



# 2017 REGISTRATION DOCUMENT

including the Annual Financial Report



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# REGISTRATION

## DOCUMENT 2017

INCLUDING THE ANNUAL  
FINANCIAL REPORT



The Registration Document is available  
on the website at [www.safran-group.com](http://www.safran-group.com)



The French version of this Registration Document (*document de référence*) was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018 pursuant to Article 212-13 of the AMF's General Regulations. It may only be used in connection with a financial transaction if it is accompanied by a memorandum approved by the AMF. This document has been established by the issuer and is binding upon its signatories.

The English language version of this report is a free translation from the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation. This Registration Document contains the Annual Financial Report in accordance with Article 222-3 of the AMF's General Regulations. The cross-reference table referring to information required in an Annual Financial Report is provided in section 9.5.3 of this Registration Document.

# MESSAGE

FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS  
AND THE CHIEF EXECUTIVE OFFICER

“ We kicked off 2018  
with a major event ”



ROSS McINNES  
Chairman of the Board of Directors



PHILIPPE PETITCOLIN  
Chief Executive Officer

**S**afran and Zodiac Aerospace joined forces this year to create the world's third largest aerospace company (excluding aircraft manufacturers), with more than 90,000 employees worldwide and revenue of around €21 billion<sup>(1)</sup>.

Leveraging the contribution of Zodiac Aerospace, a leading supplier of aircraft systems, cabins and seats, the Group will be able to provide its ever-expanding, increasingly diversified customer base with a balanced offering of propulsion and equipment solutions.

The historic combination reflects the vigorous momentum generated in 2017, when the Group successfully demonstrated that it had the means to reach its goals.

Our revenue grew 7.4% on an organic basis, beating forecasts to stand at €16.5 billion. Recurring operating income, representing 15% of revenue at €2.47 billion, and cash flow of €1.4 billion, representing 58% of recurring operating income and nearly 80% of profit from continuing operations, were in line with our objectives. In light of these performances, a dividend of €1.60 per share has been put to the approval of the Annual General Meeting for 2017 (€1.52 for 2016).

Apart from the combination agreed with Zodiac Aerospace, 2017 was shaped by the ramp-up of the LEAP program, which is critical to our future. A total of 459 LEAP engines were delivered, proving that the transition from the CFM56 has been practically seamless, an exceptional feat in the history of the global aerospace industry.

In helicopter turbines, we made the best of a persistently tense market and are actively preparing for the future. 2018 is expected to be a year of recovery.

In aircraft equipment, our competitiveness drive is continuing to pay off. Faced with a highly competitive environment, we are ready to ramp up large-scale programs such as the A330neo, fitted with our nacelles, wiring, power transmission and landing systems. We delivered the first prototypes of our Electric Taxiing by Safran system in late 2017, demonstrating our ability to differentiate our offering through continually innovative technology.

Our Defense business had a successful year, reporting higher revenue in line with our projections.

Having moved swiftly on our decision to refocus operations on aerospace and defense, we were able to complete the disposal of our detection and security businesses under excellent financial conditions in the first half of 2017. Safran Identity & Security and Oberthur Technologies have combined to form a leading France-based digital security company, Idemia.

Our joint venture with Airbus, renamed ArianeGroup, is set to provide Europe with independent access to space thanks to its next generation launch vehicles. Building on the success of Ariane 5, ArianeGroup is busy preparing Ariane 6.

In 2018, we will be tackling three main challenges.

The first is the continued ramp-up of LEAP production. Between 1,100 and 1,200 LEAP engines will be delivered in 2018, backed by clear objectives in terms of delivery schedules, quality and costs. We will be relentless in our efforts.

The second is of course the integration of Zodiac Aerospace. We are working diligently to make that happen. Everyone is committed to achieving the expected synergies, securing the operational turnaround, supporting the return to confidence among customers and reaping all the benefits of the merger. It's our job to unlock the full potential of the new organization and express all of the qualities that our two strategically matched, world-class aerospace groups have to offer.

The third challenge has to do with innovation. Because, more than anything, innovation is what will allow us to make further strides toward greater aerospace fuel economy, a reduced environmental footprint in line with society's expectations, and more electric aircraft. Against a backdrop of big data, augmented reality and additive manufacturing, we need to stay at the cutting edge of technology across our businesses by digitalizing our processes, our services and our products.

All of our stakeholders – shareholders, customers, partners and employees – are aware that today's challenges present a unique opportunity.

And we are convinced that Safran has the means at its disposal to write a great new chapter in its history.

Ross McInnes and Philippe Petitcolin

*(1) Unaudited pro forma results based on the previous 12 months for both companies.*

# ➤ GROUP PROFILE

Employing 58,324 people worldwide, Safran is an international high-technology group operating in the aircraft propulsion and equipment, space and defense markets. It is a leading global player on markets in which the technological and financial barriers to entry are high, with sustainable and profitable service activities and long-lasting partnerships and customer relationships built on trust.

The Group differentiates itself from the competition through its technological expertise. Its complementary businesses give it a genuine advantage, driving growth and enabling the Group to withstand economic cycles. From both a technological and managerial point of view, the Group's various businesses are integrated and complementary.

Safran has a strong positioning in Aerospace. Its installed fleet of engines, especially the CFM56®, offers significant new vistas for value creation thanks to associated maintenance and overhaul activities. Its engines and equipment are present in most current and future aircraft programs, with the LEAP® engine, which entered into commercial service in 2016, emulating the success of the CFM56. The Group is organized so as to deliver comprehensive offerings to aircraft manufacturers and airlines, such as propulsion and landing systems. Safran has great confidence that the move toward more electric aircraft systems represents new opportunities and is therefore reinforcing its expertise in the whole electrical energy chain – through its own growth and through targeted acquisitions – to offer comprehensive, world-class electrical systems. In Defense, the Group is renowned for its avionics, electronics, critical software and optronics technologies, which contribute to the performance of armies, navies and air forces in numerous countries around the world.

Safran enjoys particularly sound fundamentals with front-ranking technical and commercial positions, profitable and sustainable recurring service activities offering high added value, truly innovative research and development, a healthy financial situation and strong operating cash flow, which allow it to leverage opportunities for organic growth and acquisition-led development. The combination with Zodiac Aerospace in early 2018, for example, led to the creation of a global leader in aircraft equipment.

Safran must also integrate corporate social responsibility into its strategy to meet the expectations of all of its stakeholders: employees, partners, customers, shareholders, suppliers and all of the communities affected by its business. This holistic commitment to CSR is based on ethical standards that are espoused and embodied by everyone within the Group. Civic responsibility, people development and recognition, meeting commitments and teamwork are the core values of Safran's corporate culture.

Firm in the belief that sustainably successful businesses are those able to manage the present in complete harmony with the vision of the future, Safran is as poised as it has always been to meet all of the challenges it encounters both today and going forward.



## R&D EXPENDITURE

€1.4 billion for continuing operations



## HEADCOUNT

58,324

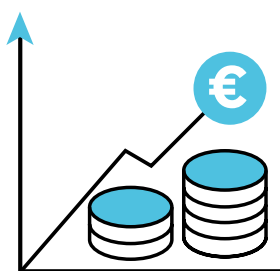


## CFM56 & LEAP: FIRM ORDERS AND PURCHASE COMMITMENTS

14,834 engines

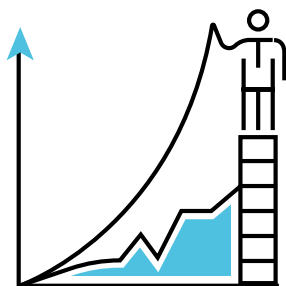
# ➤ 2017 KEY FIGURES BY BUSINESS

(adjusted data)<sup>(1)</sup>



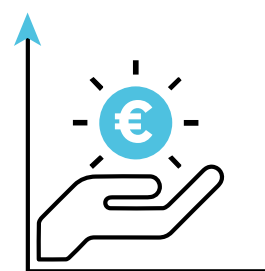
**REVENUE**

€16,521m



**RECURRING OPERATING INCOME**

€2,470m



**FREE CASH FLOW<sup>(2)</sup>**

€1,438m



**AEROSPACE  
PROPULSION**



**AIRCRAFT  
EQUIPMENT**



**DEFENSE**



**HOLDING  
COMPANY  
AND OTHER**

**REVENUE**

€9,741m

59% of Group  
revenue

€5,415m

33% of Group  
revenue

€1,345m

8% of Group  
revenue

€20m

**RECURRING  
OPERATING  
INCOME**

€1,729m

17.7% of segment  
revenue

€682m

12.6% of segment  
revenue

€95m

7.1% of segment  
revenue

€(36)m

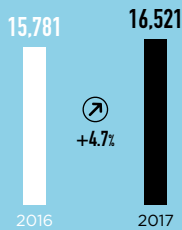
(1) The table reconciling the consolidated income statement and the adjusted income statement, including a description of the adjustments made, is presented in section 2.1.1.

(2) Free cash flow represents cash flow from operating activities less any net disbursements relating to acquisitions of property, plant and equipment and intangible assets.

# ➤ RESULTS

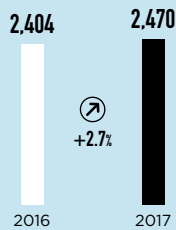
## REVENUE

(adjusted data)<sup>(1)</sup>  
(in € millions)



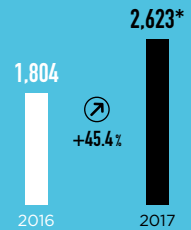
## RECURRING OPERATING INCOME

(adjusted data)<sup>(1)</sup>  
(in € millions)



## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

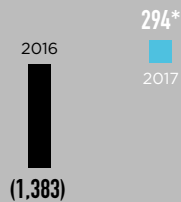
(adjusted data)<sup>(1)</sup>  
(in € millions)



\* Including capital gains on the disposal of security business.

## NET DEBT

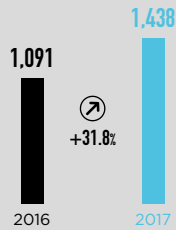
(in € millions)



\* Excluding €2 billion in money market funds pledged during the tender offer for Zodiac Aerospace.

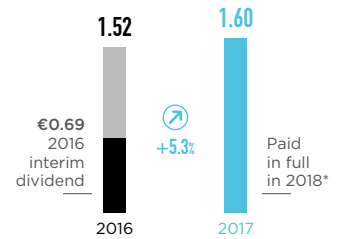
## FREE CASH FLOW

(in € millions)



## DIVIDENDS

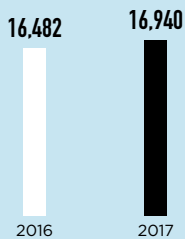
(in € per share)



\* Dividend payment date: May 31, 2018.

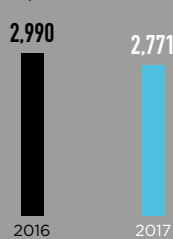
## REVENUE

(consolidated data)  
(in € millions)



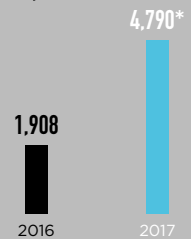
## RECURRING OPERATING INCOME

(consolidated data)  
(in € millions)



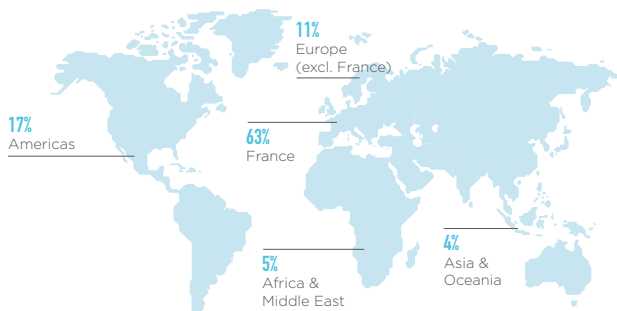
## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(consolidated data)  
(in € millions)

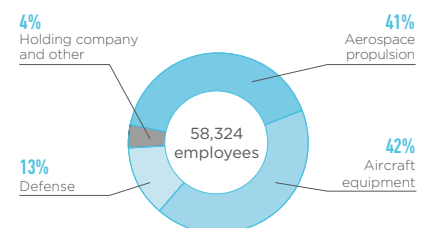


\* Including capital gains on the disposal of security business.

## BREAKDOWN OF HEADCOUNT BY GEOGRAPHICAL AREA



## BREAKDOWN OF HEADCOUNT BY BUSINESS



(1) The table reconciling the consolidated income statement and the adjusted income statement, including a description of the adjustments made, is presented in section 2.1.1.



# > CORPORATE GOVERNANCE

## MEMBERSHIP STRUCTURE OF THE BOARD OF DIRECTORS

The Board of Directors' main role is to define and oversee the implementation of the Group's key business priorities and strategy. Special committees assist the Board in its decisions.



**Ross McInnes**

*Chairman of the Board of Directors*



**Christian Streiff**

*Vice-Chairman of the Board of Directors*



**Philippe Petitcolin**

*Chief Executive Officer*



**Hélène Auriol Potier**



**Éliane Carré-Copin**



**Jean-Lou Chameau**



**Monique Cohen**

*Chair of the Appointments and Compensation Committee*



**Odile Desforges**

*Chair of the Audit and Risks Committee*



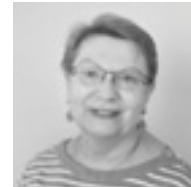
**Jean-Marc Forneri**



**Patrick Gandil**



**Vincent Imbert**



**Brigitte Lesschaeve**



**Gérard Mardiné**



**Daniel Mazattarim**



**Lucie Muniesa**



**Patrick Pélata**



**Sophie Zurquiyah**

## BOARD COMMITTEES

### THE AUDIT AND RISK COMMITTEE

**5 members – Chair: Odile Desforges**

The Audit and Risk Committee's main duties involve examining the financial statements and addressing issues related to the preparation and auditing of accounting and financial information.

### THE APPOINTMENTS AND COMPENSATION COMMITTEE

**7 members – Chair: Monique Cohen**

The Appointments and Compensation Committee assists the Board of Directors in its choice of members and corporate officers, and makes recommendations and proposals concerning the compensation of corporate officers.

### THE INNOVATION AND TECHNOLOGY COMMITTEE

**5 members – Chairman: Christian Streiff**

The Innovation and Technology Committee analyzes the Group's strategic goals and choices concerning innovation, research and technology, and the development of new products and services. It also monitors progress on the main innovation and technology roadmaps and tracks technological trends and change.

## EXECUTIVE MANAGEMENT

**Philippe Petitcolin**  
*Chief Executive Officer*



|              |  |           |              |   |           |              |   |           |
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| <b>1.3.4</b> | Security   | 31        |              |   |           |              |   |           |





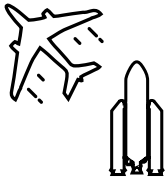
# PRESENTATION OF THE GROUP

# 1

# IN BRIEF

## THE GROUP'S POSITIONING

Safran is an international high-technology group operating in the aircraft propulsion and equipment, space and defense industries, where it enjoys prime global or European market positions, either alone or in partnership with other companies.



### AEROSPACE

Safran businesses cover the full life cycle of engines, systems and equipment for civil and military aircraft and helicopters. Safran facilitates access to space, addressing the markets for civil and military launch vehicles<sup>(1)</sup>, propulsion systems and equipment for satellites and space vehicles, and high-performance space optics.



### DEFENSE

Safran addresses the optronics, avionics, inertial navigation, tactical drones, electronics and critical software markets, offering a full range of systems and equipment that contributes to the efficacy of armies, navies and air forces in many countries.



### RESEARCH AND DEVELOPMENT

Safran operates in a high-technology and high value-added arena. Research and Development (R&D) is essential to Group strategy. The total R&D effort, 77% of which is self-financed, amounted to around €1.4 billion in 2017, representing 8% of revenue. This commitment reflects the importance given to preparing for the future and developing new products and programs.

### SAFRAN QUALITY PERFORMANCE AND POLICY

Safran pursues an ambitious quality policy targeting two main goals:

- ✓ customer satisfaction
- ✓ continuous performance improvement



2017  
REVENUE  
(ADJUSTED DATA)

€16,521m

2017 RECURRING  
OPERATING INCOME  
(ADJUSTED DATA)

€2,470m

2017 PROFIT  
ATTRIBUTABLE  
TO OWNERS  
OF THE PARENT  
(ADJUSTED DATA)<sup>(2)</sup>

€2,623m

2017 R&D EXPENDITURE  
(INCLUDING THE PORTION  
FUNDED BY CUSTOMERS)

€1,367m

2017 INDUSTRIAL  
INVESTMENTS

€740m

HEADCOUNT  
AT DECEMBER 31, 2017

58,324  
employees

(1) Within ArianeGroup, a 50-50 joint venture between Safran and Airbus.

(2) Including capital gains on the disposal of the security businesses (see section 3.1, Note 27).

## 1.1 SAFRAN OVERVIEW

### 1.1.1 History

Safran is an international high-technology group operating in the aircraft propulsion and equipment, space and defense industries, where it enjoys prime global or European market positions, either alone or in partnership with other companies. Safran is constantly seeking to adapt and reinvent itself to meet the critical technological and economic challenges of tomorrow.

Safran's roots and its technological and industrial hub are in France and Europe. From this base, it has extended its footprint to the American continent, Africa, the Middle East, Asia and Oceania. This presence enables the Group to develop and nurture industrial and commercial relations with the leading prime contractors and operators at the national level, and to promptly deliver first-class local service to customers around the world.

#### Key dates in the Group's history

Safran was created on May 11, 2005 from the merger of Snecma and Sagem, and is the world's oldest aircraft engine manufacturer.

- 1905** Louis and Laurent Seguin found the Société des Moteurs Gnome in the Paris suburb of Gennevilliers. In just a few short years, their Gnome rotary engines become the standard for planes around the world.
- 1912** Louis Verdet founds the engines company Le Rhône. Within two years, Le Rhône becomes Gnome's main competitor and is taken over by its rival to form Société des Moteurs Gnome & Rhône. After the First World War, Gnome & Rhône becomes one of the world's leading manufacturers of aircraft engines.
- 1924** Marcel Môme creates Société d'Applications Générales d'Électricité et de Mécanique (Sagem), whose main business is to supply power to telephone exchanges. A few years later, Sagem diversifies its business to include the manufacture of cameras, projectors and artillery equipment. It also sets up the first ever analog telephone network. Sagem creates Société d'Application Téléphonique, which in 1960 becomes Société Anonyme de Télécommunications (SAT). This company goes on to design the world's first infrared guidance system for air-to-air missiles.
- 1945** After the Second World War, Gnome & Rhône is nationalized and renamed Snecma (for Société Nationale d'Étude et de Construction de Moteurs d'Aviation). It groups together the majority of French aircraft engine manufacturers launched since the beginning of the century (Renault, Lorraine, Régnier, etc.).
- 1968** Hispano-Suiza, specializing in power transmission for the engines of civil and military aircraft and helicopters, joins Snecma. A few years later, it teams up with Messier to create Messier-Hispano-Bugatti (MHB) and consolidate all products relating to landing systems.

- 1974** Snecma becomes a civil aircraft engine manufacturer through a cooperation agreement with General Electric Aircraft Engines for manufacture of the CFM56<sup>(1)</sup> ("CF" for General Electric's commercial engine line and "M56" for Snecma's fifty-sixth project). This engine currently represents the world's largest civil aircraft engine fleet<sup>(1)</sup>: an aircraft powered by the CFM56 takes off every two seconds<sup>(2)</sup>.
- 1993** Sagem purchases Morpho, a specialist in fingerprint-based biometric recognition systems.
- 1997** Snecma takes full control of Société Européenne de Propulsion (SEP) and enters the space propulsion market (Ariane launcher).
- 2000** Aircraft wiring specialist Labinal joins Snecma and becomes a leading world player in this market. Labinal helicopter engine manufacturer subsidiary Turbomeca also joins Snecma, to continue a technology success story that started in 1938 with company founder Joseph Szydlowski. Today, the company is the world's premier manufacturer of turbine engines for helicopters<sup>(2)</sup>.
- 2002** Hurel-Dubois merges its businesses with the aircraft engine nacelle business of Hispano-Suiza to become Hurel-Hispano. Three years later the company is renamed Aircelle. It is currently one of the key participants in the aircraft engine nacelle market.
- 2005** Safran is formed from the merger of Snecma and Sagem. Safran strengthens its positions in the Security business with the acquisition of smartcard specialist Orga Kartensysteme GmbH.
- 2008** Safran extends its partnership with General Electric (GE) in the fields of aerospace propulsion and nacelles through to 2040. Safran's Security business acquires Sdu-I in the Netherlands, renamed Morpho BV.
- 2009** Safran acquires 81% of GE's Homeland Protection business, and Motorola's biometrics business (under the Printak brand, now MorphoTrak). Then in 2012, Safran acquires the remaining 19% of GE Homeland Protection, renamed Morpho Detection Inc.
- 2010** Labinal completes its acquisition of Harvard Custom Manufacturing, an American company based in Salisbury (Maryland).
- 2011** Safran acquires L-1 Identity Solutions, now MorphoTrust USA, a leading identity management provider in the US market, to become a front-line world player in identity solutions and electronic documents. It also acquires SME (formerly SNPE Matériaux Énergétiques), to be merged with Snecma Propulsion Solide in 2012 to form Herakles.

(1) Source: Ascend - FlightGlobal.

(2) Source: Safran.

# 1 PRESENTATION OF THE GROUP

## Safran overview

**2012** In optronics, Safran and Thales form the 50-50 joint venture Optrolead. The two companies also buy out the Areva stake to obtain 50% each of Sofradir and transfer their infrared businesses to this company.

**2013** Safran acquires the electrical systems business of Goodrich (Goodrich Electrical Power Systems - GEPS). Safran also acquires the 50% interest of Rolls-Royce (United Kingdom) in their joint RTM322 helicopter engine program, to strengthen its position on the strategic heavy-lift helicopters segment.

**2014** Safran brings all the Group's electrical systems operations together into a single unit to form a leading world player in aircraft electrical systems: Labinal Power Systems. Safran also acquires the aerospace power distribution management solutions and integrated cockpit solutions businesses of Eaton Aerospace. Morpho acquires Dictao, a prominent developer of software solutions for security and digital trust.

**2015** Hispano-Suiza and Rolls-Royce found Aero Gearbox International, a joint venture specializing in design, development, production and after-sales for accessory drive trains (ADTs).

**2016** Safran brings all its companies together under the same banner and includes "Safran" in the corporate name of its subsidiaries.

Safran and Airbus Group SE finalize the merger of their launch vehicle businesses in a 50-50 joint venture, Airbus Safran Launchers (later renamed ArianeGroup), to support the onset of the Ariane 6 project and provide Europe with a new family of competitive, versatile and high-performance launch vehicles.

Safran becomes the sole shareholder in Technofan, later renamed Safran Ventilation Systems.

**2017** Safran and Zodiac Aerospace announce the signature of a business combination agreement to create a world leader in aerospace equipment. The planned combination is approved by the General Shareholders' Meeting in June and obtains regulatory clearance in December. Safran finalizes the disposal of its detection businesses to Smiths Group.

Safran completes the disposal of its identity and security businesses to Advent International, owner of Oberthur Technologies.

Safran sells its stake in Structil to Hexcel, which designs, produces and sells structural adhesives and high-performance carbon-fiber composite materials for aerospace and other high-tech industries.

## 1.1.2 Organization and position of the issuer in the Group

### Organization

Safran is an industrial group within which each subsidiary directly manages the operational side of its business activity and takes responsibility for the internal control system to be implemented in accordance with Group procedures and internal rules.

The organizational structure is based on:

- a parent company, Safran, the issuer, responsible for the Group's strategic management, organization and development;
- companies handling specific business lines, under strategies determined by the parent company's Board of Directors. Executive Management of the parent company ensures that the strategic orientations defined for each business line are implemented and complied with at the operational level.

Tier-one entities (shown in section 1.1.3) are responsible for overseeing the tier-two entities with which they have operational ties.

### Role of the issuer within the Group

Safran is listed in compartment A of the Euronext Paris Eurolist and is eligible for deferred settlement (see Euronext notice 2005-1865 of May 11, 2005).

