2, 2018 to enable Zodiac Aerospace shareholders who had not yet done so to tender their shares to the Offer. In the United States, the Tender Offer was open only to qualified investors. Outside of France, it was not open in any jurisdiction where authorization for the Offer would be required.

Following the settlement of the subsequent offer, Safran acquired 27,310,744 Zodiac Aerospace shares (95.58% of the capital) for €683 million.

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

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

Upon completion of these operations, Safran held 267,784,552 Zodiac Aerospace shares, while non-controlling shareholders held 4.42% of the remaining share capital.

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

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

Purchase price accounting

Zodiac Aerospace's identifiable assets and liabilities were measured at their fair value on the date on which Safran acquired control of the company.

The allocation of the Zodiac Aerospace purchase price to the assets acquired and liabilities assumed is as follows:

(in € millions)	**Fair value at acquisition date**
Intangible assets	4,308
Property, plant and equipment	696
Inventories	1,419
Other current and non-current assets and liabilities	(604)
Net debt	(1,289)
Deferred tax liabilities	(924)
Net assets	**3,606**
Purchase price for 95.58% of shares (A)	**6,727**
Share of identifiable assets acquired and liabilities assumed (95.58%) (B)	**3,447**
Goodwill (A)-(B)	**3,280**

Goodwill was allocated to cash-generating units (CGUs) as follows:

(in € millions)	
Aerosystems	1,690
Cabin	825
Seats	765

Merger of Zodiac Aerospace into Safran

On October 19, 2018, Safran and Zodiac Aerospace signed a merger agreement regarding the planned merger of Zodiac Aerospace into Safran. This operation represents a further step in the strategy to streamline the new group's structure.

The planned transaction was submitted to and approved by Safran's Extraordinary Shareholders' Meeting on November 27, 2018.

The effective date of the merger was December 1, 2018.

As consideration for the non-controlling shareholders of Zodiac Aerospace, Safran created 3,490,192 ordinary shares with a par value of €0.20. This represented a capital increase of €0.7 million and a merger premium of €38 million, recorded against consolidated other reserves.

Zodiac Aerospace's contribution to the Group's consolidated performance in 2018

Zodiac Aerospace's contribution to the Group's consolidated performance based on its activity in the ten months following the acquisition is as follows:

(in € millions)	**2018**
Revenue	3,775
Recurring operating loss*	(335)
Recurring operating income excluding the impact of the purchase price allocation	266

* Including the negative impact of remeasuring assets at fair value as part of the Zodiac Aerospace purchase price accounting for €601 million.

If the Group had purchased Zodiac Aerospace on January 1, 2018, Zodiac's contribution to the Group's consolidated performance based on its activity in the 12 months following the acquisition would have been:

- revenue of €4,506 million;
- a consolidated recurring operating loss of €310 million, including a negative purchase price accounting impact of €601 million, i.e., consolidated recurring operating income of €291 million excluding the impact of purchase price accounting.

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").

In first-half 2019, Safran changed its operational management to accelerate the implementation of the Group's strategy, particularly as regards more electric aircraft and connected cabins. The new operational management structure will promote knowledge-sharing by bringing together teams working in similar areas, the development of new customer offerings and the optimization of costs.

As of June 30, 2019 and following the combination of the businesses resulting from the Zodiac Aerospace acquisition in respect of which strategic and commercial synergies were identified, the Group's businesses are classified within three operating segments:

- Aerospace Propulsion, which now includes Safran Transmission Systems given its close relationship with engine activities;
- Aircraft Equipment, Defense and Aerosystems, which combines the former Safran Aircraft Equipment activities with part of the former Zodiac Aerospace Aerosystems and Safran Defense businesses;
- Aircraft Interiors, which includes the former Safran Cabin and Safran Seats activities and which now includes Safran Passenger Solutions, a new consolidation sub-group focused on complex cabin equipment and passenger comfort solutions (water and waste management and in-flight entertainment). These activities complement the Cabin and Seats businesses.

These three operating segments 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.

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

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 2018 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 2018 and 2019 is presented on pages 8 to 10.

Note 6 - Revenue

BREAKDOWN OF REVENUE BY BUSINESS

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**

First-half 2018

(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	2,007	2,344	661	-	5,012
Services	2,696	1,164	257	-	4,117
Sales of studies	27	109	42	5	183
Other	18	44	14	5	81
Total revenue	**4,748**	**3,661**	**974**	**10**	**9,393**
Timing of revenue recognition					
At a point in time	4,028	3,229	926	10	8,193
Over time	720	432	48	-	1,200
Total revenue	**4,748**	**3,661**	**974**	**10**	**9,393**

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

- Sales of original equipment and other equipment

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

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

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

- Sales of studies, research and development

Contracts are drawn up for all such development work, which represents separate performance obligations. This 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 these 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 2018	First-half 2019
Research tax credit[1]	72	83
Competitiveness and employment tax credit (CICE)[2]	22	-
Other operating subsidies	40	40
Other operating income	14	15
Total	**148**	**138**

(1) Including €5 million in connection with additional research tax credits in respect of 2018, included in 2019 income (€5 million in respect of 2017 included in 2018 income).

(2) The competitiveness and employment tax credit (CICE) was discontinued with effect from January 1, 2019.