As the Group's parent company, Safran performs the following functions for the Group companies:

- it holds and manages shares in the Group subsidiaries;
- it steers and develops the Group, determining: Group strategy; research and technology (R&T) policy; sales policy; legal and financial policy; human resources policy; personnel training, retraining and skills matching by Safran University; communications; and oversight of operations;

➤ it provides:

- support services on legal, taxation and financial matters, and in particular:
  - centralized cash pooling to govern the terms and conditions of advances and investments between Safran and each Group company,
  - foreign currency management policy to reduce uncertainty factors and protect the economic performance of operating subsidiaries from random foreign currency fluctuations (mainly USD),
  - tax consolidation, in jurisdictions such as France where Safran is liable for the entire income tax charge, additional income tax contributions and the minimal tax charge due by the tax group comprising itself and its tax-consolidated subsidiaries,
- services through Shared Services Centers (SSCs) in the following areas: payroll administration and management, recruitment, non-production purchases, materials purchases, IT, and some transaction accounting (customers, suppliers and fixed assets).

The list of consolidated companies is presented in section 3.1, Note 33.

### Financial flows between the issuer and Group companies

Safran receives dividends paid by its subsidiaries compliant with applicable regulations (see section 3.3, Note 4.3).

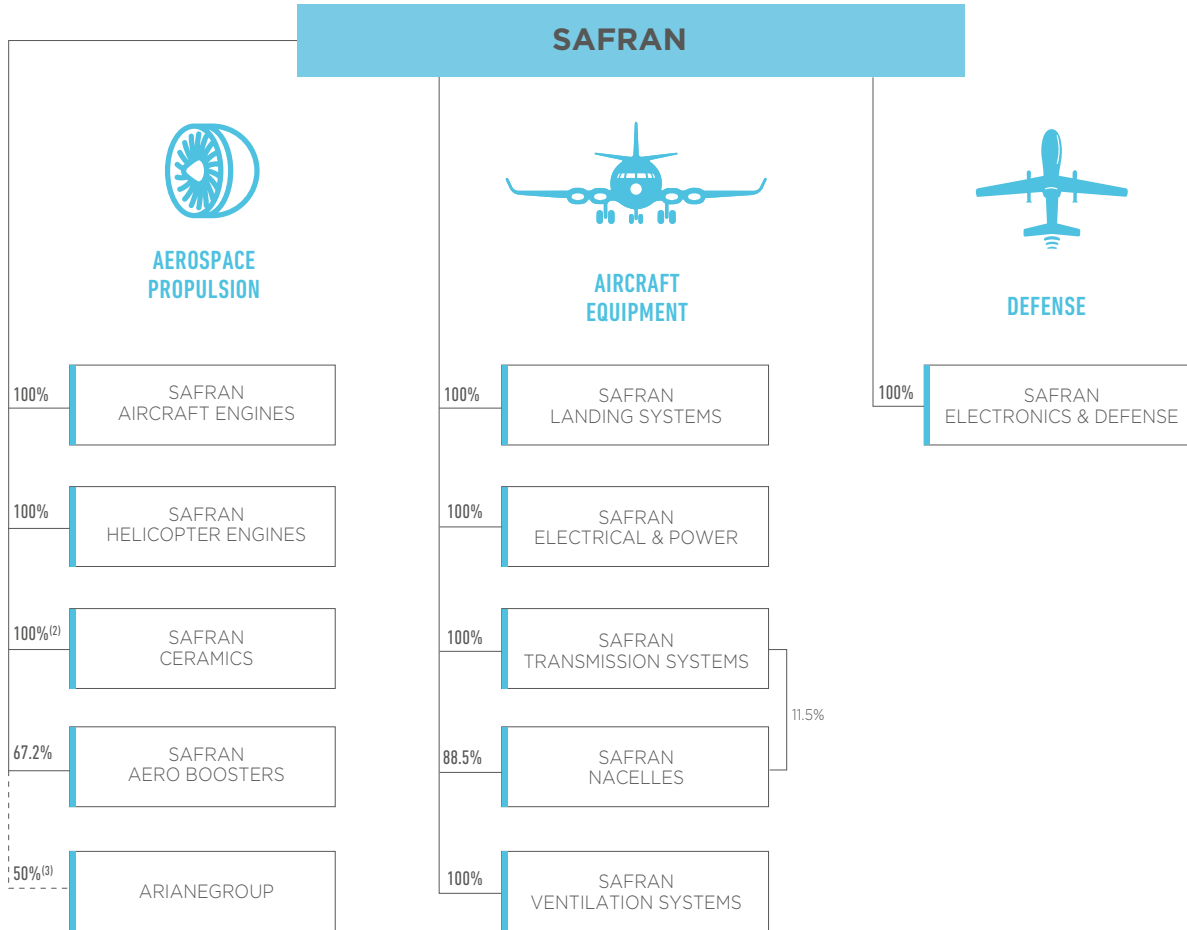
It receives payment for services provided to Group companies, and invoices them for services provided through the Shared Services Centers (SSCs) (see section 3.3, Note 4.1).

# 1 PRESENTATION OF THE GROUP

## Safran overview

### 1.1.3 Simplified organization chart

Safran, the issuer, is the parent company of the Group. The simplified organization chart<sup>(1)</sup> as of December 31, 2017 is as follows:



The list of consolidated companies is presented in section 3.1, Note 33.

(1) Tier-one operating companies.  
 (2) Less one share held by the French State.  
 (3) 50-50 joint venture with Airbus.



## 1.1.4 Main Group companies by business sector

Safran today covers three main markets: Aerospace Propulsion, Aircraft Equipment and Defense.

### Aerospace Propulsion

#### Safran Aircraft Engines

Engines for commercial and military aircraft, maintenance, repair and overhaul (MRO) and related services. Electric propulsion and propulsion systems for satellites and orbital vehicles.

#### Safran Helicopter Engines

Turboshaft engines for civil and military helicopters, auxiliary power units (APUs), starting and propulsion systems for missiles, target drones and unmanned aerial vehicles (UAVs). Maintenance, repair and overhaul and associated services.

#### Safran Ceramics

Safran center of excellence in high-temperature composite materials from research groundwork through to production. Development of ceramic technologies for Group products.

#### Safran Aero Boosters

Low-pressure compressors and lubrication equipment for aircraft engines. Test cells and equipment for engine testing. Regulation valves for space engines.

#### ArianeGroup

Design, development, production and sales and marketing of commercial and military space launchers, propulsion systems and related equipment, products and services.

### Aircraft Equipment

#### Safran Landing Systems

Aircraft landing and braking systems. Control and monitoring systems. Capabilities covering the entire product cycle, from design and production to maintenance, repair and overhaul.

#### Safran Electrical & Power

Electrical power systems for the aerospace market, covering all onboard electrical functions (power generation, distribution and conversion, wiring, load management and ventilation). Engineering solutions.

#### Safran Transmission Systems

Mechanical power transmission systems for commercial and military airplane and helicopter engines. Maintenance, repair, overhaul and related services. Mechanical components for airplane and helicopter propulsion systems.

#### Safran Nacelles

Complete nacelles for all civil aircraft market segments: from regional and business jets through to the largest airliners. Customer support and related services. Composite materials for aerostructures.

#### Safran Ventilation Systems

Ventilation equipment for civil and military aircraft. Support and related services.

### Defense

#### Safran Electronics & Defense

Equipment and systems in optronics, avionics, navigation, tactical drones, electronics and critical software for civil and defense applications. Customer support for all land, sea, air and space applications.

## 1.2 GROUP STRATEGY

Safran builds front-line positions with a focus on the aerospace and defense markets. In all its business areas, it enjoys wide recognition for technological excellence serving customers' critical applications.

In 2017, Safran completed its program of refocusing operations on the aerospace and defense markets, finalizing the disposal of its detection businesses to Smiths Group on April 7 and of its identity and security businesses to Advent International, owner of Oberthur Technologies, on May 31.

Safran takes up positions in long-term markets on which sustained demand contributes to growth and profitability. Growth opportunities are found in the strong development potential of emerging countries, and in mature US and European markets, where aircraft fleets are under renewal. Safran estimates that the world fleet of commercial aircraft (36 passengers or more) will double over the next 20 years, in response to an expected two-fold increase in passenger traffic in the next 15 years.

In Aerospace Propulsion, Safran is a leading manufacturer of aircraft engines and helicopter turbines. Safran's extensive portfolio and installed base of products in service (the CFM56 engine in particular) offer significant new vistas for value creation, as do the related service and maintenance activities. To maintain its positioning, the Group also places a strong emphasis on development of innovative engine solutions, as shown from its investments in the following programs:

- in short- and medium-haul commercial aviation, CFM International, a 50-50 joint venture between Safran and GE, is developing the LEAP® engine (successor to the best-selling CFM56) that will power the Airbus A320neo<sup>(1)</sup> (-1A version), the Boeing 737 MAX (-1B version, sole source) and the COMAC C919 (-1C version, sole Western source). All three versions of LEAP are now certified by the authorities. Following successful release of LEAP-1A in 2016, LEAP-1B came into operation in 2017, and LEAP-1C made its first flights on development versions of the C919. In response to customer demand, ramp-up of LEAP engine production continued in 2017, with 459 deliveries;
- in long-haul commercial aviation, Safran partners GE on development of the GE9X engine, chosen as the sole source for the forthcoming Boeing 777X;
- in business aviation, Safran is developing the Silvercrest® engine, selected by Cessna in November 2016 for its forthcoming Citation Hemisphere;
- in helicopters, Safran is developing a range of high-power engines (3,000 shp<sup>(2)</sup>) for medium-to-heavy-lift helicopters, following the 2013 acquisition of Rolls-Royce's share in the RTM322 program. This ambitious product strategy bore fruit in 2017 with the announcement that Leonardo Helicopters had selected the new Aneto-1K engine as the new option for its AW189 helicopter;
- in space vehicles, the Ariane 6 program completed its definition and industrial reviews (maturity gates), authorizing production release for qualification launch vehicles. ArianeGroup (50-50 joint venture with Airbus) started to sell the new launch vehicle, signing contracts for the first flights with institutional

customers to secure the transition from Ariane 5 to Ariane 6 from 2020. ArianeGroup also launched 11 flights in 2017, including 6 for Ariane 5, the European heavy launch vehicle, which made its 82<sup>nd</sup> successful flight.

Safran is also a front-line participant in Aircraft Equipment (landing systems, wheels and brakes, nacelles, power transmission systems, electrical systems and wiring systems), and a world leader in "more electric" aircraft architectures for aircraft manufacturers and airline companies. It is preparing technological differentiation in equipment for the future generation (around 2030) of short- and medium-haul aircraft. In all its Aerospace business lines, Safran has developed a very strong customer and operator service capability, notably through rate-per-flight-hour service contracts that offer customers guaranteed aircraft availability while improving the visibility and the recurrence of after-sales revenues for Safran.

In Defense, Safran harnesses its strong innovative capacity to assert its leadership in optronics, navigation and avionics, and to develop full onboard solutions with a view to seizing growth opportunities in emerging countries.

Safran's development is guided by four main focuses:

- technological innovation, driving long-term growth. In addition to the research programs run by individual Safran companies, two Group-wide structures have been running since 2015 to develop technological synergies and step up innovation: Safran Tech, a Group-wide R&T center, intensifies research and technology efforts in major technological breakthrough areas, and Safran Corporate Ventures manages highly selective investment through minority stakes in high-potential innovation-oriented startups working on technologies likely to be relevant to Safran's businesses;
- front-line positions in its various businesses;
- strong positions on high-growth markets with a substantial after-sales component bringing recurrent revenue potential;
- a solid financial position that guarantees Safran's capacity to manage long-term programs.

To back its strategy, Safran continues to forge alliances and long-term partnerships, as with GE on engines for short- and medium-haul aircraft (partnership dating back to 1974, then renewed in 2008 through to 2040). A further illustration of this long-term alliance strategy is ArianeGroup, the joint venture with Airbus, which became fully operational on July 1, 2016.

Where compliant with its financial discipline criteria, Safran is also attentive to external growth opportunities that will enable it to strengthen its positions in aviation markets and that are consistent with the Group's DNA (high technology, tier-one supplier, and recurrent after-sales revenue). Following the consolidation of Goodrich Electrical Power Systems in 2013, the 2014 acquisition of two Eaton Aerospace businesses broadened the scope of Safran Electrical & Power to cover aircraft electrical distribution and complemented Safran Electronics & Defense's cockpit solution positioning.

(1) neo: new engine option.

(2) Shp: shaft horsepower.

The planned acquisition of Zodiac Aerospace announced in early 2017 meets all the criteria that guide Safran's external growth strategy. Zodiac Aerospace specializes in the design, manufacture and sale of aircraft equipment, is among the world's leading companies in a variety of sectors, and has a strong presence with aircraft manufacturers as well as airline companies. The transaction, finalized on February 13, 2018 with Safran's takeover, created a global leader in aircraft equipment allying the market leading positions, expertise, technologies and talents of both Safran and Zodiac Aerospace. The new group, which has revenue of around €21 billion<sup>(1)</sup> and a workforce of more than 91,000 people in some 60 countries, combines Safran's capabilities in engines, landing gear, wheels and brakes, nacelles, onboard power systems, actuation and avionics, with Zodiac Aerospace's positions in seats, cabin interiors, power distribution, lighting, fuel, oxygen and fluid systems and safety equipment. In electrical systems, Zodiac Aerospace's assets reinforce Safran's portfolio of technologies and ideally position the new group for future developments in "more electric aircraft". The transaction enables Safran to pursue its growth strategy focused on the aerospace and defense markets; reinforce its position as a tier-one aircraft equipment supplier on aircraft programs, by offering an extended range of products for aircraft manufacturers and airline companies; and further decorrelate its revenue from new aircraft production cycles, through after-sales

and cabin refit activities. It will also ensure the turnaround and competitive performance of Zodiac Aerospace's aircraft interiors business, an important factor given the economic environment of intensifying consolidation worldwide, following the mergers between UTC and Goodrich, Rockwell Collins and B/E Aerospace, and, more recently, the announcement of Rockwell Collins' acquisition by UTC on September 4, 2017.

To ensure the long-term success of its customer-oriented strategy of sustained profitability and sustainable growth, Safran is also pushing ahead with its competitive performance improvement plan across all of its business lines, particularly through development of its industrial facilities and preparatory work on the Factory of the Future program, which involves additive manufacturing, digitization/automation of production processes, industrial Internet of Things, and maximization of plant utilization rates.

Safran's financial fundamentals are very sound. Robust cash flow from operations underpins a strong long-term position at the technological front line, sustained R&D investments and an acquisitions policy geared to short- and medium-term growth.

Safran implements its development strategy in accordance with a firm commitment to sustainability (see section 5, "Corporate social responsibility") and strong ethical principles, as set out in its guidelines on Group values and ethical conduct.

## 1.3 GROUP BUSINESSES

### 1.3.1 Aerospace Propulsion

Safran designs, develops, manufactures and sells engines for aircraft, helicopters and satellites, either alone or in partnership with other companies. In 2017, a total of 23,969 Safran employees contributed to the development of this business.

#### > AIRCRAFT ENGINES AND SATELLITE PROPULSION SYSTEMS

- Civil aircraft engines
  - Business jets
  - Regional jets
  - Short- to medium-haul aircraft
  - Long-haul aircraft
- Military aircraft engines
  - Fighters
  - Training and support aircraft
  - Patrol, tanker and transport aircraft
- Space vehicle propulsion systems
  - Satellites

#### > HELICOPTER TURBINE ENGINES

- Turbine engines for helicopters
  - Light helicopters
  - Medium-weight helicopters
  - Heavy-lift helicopters

#### > LAUNCH VEHICLES – ARIANEGROUP

- Civil space industry
- Military industry

#### 1.3.1.1 Aircraft engines and satellite propulsion systems

##### Civil aircraft engines

##### Key characteristics of the business sector

The civil aviation sector comprises four main segments:

- > business jets powered with engines each delivering between 5,000 and 18,000 pounds of thrust;
- > regional jets (36 to 100 seats) powered by engines each delivering between 8,000 and 18,000 pounds of thrust;
- > short- and medium-haul aircraft (100 to 200 seats) powered by engines each delivering between 18,500 and 50,000 pounds of thrust;
- > high-capacity long-haul aircraft (more than 200 seats) powered by engines each delivering over 50,000 pounds of thrust (currently up to 115,000 pounds).

In 2017, there were around 21,400 business jets in service worldwide<sup>(2)</sup>. To meet expected demand in this market, some 8,200 aircraft of this type will be delivered over the next ten years<sup>(2)</sup>.

(1) Pro forma based on Safran's results for 2016, excluding Safran Identity & Security, and Zodiac Aerospace's results for 2015/2016 at August 31, 2016.

(2) Source: Safran.

# 1 PRESENTATION OF THE GROUP

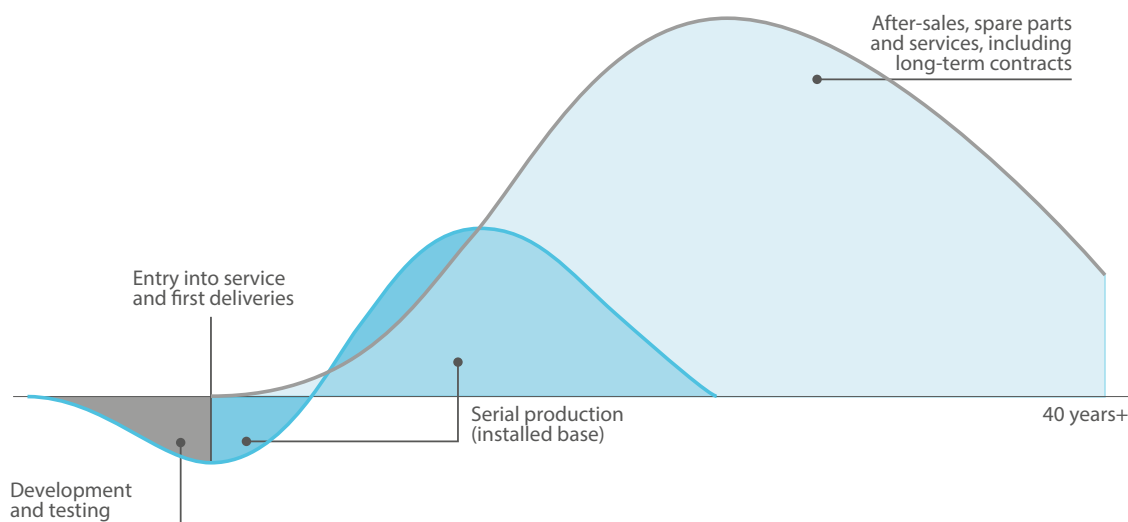
## Group businesses

There were around 22,400 commercial aircraft (regional, short-, medium- and long-haul) in service in 2017<sup>(1)</sup>. In response to the expected two-fold increase in this number, and the need to replace aircraft that will be scrapped or dismantled over the period, some 38,900 commercial aircraft will be manufactured over the next 20 years<sup>(2)</sup>.

In response to aircraft manufacturer requirements for specific engines for each of these business sectors, engine manufacturers invest in civil engine programs comprising two types of activity:

- > original equipment activity, involving the sale of engines installed on new aircraft;
- > service activity, comprising the sale of spare parts and service contracts entered into on a case-by-case or long-term basis with operators and approved maintenance centers.

### ECONOMIC LIFE CYCLE OF AN AIRCRAFT ENGINE PROGRAM<sup>(2)</sup>



These programs may span more than 40 years and have several phases. A significant portion of revenue generated by these programs comes from support services.

Addressing operators' expectations in this market, there is a growing tendency to offer long-term rate-per-flight-hour service contracts. This improves visibility for customers and offers engine manufacturers a better guarantee of revenues and a smoother cash profile throughout the engine life cycle.

There are four major engine manufacturers in the sector that can act as prime contractors: GE (United States), Rolls-Royce (United Kingdom), Pratt & Whitney (United States) and Safran.

In the industry, the US dollar is used almost exclusively as the transaction currency.

#### Alliances and partnerships

Because of the very substantial investment involved in new engine programs, Safran often works in partnership with other engine manufacturers.

Partnerships may take the form of joint ventures, as with GE and UEC Saturn (Russia).

They can also be based on contractual risk-and-revenue-sharing agreements, under which Safran receives a share of sales revenue for the final delivered product, corresponding to its share in the program. The GE90 program is an example of this kind of arrangement.

### Group products and programs

The Group's operations in the civil aircraft engines segment mainly involve Safran Aircraft Engines and Safran Aero Boosters.

#### Low-thrust engines for civil aircraft

This engine family powers regional transport jets and business jets.

Safran is the prime contractor for the SaM146 program, in partnership with the Russian engine manufacturer, UEC Saturn. The SaM146 is the sole engine for the Superjet 100, the 70- to 95-seater aircraft made by Russian manufacturer Sukhoi.

Safran also invests in engines for business jets through its Silvercrest program, in the category of engines delivering 10,000 pounds of thrust. This engine has been selected by Cessna for its Citation Hemisphere.

The Group also operates in this engine range through the participation of Safran Aero Boosters in the following GE programs:

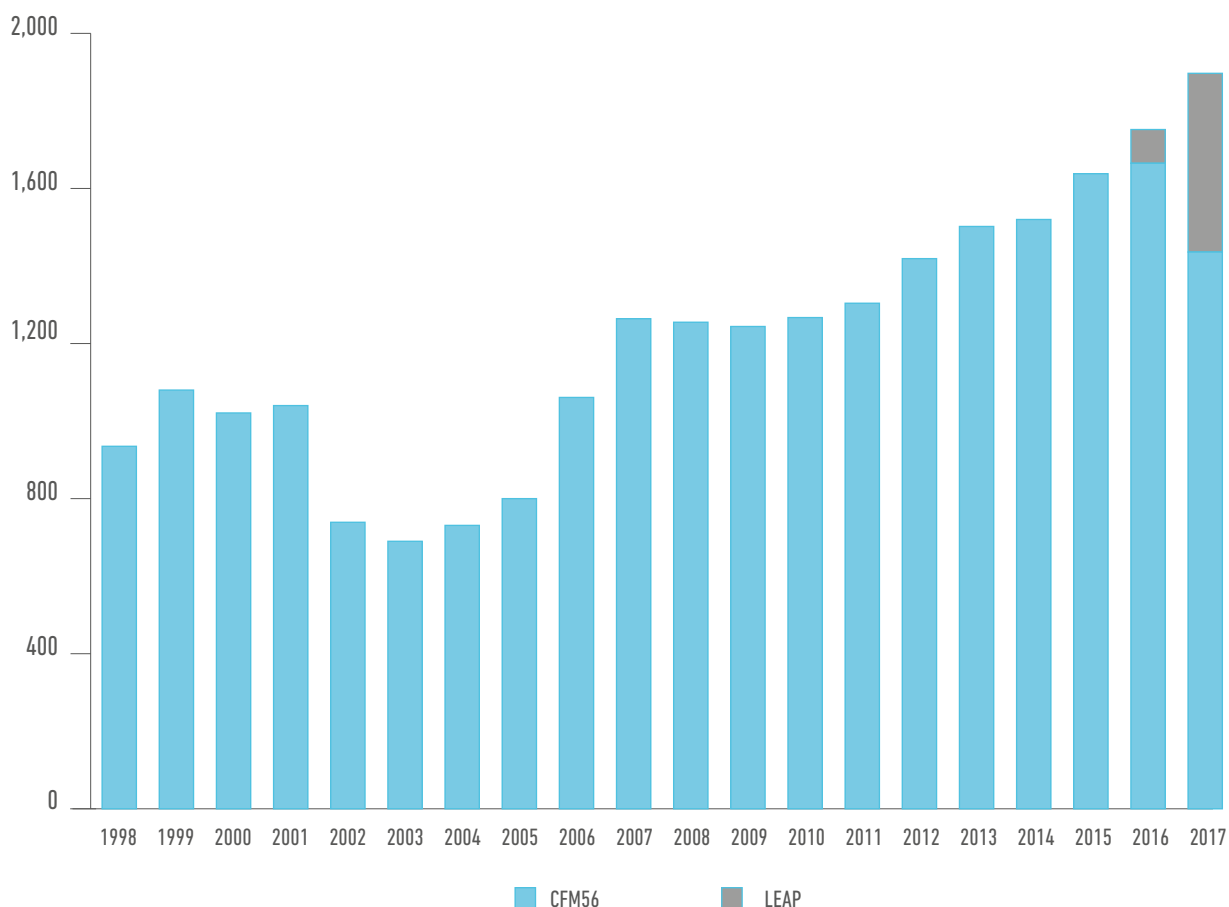
- > CF34-10 (Embraer 190 and COMAC ARJ 21 regional jets);
- > Passport (Bombardier Global 7000 business jet).