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	First-half 2018	First-half 2019
Raw materials, supplies and other	(2,310)	(3,202)
Bought-in goods	(20)	(16)
Changes in inventories	38	151
Contract costs	8	12
Sub-contracting	(1,990)	(2,618)
Purchases not held in inventory	(188)	(276)
External service expenses	(1,112)	(1,319)
Total	**(5,574)**	**(7,268)**

PERSONNEL COSTS

(in € millions)	First-half 2018	First-half 2019
Wages and salaries	(1,739)	(2,062)
Social security contributions	(718)	(748)
Statutory employee profit-sharing	(77)	(111)
Optional employee profit-sharing	(76)	(84)
Additional contributions	(43)	(47)
Corporate social contribution	(40)	(45)
Other employee costs	(77)	(88)
Total	**(2,770)**	**(3,185)**

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE

(in € millions)	First-half 2018	First-half 2019
Net depreciation and amortization expense		
- intangible assets	(202)	(358)
- property, plant and equipment	(247)	(301)
- right-of-use assets	-	(56)
Total net depreciation and amortization expense[(1)]	**(449)**	**(715)**
Net increase in provisions	**(29)**	**17**
Depreciation, amortization and increase in provisions, net of use	**(478)**	**(698)**

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €25 million in first-half 2019 and €30 million in first-half 2018; during recent acquisitions: €20 million in first-half 2019 and €19 million in first-half 2018; and during the acquisition of Zodiac Aerospace: €156 million in first-half 2019.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	First-half 2018	First-half 2019	First-half 2018	First-half 2019
Intangible assets, property, plant and equipment, and right-of-use assets	(4)	(35)	2	6
Financial assets	-	(1)	1	1
Contract costs	-	-	6	3
Inventories and work-in-progress	(150)	(118)	131	119
Receivables	(24)	(23)	17	26
Contract assets	-	-	1	1
Total	**(178)**	**(177)**	**158**	**156**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2018	First-half 2019
Capital gains and losses on asset disposals	(2)	(9)
Royalties, patents and licenses	(13)	(13)
Losses on irrecoverable receivables	(7)	(8)
Other operating income and expenses[(1)]	42	113
Total	**20**	**83**

(1) Of which income of €69 million in first-half 2019 relating to the revised payment 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 2018	First-half 2019
Impairment net of reversals on intangible assets	1	-
Other non-recurring items	(27)	32
Total	**(26)**	**32**

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

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

Note 8 - Financial income (loss)

(in € millions)	First-half 2018	First-half 2019
Financial expense on interest-bearing financial liabilities	(43)	(47)
Financial income on cash and cash equivalents	9	26
Cost of net debt	**(34)**	**(21)**
Gain (loss) on foreign currency hedging instruments	(189)	353
Foreign exchange gains and losses	33	(198)
Net foreign exchange losses on provisions	(19)	(5)
Foreign exchange gain (loss)	**(175)**	**150**
Gain (loss) on interest rate hedging instruments	1	-
Change in the fair value of assets at fair value through profit or loss	5	(1)
Impairment of loans and other financial receivables	1	(4)
Dividends received	1	1
Other financial provisions	(1)	-
Interest component of IAS 19 expense	(6)	(7)
Impact of unwinding the discount	(8)	(12)
Other	(4)	-
Other financial income and expense	**(11)**	**(23)**
Financial income (loss)	**(220)**	**106**
of which financial expense	**(270)**	**(274)**
of which financial income	**50**	**380**

In first-half 2019, the €353 million gain on foreign currency hedging instruments reflects changes in the fair value of these instruments attributable to cash flows that will be recognized in profit or loss in future periods.

The €198 million foreign exchange loss includes:

- a €215 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 1.18 for €1) and the actual EUR/USD exchange rate observed during the period;
- net foreign exchange gains of €17 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 32.02% was used to calculate the effective tax rate applicable to French entities in first-half 2019.

The tax expense in first-half 2019 amounts to €550 million.

In first-half 2019, changes in the fair value of currency derivatives recognized in financial income (loss) generated a deferred tax expense of €110 million.

In first-half 2018, changes in the fair value of currency derivatives generated tax income of €72 million.

Note 10 - Earnings per share

	Index	First-half 2018	First-half 2019
Numerator (in € millions)			
Profit for the period attributable to owners of the parent	(a)	535	1,432
Denominator (in shares)			
Total number of shares	(b)	443,680,643	435,782,157
Number of treasury shares held	(c)	9,129,450	5,102,652
Number of shares excluding treasury shares	(d)=(b-c)	434,551,193	430,679,505
Weighted average number of shares (excluding treasury shares)	(d')	428,935,570	432,218,259
Potentially dilutive ordinary shares	(e)	12,287,283	5,615,743
Weighted average number of shares after dilution	(f)=(d'+e)	441,222,853	437,834,002
Ratio: earnings per share (in €)			
Basic earnings per share	(g)=(a*1million)/(d')	1.25	3.31
Diluted earnings per share	(h)=(a*1million)/(f)	1.21	3.27

At June 30, 2019, 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: see Note 18.c, "Convertible bond issues") are converted.

Note 11 - Goodwill

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2018 Net	Changes in scope of consolidation	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments and other	June 30, 2019 Net
Safran Aircraft Engines	392	-	-	-	-	392
Safran Helicopter Engines	307	-	-	-	-	307
Safran Aero Boosters	47	-	-	-	-	47
Other Propulsion	1	-	-	-	-	1
Safran Nacelles	213	-	-	-	-	213
Safran Engineering Services	76	-	-	-	-	76
Safran Landing Systems	190	-	-	-	-	190
Safran Ventilation Systems	10	-	-	-	-	10
Safran Electrical & Power	471	-	-	-	1	472
Safran Electronics & Defense	132	-	-	-	1	133
Safran Aerosystems	1,690	-	-	-	-	1,690
Safran Cabin	879	-	-	-	7	886
Safran Seats	765	-	-	-	-	765
Total	**5,173**	**-**	**-**	**-**	**9**	**5,182**

<u>Annual impairment tests</u>

The Group reviewed the cash-generating units (CGUs) presented in table above for any internal or external evidence of goodwill impairment. Since no evidence of impairment was identified, the Group did not test its goodwill for impairment at June 30, 2019.