(1) Source: Safran.

(2) For illustrative purposes only.

Mid-thrust engines for civil aircraft

NUMBER OF PRODUCTION-STANDARD CFM56 AND LEAP ENGINES MANUFACTURED<sup>(1)</sup>



In 2017, the CFM56 and LEAP engine programs (including spare parts, maintenance and repair sales) generate 56% of Safran's Aerospace Propulsion revenue. These engines are developed under equitable joint cooperation agreements by CFM International, a 50-50 joint venture between Safran and GE.

The majority of short- and medium-haul aircraft with more than 100 seats delivered over the last 20 years are powered by CFM56 engines. For the Airbus A320ceo (current engine option), the CFM56 holds a total market share of 59%<sup>(1)</sup>. Competition to power the Airbus range comes from the V2500 engine made by the IAE consortium (Pratt & Whitney, MTU Aero Engines and Japanese Aero Engines Corp).

The current generation of the Boeing 737 NG, like the previous version (Classic), is powered solely by CFM56 engines.

The success of this program with airline companies has led to a steady rise in the fleet of CFM56 engines delivered over the past 35 years. This engine currently represents the world's largest engine fleet; more than 32,000 CFM56 units have been delivered and more than 30,800 are in operation<sup>(1)</sup>.

CFM International's new-generation LEAP engine achieves a 15% reduction in fuel consumption and CO<sub>2</sub> emissions compared with the latest generation of CFM56 engines. The new engine also significantly reduces nitrogen oxide emissions and noise levels, with limited effect on the reliability or competitive cost of ownership of CFM International engines.

The LEAP engine has so far been selected for use on three aircraft:

- > the LEAP-1A version is one of the two engine options for the new Airbus A320neo, the other being the PurePower PW1000G developed by Pratt & Whitney;
- > the LEAP-1B version is the sole source for the new Boeing 737 MAX;
- > the LEAP-1C version is the sole Western source for the propulsion system (engine plus nacelle) on China-based COMAC's C919 aircraft.

By the end of 2017, purchase intention and firm order agreements for the highly innovative LEAP engine totaled 13,728 units. This sales success builds on the successful performance of the LEAP-1A engine in 2016 and the LEAP-1B in 2017. Throughout 2017, a total of 459 LEAP engines were delivered to Airbus and Boeing. Two COMAC C919 aircraft powered by LEAP-1C engines made their maiden flights from Shanghai-Pudong airport (China) during the year.

Taking into account the 474 firm orders and purchase commitments received for CFM56 engines in 2017, the overall backlog (CFM56 and LEAP) represents more than 14,834 engines at December 31, 2017, or almost eight years of production at current output rates. This success confirms CFM International as leader in the market for 100+ seater aircraft.

(1) Source: Safran.

# 1 PRESENTATION OF THE GROUP

## Group businesses

### High-thrust engines for civil aircraft

The Group operates in this engine range as a risk and revenue sharing partner, primarily with GE. Participation rates vary between 7% and 24% across several engine programs in series production, including the CF6 powering the A330 (19.4%) and the Boeing 767 (10%), and the GE90 powering the Boeing 777 (23.7% for the -115 version currently in production). Safran is a partner on the GEnx engine program: 7.7% for the 1B version powering the Boeing 787 Dreamliner long-haul aircraft and 7.3% for the 2B version powering the Boeing 747-8. Safran also partners with GE, at 11.2%, on the program for the forthcoming GE9X engine, the sole source for Boeing's new 777X long-haul aircraft, which is slated to come into service in 2020. Finally, as part of its cooperative arrangements with the Engine Alliance consortium partners (GE and Pratt & Whitney), Safran has a 17.5% stake in the GP7200 engine which powers the A380.

### Spare parts and services for civil aircraft engines

After-sales operations primarily involve the sale of spare parts and the provision of maintenance, repair and overhaul (MRO) services. They hold significant growth potential for the Group, owing to the size and lifespan of the aircraft fleets concerned.

Each CFM56 engine is removed for inspection and servicing in a maintenance workshop three to five times during its service life. For several years, the Group has also been developing long-term service contracts with airline companies and the main maintenance workshops to assert its position on this highly competitive market. Sales of spare parts for the fleet of CFM56 engines in service will thus continue to increase even after series production of this engine has been discontinued.

New-generation LEAP engines may be sold with contracts covering the provision of spare parts and/or services, which contribute to generating long-term revenue. Safran also draws revenue from sales of spare parts.

On other civil aircraft engine programs, including those for high-thrust engines in which Safran holds a minority stake alongside GE or Engine Alliance, the Group also benefits from revenue from spare parts and service contract sales.

## Military aircraft engines

### Key characteristics of the business sector

The military aviation sector comprises three main segments:

- > fighters and combat drones;
- > training and support aircraft;
- > patrol, tanker and transport aircraft.

The military aircraft engine and related services market is dependent on the budgets of customer air forces. The military market is also influenced by national independence and diplomatic considerations.

The nature and performance of engines vary considerably depending on the segment: jet engines with a high thrust-to-weight ratio for fighters, and jet engines or turboprops closer to those found in civil aircraft for training and patrol aircraft.

As in the civil aviation sector, military engine programs generally involve two types of activities, namely original equipment and after-sales service, the latter comprising the sale of spare parts, maintenance and repair activities, as well as other customer services.

Alliances and partnerships between engine manufacturers have been forged to bring together the best technological and commercial assets, pool risks, and meet the needs of pan-European programs.

The majority of civil engine manufacturers are active in military aircraft engines and benefit from the technical synergies that exist between the two activities.

The main Western players on the fighter engines market are Pratt & Whitney, GE, Rolls-Royce and Safran. The main European participants are: Safran, whose M53 engine powers the Mirage 2000 and whose M88 engine equips the Rafale; Rolls-Royce, whose Pegasus engine powers the Harrier; and the European Turbo-Union consortium<sup>(1)</sup>, for the RB199 engine powering the Tornado fighter. The European Eurojet consortium<sup>(2)</sup> develops the EJ200 engine that powers the Eurofighter Typhoon.

The choice of engines in the training and support aircraft sector consists mainly of those made by Safran (the Larzac, which powers the Alpha Jet, and the Adour in cooperation with Rolls-Royce), Pratt & Whitney (PW500 and PW300) and Honeywell (TFE731 and F124 engine families).

In the engine segment for military tanker, transport and patrol aircraft, the fleet is primarily made up of the T56 and AE2100 turboprops developed by Rolls-Royce North America (formerly Allison) and the Tyne engines developed by Rolls-Royce and made under license by Tyne Consortium (Safran 52%, MTU Aero Engines 28% and Rolls-Royce 20%). Safran is also involved in the program for the TP400 engine powering the A400M European military transport aircraft, with a 32.2% stake in the Europrop International GmbH (EPI) consortium, which also includes Rolls-Royce, Industria de Turbo Propulsores - ITP and MTU Aero Engines.

### Group products and programs

Safran's operations in the military aircraft engines segment mainly involve Safran Aircraft Engines, Safran Helicopter Engines and Safran Aero Boosters.

### Fighter engines

Historically tied to Dassault Aviation, activity in this segment is based mainly on the following programs:

- > the Atar engine (4.5 to 7.1 metric tons of thrust), which powers the Super-Étendard jets and the Mirage III, IV, 5, F1 and 50 family. A total of 480 engines remain in service with 6 customers;
- > the M53 engine (9.5 metric tons of thrust), which powers the Mirage 2000. There are 577 of these engines in service with 8 customers;
- > the M88 engine (7.5 metric tons of thrust), which powers the Rafale. There are 400 of these engines in service with 2 customers.

### Training and support aircraft engines

Activity in this segment is based on the following programs:

- > the Larzac engine (1.4 metric tons of thrust), which powers Dassault Aviation's Alpha Jet training aircraft. At the end of 2017, there were 450 engines in service with 7 customers;
- > the Adour engine, which delivers thrust of 3.7 metric tons (with afterburner) or 2.9 metric tons (without afterburner). Made in cooperation with Rolls-Royce, it powers support and attack aircraft such as the Jaguar aircraft produced by Dassault Aviation and BAE Systems, and training aircraft such as the Hawk produced by BAE Systems and the Goshawk T-45A produced by Boeing. There are currently 1,100 Adour engines in service.

(1) The Turbo-Union consortium comprises Rolls-Royce, MTU Aero Engines (Germany) and Avio (Italy).

(2) The Eurojet consortium comprises Rolls-Royce, MTU Aero Engines, Avio and Industria de Turbo Propulsores - ITP (Spain).

### Patrol, tanker and transport aircraft engines

Activity in this segment is based on the following programs:

- the CFM56 engine powering military versions of the Boeing 707 (CFM56-2), the KC135 tanker aircraft and the Boeing 737 (CFM56-7), the C-40 transport aircraft, the P-8 Poseidon MMA (Multimission Maritime Aircraft), and the AEW&C (Airborne Early Warning & Control) aircraft;
- the 4,550 kW Tyne turboprop engine, developed by Rolls-Royce and manufactured under license by Tyne Consortium. This engine powers C-160 Transall transport aircraft and Breguet Atlantic and Atlantique 2 maritime patrol aircraft. Series production of this program has ceased but it continues to generate revenue through spare parts and repairs;
- the 8,203 kW TP400 turboprop engine powering the Airbus A400M European military transport aircraft, with 259 engines in service.

### Spare parts and services for military aircraft engines

After-sales operations for military aircraft primarily involve the sale of spare parts and repair services. These activities are directly linked to the aircraft availability needs of governments using military aircraft. Two programs account for the bulk of these military aircraft service operations today: Mirage 2000 (M53 engine) and Rafale (M88 engine). The Group also continues to provide services for older aircraft fleets, to meet the needs expressed by customers.

Because of the extreme operating conditions involved, military aircraft engines are usually serviced before they reach 1,000 hours in flight. One of Safran's constant development objectives is to lengthen the interval between servicing visits. In 2012, the Group introduced a new variant of the engine that powers the Rafale, the M88 Pack CGP, helping to maintain the aircraft in optimal operating condition. Hot parts and rotating parts have a longer service life, lengthening inspection intervals for the main engine modules and considerably reducing the M88 cost of ownership. Currently, governments generally delegate the management of their spare parts to the engine manufacturer.

### Space vehicle propulsion systems

#### Key characteristics of the business sector

This business sector covers satellite engines.

Plasma propulsion has emerged as the preferred solution for satellite orbit raising and attitude and orbit control. This technology, also referred to as Hall-effect or stationary plasma propulsion, has a considerable advantage over traditional chemical propulsion systems as regards take-off mass.

The main participants in the plasma propulsion market, besides Safran, are EDB Fakel (Russia) and Aerojet Rocketdyne (United States).

#### Group products and programs

Safran's operations in plasma propulsion systems for satellites and space exploration probes involve Safran Aircraft Engines.

The Group has been developing, integrating, testing and marketing plasma thrusters and plasma propulsion systems with

power ratings from 300 W to 20 kW for more than 30 years. They can be found on the telecommunication platforms Eurostar 3000 EOR (Airbus Defence and Space), Alphabus (Thales Alenia Space and Airbus Defence and Space) and Electra (OHB - Orbitale Hochtechnologie Bremen, Germany). Safran plasma thrusters have also been selected for the SSL telecommunication platforms (United States), on Boeing commercial platforms and under the European Space Agency (ESA) Neosat program for the Airbus Defence and Space Eurostar Neo and the Thales Alenia Space Spacebus Neo platforms.

### 1.3.1.2 Helicopter turbine engines and auxiliary power units

#### Key characteristics of the business sector

The helicopter turbine engine market is characterized by significant diversity in applications and end-users. With the exception of armed forces and certain specific civil applications, current helicopter fleets are small in size.

Some 48,000 helicopters were in service worldwide in 2017<sup>(1)</sup>. To meet growing demand and replace helicopters scheduled for dismantling or decommissioning, a total of around 35,000 helicopters are expected to be delivered over the next 20 years<sup>(1)</sup>.

Helicopter engine size is determined mainly by airframe weight and mission type. Helicopters may have one, two or sometimes three engines.

The Group serves:

- government and semi-public applications: police, border control, medical and emergency services;
- civil applications: offshore oil industry, transportation, tourism and private ownership, and airborne work such as spraying and construction;
- military applications: transport, attack and ground support, maritime patrol.

This diversity, coupled with the fact that engines are tightly integrated into the helicopter airframe, gives rise to a wide variety of engines and associated versions.

The helicopter turbine engine market, like the civil aviation market, has two components:

- sale of turbine engines to helicopter manufacturers for installation in new airframes (original equipment);
- after-sales activities based on spare part, maintenance and repair contracts with operators, requiring a major global customer support network with local reach, given the large number of users and the helicopter's limited radius of action.

The profile of a helicopter turbine engine program is extremely similar to that of a civil aircraft engine program as presented earlier in the section.

The airframe/engine pairing is often unique and at the origin of a new model. However, there is a trend toward multiple engine sizes among some helicopter manufacturers (offering a choice between two engines). This can also be seen where a helicopter is adapted for a specific purpose, thereby reintroducing competition to a given program.

(1) Source: Safran.

# 1 PRESENTATION OF THE GROUP

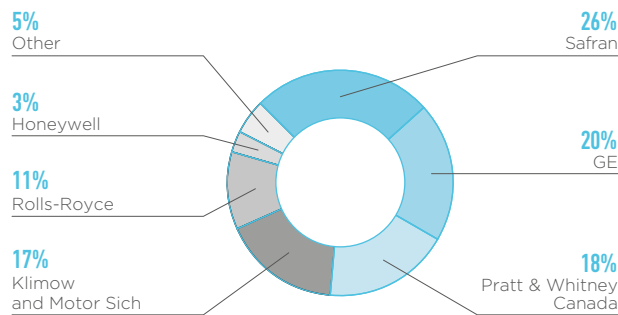
## Group businesses

There are fewer partnerships between engine manufacturers than in the civil aviation engine sector. The main partnership is MTRI (MTU Aero Engines, Safran Helicopter Engines, Rolls-Royce and Industria de Turbo Propulsores - ITP), on the 1,450 shp<sup>(1)</sup> MTR390-E engine powering the Tiger. The growth of the helicopter market in emerging economies has also led Safran to develop other types of partnerships with consortiums of helicopter manufacturers claiming a role in the propulsion sector. This is the case with HAL (Hindustan Aeronautics Ltd.) in India and AVIC in China, which are becoming both customers and partners.

The majority of major Western aircraft manufacturer groups are also present in the helicopter turbine engine market: Safran, GE, Pratt & Whitney Canada, Rolls-Royce and Honeywell (United States).

Safran has also developed a range of auxiliary power units, based on turbine technology and featuring innovations developed through substantial technological investment and strategic partnerships.

### MARKET SHARE: SALES OF HELICOPTER ENGINES, 2013-2017<sup>(2)</sup>



### Group products and programs

Most of Safran's helicopter engines are modular turbine units adaptable to civil and military helicopters. Modularity makes for more efficient maintenance programs. Safran helicopter engines are designed with a large additional power potential (up to 15%), which means they address a broad application spectrum. Through Safran Helicopter Engines, Safran covers all of the helicopter engine categories described below.

Auxiliary power units are non-propulsive systems that generate energy on an aircraft for powering onboard systems. Safran fields a range of auxiliary power units through Safran Power Units.

#### Turbine engines for light helicopters

For single-engine helicopters from 2 to 3 metric tons and twin-engine helicopters from 4 to 6 metric tons, Safran offers three engine families: Arrius (450 to 750 shp), Arriel (590 to more than 1,000 shp) and Arrano (1,100 to 1,300 shp).

Arrius engines and their derivatives power many civil helicopters from Airbus Helicopters (H120, H135), Kamov (Ka-226T) and Bell (Bell 505 Jet Ranger X), along with military versions from Airbus Helicopters (Fennec) and Leonardo (A109 LUH - Light Utility Helicopter).

Arriel engines and their derivatives power helicopters manufactured by Sikorsky (S76 C++), AVIC (AC311A, AC312) and Airbus Helicopters (H125, H130, H145, H155, AS365 N3+), as well as military models manufactured by Airbus Helicopters (H145M, AS565MBe, etc.). These engines have also been selected by Korea Aerospace Industries (KAI) to power its forthcoming LCH (Light Civil Helicopter) and LAH (Light Armed Helicopter).

The Arrano will consume 10% to 15% less fuel than the previous generation of engines in service today, meaning enhanced performance (range, payload) and a smaller environmental footprint. Airbus Helicopters selected the Arrano as the sole source for its twin-engine H160 helicopter (5.5 to 6 metric tons).

#### Turbine engines for medium-weight helicopters

For helicopters from 5 to 7 metric tons, Safran is present in the military market for combat helicopters, with the MTR390 (1,250 to 1,450 shp), developed jointly with Rolls-Royce and MTU Aero Engines, that powers the Airbus Helicopters Tiger, and the TM333 (900 to 1,100 shp) that powers HAL's Dhruv. A special development contract has been signed with Spain for a more powerful version of the MTR390 for the Tiger.

For helicopters from 5 to 8 metric tons, Safran's Ardiden range of engines covers power ratings from 1,400 to 2,000 shp. The Ardiden 1H1/Shakti powers the Dhruv and twin-engine light combat helicopters (LCHs) from Indian helicopter manufacturer HAL. HAL selected the Ardiden 1U variant to power its light utility helicopters (LUHs). The Ardiden 3G, which obtained EASA<sup>(3)</sup> certification in 2017, is designed for helicopters of up to 8 metric tons, and has already won orders from Kamov (Russian Helicopters) for the Ka-62. In China, tests are continuing on the Ardiden 3C/WZ16 for use with the AC352/Z-15 helicopter.

#### Turbine engines for heavy-lift helicopters

In the heavy-lift helicopters market, Makila turbine engines from 1,800 to 2,100 shp are used on helicopters including the H 225/225M and Super Puma from Airbus Helicopters.

The RTM322 turbine engine, which develops 2,100 to 2,600 shp, powers the NHIndustries NH90 helicopter, and the Leonardo AW101 Merlin helicopter and Apache UK fighter helicopter.

In 2017, Safran unveiled its new range of high-power Aneto engines, which feature advanced technologies developed as part of the Group's research work. This engine range will include models with power ratings from 2,500 to more than 3,000 shp. The Aneto engine range has the advantage of being 25% more powerful than existing engines of the same size. Enhanced capabilities make the Aneto an attractive choice for helicopters required to perform missions in harsh environments (offshore transport, military transport, search and rescue and firefighting) or "hot and high" conditions. The first model, the 2,500-shp Aneto-1K, was selected by Leonardo to power its twin-engine helicopter AW189K, which made its maiden flight in March 2017. This helicopter is set to come into commercial service in 2018, and certification of the Aneto-1K engine will fit in with this schedule.

(1) Shp: shaft horsepower.

(2) Ascend - FlightGlobal.

(3) European Aviation Safety Agency.



### Spare parts and services for helicopter turbine engines

Following the example of its civil aviation activities, Safran has developed an international structure able to provide customers with local access to technical and sales support for their turbine engines, along with spare parts and services. Local coverage is provided through a worldwide network of repair centers (performing in-depth maintenance) and service centers.

### Auxiliary power units

The auxiliary power units developed by Safran meet the demanding requirements of the world's leading aircraft and helicopter manufacturers. Safran supplies a large fleet of civil and military aircraft and helicopters, including Alenia Aermacchi's M-346, Dassault Aviation's Rafale, BAE Systems' Hawk, NHIndustries' NH90 and Airbus Helicopters' H225M. Safran auxiliary power units will also power future business jets from Bombardier (the Global 7000).

Safran has developed a new auxiliary power unit, the e-APU, specially designed and optimized to meet the needs of new-generation business jets and "more electric" helicopters. This system is used on the Leonardo AW189 helicopter.

Safran also provides after-sales support for these high-technology systems.

## 1.3.1.3 Launch vehicles

### Key characteristics of the business sector

This business sector comprises three main segments:

- the civil space industry, with launch vehicles for placing satellites in orbit;
- the military industry, with ballistic and tactical missiles;
- products, equipment and services for satellites and civil and military launch vehicles, as well as production of critical infrastructure (satellite integration center, remediation units, etc.), gas generators for car airbag systems, and production of parts for the aerospace industry.

In the first two segments, development and engineering programs tend to be long and financed by institutional budgets, such as ESA for civil space activities in Europe or national defense budgets for strategic operations. Tactical missile development is also financed by customer governments.

In the civil space industry, competition is quite intense. The main competitors of Arianespace (a subsidiary of ArianeGroup, itself a 50-50 joint venture with Airbus) in the market for commercial launch services are the US company Space X, with its Falcon 9 launch vehicle, and the Russian Proton launch vehicle marketed by ILS (International Launch Services). The relevance of the forthcoming Ariane 6 launch vehicle becomes clear when considering that competition is set to intensify from 2020 due to the number of new launch vehicles currently under development. These new projects are run by other players, in the United States (New Glenn and Vulcan), Russia (Angara), India (GSLV), China (Long March5) and Japan (H3).

The military launch vehicle segment covers ballistic and tactical missiles:

- ballistic missiles are an essential component of national nuclear deterrent forces for countries possessing this capability. In Western Europe, France is the only country to develop its own ballistic missiles powered by solid-propellant engines. The main players in the ballistic missile segment are ArianeGroup in Europe and Lockheed Martin and Boeing in the United States;
- tactical missiles appear in all battlefield situations. They use various types of propulsion systems (solid propellant, turbojet and ramjet). Safran primarily covers the solid-propellant propulsion sector, through its stakes in Roxel and ArianeGroup, and the turbojet propulsion sector, through Safran Power Units. Other main players in the sector of solid-propellant engines for tactical missiles are Nammo (Norway), Bayern Chemie (Germany), Avio (Italy), Aerojet Rocketdyne (United States), Orbital ATK (United States) Rocketsan (Turkey) and Denel (South Africa).

The third segment is purely commercial: products, equipment and services for the main satellite manufacturers, and gas generators for car airbags.

### Group products and programs

Safran covers the civil and military launch vehicle sector through ArianeGroup<sup>(1)</sup>, a 50-50 joint venture with Airbus. ArianeGroup is the product of the joint ambition of Safran and Airbus to drive the European space industry to unrivaled heights, in a context of mounting international competition. It merges both partners' businesses and expertise in civil and military launch vehicles into a single, coherent entity.

Safran covers the sector of propulsion systems for tactical missiles and targets through Roxel and Safran Power Units.

### Civil space industry

ArianeGroup is the prime contractor for the Ariane 5 launch vehicles developed by ESA, which involves coordinating an industrial network of more than 550 companies in 12 European countries. It manages the whole of the industrial chain, which covers plant and equipment, engine manufacture, integration of the individual stages, then integration of the whole launch vehicle in French Guiana. ArianeGroup is also prime contractor on the program for the forthcoming Ariane 6 launch vehicles, the first flight of which is expected in 2020. It contributes to the solid propulsion component of the Vega program, and to prime contractorship for the Russian Soyuz launch vehicle in French Guiana. Its Arianespace subsidiary, a front-line world player, takes charge of marketing and operation of these launch vehicles.

Through its subsidiary Eurockot, ArianeGroup also markets and operates the light space launcher Rocket.

### Ballistic missiles

In the military market, ArianeGroup takes part in the missiles program for France's fourth-generation ocean-going strategic nuclear force (M51). Following the M51.1 version, which came into operation in 2010, and M51.2, in 2016, the next development phase, M51.3, will adapt the M51 missile to the geopolitical context of the coming years.

(1) Airbus Safran Launchers was renamed ArianeGroup on July 1, 2017.

# 1 PRESENTATION OF THE GROUP

## Group businesses

### Tactical missile propulsion

ArianeGroup assembles thrusters for the Mistral missile and the acceleration and tip-up system (SAB) on the MdCN<sup>(1)</sup> missile, for MBDA. It also develops technologies for forthcoming high-performance propulsion systems (modular propulsion, DACS<sup>(2)</sup>, etc.) under national and international R&T contracts.

Safran covers the sector of solid propulsion systems for tactical missiles through its stake in Roxel, a 50-50 joint venture with MBDA. Roxel develops and manufactures a large range of solid-propellant engines for tactical missiles of international renown (Milan, MICA<sup>(3)</sup>, AASM<sup>(4)</sup>, Exocet, Aster, Meteor, etc.).

Through Safran Power Units, the Group is a leading global player in jet engines for military applications (missiles and targets). Safran produced the engines for MBDA's C22 targets, the MQM 107 targets used by the US Air Force and the targets produced by Italian company Galileo for NATO forces in Europe.

### Products, equipment and services

ArianeGroup currently sells products, equipment and services in more than 50 countries, and is the supplier to the main satellite manufacturers. It is also the supplier to a quarter of the European market and around 7% of the world market for gas generators in car airbag systems<sup>(5)</sup>.

Through its Pyroalliance subsidiary, ArianeGroup provides pyrotechnic equipment on a broad range of missiles including MdCN, SCALP, Aster, Exocet, MICA, IRIS-T<sup>(6)</sup>, Crotale, Otomat, Marte and Eryx.

Through its CILAS (Compagnie Industrielle des Lasers) subsidiary, ArianeGroup develops, engineers and manufactures systems coupling laser and precision optics technologies in high-tech military and civil applications.

ArianeGroup's Sodern subsidiary fields cutting-edge expertise in space instrumentation, optics and neutronics.

ArianeGroup's Nuclétudes subsidiary provides prime expertise in tests and engineering on ruggedization, for the protection of electronic systems and mechanical structures in harsh radiative and electromagnetic environments.

## 1.3.2 Aircraft Equipment

Safran's Aircraft Equipment business operates in three sectors:

### > LANDING AND BRAKING SYSTEMS

- Landing gear
- Wheels and brakes
- Electric taxiing
- Landing and braking systems
- Services for landing gear, wheels and brakes and related systems

### > ENGINE SYSTEMS AND EQUIPMENT

- Nacelles and thrust reversers
- Power transmissions

### > ELECTRICAL SYSTEMS AND ENGINEERING

- Electricity generation and distribution
- Electrical interconnection systems (wiring)
- Ventilation systems and electric motors
- Engineering

This business covers the design, manufacture, sale, maintenance and repair of aircraft equipment, provision of related services and sale of spare parts. In 2017, a total of 24,471 Safran employees contributed to the development of this business.

The Group enjoys leading positions in each of its sectors in recent and prospective major short-, medium- and long-haul commercial aircraft programs by Airbus, Boeing and COMAC, and in helicopter programs by Airbus Helicopters, Leonardo, Sikorsky and Bell.

Thanks to its technological expertise in a large number of aircraft equipment sectors, the Group is a preferred partner of aircraft manufacturers and is able to offer a comprehensive range of products and services. Safran is notably the sole comprehensive "ATA 32" supplier (landing gear + brakes + systems).

Safran's substantial capacity for innovation has enabled it to carve out either leading or major positions in its markets. Other players such as UTC Aerospace Systems (United States) and Honeywell are present in several sectors of the aircraft equipment market, whereas Liebherr (Germany), Spirit (United States), Moog (United States), Thales (France), Meggitt (United Kingdom), LATElec (France) and GKN (United Kingdom) specialize in only one or two specific sectors.

Adopting a less systematic approach than in the Aerospace Propulsion business, Safran has formed a number of alliances and partnerships in the Aircraft Equipment sector, on an individual product and program basis.

Market characteristics are outlined individually below, for each business area.

(1) MdCN: naval cruise missile.

(2) DACS: Divert and Attitude Control System.

(3) MICA: interception, combat and self-defense missile.

(4) AASM: modular air-to-ground weapon.

(5) Source: ArianeGroup.

(6) IRIS-T: Infra Red Imaging System Tail/Thrust Vector-Controlled.

### 1.3.2.1 Landing and braking systems

This business comprises three main product lines: landing gear, wheels and brakes, and landing and braking systems.

Safran has combined these operations within Safran Landing Systems. This organization is in response to market shifts toward more tightly integrated offerings addressing both aircraft manufacturers and airline companies.

#### Landing gear

##### Key characteristics of the business sector

The market for commercial aircraft landing gear is shared by Safran, UTC Aerospace Systems, Liebherr, Héroux-Devtek (Canada) and a handful of niche players positioned in specific market segments (business jets, helicopters, drones, etc.). Technology requirements are high, as landing gear must bear extreme loads during maneuvers on the ground: it must be light, compact and robust, while being fully adapted to and optimized for the aircraft's profile. The business model includes a long development period - which starts with the initial aircraft development phase - limited production volumes and regular service flows. Technological challenges include the use of new materials to improve the resistance and mass of parts, new, more eco-friendly production processes (including the elimination of chrome) and enhanced acoustics.

##### Group products and programs

Safran addresses the landing gear segment through Safran Landing Systems, which holds around half the market<sup>(1)</sup> for commercial aircraft landing gear.

Safran designs, manufactures and provides after-sales services for landing gear for civil and military planes and helicopters of all sizes. It also handles integrated systems if requested by the customer, and provides the technical assistance, spare parts and repair services needed for its equipment.

Safran is worldwide leader<sup>(1)</sup> for landing gear structural units, having equipped a fleet of some 27,000 aircraft. The Group supplies the world's major aircraft manufacturers (including Airbus, Boeing, Bombardier and Dassault Aviation) and military and civil operators. Among the main commercial aircraft programs are the entire Airbus range, including the A350, and Boeing's 787 Dreamliner.

The Group also has a strong presence in military applications, where it equips the A400M, Rafale, Eurofighter Typhoon, F18 and V22 planes and helicopters from Airbus Helicopters, as well as in the business jet and regional jet markets (ATR, Bombardier, Dassault Aviation - Falcon, Sukhoi, Fokker, Piaggio, etc.).

#### Wheels and brakes

##### Key characteristics of the business sector

The present-day wheels and brakes market for commercial aircraft with 100 or more seats splits into two segments: aircraft with steel brakes (first-generation brakes), which in 2017 account for 22%<sup>(1)</sup> of commercial aircraft of 100 or more seats, and aircraft with carbon brakes, invented by Safran, which account for 78%<sup>(1)</sup>.

The market for carbon brakes has developed rapidly since the 1980s, with the increase in air traffic and the gradual phase-out of steel brakes, replaced by carbon units. The wheels and brakes market is currently shared among four major global participants: Safran, UTC Aerospace Systems, Honeywell and Meggitt.

##### Group products and programs

Safran designs and manufactures wheels and carbon brakes for aircraft, and provides related after-sales services. It also provides electronic and electrohydraulic systems for aircraft braking, tire/brake/landing gear monitoring and landing gear steering systems.

Safran is a leading player in wheels and brakes, particularly for civil applications (on the A320ceo, A320neo, A330, A330neo, A340, A350, Boeing 737 NG, Boeing 737 MAX, Boeing 767, Boeing 777 and Boeing 787) and the military sector (on the A400M, Rafale, KC135 refueler and C-17 and KC-390 transport aircraft).

With almost 9,000 aircraft fitted with Safran wheels and carbon brakes, the Group holds more than half of the market<sup>(1)</sup> for aircraft with over 100 seats and fitted with carbon brakes. Given the size of the fleet equipped by Safran, 44% of which is less than five years old, the business model underpinning this activity contributes to strong revenue streams.

#### Electric taxiing

Electric taxiing enables aircraft to taxi at airports without having to use their main engines or call upon airport towing services. It primarily addresses economic and environmental challenges, such as reduction in kerosene consumption, CO<sub>2</sub> emissions and noise, and enables more fluid aircraft ground maneuvers.

Three companies including Safran are currently working on electric taxiing systems.

#### Landing and braking systems

##### Key characteristics of the business sector

This market includes braking systems, orientation systems, landing gear and door extension/retraction systems, and monitoring systems. The main participants are Safran and US companies UTC Aerospace Systems, GE Aviation Systems and Crane Aerospace & Electronics (United States).

##### Group products and programs

Safran's operations in the landing and braking system segment mainly involve Safran Landing Systems. Customers include Airbus, for all its programs, Boeing for the 747-8, Embraer for its KC-390 military program, Gulfstream for its G650 program and Dassault Aviation for its Falcon (7X, 2000 and 900) and Rafale programs.

In the landing and braking electronic control systems segment, Safran's position is buoyed by its technological advance in electric braking and its ability to propose to customers a comprehensive offering encompassing landing gear, wheels and brakes, and associated control systems.

(1) Source: Safran.

### Services for landing gear, wheels and brakes and related systems

Safran provides maintenance services for its own products and for competitor products on commercial aircraft with more than 100 seats, and, alone or in partnership, for regional jets and business jets.

To provide maintenance services for landing gear and landing and braking systems, Safran has developed regional repair centers in Mexico, the United Kingdom, France, Singapore and the United States, and will shortly be opening a center in China. Some of these repair centers are managed as joint ventures with partners such as Singapore Airlines Engineering Company, China Eastern Airlines and Dassault Falcon Jet.

#### 1.3.2.2 Engine systems and equipment

##### Nacelles and thrust reversers

###### Key characteristics of the business sector

The nacelle is a complex piece of equipment which optimizes internal and external engine airflows, helps reduce noise and incorporates safety components. It is made up of an air inlet, a fairing, a thrust reverser and a nozzle. The thrust reverser, which reverses the engine's thrust to help brake the aircraft, represents more than half the value of the nacelle.

Today's market for aircraft engine nacelles splits into two main segments, addressed by:

- nacelle component manufacturers;
- nacelle integrators such as Safran, capable of supplying engine and aircraft manufacturers with complete nacelles. Nacelle research requires specific technical expertise in areas such as achieving acoustic, aerodynamic, thermal and mechanical performance through the intensive use of composite material and titanium technologies. Specifications vary with engine power and location (under the wings for airliners and regional jets, or at the rear of the fuselage for business jets).

Safran's main competitor on the integrated nacelles market is UTC Aerospace Systems.

###### Group products and programs

As a nacelle integrator, Safran designs, manufactures and provides after-sales support for aircraft engine nacelles through Safran Nacelles. On this market, the Group ranks second worldwide, with market share of more than 17%<sup>(1)</sup>.

In the segment of nacelles for commercial aircraft with more than 100 seats, Safran enjoys a long-standing position as a manufacturer of complete nacelle systems and large thrust reversers for the Airbus A320ceo, A320neo, A330, A330neo and A380 platforms. Boeing selected Safran to supply titanium exhaust systems for the 777X. Safran also supplies nacelles for regional jets (Sukhoi Superjet 100, Embraer 170) and is a leading supplier of nacelles for top-end business jets (Dassault Aviation, Gulfstream, Bombardier, Cessna and Embraer), with a market share of more than 28%<sup>(1)</sup>.

Safran is working in partnership with a GE subsidiary, Middle River Aircraft Systems (MRAS), on the development of the nacelle for the Airbus A320neo version powered by the LEAP-1A engine from CFM International. Furthermore, Nexcelle, an alliance entered into with GE in 2009 through its subsidiary MRAS, developed the COMAC C919 nacelle as part of the CFM International LEAP-1C "integrated propulsion system" package. This contract comes with an industrial cooperation agreement between Safran and the Chinese group AVIC. Nexcelle has also been selected by GE to supply the nacelle for its Passport engine on Bombardier Global 7000 business jets.

##### Services for nacelles and thrust reversers

Safran offers operators service solutions through its Customer Support and Services Division (CSSD), generating revenue in preventive maintenance programs, spare parts, services, maintenance and repair.

##### Mechanical power transmission systems

###### Key characteristics of the business sector

The mechanical power transmission market covers a range of applications, the main ones being accessory gearboxes (which deliver mechanical energy to engine accessories), reduction drives (which transfer power to the propeller blades on turboprop aircraft and are also used in turboprop engines with very high bypass ratios), and main transmission gearboxes (which transfer power to the blades on helicopters). The main participants in this market are the engine and helicopter manufacturers themselves, along with aerospace equipment suppliers such as the UTC Aerospace Systems group, GE, KHI (Japan), Triumph (United States) and Northstar (United States).

###### Group products and programs

Safran's operations in the mechanical power transmission sector involve Safran Transmission Systems.

Safran designs, manufactures, markets and maintains a wide range of mechanical power transmission systems for civil and military aircraft engines and for helicopter engines. Recognized technical expertise in mechanical power transmission systems is harnessed to develop applications for the world's leading aircraft manufacturers and for Airbus Helicopters.

Aero Gearbox International (AGI), a 50-50 joint venture formed by Safran and Rolls-Royce in 2015, specializes in the design, development, production (and after-sales service) of power transmission systems, the first application of which will be on the A330neo. The company has exclusive coverage of the whole range of Rolls-Royce's forthcoming civil aircraft engines, and strengthens Safran's position among the leading participants in this field.

#### 1.3.2.3 Electrical systems and engineering

The shift toward more electric aircraft systems is a major and irreversible structural change undertaken by aircraft manufacturers to increase safety, reduce weight and volume, lower costs, and simplify aircraft manufacture, assembly and maintenance.

(1) Source: Safran.

Two recent trends in the aircraft electrical systems market afford Safran a rare opportunity for development:

- > **the more electric aircraft**, as most of the hydraulic and pneumatic systems found in present-day aircraft are phased out by electrical systems. This change calls for a significant increase in the power ratings of onboard electricity generation and distribution systems, along with extremely high quality requirements for electrical signals;
- > **electric hybridization**, with gas turbines backed by electric motors to reduce the aircraft's carbon footprint.

Safran has bolstered its legitimacy in electrical systems through substantial internal efforts in research and technology plus external growth operations. Safran Electrical & Power brings together all of Safran's electrical systems operations under a single dedicated unit:

- > electrical interconnection systems;
- > onboard electrical energy (generation and distribution);
- > power electronics;
- > maintenance and repair of electrical equipment;
- > ventilation systems and electric motors;
- > engineering, design and production services, especially for electrical systems.

## Electrical power generation and distribution systems

### Key characteristics of the business sector

The electrical systems market mostly covers power generation and distribution functions. This market is currently commanded by a handful of major players including UTC Aerospace Systems, Safran, Esterline (United States) and Zodiac Aerospace. Only UTC Aerospace Systems and Safran field a comprehensive offering covering main and backup power generation, conversion, and primary and secondary distribution.

The power electronics market is more recent, arising directly from developments in electrically powered aircraft functions (electric thrust reversers, electric brakes, electric load control, etc.). UTC Aerospace Systems, Honeywell and Safran have expertise in this field.

### Group products and programs

Safran covers these sectors through part of the electrical businesses of Safran Electrical & Power.

Examples of Safran's capacity for innovation in power electronics include ETRAS (Electrical Thrust Reverser Actuation System), the world's first electric control system for nacelles, developed on the A380, and EBAC (Electrical Braking Actuation Controller), on the Boeing 787. These major technological advances, along with Safran's engine and electrical wiring expertise, enable the Group to offer aircraft manufacturers innovative electrical aircraft systems for their forthcoming programs.

Safran also provides all emergency backup power and primary and secondary distribution systems for the Embraer KC-390 military transport aircraft program, currently at the test-flight stage.

More recently, Safran won new contracts in primary and backup power generation (Bell 525, MA-700, Boeing 777X and JAS Gripen).

## Electrical interconnection systems (wiring)

### Key characteristics of the business sector

The Group is a leading worldwide supplier<sup>(1)</sup> in this market. Wiring and electrical interconnection systems mainly comprise electrical harnesses as well as main and secondary transformer stations and other electrical cabinets.

Much of the aircraft wiring market is still in the hands of aircraft manufacturers' internal departments. Safran's main rivals on the aircraft wiring market are GKN (United Kingdom), LATElec (France) and Ducommun LaBarge (United States).

### Group products and programs

Safran's operations in the wiring and electrical interconnection system segment involve Safran Electrical & Power.

Safran provides electrical and layout design work in addition to harness production and installation support services at the aircraft manufacturer's site, for customers including Airbus, Boeing and COMAC. If requested, as on upgrade programs, Safran can take on the planning and onboard installation stages. This can – as with major programs such as the A380 and A350 – extend to an “end-to-end” service covering engineering, manufacture and installation support.

## Ventilation systems and electric motors

### Key characteristics of the business sector

Ventilation systems comprise various electrical, electronic, mechanical and pneumatic subsystems.

High-performance ventilation systems perform the following functions:

- > management of air circulation in the cabin and cockpit;
- > cooling of aircraft brakes on landing;
- > cooling of avionics bays, which house systems including the main aircraft controllers (flight control systems, digital cockpit screens, etc.).

Safran, UTC Aerospace Systems and Honeywell are the main participants with expertise in this field.

### Group products and programs

Through Safran Ventilation Systems, Safran designs, manufactures and markets ventilation systems for aircraft cabins and avionics, and brake cooling systems for commercial and military aircraft and helicopters.

Safran supplies all ventilation circuit equipment (valves, air filters, nozzles, heat exchangers, flowrate sensors, pressure sensors, etc.) along with the ventilation regulation and control system. The Group has also developed expertise in electric motors fully integrated in the aircraft electrical chain.

(1) Source: Safran.

## Engineering

### Key characteristics of the business sector

The engineering market is dependent on major development programs, some of which have reached completion (Airbus A350 and Boeing 787). This means that major aircraft and equipment manufacturers experience less need for prime engineering expertise.

At the same time, major aerospace customers are trimming back their supplier panels, and this gives rise to consolidation and opportunities for those suppliers that are selected.

Competitive edge on the engineering services market depends on the provider's capacity to accompany its customers on an international market, to offer offshore capabilities (with a pool of engineers located in low-cost countries such as India) and to develop and retain skills.

The Group's main competitors are leading French full-service engineering groups such as Alten and Altran, and French niche aviation engineering suppliers including Assystem and Aeroconseil.

### 1.3.3 Defense

The Defense business can be broken down into two key sectors:

#### > AVIONICS

- Flight control systems
- Onboard information systems and data management and services
- Electronic equipment and onboard critical software
- Aerospace navigation and sensors
- High-performance optics

#### > DEFENSE

- Optronics and sights
- Soldier modernization
- Navigation and sensors
- Seekers and guidance systems
- Drones

Safran is involved in major civil and defense programs, and is one of the world's leading providers of solutions and services in avionics, optronics, electronics and critical software. Prime expertise in these technologies enables Safran to offer armed forces, security forces and civil customers optimally cost-effective solutions matched closely to their needs, in land, sea and air applications. Safran also draws upon the expertise of its subsidiaries, located on all continents. In 2017, a total of 7,578 Safran employees contributed to the development of this business.

In avionics, Safran's customers include the leading aircraft and helicopter manufacturers, as well as airline companies, in particular Airbus Group, Airbus Helicopters, Dassault Aviation, Hindustan Aeronautics Ltd., Embraer, Bell, Leonardo and COMAC.

In defense, Safran's main partners and customers are governments (ministries or armed forces) and European groups such as Thales, Airbus Group, Nexter (KNDS group), BAE Systems (United Kingdom), MBDA, Leonardo, Saab AB (Sweden), Dassault Aviation, Naval Group and CMI (Belgium).

### Group products and programs

Safran is present in the engineering market through Safran Engineering Services. In Europe, North America, South America and Asia, Safran provides engineering services in the aviation market and in related markets. Its expertise, focused on five broad areas (electrical systems architecture, aerostructures, mechanical systems, onboard systems and certification support), is used by various Group companies, chief among which ranks Safran Electrical & Power. Services are also provided to major aviation customers (Airbus Group, Boeing, Dassault Aviation, Embraer and COMAC) and land transport companies (Alstom, Renault, Peugeot and Jaguar Land Rover).

For support in the design of new electrical system architectures, Safran's aircraft manufacturer customers see the expertise of Safran Engineering Services, backed by Safran Electrical & Power, as a determining factor.

#### 1.3.3.1 Avionics

### Key characteristics of the business sector

Safran's avionics operations span five advanced-technology product lines: flight controls, onboard information systems, electronic equipment and critical software, aerospace navigation, and high-performance optics.

In addressing several different markets and platforms with common-core technology, Safran enhances competitive performance and optimizes its product portfolio. It offers a full range of systems and equipment for civil and military aircraft, helicopters, drones, telescopes and satellites. These systems and equipment enjoy wide recognition for performance and efficacy in key avionics functions: flight controls, guidance, navigation, onboard information, engine regulation, calibration, braking and landing controls, observation and maintenance.

Safran's main competitors in these businesses in France and abroad include Thales, BAE Systems, Rockwell Collins (United States), Honeywell and Teledyne (United States).

### Group products and programs

Safran's avionics operations mainly involve Safran Electronics & Defense.

In the aeronautical sector, innovative systems developed by Safran contribute to pilot comfort, flight safety, navigation and aircraft performance. Safran is involved in the largest aircraft programs, including NH90 (NHIndustries), Caracal (Airbus Helicopters), A400M, A320ceo, A320neo, A380 and A350 (Airbus), Rafale (Dassault Aviation) and 787 Dreamliner (Boeing). Building on its extensive expertise in flight data management, Safran also develops, through its Cassiopée services offering, high-performance solutions to optimize maintenance costs, reduce CO<sub>2</sub> emissions and fuel consumption and improve flight safety.

In the space and astronomy sector, Safran designs and produces high-precision optical systems for earth and space observation. These land-based or satellite-borne systems contribute to the success of major international scientific programs. Safran has also been selected by ArianeGroup to be the supplier for SpaceNaute, the inertial reference unit on the new ESA launch vehicle, Ariane 6.

### Flight control systems

As a worldwide leader<sup>(1)</sup> in civil and military helicopter flight control, Safran offers systems, including autopilots, onboard computers, flight control actuators and navigation systems, designed to aid the pilot while maintaining a maximum level of security. Safran flight control systems feature in many programs, such as the H160 (Airbus Helicopters) and NH90 (NHIndustries) helicopters and the KC390 (Embraer), ARJ21 (COMAC) and C919 (COMAC) planes.

### Onboard information systems/data management and services

Safran has developed flight-data recording systems (Aircraft Condition Monitoring System - ACMS) equipping ATR, Embraer, Boeing and Airbus civil aircraft. Under Airbus prime contractorship, Safran also provides the secure gateway between the cockpit and the cabin information system for the A380 and A350.

Given the extensive fleet it equips among many airline companies, Safran is ideally placed for developing its Cassiopée data management service, which inputs recorded flight data to yield results in areas such as flight analysis (Flight Data Management - FDM), optimization of fuel consumption (SFCO<sub>2</sub><sup>\*</sup>) and running and maintenance costs.

### Electronics and critical software

Given the strategic importance of onboard electronics and critical software today, Safran vertically integrates these technologies through Safran Electronics & Defense. Safran Electronics & Defense subsidiaries in Canada, Asia and Europe offer good geographical reach to customers, for development projects and for repair and maintenance services.

Safran Electronics & Defense provides all Group companies with world-leading electronic equipment and critical software. It develops, produces, and maintains certified onboard computers for numerous systems, particularly in aviation (FADEC<sup>(2)</sup>, thrust reversers, nacelles, landing gear, braking systems and flight control systems). With its partners, it has woven strong, balanced links through FADEC International (joint venture with BAE Systems) and FADEC Alliance (joint venture between GE and FADEC International).

### Electronic equipment

Safran Electronics & Defense specializes in increasingly integrated electronic systems for harsh environments (temperature, vibration, etc.). It designs and produces onboard computers used in engine, flight, braking and landing gear control systems. Safran designs and installs electronic control systems for electromechanical actuators and for Safran Electrical & Power power converters<sup>(3)</sup>.

In the space segment, Safran is conducting work on the electronic propellant flow-rate regulation demonstrator for the future Ariane 6 engines, and on electronic control systems for plasma thrusters. Safran's expertise in the production of electronic circuit boards and complex computers is maintained through a strong core of industrial excellence, particularly at its Fougères plant.

### Onboard critical software

Safran Electronics & Defense develops the complex critical software used in Group onboard systems. Critical software is software that plays a crucial role in flight safety and must therefore comply with extremely demanding certification standards, as regards dependability in harsh environments.