The changes in operational management implemented by the Group as of February 1, 2019 led to changes at the level of its operating segments (see Note 5, "Segment information") and CGUs. Goodwill will be allocated to the new CGUs in the second half of 2019 and the associated impairment tests performed.

Note 12 - Intangible assets

Intangible assets break down as follows:

(in € millions)	Dec. 31, 2018 Gross	Dec. 31, 2018 Amortization/ impairment	Dec. 31, 2018 Net	June 30, 2019 Gross	June 30, 2019 Amortization/ impairment	June 30, 2019 Net
Aircraft programs	2,351	(1,550)	801	2,351	(1,598)	753
Development expenditures	5,981	(2,000)	3,981	6,149	(2,133)	4,016
Commercial agreements and concessions	735	(121)	614	743	(134)	609
Software	646	(545)	101	665	(570)	95
Trademarks	703	-	703	703	-	703
Commercial relationships	1,933	(213)	1,720	1,940	(286)	1,654
Technology	1,375	(157)	1,218	1,377	(236)	1,141
Other	806	(187)	619	822	(203)	619
Total	**14,530**	**(4,773)**	**9,757**	**14,750**	**(5,160)**	**9,590**

Movements in intangible assets break down as follows:

(in € millions)	Gross	Amortization/ impairment	Net
At December 31, 2018	**14,530**	**(4,773)**	**9,757**
Capitalization of R&D expenditure(1)	157	-	157
Capitalization of other intangible assets	23	-	23
Acquisitions of other intangible assets	35	(2)	33
Disposals and retirements	(5)	6	1
Amortization	-	(358)	(358)
Impairment losses recognized in profit or loss	-	(30)	(30)
Reclassifications	(2)	(1)	(3)
Foreign exchange differences	12	(2)	10
At June 30, 2019	**14,750**	**(5,160)**	**9,590**

(1) Including €5 million in capitalized interest on R&D expenditure at June 30, 2019 (€4 million at June 30, 2018).

Research and development expenditure recognized in recurring operating income for the period totaled €643 million including amortization (€530 million in first-half 2018). 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 Zodiac Aerospace acquisition, €25 million relating to the remeasurement of aircraft programs in connection with the Sagem-Snecma merger, and €20 million relating to assets identified as part of other business combinations.

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

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

Note 13 - Property, plant and equipment

Property, plant and equipment break down as follows:

	Dec. 31, 2018			June 30, 2019		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	247	-	247	230	-	230
Buildings	2,080	(935)	1,145	1,903	(887)	1,016
Technical facilities, equipment and tooling	5,743	(3,647)	2,096	5,989	(3,867)	2,122
Assets in progress, advances	784	(68)	716	756	(65)	691
Site development and preparation costs	60	(33)	27	60	(33)	27
Buildings on land owned by third parties	85	(36)	49	76	(44)	32
Computer hardware and other equipment	637	(463)	174	652	(476)	176
Total	**9,636**	**(5,182)**	**4,454**	**9,666**	**(5,372)**	**4,294**

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

(in € millions)	**Gross**	**Depreciation/ impairment**	**Net**
At December 31, 2018	**9,636**	**(5,182)**	**4,454**
First-time application of IFRS 16 at Jan. 1, 2019	(327)	119	(208)
Internally produced assets	40	-	40
Additions	320	-	320
Disposals and retirements	(73)	60	(13)
Depreciation[(1)]	-	(301)	(301)
Impairment losses recognized in profit or loss	-	1	1
Reclassifications	(25)	7	(18)
Changes in scope of consolidation	60	(58)	2
Foreign exchange differences	35	(18)	17
At June 30, 2019	**9,666**	**(5,372)**	**4,294**

(1) Including €15 million relating to the remeasurement of property, plant and equipment as part of the Zodiac Aerospace acquisition.

Note 14 - Leases

14.a. Right-of-use assets

Right-of-use assets break down as follows for the period:

(in € millions)	June 30, 2019		
	Gross	Depreciation/ impairment	Net
Right-of-use assets relating to property	783	(71)	712
Right-of-use assets relating to transport equipment	5	(1)	4
Right-of-use assets relating to other assets	12	(1)	11
Total	**800**	**(73)**	**727**

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

(in € millions)	Gross	Depreciation/ impairment	Net
At December 31, 2018	**-**	**-**	**-**
First-time application of IFRS 16 at Jan. 1, 2019	716	-	716
Increases	62	-	62
Disposals and retirements	(5)	2	(3)
Depreciation	-	(56)	(56)
Impairment losses recognized in profit or loss	-	-	-
Changes in scope of consolidation	22	(20)	2
Foreign exchange differences	5	-	5
At June 30, 2019	**800**	**(73)**	**727**

14.b. Lease liabilities

The maturity of lease liabilities can be analyzed as follows at June 30, 2019:

(in € millions)	**June 30, 2019**
Maturing in:	
1 year or less	133
More than 1 year and less than 5 years	402
Beyond 5 years	191
Total	**726**

14.c. Lease items presented in the income statement

In first-half 2019, rental expenses recognized in profit from operations under “External services” amounted to €36 million (see Note 7, “Breakdown of the other main components of profit from operations”). These expenses have not been restated due to the application of the practical expedients allowed under IFRS 16 (exemption for short-term leases and leases of low-value assets).
Interest expense on lease liabilities in first-half 2019 recognized in financial income (loss) under “Cost of net debt” amounted to €5 million (see Note 8, “Financial income (loss)”).