Safran teams handle software specification, architecture, coding, verification, quality assurance, configuration management and certification, using modern software platforms that yield ever-higher efficiency.

### Computer maintenance and repair

At its repair centers in France, the United States and Singapore, Safran Electronics & Defense performs maintenance of its own onboard computers along with systems from other Group and third-party manufacturers. It also maintains and repairs computers and electronic boards for many airline companies and air forces worldwide.

### Aerospace navigation and sensors

Safran holds comprehensive expertise in inertial navigation technologies (mechanics, laser, fiber optics and resonant structure), the product of more than 70 years' experience in civil and military navigation systems for all environments. For its recognized capabilities, Safran was selected for the Rafale fighter (Dassault Aviation), A400M transport aircraft (Airbus) and Ariane 6 launch vehicle programs.

### High-performance optics

Through its Safran Reosc subsidiary, Safran is a leading world player in the design, manufacture and integration of high-performance optical systems for astronomy, space, large-scale lasers and the semiconductor industry.

### Customer support

Safran's customer support in avionics extends to high value-added services, including repairs, equipment delivery and technical support. Customer satisfaction is sustained through continuous improvements in turnaround time (TAT) to achieve industry benchmark level and thereby ensure the best competitive performance in equipment availability. Given its highly varied worldwide avionics customer base, Safran may localize support services for closer contact with the customer. Customer support performance is a key issue, providing a long-term revenue source throughout the life cycle of an avionics product and developing customer loyalty, thereby influencing customer choices on new programs.

(1) Source: Safran.

(2) FADEC: Full Authority Digital Engine Control.

(3) See section 1.3.2.3, "Electrical systems and engineering".

## 1.3.3.2 Defense

### Key characteristics of the business sector

As part of military operations, armed forces need equipment that affords the highest degrees of precision and efficacy. The defense sector thus covers an extensive range of equipment and systems for air, land and sea applications, including soldier modernization systems, combat vehicle digitization, drone systems, night vision goggles and target identification systems, thermal cameras, seekers and weapon systems, gyrostabilized sighting and monitoring systems, navigation systems, and periscopes and optronic masts for submarines.

Safran's main competitors in these businesses in France and abroad include Thales, BAE Systems, Leonardo, Elbit (Israel), L-3 Wescam (Canada), FLIR Systems (United States) and Northrop Grumman (United States).

### Group products and programs

Safran's operations in the defense sector mainly involve Safran Electronics & Defense businesses.

Safran covers the realtime sensor-to-shooter operational chain with solutions for all land, sea and air settings, enhancing the operational performance of units in the field with support in surveillance, tactical support, information, navigation, orientation, observation, detection, fire direction and protection.

#### Optronics and sights

##### Portable optronic equipment

Safran is a pioneer in portable optronics, and one of Europe's leading producers of the technology<sup>(1)</sup>. It offers a full range of hardware and systems for surveillance, detection, pointing, identification and target designation, for use under day or night conditions. Its multi-purpose night-vision imagers, such as the JIM LR long-range multifunction imager and the JIM Compact, are widely used in overseas operations by French and allied forces and are considered a global market benchmark.

##### Onboard systems

Safran equipment provides protection for land combat vehicles (tanks and light vehicles). Stabilized sighting is a key part of the performance of target identification and fire direction, under day or night conditions, including ambulant firing capability. Safran equips more than 7,000 land vehicles<sup>(1)</sup> in France and other countries (Leclerc, VBCI, BMP3, etc.) with its range of land vehicle sights, which includes PASEO.

In airborne optronics, Safran participates in major combat helicopter programs, such as Tiger, NH90, Cougar, Panther and Caracal. The STRIX and OSIRIS sighting systems meet requirements on exceptionally demanding operational conditions and guarantee the performance of the weapons systems. Euroflir gyrostabilized electro-optical systems provide valuable service in long-range observation and target location. They feature on new airborne intelligence systems including the Patroller drone, the Diamond-42 twin-engine aircraft (in cooperation with DCI) and the T-C350 aerostat from A-NSE.

In the naval field, Safran offers a full range of optronic surveillance, fire direction and self-protection systems for surface vessels, and has recognized expertise in optronic masts and periscopes for conventional and nuclear submarines. Safran contributes to many platforms, including the Charles-de-Gaulle aircraft carrier, the ANZAC, FREMM & Horizon frigates, and the Scorpène and Agosta submarines. The new generation of nuclear combat submarines, the Barracuda class, will be equipped with Safran's periscope system using non-penetrative optronic masts.

#### Soldier modernization

Safran harnesses experience from the FELIN<sup>(2)</sup> program on soldier modernization in the French armed forces to offer innovative and modular solutions, such as the NeoFelis system, addressing the needs of various armed and security forces in France and further afield. It builds on this know-how to offer capacity kits focused on the key infantry combat functions of command, observation, protection and engagement.

Safran is also pushing ahead with innovation and R&T in areas such as mobility aids, with development of the exoskeleton, a wearable biomechanical and electronic structure that provides powered assistance to body movements. These technologies hold considerable potential in the military, civil security and industry sectors.

#### Navigation and sensors

Safran offers a wide range of inertial and stabilization systems for all land, sea and air platforms and all performance classes. This equipment offers high reliability, ultra-high precision and extreme robustness, for dependable operation in the toughest environments. Safran leads the European navigation systems market and is a major supplier of navigation and stabilization solutions in military deterrent and broader defense applications.

#### Seekers and guidance systems

Safran couples know-how in optronics and inertial systems to offer infrared seekers for the main missiles used by the French army, including Mistral, MICA IR and MMP<sup>(3)</sup>, as well as the French-British light anti-ship missile Sea Venom/ANL<sup>(4)</sup>.

The AASM is a high-precision modular air-to-ground weapon that can be used in all conditions, day or night. It is currently in service on Rafale fighters belonging to the French air force and navy as well as in other international air forces. It comes in several versions and harnesses Safran expertise in many areas, including infrared and image processing technology, inertial components with hemispherical resonator gyro (HRG) and laser guidance. It has proved highly effective in many overseas operations.

#### Drones

Safran is active in drone systems through its expertise in critical function chains, namely navigation and flight control, image chain and data transmission. Safran tactical drone systems are used on a daily basis in day- and night-time operations.

(1) Source: Safran.

(2) FELIN: Fantassin à équipements et liaisons intégrés (infantrymen with integrated equipment and links).

(3) Medium-range missile

(4) Anti-Navire Léger (light anti-ship missile).



For its experience in high-integrity drone flight control, Safran sits on the Civil Drone Commission set up by the French Directorate General for Civil Aviation (DGAC), along with other aerospace companies, SMEs in the sector and major contractors. The purpose of this commission is to organize and promote the civil drone industry in France by drawing up technological roadmaps for the development of safe civil usages.

The French Directorate General of Weapons Procurement (DGA) selected Safran's Patroller as the French army's tactical drone system in 2016.

Following on from its work on airborne drone development, Safran has also developed an autonomous off-road demonstration vehicle, the eRider, designed for logistics, convoy, perimeter

protection, intelligence and reconnaissance missions. Efficient partnerships with major groups (Valeo, PSA), innovative SMEs and civil institutions facilitate the agile development of the eRider concept with a view to producing the autonomous vehicles of the future.

#### *Customer support*

Safran's customer support includes high value-added services, including repairs, equipment delivery, technical support and training. All strive toward the same goal: ensuring that equipment is in full working order at all times, a strategy primarily reflected in Global Support Package contracts.

### 1.3.4 Security

Safran's global security businesses include a suite of solutions designed to increase safety and simplify the lives of individuals in their roles as citizens, consumers and employers. They also protect critical infrastructure and ensure travel safety. The security businesses offer identification solutions based on multibiometric technologies (fingerprint, iris and face recognition) including transaction security and authentication solutions (identity and security solutions), as well as systems for the detection of dangerous or illicit substances in baggage (detection solutions).

In 2017, Safran finalized the disposal of all its security businesses:

- on April 7, its detection businesses were sold to Smiths Group (United Kingdom);
- on May 31, its identity and security businesses were sold to Advent International (United States), the owner of Orberthur Technologies (France), which serves various segments of the security market.

## 1.4 COMPETITIVE POSITION

Safran covers international high-technology markets in aerospace and defense.

In all these fields, Safran faces competition from both global rivals and niche players in some markets.

The Group operates in the strictest observance of all applicable rules on competitive business practice in all of its host countries, complying with the specific measures governing competitive business practice in each market.

To mobilize sufficient resources and share the industrial risks involved in innovative and costly programs, participants in the aviation industry can form partnerships capable of developing new technologies, products and services. Accordingly, it is not unusual to find otherwise rival companies joining forces on certain aviation programs.

## 1.5 RESEARCH AND DEVELOPMENT

Safran is a high-technology group that offers high-value-added products and services. In aircraft engines and equipment, and in defense systems, technology and reliability requirements are high, consistent with the highly critical nature of the applications concerned. To meet these requirements, Safran harnesses highly specialized advanced expertise in many fields: mechanics, metals, composite materials, fuel and propulsion systems, aerodynamics, combustion, thermodynamics, electric, electronics, sensors, signal processing, digital technologies, modeling and simulation. Research and technology (R&T) comprises all studies, research and technological demonstrations needed to develop expertise for a given product at the lowest possible risk and cost and within the shortest possible timeframe.

Further downstream, research and development (R&D) corresponds to product design, prototype manufacture, development tests and certification tests showing that the product meets customer specifications and applicable regulations.

The Innovation Department spans R&T and R&D to nurture the emergence of new developments using innovative concepts and help Group companies identify, produce and validate proof-of-concept demonstrators, thereby shortening development lead times to meet time-to-market targets.

Close to 20% of Group employees are involved in R&D activities. Safran's R&T and innovation projects are guided by forward-looking considerations, and the substantial budgets they draw are

# 1 PRESENTATION OF THE GROUP

## Research and development

in line with the Group's current or targeted positions in its markets. Research, technology, innovation and development are fundamental to the implementation of the Group's strategy, reflecting the importance given to preparing for the future and developing new products and programs.

Under Safran's R&T policy, each company in the Group determines its own research program and concentrates on its own objectives. In tandem, the Group is constantly working to develop technology synergies.

R&T operations are guided by roadmaps charting the strategic challenges faced by Group companies (competitive positioning sought at different time-frames, along with the corresponding technological demonstrations and fulfillment levers in terms of external partnerships and internal synergies). The roadmaps are analyzed on an annual basis by Group experts, who issue recommendations accordingly.

### 1.5.1 Major technological focuses

#### 1.5.1.1 Aircraft engine technologies and new propulsion configurations

##### ARCHITECTURE AND PERFORMANCE

Propulsion performance objectives and acceptability requirements for future aircraft engines derive from work carried out through ACARE<sup>(1)</sup>. Relative to 2000, objectives are set for two dates: 2020 and 2050. For 2020, aircraft propulsion systems are to cut fuel consumption by 20%, pollutant emissions by 60% and noise levels by 50%. The Flightpath 2050 publication specifies reductions of 75% in greenhouse-gas emissions, 90% in nitrogen oxide (NOx) emissions and 65% in noise levels by 2050.

The Group's road map for the aircraft propulsion systems of the future, through its subsidiary Safran Aircraft Engines, incorporates two technology stages:

> the first stage is the LEAP turbofan engine, with a very high bypass ratio. For those modules under the responsibility of Safran Aircraft Engines in CFM International, this stage covers advanced technologies such as a highly innovative lightweight fan made from composite materials and a high-efficiency low-pressure turbine. The LEAP engine, which came into commercial operation in 2016, brings major improvements in line with the ACARE 2020 objective, particularly in terms of fuel consumption. It has been selected by Airbus for its A320neo, by Boeing for its 737 MAX and by COMAC for its C919, and has obtained all three required certifications. R&T work is in progress on long-term continuous improvement in engine performance;

Safran Tech is the Group's R&T center, located at the Saclay high-tech cluster, France's largest science and technology campus, near Paris. The center's more than 400 employees are split into six units, covering energy & propulsion, materials & processes, sensor technologies & applications, electrical & electronic systems, signal & information processing, and modeling & simulation. Safran Tech also runs platforms specially equipped for developing next-generation materials and processes: Safran Composites, Safran Advanced Turbine Airfoils, Safran Additive Manufacturing and Safran Ceramics.

The Safran Tech center underlines the Group's resolve to intensify and mutualize R&T endeavors on major technological breakthroughs. Safran Tech opens a new dimension to the Group's R&T operations, with an emphasis on open innovation. Universities, public organizations, industrial partners and innovative startups work with Safran Tech teams in joint laboratories or on shared platforms, forming a creative, connected, top-level scientific campus open to the outside world.

> the second stage is more ambitiously innovative, in line with Flightpath 2050, whose objectives call for breakthroughs in engine architecture through the exploration of developments such as the open rotor concept and faired architectures with very high bypass ratios. These have been addressed by advanced research under national and European programs outlined in the seventh FPRTD<sup>(2)</sup>, and are to continue under the eighth FPRTD - Horizon 2020 (H2020). Specific initiatives here include the Clean Sky Joint Technology Initiative. Safran put its open-rotor demonstrator through its first ground tests at the open-air test stand at its Istres facility in southern France in October 2017.

Safran also cooperates with scientific and academic institutions on groundwork in future aircraft propulsion configurations. To this end, Safran founded the AEGIS chair with the ISAE-SupAero engineering school.

Helicopter turbine engines are subject to similar imperatives requiring reductions in fuel consumption and environmental impacts. Through its subsidiary Safran Helicopter Engines, Safran has undertaken ambitious technology programs to address future market needs. A number of technologies developed under the TECH800 program have been adopted on the Arrano engine, selected by Airbus Helicopters as the sole source for its new H160. The Group's technological progress strategy is backed by work in close liaison with all its customers to come up with innovative new engine integration developments such as hybrid power architecture concepts in drive systems.

Scenarios considering the emergence of hybrid or even fully electric propulsion are studied for smaller aircraft, "commuters" or vertical take-off and landing aircraft associated with new uses over short distances and in urban areas. Analyses and simulations are also being performed looking at the potential contribution of propulsion hybridization for short- and medium-haul aircraft in groundbreaking propulsion configurations such as those featuring fuselage boundary layer ingestion.

(1) ACARE: Advisory Council for Aeronautics Research in Europe.

(2) FPRTD: Framework Program for Research and Technological Development.

## MATERIALS AND PROCESSES

The need to lighten planes, helicopters and their equipment has led to increased use of composite materials. Safran engines and equipment (whether nacelles, landing gear or brakes) are characterized by heavy mechanical loads and a more difficult environment than for other aircraft sections such as airframes. To develop its composite materials solutions, Safran set up the Safran Composites Center, now part of Safran Tech, with resources and expertise in organic matrix composites. Safran Ceramics, the Group's center of competence for these technologies, provides core expertise in thermostructural composites for aircraft engines, a major technological challenge addressed by substantial research efforts. This research, along with work on new metal alloys, and on high-performance coatings compliant with European REACh<sup>(1)</sup> regulations, is coordinated by the Safran Materials and Processes Department. Two platforms are being set up, one for developing the new monocrystalline casting techniques needed for engine development, and one for additive manufacturing, which offers promising openings in design, production and repair of mechanical components.

### 1.5.1.2 Electric technologies and new power configurations

The move continues toward increased use of electrical energy for aircraft systems and actuators. The movement, which started with the A380 and Boeing 787 programs, will be a defining characteristic of the next generation of short- and medium-haul aircraft. The ultimate aim is overall aircraft energy optimization, covering energy production and energy consumption, for both propulsive and non-propulsive functions. The breadth of its aircraft engine and equipment expertise allows Safran to explore a huge spectrum of solutions for making tomorrow's aircraft more competitive, in terms of performance, functionality and cost of ownership.

Expertise in aircraft electrical systems is rolled out through Safran Electrical & Power and Zodiac Aerospace, giving the Group some of the best technologies in electricity generation, conversion and transmission and enabling it to adopt a whole-system approach to aircraft electricals.

Optimization involves investigation into all forms of electricity generation, from mechanical engine motion to auxiliary power units (APUs) in hybrid solutions combining turbines, fuel cells and batteries. This work involves several Group companies: Safran Electrical & Power, Safran Power Units, Safran Aircraft Engines and Safran Helicopter Engines. One of the units of the Safran Tech innovation center is dedicated to developing simulation systems for evaluating advanced global energy and propulsive architectures.

Safran is involved in several technology programs alongside aircraft manufacturers in a European or French context. Cooperation on these programs takes various forms:

- academic cooperation, with fifteen or so CNRS<sup>(2)</sup> laboratories and major research organizations such as ONERA<sup>(3)</sup> and CEA<sup>(4)</sup>;
- industrial partnerships, such as with Alstom (France) and Valeo (France), each recognized as technology leaders in their sectors.

### 1.5.1.3 Digital technologies and digital transformation

#### INDUSTRY 4.0

Design, production, maintenance and service tools and resources benefit from Safran's investments in digital solutions such as augmented reality, robotics, imaging, artificial intelligence and data use. These new applications significantly improve operational performance in terms of the cycle, cost and quality of high-tech products developed, manufactured and rolled out by the Group. Digital solutions also meet the demands of the Group's customers, partners, and suppliers wishing to develop collaborative co-design strategies and optimize their supply chain and maintenance operations.

Automatic imaging solutions (based on machine learning) developed by Safran Tech to inspect complex parts are already used in the Group's plants.

#### ADDITIVE MANUFACTURING

Additive manufacturing provides an opportunity to improve costs, cycles and performance for numerous engine and aircraft equipment components by reducing the number of parts and components and introducing new methods of optimizing design. Certification has already been obtained for the first parts, which include fuel injector nozzles and combustor swirlers for helicopter engines produced via selective laser melting, which replaces an assembly of 15 components by a single part. Safran Tech's Safran Additive Manufacturing unit has the resources to define different additive manufacturing processes for metallic materials. These resources, along with partnerships such as the one with Saclay's Additive Factory Hub and the specific program organization set up at Safran, help accelerate the development of these processes for their future use in serial production and repairs.

#### DATA PROCESSING

Innovation efforts are called for to address the growing role played by services in the Group's business. Techniques used to diagnose and forecast the condition of airplane and helicopter equipment and systems bring value for Safran product users, as regards both operational considerations (optimization of maintenance), and fleet management support (evaluation of residual value). To address this need, Safran is developing its Monitoring Services system for managing fleet equipment operating data. Initial rollout of the new system has begun on helicopters.

Big data information extraction techniques offer promising development opportunities. Here, the Safran Analytics teams at the Safran Tech site will be stepping up rollout of more agile services, better oriented to value creation for aircraft operators. Safran Analytics has designed and rolled out its own big data platforms to facilitate the Group-wide implementation of data analytics solutions. One of the first services implemented on analytics environments consists in rendering aircraft trajectory data. This allows Group companies to gain a better understanding of how Safran products are used by customers, and thereby improve their performance.

(1) REACh: Registration, Evaluation and Authorization of Chemicals.

(2) CNRS: French National Center for Scientific Research.

(3) ONERA: French National Aerospace Research Office.

(4) CEA: French Atomic Energy Commission.

### ELECTRONICS, DIGITAL PLATFORMS AND CRITICAL SOFTWARE

Given that onboard electronics technologies for harsh environments are a central feature of many Group products, Safran Electronics & Defense runs ambitious projects on controller architectures featuring more efficient processors, and on component packaging capable of withstanding the higher temperature environments of future aircraft systems. On systems engineering, Safran is working on process harmonization: a modern software development workshop has been set up for Group-wide rollout.

#### 1.5.1.4 Navigation and autonomy technologies

Air, land, sea, satellite and weapons navigation markets are constantly evolving and expanding: the integration of mobile units into cooperative groups, increasing autonomy requirements, and the required land-onboard continuum via secure links are drivers of renewed demand and associated technologies. Safran's approach relies strongly on breakthrough HRG<sup>(1)</sup> technology, whose characteristics make it possible to design and produce world-leading navigation equipment and weapons at competitive costs. Through its subsidiary Safran Electronics & Defense and the Safran Tech sensors unit, the Group continues with the development of MEMS<sup>(2)</sup>-technology accelerometers and gyrometers for portable geolocation applications. With its prime expertise in high-integrity navigation systems, Safran Electronics & Defense leads the field in drone navigation.

#### 1.5.2 Technical and scientific partnerships

In implementing its R&T strategy, Safran draws on partnerships providing it with scientific and technological expertise. Safran thereby meets the two prerequisites for success: it identifies known and latent market needs through customer contact, and it adopts an open approach to what is an increasingly complex and multidisciplinary scientific and technological environment.

In 2009, Safran created a scientific council, currently chaired by Professor Mathias Fink, which comprises eight leading international scientists bringing expertise in all the scientific disciplines underlying Group businesses. This council meets every three months and issues recommendations on the structure and quality of the Group's scientific partnerships.

For the first R&T levels, Safran has developed a network of scientific partners in France in the university and applied research sectors. Safran implements framework agreements with ONERA, CEA and CNRS, which offer access to the best in French scientific research. The Group has long-term partnerships with many research and higher education organizations, some of whose laboratories form valuable external research hubs. These partnerships also help Safran recruit leading talents: Safran finances work on around 180 training-through-research (CIFRE) and technology research diploma (DRT) courses, runs several international thematic networks on key issues in aerodynamics, combustion, noise reduction, mechanics, digital technology, etc., and backs five research chairs.

Safran Electronics & Defense harnesses advanced optronics and ICT<sup>(3)</sup> to develop innovations that will help the Group offer enhanced operational efficacy to armies, navies and air forces. Optronics needs range from imagers operating in one or more wavelength bands through to full image processing systems handling monitoring, detection, identification, fire control and self-protection. Integrated battlefield perception and soldier support solutions are developed using systems that couple infrared sensor and light intensification technologies with other functions such as geolocation and data analysis.

In its infrared sensors, Safran uses technologies from Sofradir, a joint venture with Thales. Interchange of infrared sensor technologies between the two partners enables Sofradir to offer one of the world's largest product ranges in this field. To extend its technological sources to other types of sensor and their integration in intelligent systems, Safran is working in partnership with Valeo on autonomous vehicle technologies. Safran and Valeo are also behind a research chair at the École des Mines engineering school in Paris, and opened a joint laboratory at Magny-les-Hameaux in the Paris region in 2017.

The use of sensors and artificial intelligence in an integrated system resulted in eRider, an autonomous vehicle demonstrator for military applications which can transport infantry equipment on the ground and navigate autonomously. The demonstrator helped Safran Electronics & Defense win the Furious contract put out for tender by the French Directorate General of Weapons Procurement (DGA). This contract covers autonomous vehicles, two other smaller robots and a drone, and is designed to lay the groundwork for the integration of land robots into the French armed forces as part of the Scorpion modernization program.

Safran was actively involved in the foundation of three TRI<sup>(4)</sup> centers. It is also a major participant in several competitiveness hubs, including System@tic, Aerospace Valley and ASTech.

Safran plays an active role in European Union bodies and programs. Since 2008, Safran has been closely involved in establishing the Clean Sky Joint Technology Initiative, bringing together the leading players in aviation R&D along with the European Commission in a demonstration program on air-frames, engines and systems. In 2014, Safran worked to renew this public-private partnership through to 2024: Clean Sky 2 is now operational.

Safran takes part in many international cooperative research initiatives, with university laboratories in Europe, the United States, Singapore and India. Initiatives to support the Group's international development are also run in a number of countries investing in aerospace technologies, such as Brazil and Morocco.

Since 2017, R&T coordination between Safran and ArianeGroup comes under a research framework agreement enabling the two groups to organize interaction on scientific matters.

The intellectual property related to this cooperative work is defined contractually at the beginning of projects between partners. The general principle is that the intellectual property belongs to the partners who performed or co-financed the work, and, at the very least, Safran receives rights of use in its own field.

(1) HRG: hemispherical resonator gyro.

(2) MEMS: Micro Electro Mechanical Systems.

(3) ICT: Information and communication technologies.

(4) TRI: technology research institutes formed under France's PIA Investments for the Future Program.