14.d. LEASE ITEMS PRESENTED IN THE CASH FLOW STATEMENT

In first-half 2019, disbursements under leases recognized in the cash flow statement and relating to the repayment of lease liabilities represented €61 million and are shown within "Cash flow 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, 2018			June 30, 2019		
(in € millions)	Gross	Impairment	Net	Gross	Impairment	Net
Non-consolidated investments	N/A	N/A	300	N/A	N/A	270
Other financial assets	385	(84)	301	357	(84)	273
Total	**N/A**	**N/A**	**601**	**N/A**	**N/A**	**543**

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 2019.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2018	June 30, 2019
Loans to non-consolidated companies	122	135
Loans to employees	33	32
Deposits and guarantees	12	15
Loans linked to sales financing	-	1
Other	134	90
Total	**301**	**273**
Non-current	**116**	**87**
Current	**185**	**186**

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

The table below shows movements in other financial assets:

(in € millions)	
At December 31, 2018	**301**
First-time application of IFRS 16 at Jan. 1, 2019	19
Increase	90
Decrease	(134)
Reclassifications	(3)
At June 30, 2019	**273**

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, 2018	June 30, 2019
ArianeGroup	1,605	1,596
Other joint ventures	648	657
Total	**2,253**	**2,253**

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

(in € millions)	
At December 31, 2018	**2,253**
Share in profit from ArianeGroup	8
Share in profit from other joint ventures	56
Dividends received from joint ventures	(31)
Changes in scope of consolidation	16
Foreign exchange differences	4
Other movements	(53)
At June 30, 2019	**2,253**

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;
- SOFRADIR (now Lynred following the change in corporate name on May 31, 2019): manufacture of cooled infrared detectors;
- ULIS: manufacture of uncooled infrared detectors (merged with SOFRADIR as of January 1, 2019);
- 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, 2018**	**June 30, 2019**
Non-current assets	1,303	1,690
Current assets	6,626	6,890
of which: cash and cash equivalents	507	269
Non-current liabilities	(688)	(1,095)
of which: non-current financial liabilities	(137)	(530)
Current liabilities	(7,513)	(7,747)
of which: current financial liabilities	(28)	(45)
Non-controlling interests	(14)	(5)
Net assets of ArianeGroup (excl. goodwill and PPA) – Attributable to owners of the parent (based on a 100% interest)	**(286)**	**(267)**
Equity share in net assets of ArianeGroup (excl. goodwill and PPA) (based on a 50% interest)	(143)	(134)
Purchase price allocation, net of deferred taxes	572	553
Safran equity share – Net assets of ArianeGroup	**429**	**420**
Goodwill	**1,176**	**1,176**
Carrying amount of investment in ArianeGroup	**1,605**	**1,596**

(in € millions)	**First-half 2018**	**First-half 2019**
Profit for the period attributable to owners of the parent	**77**	**54**
Other comprehensive expense	(4)	(34)
Total comprehensive income attributable to owners of the parent	**73**	**20**
Safran equity share – Profit for the period	39	27
Amortization of purchase price allocation, net of deferred taxes	(19)	(19)
Safran equity share – Profit of ArianeGroup	**20**	**8**
Safran equity share – Other comprehensive expense	(2)	(17)
Safran equity share – Comprehensive income (expense) of ArianeGroup	**18**	**(9)**

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

(in € millions)	**First-half 2018**	**First-half 2019**
Profit from continuing operations	43	56
Other comprehensive income	12	2
Total comprehensive income	**55**	**58**

Note 17 - Cash and cash equivalents

(in € millions)	Dec. 31, 2018	June 30, 2019
Money-market funds	5	32
Short-term investments	1,250	1,291
Sight deposits	1,075	1,147
Total	**2,330**	**2,470**

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, 2018	**2,330**
Movements during the period	139
Foreign exchange differences	1
At June 30, 2019	**2,470**

Note 18 - Consolidated shareholders' equity

18.a. SHARE CAPITAL

At June 30, 2019, Safran's share capital was fully paid up and comprised 435,782,157 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, 2018

Shareholders	Number of shares	% share capital	Number of voting rights[(1)]	% voting rights[(1)]
Private investors	356,388,863	81.78%	371,363,962	71.05%
French State	47,983,131	11.01%	95,966,262	18.36%
Employees[(2)]	29,956,234	6.88%	55,338,194	10.59%
Treasury shares	1,439,723	0.33%	-	-
Total	**435,767,951**	**100.00%**	**522,668,418**	**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, 2019

Shareholders	Number of shares	% share capital	Number of voting rights[(1)]	% voting rights[(1)]
Private investors	352,592,114	80.91%	381,525,624	71.02%
French State	47,983,131	11.01%	95,966,262	17.86%
Employees[(2)]	30,104,260	6.91%	59,740,640	11.12%
Treasury shares	5,102,652	1.17%	-	-
Total	**435,782,157**	**100.00%**	**537,232,526**	**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 5,102,652 treasury shares have no voting rights.

At June 30, 2019, the total number of shares includes 14,206 shares issued further to the exercise of stock subscription options resulting from employee commitments undertaken by Zodiac Aerospace, transferred to Safran at the time of 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 increased since December 31, 2018 following:

- the sale of 162,376 shares under the Group's liquidity agreement, net of shares purchased;
- the purchase of 3,897,484 shares in connection with the implementation of the share buyback program;
- the delivery of 72,179 shares under the multi-year share compensation plan.

On May 25, 2018, the Shareholders' Meeting authorized the Board of Directors to buy and sell shares in the Company in accordance with the applicable laws and regulations, at a maximum purchase price of €118 per share. A new authorization to purchase shares was granted by the Shareholders' Meeting of November 27, 2018, providing for a maximum purchase price of €140 per share, in order to reflect changes in the Safran share price since the last authorization was granted. This authorization was renewed by the Shareholders' Meeting of May 23, 2019, which set the maximum purchase price at €155 per share.
Pursuant to these authorizations and to the liquidity agreement signed in 2012 with Oddo BHF, the Company purchased 1,112,196 shares for €132 million, and sold 1,274,572 shares for €150 million. At June 30, 2019, 151,624 shares were held in connection with the liquidity agreement.