### 1.5.3 Innovation and intellectual property

Innovation is at the heart of Safran's strategy. The competitiveness of its products is largely based on the successful integration of technological innovation or adjustments, providing the customer with industry-leading performances. Safran's ability to produce breakthrough technological innovations is amply demonstrated across a huge breadth of sectors, such as electric taxiing, composite fan blades and hemispheric resonator gyros (HRGs). A proof-of-concept approach involving close liaison across Group companies affords an efficient and high-performance organizational structure for managing innovation, typified by the high-potential projects run by the Innovation Department. Safran also develops cooperative innovation with its suppliers and with startups working with the Group. The capacity to identify then implement efficient cooperative operations with outside partners helps Safran integrate best practices in order to offer innovative and mature solutions within short leadtimes.

The development of technical expertise is also key to preparing for the technological challenges of tomorrow. A process has been set up to determine companies' expertise needs Group-wide and thereby plan ahead for renewals and training of new experts.

Intellectual property is a fundamental component of Safran's asset portfolio. The development and protection of intellectual property is increasingly important given the growing trends toward market globalization and intensifying competition. Intellectual property responds to operational imperatives by strengthening and securing Safran's positions. The creative and innovative ability of teams, and the special attention given to protecting intellectual property, is demonstrated by the number of patents filed in 2017: close to 850 first patent applications worldwide in

2017, steady with respect to 2016 despite the change of scope in the security sector. This places Safran among the front-runners for patents filed with INPI, the French patents office<sup>(1)</sup>. In addition, for the past seven years, the Clarivate Analytics survey<sup>(2)</sup> has consistently ranked Safran among the world's hundred most innovative companies and research organizations. Overall, the Group's patents portfolio comprises close to 8,000 inventions and more than 30,000 intellectual property rights around the world, bolstering Safran's position in its areas of business.

In addition to patent protection, because of Safran's international reach and extensive partnership involvement, the Group gives great importance to ensuring close control over technology transfers and defining precise policy on the matter.

Some transfers are essential for market access reasons. Technologies for transfer, which do not belong to Safran's core technology portfolio, must be clearly identified, accurately valued, and covered by carefully structured long-term partnership arrangements. Under no circumstances may such partnerships restrict the Group's capacity for technological differentiation in the future.

#### Dependence

Safran has not identified any dependence on patents, licenses, industrial, commercial or financial contracts, or new manufacturing processes likely to have a material impact on the Group.

There are risks of production delays and cost penalties for Safran in the event of supplier or partner shortcomings, as set out in section 4.3.2.1, "Supplier and partner risks".

### 1.5.4 Safran Corporate Ventures and relations with startups

Safran Corporate Ventures is a Safran subsidiary responsible for financing startups that have developed breakthrough technologies or business models in the aerospace and defense industries. In line with the Group's strategy on innovation and transformation, Safran Corporate Ventures seeks primarily to support innovative startups in the following fields:

- Industry 4.0 (non-destructive testing, augmented reality, Internet of Things for industry, robotics/cobotics, additive manufacturing and cybersecurity in industry);
- onboard components (critical onboard electronics, onboard software, connectivity, onboard energy, thermal management, electric hybridization and cybersecurity);
- new and advanced materials (nanotechnologies, surface treatment processes, composites, ceramics and advanced manufacturing processes);
- new services and business models (data analytics, on-demand aviation, new maintenance modes, co-design and collaborative engineering);
- new markets and platforms (civil drones, non-conventional vertical take-off and landing aircraft (VTOL) and new transportation modes).

Safran Corporate Ventures goes beyond financing to offer innovative and agile startups valuable development support in several forms:

- access to an international network of leading experts in Safran's areas of business;

- commercial and industrial exposure to Safran companies worldwide;
- implementation of commercial and development agreements with Safran entities.

Safran Corporate Ventures has invested in eight young high-tech companies since its formation in 2015. In 2017, the Group acquired stakes in the following companies through Safran Corporate Ventures:

- Prodways Group, one of the European front-runners in industrial 3D printing;
- SafetyLine, a specialist in big data for aviation operations;
- Kalray, the European number one in new-generation micro-processors for onboard critical systems;
- CAllabs, a pioneer in breakthrough light shaping technology, protected by multiple patents.

Throughout 2017, some ten partnerships were signed between Safran companies and startups through the work of Safran Corporate Ventures.

At the International Paris Air Show in June 2017, Safran Corporate Ventures invited around one hundred of its external partners to an event showcasing instances of successful cooperation between Safran and the startups in its ecosystem. The event provided an opportunity to highlight the challenges involved and the various possible forms of cooperation between an industrial group and startups.

(1) Third in INPI ranking, March 2018 (for patents filed in France in 2017).

(2) Top 100 Global Innovator Report 2017 - Clarivate Analytics - January 2018.

### 1.5.5 Research and development expenditure

Including the portion funded by customers, the total expenditure on Research, Technology and Development (RTD) was approximately €1.4 billion in 2017, representing 8% of revenue. RTD operations in France amounted to €1.2 billion, representing 88% of overall RTD expenditure. Some 77% of RTD expenditure was self-funded, and can be broken down as follows:

- > Aircraft programs (including LEAP and A350): 42%;
- > Helicopter engines: 7%;
- > Defense: 10%;
- > R&T: 37%;
- > Other: 4%.

| <i>(in € millions)</i>  | 2016           | 2017           |
|---|----------------|----------------|
| <b>Total R&amp;D</b>  | <b>(1,708)</b> | <b>(1,367)</b> |
| Portion of expenditure funded by customers                    | 602            | 314            |
| <b>Self-funded RTD</b>  | <b>(1,106)</b> | <b>(1,053)</b> |
| % of revenue  | 7.0%           | 6.4%           |
| Research tax credit   | 139            | 140            |
| <b>Self-funded RTD after research tax credit</b>              | <b>(967)</b>   | <b>(913)</b>   |
| Capitalized expenditure                                       | 343            | 275            |
| Amortization and impairment of R&D expenditure <sup>(1)</sup> | (104)          | (177)          |
| <b>Impact on recurring operating income</b>                   | <b>(728)</b>   | <b>(815)</b>   |
| % of revenue  | 4.6%           | 4.9%           |

(1) Excluding non-recurring items.

The change in the total R&D figure (€341 million, a decrease of 20%) reflects the combined reductions in self-funded RTD and customer-funded expenditure.

The portion of expenditure funded by customers figure for 2016 includes six months of space-related operations up until the transfer of Safran assets and liabilities to ArianeGroup on June 30, 2016 (see section 3.1, Note 3), and studies for the Airbus A350 program.

The decrease in R&D expenditure is mainly explained by the successful start to operational service for the LEAP-1B in 2017, following that of the LEAP-1A in 2016 (see section 1.3.1.1). Research and technology expenditure not directly linked to contracts with customers increased during the year.

## 1.6 INDUSTRIAL INVESTMENTS

### 1.6.1 Industrial policy and the factory of the future

Safran is an established industry reference and a major participant in its core businesses of aerospace and defense. Its aim is to supply its customers with increasingly advanced technological engines and equipment, meeting ever stricter safety standards, at a lower cost and with shorter timeframes.

This demand for performance and innovation, which is central to the success of Safran's products and services worldwide, is also present at the level of the Group's plants. The Group's companies, working with the Industrial Management Department, focus their investments and organization on adapting production sites, preparing for tomorrow's industrial challenges and developing competitive advantages: expertise in new production technologies, supply chain upgrades and talent development.

Through its constant drive for innovation and excellence, the Group stands at the forefront of "Factory of the Future" technologies and processes, in France and the rest of Europe. Safran's Factory of the Future project, which earned two industry showcase labels from Alliance Industrie du Futur in 2016, gathered momentum in 2017 with the implementation of a work program on industrial performance improvement. This

involved launching 74 production lines of the future at some 40 industrial sites. The industrial activities covered by these production lines include manufacturing, assembly and repair.

At the same time, to step up the development of technological solutions under its Factory of the Future program, Safran took part in the 2017 launch of Factory Lab, an industry of the future innovation hub near Paris, alongside other leading industrial groups (Groupe PSA, Naval Group, Technip FMC, Bureau Veritas, Dassault Systèmes and Actemium), scientific institutions (CEA<sup>(1)</sup> and Cetim<sup>(2)</sup>) and academic institutions (ENSAM<sup>(3)</sup>). Factory Lab works in four main areas: flexible digital factories, physical operator assistance, process and test automation, and cognitive operator assistance.

Advances in additive manufacturing provide a good example of Safran's expertise in factory of the future technologies:

- > the first certified series-production parts have been produced, and industrial investment in this technology has continued with Safran Aircraft Engines, Safran Helicopter Engines and Safran Power Units;

(1) CEA: French Atomic Energy Commission.

(2) Cetim: French Technical Center for Mechanical Industries.

(3) ENSAM: École nationale supérieure d'arts et métiers.

- an Additive Manufacturing Program Department was set up in 2017 to accelerate rollout of this technology and thereby support companies' production programs and provide complementary coverage to the Safran Additive Manufacturing platform.

Safran also continued to develop strategic partnerships in this field in 2017, with the launch of the Additive Manufacturing Hub. This project, which aims to create an innovation technology platform specializing in additive manufacturing, includes major industrial groups (Actemium, Groupe PSA, Dassault Systèmes and Naval Group), Cetim, CEA, laboratories, schools and major supply-chain players.

Another factory of the future focus – the digital factory – sharpened in 2017 with the implementation of two of its technological building blocks:

- simulation of internal factory flows, for site layout and scoping at Airfoils, a joint venture with Air France Industries, and for the Saint-Benoît site near Poitiers, which manufactures mirrors under the European E-ELT project to build the world's largest telescope;

- virtual reality and use of a digital mock-up to validate the location of new workshops, such as the A330neo workshop at the Safran Nacelles Le Havre site (2017 Innovation Grand Prix – Safran Group), and the Safran Aircraft Engines metal workshop in Corbeil.

Safran's steadfast stance on innovation and excellence is also apparent in its supply chain transformation endeavor. Control over physical flows of parts and subassemblies is a key factor in production ramp-up for new products, and calls for considerable agility under high production output conditions. To this end, a Supply Chain of the Future project was launched in 2017 to provide the Group with a platform for realtime centralization of all industrial flows.

Workforce support throughout the supply chain transformation process is essential, and requires skills development for employees and future talents. In 2017, the Sky Maker application developed by Safran to introduce young people to the diversity of aerospace production careers won two awards at the Communication & Entreprise 2017 Grands Prix.

## 1.6.2 Main industrial investments

Safran's industrial investments totaled €740 million in 2017, more than in 2016.

These investments are intended to prepare the Group for substantial growth in business, and the industrial upgrades needed for new programs.

| Geographical zone (in € millions) | 2016       | 2017       |
|-----------------------------------|------------|------------|
| France                            | 483        | 472        |
| Europe (excluding France)         | 79         | 83         |
| Americas                          | 88         | 131        |
| Asia & Oceania                    | 46         | 43         |
| Africa & Middle East              | 8          | 11         |
| <b>TOTAL</b>                      | <b>704</b> | <b>740</b> |

In 2017, most of Safran's industrial investments (64%) were made in France, primarily for the following projects:

- start of construction work for the future Safran Ceramics infrastructure at the Haillan site, near Bordeaux;
- launch of site preparation work for the Safran Electronics & Defense facility at Saint-Benoît, near Poitiers, which is to make the mirrors for the E-ELT (European Extremely Large Telescope) project;
- setup of an experimental foundry for advanced turbine blades at the Safran Aircraft Engines site in Gennevilliers;
- construction of a building and setup of a SepCarb® IV carbon plant at the Safran Landing Systems site in Villeurbanne.

Safran's other investments in France continue the policy of previous years:

- production ramp-up for LEAP, with investments at Gennevilliers for the manufacture of titanium fan-blade leading edges and the forge for rotating parts, and for machining equipment at the Evry-Corbeil site and the Creusot site;

- production ramp-up for the A320 at Safran Nacelles and Safran Landing Systems;
- development of R&T capacity (additive manufacturing, analytics, composites and experimental castings);
- upgrade and modernization of industrial equipment and sites.

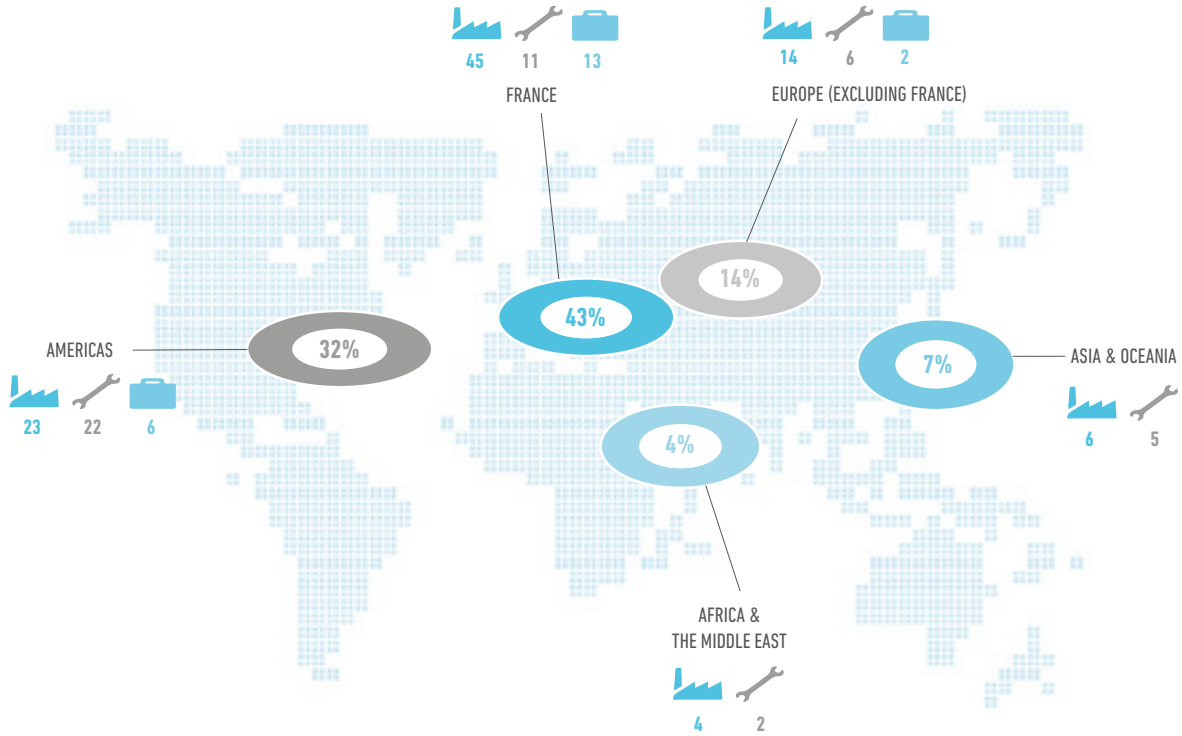
Safran's main investments outside of France were:

- construction work on a new production facility in Sedziszow Malopolski (Poland), specializing in the manufacture of low-pressure turbine blades for LEAP engines;
- construction of a third composite fan-blade plant in Querétaro (Mexico), following those in Rochester (New Hampshire, United States) and Commercy;
- extension to the Safran Landing Systems site in Walton (Kentucky, United States) to increase carbon brake production capacity;
- extension to the Safran Electrical & Power plant in Temara (Morocco);
- extension to the Safran Aircraft Engines industrial site in Suzhou (China), specializing in machining and assembly of low-pressure modules and parts.

## 1.7 SITES AND PRODUCTION PLANTS

Safran's headquarters are located in Paris, France.

The map below shows the Group's sites in each geographical region, broken down by the main type of site activity, at December 31, 2017. Figures and locations shown correspond to companies consolidated under the Group, as defined in section 3.1, Note 33.



Key: number of sites

  
**R&D sites and production facilities**

  
**Service and maintenance sites**

  
**Commercial and administrative sites**



| Safran Group sites<br>December 31, 2017 | Main activities at Safran sites |                         |                               |             | Occupancy |           |
|---|---------------------------------|-------------------------|-------------------------------|-------------|-----------|-----------|
|   | R&D/production                  | Service/<br>maintenance | Commercial/<br>administrative | Total sites | Owner*    | Tenant    |
| Safran Aircraft Engines                 | 13                              | 13                      | 3                             | 29          | 11        | 18        |
| Safran Helicopter Engines               | 7                               | 9                       | -                             | 16          | 7         | 9         |
| Safran Ceramics                         | 5                               | -                       | 1                             | 6           | -         | 6         |
| Safran Aero Boosters                    | 2                               | -                       | -                             | 2           | 1         | 1         |
| Safran Landing Systems                  | 10                              | 10                      | 1                             | 21          | 13        | 8         |
| Safran Electrical & Power               | 25                              | 10                      | 1                             | 36          | 7         | 29        |
| Safran Ventilation Systems              | 1                               | 1                       | -                             | 2           | 1         | 1         |
| Safran Transmission Systems             | 2                               | -                       | -                             | 2           | 2         | -         |
| Safran Nacelles                         | 6                               | 2                       | 1                             | 9           | 6         | 3         |
| Safran Electronics & Defense            | 18                              | 1                       | 5                             | 24          | 9         | 15        |
| Safran                                  | 2                               | -                       | 5                             | 7           | 4         | 3         |
| Other                                   | 1                               | -                       | 4                             | 5           | -         | 5         |
| <b>TOTAL</b>                            | <b>92</b>                       | <b>46</b>               | <b>21</b>                     | <b>159</b>  | <b>61</b> | <b>98</b> |

(\* Including six sites under financial lease.

The Group owns its major and strategic production sites, and tends toward rental of its commercial and administrative sites.

The bulk of Group R&D work is carried out at its main production sites. For this reason, the table shows "R&D" and "production" in the same column.

Because of the diversity of Safran's operations, the notion of "production capacity" does not apply.

Environmental factors liable to influence the Group's use of its property, plant and equipment are presented in section 5.3.2. The Group has drafted Health, Safety and Environment (HSE) guidelines that enable it to assess the compliance of its property, plant and equipment, and its operations, with HSE regulations. It also regularly conducts self-assessments and audits.

## 1.8 GROUP PURCHASING POLICY

Safran implements a purchasing policy capable of meeting its objective of excellence and competitiveness, in line with its industrial policy and in strict compliance with its corporate social responsibility (CSR) commitments.

Safran's purchasing policy focuses business on suppliers that meet its requirements and competitive performance challenges, that comply with the rules applicable to the aerospace and defense markets, and that are prepared to commit to long-term undertakings with Safran on a balanced, mutually beneficial basis.

The policy has four main focuses:

- > build a supplier panel that:
  - meets Safran's present and future needs as regards cost, quality and leadtime performance,
  - enables Safran to provide its customers with innovative, value-creating solutions,
  - guarantees that Safran's CSR commitments will be propagated down through the whole supplier chain;
- > involve Safran suppliers in product development, enabling them to put forward their innovations and contribute their expertise and thereby effectively meet the expectations of the Group and its customers;
- > promote methods, management standards and metrics common across all Group companies, to improve Safran's

supplier performance monitoring and at the same time ensure good supplier relations;

- > provide support to key Safran suppliers, helping them fortify their industrial organization and, by extension, their performance on Safran programs.

The policy is rolled out:

- > in strict compliance with the principles of the Group's Ethical Guidelines and the best practices set out in its Responsible Supplier Relations Charter;
- > in line with Safran's commitments to public authorities, professional organizations and other partners;
- > based on constant cooperation with and among Group companies, and implementation by all Group purchasing teams of the One Safran practices in the Purchasing process.

Highlights of the rollout of the Safran purchasing policy in 2017 were:

- > major contribution to the fulfillment of Group commitments during the ramp-up of the LEAP program;
- > award of the Responsible Purchasing and Supplier Relations Label for all France-based operations.

## 1.9 SAFRAN QUALITY PERFORMANCE AND POLICY

Safran pursues an ambitious quality policy targeting two main goals:

- > customer satisfaction;
- > continuous progress in performance.

This policy involves a permanent drive on innovation, continuous improvement and risk control. It is based on Group-wide methods and tools derived from shared experience and best practices across all Group companies. Rollout of the policy is now well under way, following the 2016 merger of Safran's central quality, progress and internal consulting teams, and the launch of the One Safran initiative.

One Safran seeks to simplify the Group's management system and at the same time implement an operational excellence program for major processes, with the aim of improving competitive performance and customer satisfaction. Nearly 100 projects were launched under this program in 2017, some 50 of which have been completed. The program is under way on all continents, and all Safran companies have their own operational excellence rollout plans for the first processes concerned. Results are excellent, as regards both impact on performance and buy-in by teams in the field.

Customer satisfaction performance continued to rise in 2017, with ongoing expression of confidence in and satisfaction with Safran teams' customer relations, attention and response times. Regular contact between Safran quality teams and major aircraft manufacturers has been set up to afford a more global vision of performance and joint action plans, in addition to the operational vision existing between individual Group companies and their customers.

Quality performance and policy draw on a deep-rooted Lean Sigma culture and on networks of quality, progress and business-line teams working together to fulfill the Group-wide quality vision: "to be the customer's preferred supplier".

Work on the key focuses of the progress initiative, known as Safran+ since 2009 and enhanced with the arrival of One Safran, continued to bring performance improvements throughout the Group. To embed this improvement, Safran+ defines key areas for progress, sets targets and suggests possible methods. Safran+ is based on a network with centralized organization, and deployed within all of the Group's entities. This network allows for an array of improvement initiatives, either created by the Group and applicable to all of its companies, or created by the companies

themselves for their own internal use. These initiatives may involve either continuous improvement or disruptive projects put forward and coordinated by the Group.

Other permanent, cross-Group initiatives include:

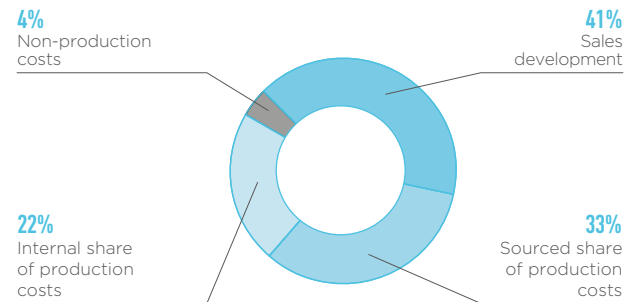
- > participative innovation initiatives enabling employees in all sectors to put forward ideas for improving their companies' performance. Close to 110,000 employee ideas were applied across all the Group's business sectors in 2017;
- > Lean Sigma, with Green Belts, Black Belts and Master Black Belts driving the Group's transformation through a structured and standardized project management approach. Practically the whole of the Safran workforce has now been familiarized with Lean Sigma;
- > management by sight, coupled with rollout of Lean R&D;
- > QRQC<sup>(1)</sup>, which has been rolled out across industrial and technical operations throughout all Group companies. Rollout of this method is continuing.

Most projects target at least one of the following objectives:

- > improving customer satisfaction;
- > raising operating profit;
- > reducing working capital.

Throughout the year, the managers concerned report on progress initiatives to Group Executive Management at biannual reviews carried out at two different sites per company.

The savings achieved by the Safran+ initiative in 2017 break down as follows:



(1) QRQC: Quick-Response Quality Control, a fast problem-solving management method that emphasizes constant vigilance and immediate response.



|              |   |           |              |  |           |              |  |           |
|--------------|---|-----------|--------------|--|-----------|--------------|--|-----------|
| <b>2.1</b>   | <b>COMMENTS ON THE GROUP'S PERFORMANCE IN 2017 BASED ON ADJUSTED DATA</b> | <b>45</b> | <b>2.2</b>   | <b>COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS</b> | <b>61</b> | <b>2.3</b>   | <b>COMMENTS ON THE PARENT COMPANY FINANCIAL STATEMENTS</b> | <b>64</b> |
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**REVIEW OF  
OPERATIONS IN 2017  
AND OUTLOOK FOR  
2018**

**2**

# IN BRIEF

## 2017 ADJUSTED KEY FIGURES

| (in € millions)  | Aerospace Propulsion |              | Aircraft Equipment |              | Defense |              | Holding company and other |              | Total  |               |
|--|----------------------|--------------|--------------------|--------------|---------|--------------|---------------------------|--------------|--------|---------------|
|  | 2016                 | 2017         | 2016               | 2017         | 2016    | 2017         | 2016                      | 2017         | 2016   | 2017          |
| Revenue  | 9,391                | <b>9,741</b> | 5,145              | <b>5,415</b> | 1,238   | <b>1,345</b> | 7                         | <b>20</b>    | 15,781 | <b>16,521</b> |
| Recurring operating income                                   | 1,786                | <b>1,729</b> | 567                | <b>682</b>   | 76      | <b>95</b>    | (25)                      | <b>(36)</b>  | 2,404  | <b>2,470</b>  |
| Profit from operations                                       | 1,789                | <b>1,689</b> | 562                | <b>668</b>   | 69      | <b>81</b>    | (34)                      | <b>(58)</b>  | 2,386  | <b>2,380</b>  |
| Free cash flow <sup>(1)</sup>                                | 929                  | <b>1,158</b> | 165                | <b>328</b>   | 17      | <b>105</b>   | (20)                      | <b>(153)</b> | 1,091  | <b>1,438</b>  |
| Acquisitions of property, plant and equipment <sup>(2)</sup> | 401                  | <b>439</b>   | 218                | <b>204</b>   | 60      | <b>57</b>    | 25                        | <b>40</b>    | 704    | <b>740</b>    |
| Self-funded R&D  | 775                  | <b>748</b>   | 218                | <b>182</b>   | 113     | <b>123</b>   | N/A                       | <b>N/A</b>   | 1,106  | <b>1,053</b>  |

(1) Free cash flow represents cash flow from operating activities less any net disbursements relating to acquisitions of property, plant and equipment and intangible assets.

(2) Net of proceeds from disposals.

## BUSINESS HIGHLIGHTS IN 2017

### AIRCRAFT EQUIPMENT



- First flight of the Airbus A330neo fitted with landing gear, wheels and carbon brakes<sup>(1)</sup>, nacelles, power transmission systems<sup>(2)</sup> and electrical systems manufactured by Safran.
- Record deliveries of nacelles to power LEAP-1A engines, and of wiring shipsets and landing gear for the A320 family (A320ceo and A320neo).

DELIVERY OF THE ONE MILLIONTH WIRING HARNESS FOR THE **BOEING 787 DREAMLINER**

(1) Developed by Goodrich-Messier, a joint venture between Safran and UTC Aerospace Systems.

(2) Developed by Aero Gearbox International, a joint venture between Safran and Rolls-Royce.



### AEROSPACE PROPULSION

- Over 14,800 CFM56 and LEAP engines in the backlog (firm orders and commitments), representing close to eight years of production at current production rates.
- Delivery of the 300<sup>th</sup> SAM146 propulsion system for the Sukhoi Superjet100

NEW RECORD ENGINE DELIVERIES:  
**1,903 CFM56 AND LEAP ENGINES,**  
UP **7.5%**  
ON 2016  
(1,770 UNITS)

- Successful entry-into-service of the LEAP-1B engine for the Boeing 737 MAX. Maiden flights of the LEAP-1C engine on the COMAC C919.
- Presentation of the new high-power Aneto helicopter engine family and maiden flight of the Leonardo AW189K heavy-lift helicopter powered by Aneto-1K engines.

### DEFENSE



- Acquisition of France's SME ISEI, a specialist in flight data acquisition systems and associated services for helicopters and light airplanes.

PRESENTATION OF THE ULTRA LONG-RANGE AIRBORNE OPTRONIC SYSTEM **EUROFLIR™ 410**

- Selection by several airline companies of the WEFA<sup>(1)</sup> system for capturing and transferring flight data, bringing the number of commercial aircraft that will be fitted with the systems to over 1,000.

(1) WEFA – Wireless Extension For ACMS (Aircraft Condition Monitoring Systems).

### SECURITY

- Sale of the Detection businesses to Smiths Group on April 7.
- Sale of the Identity and Security businesses to Advent International, the owner of Oberthur Technologies, on May 31.



## 2.1 COMMENTS ON THE GROUP'S PERFORMANCE IN 2017 BASED ON ADJUSTED DATA

### 2.1.1 Reconciliation of consolidated data with adjusted data

#### Foreword

To reflect the Group's actual economic performance and enable it to be monitored and benchmarked against competitors, Safran prepares an adjusted income statement in addition to its consolidated financial statements.

Readers are reminded that Safran:

- > is the result of the May 11, 2005 merger of Sagem and Snecma, accounted for in accordance with IFRS 3, "Business Combinations", in its consolidated financial statements;
- > recognizes, as of July 1, 2005, all changes in the fair value of its foreign currency derivatives in "Financial income (loss)", in accordance with the provisions of IAS 39 applicable to transactions not qualifying for hedge accounting (see section 3.1, "Accounting policies", Note 1.f).

Accordingly, Safran's consolidated income statement has been adjusted for the impact of:

- > purchase price allocations with respect to business combinations. Since 2005, this restatement concerns the amortization charged against intangible assets relating to aircraft programs

revalued at the time of the Sagem/Snecma merger. With effect from the first-half 2010 interim financial statements, the Group decided to restate:

- the impact of purchase price allocations for business combinations, particularly amortization charged against intangible assets recognized at the time of the transaction and amortized over extended periods due to the length of the Group's business cycles, as well as
- gains on remeasuring any previously held equity interest in the event of step acquisitions or transfers made to joint ventures;
- > 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 hedging rate, i.e., including the costs of the hedging strategy,
  - all mark-to-market changes on instruments hedging future cash flows are neutralized.

The resulting changes in deferred tax have also been adjusted.

#### Reconciliation of the consolidated income statement with the adjusted income statement

The impact of these adjustments on income statement items is as follows:

| (in € millions)  | 2017 consolidated data | Currency hedges                         |   | Business combinations   |  | 2017 adjusted data |
|--|------------------------|---|---|---|--|--------------------|
|  |                        | Remeasurement of revenue <sup>(1)</sup> | Deferred hedging gain (loss) <sup>(2)</sup> | Amortization of intangible assets from Sagem/Snecma merger <sup>(3)</sup> | PPA impacts – other business combinations <sup>(4)</sup> |                    |
| <b>Revenue</b>   | <b>16,940</b>          | <b>(419)</b>                            | -   | -   | -  | <b>16,521</b>      |
| Other recurring operating income and expenses                        | (14,323)               | (19)                                    | 7   | 67  | 40   | (14,228)           |
| Share in profit from joint ventures                                  | 154                    | -                                       | -   | -   | 23   | 177                |
| <b>Recurring operating income</b>                                    | <b>2,771</b>           | <b>(438)</b>                            | <b>7</b>                                    | <b>67</b>   | <b>63</b>  | <b>2,470</b>       |
| Other non-recurring operating income and expenses                    | (90)                   | -                                       | -   | -   | -  | (90)               |
| <b>Profit from operations</b>  | <b>2,681</b>           | <b>(438)</b>                            | <b>7</b>                                    | <b>67</b>   | <b>63</b>  | <b>2,380</b>       |
| Cost of debt   | (57)                   | -                                       | -   | -   | -  | (57)               |
| Foreign exchange gain  | 3,143                  | 438                                     | (3,476)                                     | -   | -  | 105                |
| Other financial income and expense                                   | (22)                   | -                                       | -   | -   | -  | (22)               |
| <b>Financial income</b>  | <b>3,064</b>           | <b>438</b>                              | <b>(3,476)</b>                              | -   | -  | <b>26</b>          |
| Income tax expense   | (1,716)                | -                                       | 1,215                                       | (39)  | (2)  | (542)              |
| <b>Profit from continuing operations</b>                             | <b>4,029</b>           | -                                       | <b>(2,254)</b>                              | <b>28</b>   | <b>61</b>  | <b>1,864</b>       |
| Profit from discontinued operations and disposal gain                | 823                    | -                                       | -   | -   | -  | 823                |
| <b>Loss for the period attributable to non-controlling interests</b> | <b>(62)</b>            | -                                       | -   | <b>(2)</b>  | -  | <b>(64)</b>        |
| <b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>    | <b>4,790</b>           | -                                       | <b>(2,254)</b>                              | <b>26</b>   | <b>61</b>  | <b>2,623</b>       |

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

(2) Changes in the fair value of instruments hedging future cash flows that will be recognized in profit or loss in future periods (a negative €3,476 million excluding tax), and the impact of taking into account hedges when measuring provisions for losses on completion (€7 million).

(3) Cancellation of amortization/impairment of intangible assets relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem/Snecma merger.

(4) Cancellation of depreciation/amortization/impairment of assets identified during business combinations.

## 2 REVIEW OF OPERATIONS IN 2017 AND OUTLOOK FOR 2018

### Comments on the Group's performance in 2017 based on adjusted data

Readers are reminded that only the consolidated financial statements set out in section 3.1 of this document are audited by the Group's Statutory Auditors. The consolidated financial statements include the revenue and operating profit indicators set out in the adjusted data in section 3.1, Note 4, "Segment information".

Adjusted financial data other than the data provided in section 3.1, Note 4, "Segment information" are subject to the verification procedures applicable to all of the information provided in this Registration Document.

## 2.1.2 Overview of the Group's performance in 2017

### Adjusted income statement

| <i>(in € millions)</i>  | 2016<br>adjusted data | 2017<br>adjusted data |
|---|-----------------------|-----------------------|
| <b>Revenue</b>  | <b>15,781</b>         | <b>16,521</b>         |
| Other income  | 277                   | 278                   |
| <b>Income from operations</b>   | <b>16,058</b>         | <b>16,799</b>         |
| Change in inventories of finished goods and work-in-progress  | 308                   | 227                   |
| Capitalized production  | 624                   | 501                   |
| Raw materials and consumables used  | (9,347)               | (9,716)               |
| Personnel costs   | (4,420)               | (4,363)               |
| Taxes   | (286)                 | (284)                 |
| Depreciation, amortization and increase in provisions, net of use   | (516)                 | (966)                 |
| Asset impairment  | (231)                 | (72)                  |
| Other recurring operating income and expenses   | 115                   | 167                   |
| Share in profit from joint ventures   | 99                    | 177                   |
| <b>Recurring operating income</b>   | <b>2,404</b>          | <b>2,470</b>          |
| Other non-recurring operating income and expenses   | (18)                  | (90)                  |
| <b>Profit from operations</b>   | <b>2,386</b>          | <b>2,380</b>          |
| Cost of net debt  | (51)                  | (57)                  |
| Foreign exchange gain (loss)  | (35)                  | 105                   |
| Other financial income and expense  | (58)                  | (22)                  |
| <b>Financial income (loss)</b>  | <b>(144)</b>          | <b>26</b>             |
| <b>Profit before tax</b>  | <b>2,242</b>          | <b>2,406</b>          |
| Income tax expense  | (498)                 | (542)                 |
| <b>PROFIT FROM CONTINUING OPERATIONS</b>  | <b>1,744</b>          | <b>1,864</b>          |
| Profit from discontinued operations and disposal gain   | 117                   | 823                   |
| <b>PROFIT FOR THE PERIOD</b>  | <b>1,861</b>          | <b>2,687</b>          |
| <b>Attributable to:</b>   |                       |                       |
| ➤ owners of the parent  | 1,804                 | 2,623                 |
| • continuing operations   | 1,689                 | 1,801                 |
| • discontinued operations and assets held for sale  | 115                   | 822                   |
| ➤ non-controlling interests   | 57                    | 64                    |
| • continuing operations   | 55                    | 63                    |
| • discontinued operations and assets held for sale  | 2                     | 1                     |
| <b>Earnings per share from continuing operations attributable to owners of the parent (in €)</b>                            |                       |                       |
| Basic earnings per share  | 4.06                  | 4.39                  |
| Diluted earnings per share  | 3.99                  | 4.31                  |
| <b>Earnings per share from discontinued operations and assets held for sale attributable to owners of the parent (in €)</b> |                       |                       |
| Basic earnings per share  | 0.28                  | 2.00                  |
| Diluted earnings per share  | 0.27                  | 1.97                  |



## Review of operations

### Adjusted revenue

Safran's adjusted revenue was €16,521 million for 2017, up 4.7% year-on-year compared to €15,781 million in 2016. This €740 million increase reflects growth in all sectors.

Organic revenue was determined by excluding the effect of changes in the scope of consolidation (notably €312 million in first-half 2016 for the space launcher activities since contributed to ArianeGroup). The net impact of currency variations was a negative €124 million, reflecting a negative translation effect on non-euro revenues, principally USD. The average USD/EUR spot rate was USD 1.13 to the euro in 2017 compared to USD 1.11 to the euro in 2016. The Group's hedging rate improved to USD 1.21 to the euro for 2017 from USD 1.24 to the euro for 2016.

| (in € millions)                                 | Aerospace Propulsion | Aircraft Equipment | Defense      | Holding co. and other | Total         |
|---|----------------------|--------------------|--------------|-----------------------|---------------|
| <b>2016</b>                                     | <b>9,391</b>         | <b>5,145</b>       | <b>1,238</b> | <b>7</b>              | <b>15,781</b> |
| <b>2017</b>                                     | <b>9,741</b>         | <b>5,415</b>       | <b>1,345</b> | <b>20</b>             | <b>16,521</b> |
| <b>Reported growth</b>                          | <b>3.7%</b>          | <b>5.2%</b>        | <b>8.6%</b>  | <b>N/M</b>            | <b>4.7%</b>   |
| Impact of changes in the scope of consolidation | -3.3%                | +0.3%              | -            | N/A                   | -1.9%         |
| Currency impact                                 | -0.5%                | -1.6%              | -0.3%        | N/A                   | -0.8%         |
| <b>Organic growth</b>                           | <b>7.5%</b>          | <b>6.5%</b>        | <b>8.9%</b>  | <b>N/A</b>            | <b>7.4%</b>   |

### Adjusted recurring operating income

Adjusted recurring operating margin reached 15.0% of adjusted revenue. Safran's adjusted recurring operating income improved 2.7% to €2,470 million compared to €2,404 million in 2016, including the improvement in the EUR/USD hedge rate.

As expected, profitability improved strongly in Aircraft Equipment and Defense activities, whereas Propulsion margin was impacted by the CFM56-LEAP transition.

In 2017, non-recurring items represented an expense of €90 million, and notably included €47 million in transaction and integration costs related to the Zodiac Aerospace acquisition.

| (in € millions)                                  | 2016         | 2017         |
|--|--------------|--------------|
| <b>Adjusted recurring operating income</b>       | <b>2,404</b> | <b>2,470</b> |
| % of revenue                                     | 15.2%        | 15.0%        |
| Capital gains and losses on disposals of assets  | -            | 23           |
| Impairment net of reversals on intangible assets | -            | (23)         |
| Other non-recurring items                        | (18)         | (90)         |
| <b>ADJUSTED PROFIT FROM OPERATIONS</b>           | <b>2,386</b> | <b>2,380</b> |
| % of revenue                                     | 15.1%        | 14.4%        |

### Adjusted profit from operations

Adjusted profit from operations was stable in 2017, at €2,380 million (14.4% of revenue) compared to €2,386 million (15.1% of revenue) in 2016. It was impacted by disposal gains totaling €23 million and expenses of €23 million on the Falcon 5X program, the assets of which have been written down. "Other non-recurring items" represent a net expense of €90 million in 2017 compared to a net expense of €18 million in 2016. The caption relates to transaction and integration costs for €61 million, particularly those relating to Safran's tender offer on Zodiac Aerospace's share capital, and the payment of €29 million in respect of an arbitral award.

advances, and the impact of any changes in the discount rates used. The cumulative impact of these non-cash items was an expense of €35 million in 2017 versus an expense of €71 million in 2016. Financial income in 2017 also includes a non-cash charge totaling €95 million arising on the translation of provisions denominated in US dollars (non-cash charge of €27 million in 2016).

### Adjusted income tax expense

Adjusted income tax expense increased from €498 million in 2016 to €542 million in 2017, representing an effective tax rate of 22.5% (22.2% in 2016). The increase in the effective tax rate was due to income arising on the elimination of the tax on dividend payouts and on the adjustment of deferred taxes to reflect the gradual decrease in future corporate income tax rates (France and Belgium). It also reflects charges resulting from the introduction of an exceptional contribution and additional contribution on revenue, and from US tax reform.

### Adjusted financial income

The Group reported adjusted financial income of €26 million in 2017, compared to an adjusted financial loss of €144 million in 2016. The caption includes the cost of unwinding discounts on certain assets and liabilities, mainly provisions and repayable

## 2 REVIEW OF OPERATIONS IN 2017 AND OUTLOOK FOR 2018

### Comments on the Group's performance in 2017 based on adjusted data

#### Adjusted profit attributable to owners of the parent

Adjusted profit attributable to owners of the parent was €2,623 million (€6.39 per share) compared with €1,804 million (€4.34 per share) in 2016. Adjusted profit from continuing operations attributable to owners of the parent amounted to

€1,801 million (€4.39 per share) compared with €1,689 million (€4.06 per share) in 2016. Profit from discontinued operations and assets held for sale attributable to owners of the parent totaling €822 million includes the contribution of the Security business up to the date of its sale, as well as the related post-tax disposal gain.

### 2.1.3 Adjusted key figures by business

#### Summary of adjusted key figures by business

On the basis of continuing operations, new order intake in 2017 was €19.2 billion, reflecting robust market demand. The total backlog at December 31, 2017 was €68.6 billion, compared with €62.3 billion one year earlier.

| (in € millions)  | Aerospace Propulsion |        | Aircraft Equipment |        | Defense |       | Holding co. and other |       | Total  |        |
|--|----------------------|--------|--------------------|--------|---------|-------|-----------------------|-------|--------|--------|
|  | 2016                 | 2017   | 2016               | 2017   | 2016    | 2017  | 2016                  | 2017  | 2016   | 2017   |
| Backlog <sup>(1)</sup>                                       | 39,169               | 44,673 | 20,235             | 21,042 | 2,916   | 2,868 | N/A                   | N/A   | 62,320 | 68,583 |
| Orders recorded during the year <sup>(2)</sup>               | 11,127               | 13,125 | 4,928              | 4,646  | 1,768   | 1,422 | N/A                   | N/A   | 17,823 | 19,193 |
| Revenue  | 9,391                | 9,741  | 5,145              | 5,415  | 1,238   | 1,345 | 7                     | 20    | 15,781 | 16,521 |
| Recurring operating income (loss)                            | 1,786                | 1,729  | 567                | 682    | 76      | 95    | (25)                  | (36)  | 2,404  | 2,470  |
| Profit (loss) from operations                                | 1,789                | 1,689  | 562                | 668    | 69      | 81    | (34)                  | (58)  | 2,386  | 2,380  |
| Free cash flow <sup>(3)</sup>                                | 929                  | 1,158  | 165                | 328    | 17      | 105   | (20)                  | (153) | 1,091  | 1,438  |
| Acquisitions of property, plant and equipment <sup>(4)</sup> | 401                  | 439    | 218                | 204    | 60      | 57    | 25                    | 40    | 704    | 740    |
| Self-funded R&D  | 775                  | 748    | 218                | 182    | 113     | 123   | N/A                   | N/A   | 1,106  | 1,053  |
| Headcount <sup>(5)</sup>                                     | 23,210               | 23,969 | 24,721             | 24,471 | 7,356   | 7,578 | 2,255                 | 2,306 | 57,542 | 58,324 |

(1) The backlog corresponds to orders recorded and not yet recognized in revenue.

(2) Orders recorded represent orders received during the year.

(3) Free cash flow represents cash flow from operating activities less any net disbursements relating to acquisitions of property, plant and equipment and intangible assets.

(4) Net of proceeds from disposals.

(5) Headcount at December 31.

### 2.1.3.1 Aerospace Propulsion

#### Key figures (adjusted data)

|  | 2016   | 2017   | Year-on-year change |
|--|--------|--------|---------------------|
| Quantities delivered                           |        |        |                     |
| > CFM56 engines                                | 1,693  | 1,444  | -15%                |
| > LEAP engines                                 | 77     | 459    | x6                  |
| <i>(in € millions)</i>                         |        |        |                     |
| Backlog  | 39,169 | 44,673 | +14%                |
| Orders recorded during the year                | 11,127 | 13,125 | +18%                |
| Revenue  | 9,391  | 9,741  | +4%                 |
| Recurring operating income                     | 1,786  | 1,729  | -3%                 |
| Profit from operations                         | 1,789  | 1,689  | -6%                 |
| Free cash flow                                 | 929    | 1,158  | +25%                |
| Acquisitions of property, plant and equipment  | 401    | 439    | 10%                 |
| Research and development                       |        |        |                     |
| Self-funded R&D                                | (775)  | (748)  | -3%                 |
| % of revenue                                   | 8.3%   | 7.7%   | -0.6 pts            |
| Research tax credit                            | 59     | 58     | -2%                 |
| Self-funded R&D after research tax credit      | (716)  | (690)  | -4%                 |
| Capitalized expenditure                        | 218    | 175    | -20%                |
| Amortization and impairment of R&D expenditure | (46)   | (78)   | +70%                |
| Impact on profit from operations               | (544)  | (593)  | +9%                 |
| % of revenue                                   | 5.8%   | 6.1%   | +0.3 pts            |
| Headcount                                      | 23,210 | 23,969 | +3%                 |

Aerospace Propulsion activities operate in four key sectors:

| Sector                     | % of business line revenue |      |
|----------------------------|----------------------------|------|
|                            | 2016                       | 2017 |
| Civil aviation             | 73%                        | 77%  |
| Military aviation          | 11%                        | 11%  |
| Helicopter turbine engines | 12%                        | 12%  |
| Ballistics and space       | 4%                         | 0%   |

#### Review of Aerospace Propulsion operations in 2017

During 2017, orders and commitments were received for 2,870 LEAP engines and the backlog stood at 13,728 engines at end-2017. Demand for CFM56 engines remains strong: orders and commitments were placed for 474 engines in 2017 and the backlog stood at 1,106 units at end-2017.

Aerospace Propulsion recorded revenue of €9,741 million, up 3.7% compared to €9,391 million in 2016. On an organic basis, Aerospace Propulsion revenue rose 7.5%, driven by the civil aftermarket business as well as by civil and military OE.

OE sales from civil aircraft engines grew organically in the high single digits (8%). In unit terms, the increase in LEAP production more than offset the fall in CFM56 volumes. The total number of narrowbody aircraft engine deliveries increased from 1,770 to 1,903, a record level. LEAP volumes ramped up to 459 deliveries in 2017 compared to 77 in 2016 while CFM56 volumes decreased

as planned to 1,444 deliveries in 2017 compared to 1,693 units in 2016. High-thrust engine module deliveries, notably GE90 and GP7000, were lower in 2017, tracking airframers' assembly rates.

A decline in OE revenue from helicopter turbines was mostly due to a shift in mix towards smaller engines. Military OE revenues increased sharply as revenue was recognized for 33 M88 engines, of which 17 for export, compared to 11 engines in 2016.

Overall service revenue in Propulsion was up 7.0% in euro terms and represented 59% of Propulsion revenue in the year. Civil aftermarket revenue grew by 11.2% in US dollar terms, driven by latest generation CFM56, and GE90 engine spares and services. Aftermarket for military engines was down in the low single digits (by around 2%) compared to a high 2016 comparison base. Helicopter turbine support also declined in the low single digits, due to a fall in flight hours particularly among Oil and Gas customers.

## 2 REVIEW OF OPERATIONS IN 2017 AND OUTLOOK FOR 2018

### Comments on the Group's performance in 2017 based on adjusted data

Recurring operating income, at 17.7% of revenue, was €1,729 million compared to €1,786 million (19.0% of revenue) in 2016. As expected, Propulsion margin was negatively impacted by the ramp down of CFM56 OE, the negative margin on LEAP deliveries as well as by the estimated cost of actions to ensure time on wing. The headwind from the CFM56-LEAP transition amounted to €342 million in 2017.

Lower helicopter turbine activity and higher expensed R&D also impacted Propulsion margin. Consistent with expectations, these headwinds were partially offset by civil aftermarket growth, higher military OE, the contribution from ArianeGroup and the improvement in the hedging rate.

Safran is executing a strong action plan to continue to progressively reduce the production cost of LEAP engines and achieve breakeven at gross margin level before the end of the decade.

## Commercial and industrial developments

### Civil aviation

#### *Low-thrust engines for civil aircraft (regional and business jets)*

##### **Silvercrest (9,500 – 12,000 pounds of thrust)**

Developed by Safran, Silvercrest engines deliver best-in-class performances in the market for mid- to high-end business jets.