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

- a share purchase agreement with an investment services firm on January 10, 2019 for a third buyback tranche of up to €600 million, expiring on May 10, 2019 at the latest;
- a share purchase agreement with a different investment services firm on May 27, 2019 for a fourth buyback tranche of up to €150 million, expiring on June 28, 2019 at the latest.

The two tranches were completed, representing the purchase of 3,897,484 shares for €458 million.

Following the merger of Zodiac Aerospace into Safran with effect from December 1, 2018, Safran superseded Zodiac Aerospace in all of its obligations resulting from commitments undertaken by the latter with respect to beneficiaries of Zodiac Aerospace free shares subject to a vesting period at that date, such that the beneficiaries' entitlement is now exercisable for ordinary Safran shares based on the exchange ratio used for the merger. At June 30, 2019, a total of 72,179 free and performance shares had been awarded.

18.c. 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) for a total nominal amount of €700 million.

The bonds do not carry any coupon.

Bondholders have the option of converting their bonds into shares on a one-for-one basis. This option can be exercised at any point after the issue date and up to the seventh trading day preceding the standard or early redemption date. Following the 2018 dividend payment (see Note 18.d, "Dividend distribution") 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 issuer may trigger if the share price exceeds 130% of par value and that the bearer may trigger in the event of a change of control.

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

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, which corresponds to the discounted 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 (see the consolidated statement of changes in shareholders' equity).

18.d. DIVIDEND DISTRIBUTION

A dividend payout of €1.82 per share in respect of 2018 was approved and paid in 2019, representing a total amount of €785 million.

Note 19 - Provisions

Provisions break down as follows:

			Reversals					
(in € millions)	**Dec. 31, 2018**	Additions	Utilizations (1)	Reclassifications (1)	Surplus	Changes in scope of consolidation	Other	**June 30, 2019**
Performance warranties	1,037	220	(105)	-	(75)	2	-	1,079
Financial guarantees	3	3	-	-	-	-	-	6
Post-employment benefits	876	35	(45)	-	-	-	91	957
Sales agreements and long-term receivables	266	39	(17)	-	(26)	-	4	266
Provisions for losses on completion and losses arising on delivery commitments	201	41	(32)	(1)	(2)	-	2	209
Disputes and litigation	51	3	(7)	-	(5)	-	1	43
Other	343	52	(65)	-	(12)	-	(3)	315
Total	**2,777**	393	(271)	(1)	(120)	2	95	**2,875**
Non-current	1,588							**1,746**
Current	1,189							**1,129**

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

The impacts on the income statement of net additions to provisions can be analyzed as follows:

(in € millions)	**First-half 2019**
Net additions recognized in profit from operations	17
Net additions recognized in financial income (loss)	(18)
Total	**(1)**

Net additions excluding reversals for utilizations and reclassifications had a negative impact of €254 million on profit from operations.

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, 2018	**585**
New advances received	6
Advances repaid	(15)
Sub-total: changes with a cash impact	**(9)**
Cost of borrowings and discounting	9
Foreign exchange differences	1
Adjustments to the probability of repayment of advances(1)	(69)
Sub-total: changes with no cash impact	**(59)**
At June 30, 2019	**517**

(1) See Note 7, "Breakdown of the main components of profit from operations".

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

Note 21 - Interest-bearing financial liabilities

Breakdown of interest-bearing financial liabilities:

(in € millions)	Dec. 31, 2018	June 30, 2019
Bond issue	1,517	1,517
OCÉANE convertible bond	657	662
Senior unsecured notes in USD	906	939
Finance lease liabilities	121	-
Lease liabilities	-	593
Long-term borrowings	183	188
Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)	**3,384**	**3,899**
Bond issue	499	-
Senior unsecured notes in USD	135	-
Finance lease liabilities	27	-
Lease liabilities	-	133
Long-term borrowings	322	340
Accrued interest not yet due	19	15
Current interest-bearing financial liabilities, long-term at inception	**1,002**	**488**
Commercial paper	973	1,121
Short-term bank facilities and equivalent	246	968
Current interest-bearing financial liabilities, short-term at inception	**1,219**	**2,089**
Total current interest-bearing financial liabilities (less than 1 year)	**2,221**	**2,577**
Total interest-bearing financial liabilities(1)	**5,605**	**6,476**

(1) The fair value of interest-bearing financial liabilities amounts to €6,568 million (€5,698 million at December 31, 2018).

Movements in this caption break down as follows:

(in € millions)	
At December 31, 2018	**5,605**
Increase in long-term borrowings at inception (excluding lease liabilities)	22
Decrease in long-term borrowings at inception	(731)
Change in short-term borrowings	883
Sub-total: changes with a cash impact	**174**
First-time application of IFRS 16 at Jan. 1, 2019	529
Increase in lease liabilities	84
Accrued interest	(4)
Changes in scope of consolidation	22
Foreign exchange differences	17
Change in the fair value of borrowings hedged with interest rate instruments(1)	30
Reclassifications and other	19
Sub-total: changes with no cash impact	**697**
At June 30, 2019	**6,476**

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

Analysis by maturity:

(in € millions)	Dec. 31, 2018	June 30, 2019
Maturing in:		
1 year or less	2,221	2,577
More than 1 year and less than 5 years	2,688	3,704
Beyond 5 years	696	195
Total	**5,605**	**6,476**

Analysis by currency before hedging:

	Dec. 31, 2018		June 30, 2019	
(in millions of currency units)	Currency	EUR	Currency	EUR
EUR	4,502	4,502	5,087	5,087
USD	1,249	1,091	1,426	1,254
CAD	1	1	9	6
GBP	-	-	25	28
Other	N/A	11	N/A	101
Total		**5,605**		**6,476**

Analysis by currency after hedging:

	Dec. 31, 2018		June 30, 2019	
(in millions of currency units)	Currency	EUR	Currency	EUR
EUR	4,502	4,502	6,006	6,006
USD	1,249	1,091	381	335
CAD	1	1	9	6
GBP	-	-	25	28
Other	N/A	11	N/A	101
Total		**5,605**		**6,476**

Analysis by type of interest rate:

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

	Total		Non-current				Current			
	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018		June 30, 2019		Dec. 31, 2018		June 30, 2019	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	3,320	4,618	2,131	2.75%	2,689	2.68%	1,189	0.30%	1,929	(0.03)%
Floating rate	2,285	1,858	1,254	0.32%	1,210	0.24%	1,031	0.20%	648	0.34%
Total	**5,605**	**6,476**	**3,385**	**1.85%**	**3,899**	**1.92%**	**2,220**	**0.25%**	**2,577**	**0.06%**

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

	Total		Non-current				Current			
	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018		June 30, 2019		Dec. 31, 2018		June 30, 2019	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	2,203	**4,403**	1,014	1.29%	2,474	1.61%	1,189	0.30%	1,929	(0.03)%
Floating rate	3,402	**2,073**	2,371	2.09%	1,425	0.64%	1,031	0.20%	648	0.34%
Total	**5,605**	**6,476**	**3,385**	**1.85%**	**3,899**	**1.26%**	**2,220**	**0.25%**	**2,577**	**0.06%**

The Group’s net debt position is as follows:

(in € millions)	Dec. 31, 2018	June 30, 2019
Cash and cash equivalents (A)	2,330	2,470
Interest-bearing financial liabilities (B)	5,605	6,476
Fair value of interest rate derivatives used as fair value hedges of borrowings (C)	6	36
Total (A) - (B) + (C)	**(3,269)**	**(3,970)**

The Group’s gearing ratio is shown below:

(in € millions)	Dec. 31, 2018	June 30, 2019
Net debt	(3,269)	(3,970)
Total equity	12,301	12,463
Gearing ratio	**26.58%**	**31.85%**

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).

  A USD interest rate hedge in the form of a cross currency swap (USD floating-rate borrower followed by a EUR fixed-rate borrower) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively, allowing the USD floating-rate debt to be swapped for EUR fixed-rate debt.
  The issue’s initial fixed-rate interest came out at 1.60% in 2019 after taking account of interest rate derivatives.
  This loan for an initial amount of USD 1.2 billion also included a USD 155 million fixed-rate tranche repaid at maturity on February 9, 2019 (tranche A).

- 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. The issue’s fixed-rate interest came out at 1.22% in 2019 after taking account of interest rate swaps.

- Issuance on June 28, 2017 of four-year floating-rate bonds for €500 million (maturing in June 2021) at a coupon of 3-month Euribor +57 basis points (coupon floored at 0%). These bonds were issued at 100% of par.
  This loan for an initial amount of €1 billion also included a two-year floating-rate tranche (tranche 1) for €500 million (maturing in June 2019) at a coupon of 3-month Euribor +30 basis points (coupon floored at 0%). Tranche 1 was issued at 100.059% of par and redeemed on June 28, 2019.

- Issuance on July 13, 2018 of 2-year floating-rate bonds at 3-month Euribor plus 0.33% (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 total 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 0.00%. 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.c, "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 December 31, 2018 at an adjustable rate of 3.302%. This loan for an initial amount of €230 million also included a €50 million floating-rate tranche which the Group chose to repay early on March 20, 2018.

- Seven-year *Schuldschein* loan set up by the former Zodiac Aerospace group on July 25, 2013 and maturing in July 2020, breaking down as follows:

  - fixed-rate tranche at 3.605%: 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 residual maturity. Following this transaction, only €4 million of the fixed-rate tranche remains outstanding.

- European Investment Bank (EIB) borrowings: €75 million (€75 million at December 31, 2018). These borrowings bear floating-rate interest indexed to 3-month Euribor +73 basis points and are repayable in equal yearly installments between December 17, 2013 and December 17, 2020.

- Employee savings financing under the Group employee savings plan: €388 million (€362.8 million at December 31, 2018).
  The maximum maturity is five years and the amount falling due within one year is €138 million. The interest rate is set annually and indexed to the 5-year French treasury bill rate (BTAN), i.e., 0.744% for 2019 and 0.722% for 2018.

- Lease liabilities (including former finance lease liabilities) totaling €726 million 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

- Commercial paper: €1121 million (€973 million at December 31, 2018).
  This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

- Financial current accounts with joint ventures: €298 million (€198 million at December 31, 2018). 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, 2019 and December 31, 2018 does not include trade receivables sold without recourse, relating mainly to CFM Inc. (consolidated as a joint operation).

This confirmed USD 2,450 million facility renewed in December 2018 and maturing in December 2019, contracted with a syndicate of seven banks led by Crédit Agricole CIB and reduced to USD 1,350 million in mid-January 2019 and subsequently to USD 1,150 million in mid-April 2019, had been drawn in an amount of USD 1,065 million at June 30, 2019 (USD 533 million at 50%) versus USD 2,147 million (USD 1,074 million at 50%) at December 31, 2018.

Note 22 - Other current and non-current financial liabilities

(in € millions)	**Dec. 31, 2018**	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Other	**June 30, 2019**
Payables on purchases of property, plant and equipment and intangible assets	117	(42)	-	-	(16)	**59**
Payables on purchases of investments	(2)	15	4	-	-	**17**
Total	**115**	**(27)**	**4**	**-**	**(16)**	**76**
Non-current	2					**19**
Current	113					**57**

These liabilities are not included in the Group’s net financial position at June 30, 2019.

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, 2018		June 30, 2019	
(in € millions)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate risk management	***13***	***(8)***	***37***	***(15)***
Floating-for-fixed interest rate swaps	-	-	-	(15)
Fixed-for-floating interest rate swaps	13	(8)	37	-
Foreign currency risk management	***740***	***(1,254)***	***761***	***(955)***
Currency swaps	-	-	-	(9)
Purchase and sale of forward currency contracts	87	(361)	149	(332)
Currency option contracts	653	(893)	612	(614)
Total	**753**	**(1,262)**	**798**	**(970)**

All derivatives are categorized within level 2 of the fair value hierarchy set out in IFRS 13 (as at December 31, 2018).
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 5.7 billion in first-half 2019 (USD 4.2 billion in first-half 2018).

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 30 of the 2018 Registration Document.

FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

(in millions of currency units)	Dec. 31, 2018 Fair value(1)	Dec. 31, 2018 Notional amount(1)	Dec. 31, 2018 Less than 1 year	Dec. 31, 2018 1 to 5 years	June 30, 2019 Fair value(1)	June 30, 2019 Notional amount(1)	June 30, 2019 Less than 1 year	June 30, 2019 1 to 5 years
Forward exchange contracts	**(273)**				**(183)**			
Short USD position	(338)	3,911	3,911	-	(331)	3,189	3,189	-
Of which against EUR	*(333)*	*3,861*	*3,861*	-	*(331)*	*3,189*	*3,189*	-
Long USD position	47	(1,201)	(301)	(900)	68	(1,151)	(251)	(900)
Of which against EUR	*42*	*(1,151)*	*(251)*	*(900)*	*68*	*(1,151)*	*(251)*	*(900)*
Short EUR position against GBP	-	(17)	(17)	-	-	-	-	-
Short EUR position against CAD	3	47	(2)	49	5	49	49	-
Long MXN position against EUR	31	(12,176)	(1,872)	(10,304)	75	(15,279)	(3,490)	(11,790)
Long MXN position against USD	(16)	(1,150)	(1,150)	-	-	-	-	-
Currency swaps	**-**				**(9)**			
Cross currency swaps	-	-	-	-	(9)	1,045	-	1,045
Currency option contracts	**(241)**				**(2)**			
USD put purchased	482	22,454	17,454	5,000	372	25,550	25,550	-
USD call purchased	95	(1,700)	(1,700)	-	100	(1,200)	(1,200)	-
USD call sold	(870)	47,084	37,384	9,700	(581)	47,819	47,819	-
USD put sold	(14)	(4,238)	(4,238)	-	(1)	(3,238)	(3,238)	-
EUR put purchased	18	420	420	-	73	1,630	1,590	40
EUR call sold	(4)	840	840	-	(29)	3,140	3,060	80
Accumulators – sell USD(2)	58	1,014	126	888	64	844	(40)	884
Accumulators – buy GBP(2)	(1)	(400)	(400)	-	-	-	-	-
Accumulators – buy CAD(2)	(5)	(400)	(400)	-	-	(194)	(194)	-
Accumulators – buy MXN(2)	-	-	-	-	-	(388)	(388)	-
Total	**(514)**				**(194)**			

(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 unwound currency hedging instruments between December 31, 2018 and June 30, 2019 represent €320 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 30 of the 2018 Registration Document.

EXPOSURE TO EURO 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.

(in € millions)	Dec. 31, 2018 Fair value	Notional amount (€)	Less than 1 year	1 to 5 years	More than 5 years	June 30, 2019 Fair value	Notional amount (€)	Less than 1 year	1 to 5 years	More than 5 years
Interest rate swaps										
Fixed-for-floating	13	200	-	-	200	17	-	-	200	-
Total	**13**					**17**				

EXPOSURE TO USD INTEREST RATE RISK

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market (USPP) has also been partially converted to a floating rate. At their inception, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The seven-year tranche for USD 155 million was kept at a fixed rate and repaid in February 2019.
As of the end of first-quarter 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.

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 700 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 350 million after elimination of intragroup items. The swaps are not eligible for hedge accounting. The aim of these transactions is to fix the borrowing cost applicable to the customer.

A fixed-rate borrower/floating-rate lender swap was also set up for a total nominal amount of USD 50 million and a term of up to 11 months, in connection with an assignment of trade receivables in favor of one of the Group's subsidiaries. The swap is not eligible for hedge accounting.

(in € millions)	Dec. 31, 2018 Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years	June 30, 2019 Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years
USD interest rate swaps										
Fixed-for-floating	(6)	2,133	1,088	540	505	20	1,395	350	1,045	-
Floating-for-fixed	(2)	2,335	2,335	-	-	(15)	1,795	750	1,045	-
Total	**(8)**					**5**				

LIQUIDITY RISK MANAGEMENT

Treasury management is centralized within the Group. Where permitted by local legislation, all surplus cash is invested with, and financing requirements of subsidiaries met by, the parent company on an arm's length basis. The central cash team manages the Group's current and forecast financing requirements, and ensures it has the ability to meet its financial commitments while maintaining a level of available cash funds and confirmed credit facilities commensurate with its scale and debt repayment profile.

Since the Group has an undrawn, confirmed liquidity line at June 30, 2019, it is relatively insensitive to liquidity risk. This €2,520 million line was set up in December 2015 and expires in December 2020. It includes two successive one-year extension options. Both these options have been exercised, meaning that the line is currently set to expire in December 2022. This line is not subject to any financial covenants.

A number of financial covenants apply to the EIB borrowings set up in 2010 (see Note 21, “Interest-bearing financial liabilities”).
The following two ratios apply:

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

The “net debt/EBITDA <2.5” covenant also applies to the senior unsecured notes issued on the US private placement market (see Note 21, “Interest-bearing financial liabilities”).

The following covenant applies to the euro private placement (“Euro PP”) in the form of a syndicated loan, set up by Zodiac Aerospace on March 10, 2016 and with an original maturity of seven years (see Note 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 2018**	**First-half 2019**
Sales to related parties other than joint ventures	1,855	2,689
Purchases from related parties other than joint ventures	(41)	(75)

(in € millions)	**Dec. 31, 2018**	**June 30, 2019**
Amounts receivable from related parties other than joint ventures	2,153	2,027
Amounts payable to related parties other than joint ventures	3,082	3,061

(in € millions)	**Dec. 31, 2018**	**June 30, 2019**
Commitments given to related parties other than joint ventures[1]	2,073	2,087

(1) See Note 25.a, “Off-balance sheet commitments and contingent liabilities relating to the Group’s operating activities”.

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

The following transactions were carried out with joint ventures:

(in € millions)	First-half 2018	First-half 2019
Sales to joint ventures	104	204
Purchases from joint ventures[1]	(40)	(40)

(1) Mainly with Shannon Engine Support Limited.

(in € millions)	Dec. 31, 2018	June 30, 2019
Amounts receivable from joint ventures	173	187
Amounts payable to joint ventures	4	4

(in € millions)	Dec. 31, 2018	June 30, 2019
Commitments given to joint ventures[2]	152	139

(2) See Note 15, "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, 2018	June 30, 2019
Purchase commitments on intangible assets	55	51
Purchase commitments on property, plant and equipment	346	256
Guarantees given in connection with the performance of operating agreements	5,364	5,409
Lease commitments	641	45
Financial guarantees granted on the sale of Group products	30	25
Other commitments given	421	346
Total	**6,857**	**6,132**

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 "Commitments given 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) and therefore not within the scope of that standard, 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 29 million at June 30, 2019 (USD 35 million at June 30, 2018), or €25 million (€30 million at June 30, 2018). 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 5 million at June 30, 2019 (USD 12 million at June 30, 2018), for which a provision, based on an assessment of the risk, is booked in the financial statements (see Note 19, "Provisions").

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

Contingent liabilities arising on ordinary activities

As part of their ordinary activities, Safran, some of its subsidiaries, or certain joint arrangements or consortia in which they are shareholders or members, may be subject to various claims from customers. These claims usually consist of compensation claims for failing to meet technical specifications, a delay in the development phase, late completion and/or for additional work in connection with product performance and reliability falling outside the scope of the warranties and commitments provisioned or included within contract costs (see Note 2.b, "Provisions", and Note 19, "Provisions"). While the initial amount of any such claim may be material in certain cases, it does not necessarily have any bearing on the costs that may be ultimately incurred to satisfy the customer. As these claims represent contingent liabilities, no provision has been recognized beyond contractual liability limits, if any.

In the absence of an agreement between the parties, certain of these claims may give rise to litigation, the most significant of which are indicated in Note 26, "Disputes and litigation".

(ii) Commitments received

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

(in € millions)	Dec. 31, 2018	June 30, 2019
Commitments received from banks on behalf of suppliers	13	9
Completion warranties	17	12
Endorsements and guarantees received	21	22
Other commitments received	157	85
Total	**208**	**128**

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, 2018	June 30, 2019
Vendor warranties given[1]	331	333

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

(ii) Vendor warranties received

(in € millions)	Dec. 31, 2018	June 30, 2019
Vendor warranties received	-	-

<u>Vendor warranties granted in connection with the disposal of the Security businesses</u>

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, 2019, as well as a specific indemnity capped at BRL 200 million (€46 million at June 30, 2019) 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 (€64 million at June 30, 2019).

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, 2019.

25.c. Off-balance sheet commitments and contingent liabilities relating to the Group's financing

Commitments received in respect of financing relate to:

- an unused portion of the trade receivable assignment facility (see Note 21, "Interest-bearing financial liabilities"); and
- the confirmed, undrawn syndicated credit line for €2,520 million set up in December 2015 (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, legal action and regulatory proceedings outside the scope of their ordinary operations. The most important are described below.

The amount of the provisions booked is based on the level of risk for each case, as assessed by Safran and its subsidiaries and largely depends on their assessment of the merits of the claims and defensive arguments, bearing in mind that the occurrence of events during the proceedings can lead to a reassessment of the risk at any time.
A provision is only booked to cover the expenses that may result from such proceedings when the expenses are probable and their amount can be either quantified or reasonably estimated.
Safran considers that the provisions booked are adequate to cover the risks it incurs.

- A number of civil and/or criminal lawsuits have been filed against certain Safran subsidiaries in connection with aviation accidents. The Group's insurance policy would cover any civil damages payable by Safran or its subsidiaries under these proceedings.

- On April 2, 2014, Safran was fined by the European Commission relating to the activities of Silec Cable, a former subsidiary of Sagem SA which was sold to General Cable at the end of 2005. General Cable, which was also fined, filed a claim against Safran under the sale agreement in order to protect its rights. Safran paid the €8.5 million fine in 2014. Relying on the European Commission's findings, a number of cable buyers have initiated proceedings 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, with the claimant having notified the joint defendants at the end of 2018 of its intention to broaden the scope of its action before the Court. The Court officially approved the broadened scope and the joint defendants issued their response on June 21, 2019.
  At the date of this report, it is not possible to evaluate any potential financial risk.

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

Note 27 - Subsequent events

At June 30, the income tax rate in force for 2019 was 32.02% (including additional income tax contributions).

The "Public Finance Policy Debate in View of the 2020 French Finance Act" ratified on July 11, 2019 adopted an income tax rate of 34.43% for groups with over €250 million in revenue for reporting periods ending in 2019. Based on an income tax rate of 34.43%, the income tax expense for the first half of 2019 would have been €24 million higher.

SAFRAN
2, boulevard du Général Martial-Valin
75724 Paris Cedex 15 - France
Tél. : +33 (0)1 40 60 80 80
www.safran-group.com

SAFRAN