Silvercrest was chosen by Dassault Aviation in 2013 to power the company's Falcon 5X twin-engine business jet, featuring a large cabin and long range of 5,200 nautical miles, or more than 9,600 km. In 2016, Silvercrest was also chosen by Cessna (Textron Aviation) for its future large-cabin Citation Hemisphere business jet, which will have a range of up to 4,500 nautical miles (8,300 km).

In the context of its development program, Silvercrest continued to be tested on the ground and in flight, clocking up more than 2,000 test hours in 2017.

On July 5, 2017, the Falcon 5X took to the air for the first time, powered by two Silvercrest engines. This first flight marked the start of a flight test program lasting several months, with Dassault Aviation completing 30 flights with no engine problems.

During flight tests conducted last September, Safran pinpointed the need to optimize performance of Silvercrest's high-pressure compressor, leading to additional development leadtimes which Dassault deemed incompatible with its own aircraft development schedule.

Consequently, in late 2017, Dassault Aviation initiated proceedings to terminate the Silvercrest contract for the Falcon 5X program and announced that it would be launching the Falcon 6X, a new aircraft with a bigger engine than Silvercrest. Following this decision, Cessna notified its intention to continue developing the Hemisphere program with the Silvercrest engine.

##### **SaM146 (13,500 – 17,800 pounds of thrust)**

The SaM146 engine, developed in partnership with Russian engine manufacturer UEC Saturn, powers Sukhoi's Superjet 100.

PowerJet is a joint venture set up by Safran Aircraft Engines and UEC Saturn to manage the engine program in terms of development, production, marketing and sales, and to provide customer support, maintenance, repair and overhaul services.

The 300<sup>th</sup> SaM146 integrated propulsion system was delivered during the year, testifying to the success of this industrial alliance.

In all, 70 SaM146 propulsion systems were delivered in 2017 (compared to 52 in 2016), and at the end of the year, SaM146 engines powering in-service Superjet 100 aircraft had clocked up over 750,000 flight hours.

PowerJet has also been awarded service contracts for 58 aircraft operated by airline companies Aeroflot, Interket and Cityjet.

##### **Passport (13,000 – 18,000 pounds of thrust)**

Through Safran Aero Boosters, Safran has a 7.4% share in Passport, the new GE engine program designed for the future long-range (7,400 nautical miles, or 13,700 km) Bombardier Global 7000 business jet.

Throughout the year, flight tests continued for the Passport engine on Global 7000 prototypes. Passport is expected to enter into service on this new aircraft towards the end of 2018, in line with the aircraft manufacturer's schedule.

#### *Mid-thrust engines for civil aircraft (short- to medium-haul aircraft)*

##### **CFM56 – LEAP**

LEAP-1A is competing with Pratt & Whitney's PurePower PW1100G for the A320neo program. The LEAP-1B model was chosen as the sole engine for the Boeing 737 MAX. The LEAP-1C model is the sole Western source for the propulsion system (engine plus nacelle) on COMAC's C919 aircraft.

During the year the LEAP-1B engine successfully entered into service and the first COMAC C919 flights powered by LEAP-1C engines were completed from Shanghai Pudong airport in China. Throughout 2017, Safran continued to develop its production capacity with a view to achieving a seamless transition from CFM56 to LEAP and meeting a ramp-up in production.

A total of 1,903 CFM56 and LEAP engines were delivered to aircraft manufacturers in 2017 (compared to 1,770 CFM56 and LEAP engines delivered in 2016):

- CFM International has recorded over 32,000 deliveries of CFM56 engines since the start of the program, including 1,444 CFM56 deliveries during the year (1,693 CFM56 deliveries in 2016). In-service CFM56 engines, used by 588 customers and operators, had clocked up over 913 million flight hours at the end of 2017. The CFM56 has entered aerospace history as the first range of high-bypass turbofan engines to achieve more than 900 million flight hours;
- the ramp-up of production for LEAP engines continued in 2017, with 459 engines delivered during the year in line with aircraft manufacturers (77 LEAP engines delivered in 2016).

The LEAP engine continued to enjoy commercial success, with 2,870 firm orders and purchase commitments received in 2017. The backlog for LEAP stood at 13,728 orders and purchase commitments at the end of the year for the A320neo, Boeing 737 MAX and COMAC C919 programs.

Taking into account the 474 firm orders and purchase commitments received for CFM56 engines in 2017, the overall backlog (CFM56 and LEAP) represents 14,834 engines at December 31, 2017, or almost eight years of production at current output rates. This success confirms CFM International as leader in the market for 100+ seater aircraft.

### Spare part activities and service agreements

In 2017, maintenance and overhaul agreements for LEAP engines were signed with Lufthansa Technik and AFI KLM E&M. These two companies, which already enjoy a long-standing relationship with CFM International through maintenance agreements for CFM56 engines, will offer additional capacity for LEAP-1A and LEAP-1B engines.

New service agreements for LEAP engines were also signed in 2017 with airline companies Air India, Arkia, SAS, Azul, Spice Jet, Vietjet and Fiji Airways. These agreements offer LEAP engine customers a wide range of bespoke aftermarket services adapted to their particular business model and to fleet size and/or condition. They are also a long-term source of revenue for Safran.

### High-thrust engines for civil aircraft (long-haul aircraft)

Deliveries of high-thrust engines declined in 2017, to 486 modules compared to 686 modules in 2016.

#### GE90

Safran has an interest of 23.7% in this GE program that currently enjoys a sole-source position on the Boeing 777, for which it delivered 162 compressor modules in 2017 compared to 214 in 2016. The downturn in volumes delivered reflects the decrease in production of the Boeing 777 decided by Boeing in 2017 ahead of the aircraft's gradual replacement by the Boeing 777X as from 2020.

#### GE9X

Since 2014, Safran has participated in the development of GE's high-thrust GE9X engine that was chosen by Boeing as the exclusive powerplant on its new 777X long-haul aircraft. Tests continued for the certification of the GE9X engine in 2017.

Safran has a stake of 11.2% in this program through Safran Aircraft Engines and Safran Aero Boosters.

Safran Aircraft Engines is responsible for the design and production of several critical parts of the engine:

- > composite fan blades are manufactured by CFAN, its joint venture with GE based in San Marcos, Texas (United States);
- > fan casings using 3D woven composite parts are produced through its partnership with Albany International;
- > the exhaust casing is manufactured at the French plants of Safran Aircraft Engines, particularly FAMAT, a joint venture with GE based in Saint-Nazaire.

The low-pressure compressor and the fan disk are made by Safran Aero Boosters.

#### GP7200

Safran has a 17.5% interest in this engine program, which powers the A380, and delivered nine high- and low-pressure compressor modules in 2017, compared with 74 in 2016.

#### GEnx

Safran is a partner on the two GEnx engine programs, with a 7.7% interest in the GEnx-1B version powering the long-haul Boeing 747-8 and a 7.3% interest in the GEnx-2B version powering the Boeing 787 Dreamliner. Safran delivered 231 modules in 2017, 50 less than in 2016.

### CF6 family – LM6000

A total of 84 modules for the CF6 engine family (powering certain A330 and Boeing 767 aircraft) and LM6000 gas turbines were delivered in 2017, compared to 117 in 2016. Safran's interest ranges from 10% to 19.4% in the CF6 engine program, and from 8.6% to 12% in the LM6000 gas turbine program.

### Service agreements

Safran has been awarded service agreements by GE and Engines Alliance, respectively for high-thrust engines GE90 and GP7200. A number of new agreements for these engines were also signed or renewed during the year.

Safran provides maintenance, repair and overhaul services for GE90's high- and low-pressure compressors under support-by-the-hour contracts, as well as the bulk of maintenance services for the GP7200's high-pressure compressor. The Group leverages its expertise, industrial capabilities and global network to offer operators continuous support and a comprehensive range of services.

After its entry into service slated for 2020, Safran will be awarded service agreements by GE for the GE9X engine.

### Industrial operations

During the year, Safran and AFI KLM announced they were to begin construction of a facility in northern France for Airfoils Advanced Solutions, their joint venture specializing in the repair of compressor blades for CFM56, GE90 and GP7200 engines. Airfoils Advanced Solutions is jointly owned by Safran Aircraft Engines (51%) and Air France KLM (49%), who will invest over €20 million in the new company. Operations at the new facility are expected to start in late 2018. By the time the facility reaches cruise speed in 2020, Airfoils Advanced Solutions will have between 200 and 250 employees.

At the end of 2017, a new 4,000 sq.m. extension was unveiled at Safran's Le Creusot plant. The extension, which will manufacture low-pressure turbine disks for the LEAP engine on three autonomous machines, confirms the Le Creusot plant as a center of excellence in its field.

### Military aviation

#### M88

A total of 33 engines were delivered for the Rafale in 2017 (22 engines more than in 2016). The worldwide in-service fleet topped the 574,000 flight hours mark during the year.

Qatar exercised its call option on 12 additional Rafale aircraft in the year. This new export order comes on top of the order already placed by Qatar in 2015 for 24 Rafale aircraft.

In 2017, the French Ministry of Defense gave the green light to preliminary work for the future Rafale F4 standard. Technological advances proposed by Safran include (i) a new M88 control unit with enhanced processing capacity and features, together with a new-generation maintenance system incorporating health monitoring, trouble-shooting and predictive maintenance, and (ii) integrated additive manufacturing technologies for engine maintenance.

Discussions are also underway with other countries.

### TP400

The TP400 is the Western world's most powerful ever turboprop engine.

A total of 90 engines were delivered in 2017 (compared to 84 in 2016) and the backlog at the end of the year stood at 413 engines for the A400M aircraft ordered from Airbus Defence & Space.

### ADOUR

A total of 13 Adour engines were delivered in 2017 for the BAE Systems Hawk trainer aircraft. The backlog at the end of 2017 stood at 12 engines.

## Helicopter turbines and auxiliary power units

Safran Helicopter Engines delivered 672 helicopter engines in 2017.

### Light helicopters

Developments in this segment continued apace throughout the year, with the initial test run of the Arriel 2L2 engine. The Arriel 2L2 is set to power the South Korean military Light Armed Helicopter (LAH) for Korea Aerospace Industries (KAI). Developed in partnership with Hanwha Techwin, this engine is the most powerful engine in the Arriel family, with take-off power of 1,024 shp<sup>(1)</sup>. Arriel 2L2 should be certified in late 2020 and is expected to come into operation in 2022. The civil version of this helicopter, the Light Civil Helicopter (LCH), will enter into service in 2020 powered by the Arriel 2C2 engine.

At the Heli-Expo trade show in Dallas, Texas (United States), Safran and Bell (Textron group) celebrated the first delivery of the Bell 505 Jet Ranger X helicopter fitted with an Arrius 2R engine. The entry-into-service of this helicopter was an important milestone for Safran, as the result of its first-ever partnership with Bell. The Arrius 2R is the sole powerplant on the Bell 505 Jet Ranger X. At the end of the year, Safran's backlog stood at over 140 engines for Bell 505 Jet Ranger X helicopters on order from Bell.

The Arrano 1A engine, sole source on Airbus Helicopters' future twin-engine H160 helicopter, continued to demonstrate its performance in its ongoing flight test program. Arrano's first application, the future H160 helicopter, is set to replace the Dauphine helicopters that have been in service for the past forty or so years. Arrano 1A is slated to come into service in 2019, in line with its development schedule.

### Medium-weight helicopters

The Ardiden 3G intended for Russian Helicopters' multi-purpose Ka-62 helicopter was awarded standard certification in 2017 by the European Aviation Safety Agency (EASA). This certification is an important milestone in the helicopter's flight test program. Fitted with two Ardiden 3G engines, the first Ka-62 prototype completed its first official flight during the year at the manufacturer's facilities in Arseniev (Russia).

Ardiden 3C is slated for certification by EASA in 2018. This engine will power the new French-Chinese AC352/Z-15 helicopter. The result of close cooperation with China's CAPI and Dongan,

members of the AECC<sup>(2)</sup> consortium, this program will allow Safran to benefit from opportunities offered by the growing Chinese helicopter market over the next decade. The Ardiden 3C/WZ16 will be the first helicopter engine to be certified in parallel in both China and Europe: CAAC<sup>(3)</sup> certification as WZ16 is also scheduled for 2018.

### Heavy-lift helicopters

During the summer, the UK and Norwegian regulators announced that they were lifting restrictions on commercial flights for two types of Super Puma helicopters (H225LP and AS332L2). This decision followed EASA's authorization for the helicopter to resume flights granted in 2016. While this authorization is good news for new helicopter sales, Safran's support activities for these heavy-lift helicopters in offshore and civil sectors have been significantly affected since the helicopters were grounded after an accident in Norway on April 29, 2016.

At the Helitech trade show held in London in early October, Safran Helicopter Engines unveiled Aneto, its new high-power engine family. The first model, the 2,500 shp class Aneto-1K engine, was selected by Leonardo to power its twin-engine AW189K helicopter. Entry into service on the AW189K is scheduled for 2018. Aneto-1K certification will meet that timetable.

Aneto engines incorporate several groundbreaking new technologies, such as a gyratory combustion chamber with unique 3D-printed injectors. The performance of the engine's high-pressure turbine was also improved in terms of both design and by the incorporation of new materials allowing higher combustion temperatures. Safran also leveraged its advances in additive manufacturing to design the fuel dispensers and injectors. Many of these new technologies were developed and validated on the Tech 3000 demonstrator, supported by Safran since 2015. This new engine family will be fully compatible with BOOST (Bank Of Online Services & Technologies), Safran's highly secure online engine maintenance service.

At the beginning of 2018, the launch of the Airbus X6 heavy-lift helicopter powered by Safran engines was postponed.

### Helicopter turbine engine services

New support-by-the-hour service agreements were signed in 2017. At the end of the year, despite a challenging environment, particularly for the oil sector, over 5,200 engines operated by 500 civil and military customers were covered by service agreements. This compared to 4,800 engines covered by service agreements for 450 civil and military customers at the end of 2016.

Several new tools and services were rolled out at different operators during the year with the aim of supporting Safran helicopter engines. These include new types of contract for small-scale operators as well as new support-by-the-hour options. The digital offer also broadened, thanks mainly to the online technical publications service Web IETP (Interactive Electronic Technical Publications). Web IETP includes a 3D graphic interface and offers a selection of all parts and tools needed to perform basic or intermediate-level maintenance operations.

(1) Shp: shaft horsepower.

(2) AECC: Aero Engine Corporation of China.

(3) CAAC: Civil Aviation Administration of China.

### Auxiliary power units

Safran manufactures the leading-edge SPU150[DA] and SPU300[BA] auxiliary power units. The SPU150[DA] is especially designed for midsize to super midsize business jets. The SPU300[BA] is designed for long-haul business jets and will be fitted on Bombardier's Global 7000.

These new business jet APUs continued to be developed throughout the year in line with the schedule. The SPU300[BA] APU designed for Bombardier's Global 7000 business jet has clocked up more than 2,000 operating hours on flight test aircraft. The certification documents for this APU were filed in early 2018.

Modifications in the APU for the Rafale, begun in 2016 in order to meet new operating requirements in harsh environments for export markets, were successfully completed, and the first equipment for flight tests was delivered at the end of 2017. The modified APUs are expected to enter into service in 2018.

### Space propulsion systems

Confirming its position as baseline supplier to major players in the satellite market, Safran's electric propulsion thrusters PPS\*5000 were chosen by Boeing for a commercial satellite program.

This order represents two world firsts:

- > the first use of a cluster of three Hall Effect plasma thrusters operating simultaneously, to perform orbital transfer duties;
- > the first deployment of a plasma thruster developing 5 kW of power - 10% more than current models used on telecommunications satellites.

This order marks Boeing's first use of Hall Effect thrusters on satellites, and confirms Safran's position as a baseline supplier to the world's leading manufacturers of commercial satellites. Safran will supply the plasma thruster and power processing unit (PPU), and will take technical responsibility for the interfaces. The first PPS\*5000 delivery is slated for 2018, for a satellite launch planned in 2019.

### Launch vehicles

ArianeGroup<sup>(1)</sup> was born out of the shared ambition of Safran and Airbus to take the European space industry to unscaled heights in a context of fierce global competition.

Owned equally by Safran and Airbus, ArianeGroup brings together each company's activities and expertise in commercial and military launchers within a single, coherent entity. Boasting over 9,000 highly qualified staff in France and Germany, ArianeGroup is a global company with 11 subsidiaries and affiliates which are among the leading players in their respective fields: APP (70%), Arianespace (74%), CILAS (63%), Eurockot (51%), Eurocryospace (45%), Europropulsion (50%), Nuclétudes (98.9%), Pyroalliance (90%), Regulus (40%), Sodern (90%) and Starsem (46%). ArianeGroup also boasts a broad spectrum of products, equipment and services able to offer innovative and competitive solutions to a wide variety of customers across the globe.

Through its subsidiary Arianespace, ArianeGroup can therefore offer a comprehensive range of launch services with its Ariane, Vega and Soyuz launch vehicles. Through its subsidiary Eurockot, ArianeGroup also markets and operates the light space launcher Rocket.

### Ariane, Vega and Soyuz launchers

ArianeGroup is prime contractor for Ariane European space launchers and also contributes to the Vega launcher.

Since 1996, Arianespace has marketed the Russian Soyuz launcher through its subsidiary Starsem on the international market. Since 2011, following the agreement between the ESA and the Russian space agency Roskosmos, Arianespace is also responsible for the launch of Soyuz rockets from the Kourou Space Center (French Guiana).

Its world-leading subsidiary Arianespace is responsible for marketing and operating these three launch vehicles. Arianespace signed just under half<sup>(2)</sup> of all commercial launcher contracts open on the global market in 2017, giving the company a backlog worth €5 billion at the end of the period, covering 29 customers and 58 launches: 18 Ariane 5 launches, 2 Ariane 6 launches, 29 Soyuz launches and 9 Vega/Vega C launches.

Arianespace had an excellent year in 2017, with 11 successful launches and 20 satellites put into orbit from the Kourou Space Center (French Guiana):

- > the Ariane 5 heavy launcher successfully performed six launches. Ariane thereby recorded its 82<sup>nd</sup> consecutive successful launch, confirming the system's excellent reliability;
- > Vega launchers successfully performed three launches, representing the ninth, tenth and eleventh successful launches for Vega since its first flight in 2012;
- > Soyuz also performed two successful launches in the first half of the year.

Throughout 2017, the development program for the future Ariane 6 launcher continued on track and in line with the schedule, with a view to completing its first lift-off in 2020:

- > a major milestone was successfully reached during the year, validated by an independent review, and allowing serial production to be launched for the Ariane 6 launcher;
- > construction began of the combustion chamber for the first Vinci cryogenic engine intended to fly. Restartable in flight, this engine will power the upper stage of the Ariane 6, allowing the launcher to increase its mission potential and enabling several satellites to be positioned on different orbits in a single mission. After having been successfully tested with development models over 120 times, the start of construction on this first engine intended to fly is a major step towards Ariane 6's first successful lift-off;
- > the first contract was signed with the European Space Agency on behalf of the European Commission. Under this contract, between the end of 2020 and mid-2021, Arianespace will put four new satellites into orbit intended for its Galileo navigation system;
- > work on the new launch site intended to host the future launcher in the Guiana Space Center is progressing well, with the start of construction on the jet vanes.

Lastly, in January 2018, the Vulcain® 2.1 engine which will power the main stage of Ariane 6, was successfully tested for the first time on a test bench.

### Military industry

Regarding the naval component of France's nuclear deterrent, the development of the future M51.3 strategic missile continues in line with the development schedule, with the completion of the Preliminary System Design Review. Both types of third-stage thrusters were also successfully bench-tested.

(1) On July 1, 2017, Airbus Safran Launchers was renamed ArianeGroup.

(2) Source: ArianeGroup.

### 2.1.3.2 Aircraft Equipment

#### Adjusted key figures

| (in € millions)                                | 2016   | 2017   | Year-on-year change |
|--|--------|--------|---------------------|
| Backlog  | 20,235 | 21,042 | +4%                 |
| Orders recorded during the year                | 4,928  | 4,646  | -6%                 |
| Revenue  | 5,145  | 5,415  | +5%                 |
| Recurring operating income                     | 567    | 682    | +20%                |
| Profit from operations                         | 562    | 668    | +19%                |
| Free cash flow                                 | 165    | 328    | +99%                |
| Acquisitions of property, plant and equipment  | 218    | 204    | -6%                 |
| Research and development                       |        |        |                     |
| Self-funded R&D                                | (218)  | (182)  | -17%                |
| % of revenue                                   | 4.2%   | 3.4%   | -1.2 pts            |
| Research tax credit                            | 44     | 45     | +2%                 |
| Self-funded R&D after research tax credit      | (174)  | (137)  | -21%                |
| Capitalized expenditure                        | 82     | 56     | -32%                |
| Amortization and impairment of R&D expenditure | (41)   | (77)   | +88%                |
| Impact on profit from operations               | (133)  | (158)  | +19%                |
| % of revenue                                   | 2.6%   | 2.9%   | +0.3 pts            |
| Headcount                                      | 24,721 | 24,471 | -1%                 |

Safran's Aircraft Equipment business operates in three sectors:

| Sector                             | % of business line revenue |      |
|------------------------------------|----------------------------|------|
|                                    | 2016                       | 2017 |
| Landing and aircraft systems       | 48%                        | 48%  |
| Engine systems and equipment       | 24%                        | 26%  |
| Electrical systems and engineering | 28%                        | 26%  |

#### Review of Aircraft Equipment operations in 2017

The Aircraft Equipment segment reported revenue of €5,415 million, up 5.2% compared to 2016. On an organic basis, revenue was up 6.5%.

Equipment OE revenue increased by 4.4%. Revenue growth was driven by increased volumes of equipment for the A350 (landing gear and wiring systems, power transmission systems), as well as by deliveries of nacelles for the LEAP-1A powering the A320neo (235 nacelles in 2017 compared to 65 units in 2016). Shipments of landing and wiring systems for A320ceo, A320neo and A330 also contributed positively. Headwinds included lower A380 volumes: as expected, 49 nacelles were shipped in 2017 compared to 99 in 2016.

Service revenue represented 32.3% of revenue and grew 7.0% compared to 2016, thanks to continuing momentum in carbon brakes and a higher contribution from landing gear MRO and nacelle service activities.

Recurring operating income was €682 million, an increase of 20.3% compared to €567 million in 2016. Recurring operating margin increased by 160 basis points to 12.6%. Growing volumes coupled with strong cost reduction and productivity actions (including measures to optimize the industrial footprint) yielded broad-based profitability increases. The improved hedging rate also contributed positively. The rise of expensed R&D had a negative impact on recurring operating income.



## Commercial and industrial developments

### Landing and aircraft systems

#### Landing gear

In all, 1,315 landing gear units were delivered by Safran in 2017 (compared to 1,281 units in 2016).

A total of 590 units were delivered for the A320 family including the A320neo (559 in 2016), 78 units were delivered for the A330 including the A330neo (60 in 2016), and 81 units were delivered for the A350 (56 in 2016). Safran delivered 134 landing gear units in 2017 (128 in 2016) to meet the needs of the ramp-up in production of the Boeing 787.

Landing system maintenance and repair contracts were signed by Safran during the year, particularly for Southwest Airlines, American Airlines, Singapore Airlines, Easyjet and Air France fleets.

#### Wheels and brakes

At the end of 2017, with almost 9,000 aircraft equipped with Safran carbon brakes, the Group has a share of over 50%<sup>(1)</sup> of the market for 100+ seater civilian aircraft equipped with carbon brakes.

Safran's market share on Airbus A320ceo aircraft fitted with carbon brakes represented 73%<sup>(1)</sup> at December 31, 2017. Safran was selected by Airbus to supply carbon brakes meeting the requirements of its new A320neo single-aisle aircraft. At end-2017, 31 airline companies representing a total of 1,193 aircraft have selected Safran carbon brakes, while 114 in-service A320neo aircraft are currently fitted with the brakes.

In December 2017, EASA<sup>(2)</sup> certified Safran's new "Long-Life" brakes for the Airbus A320 family (ceo and neo). These new brakes feature SepCarb IV<sup>®</sup>, the latest-generation carbon which will provide significant durability gains for airline companies.

Safran's market share on Boeing 737 NG aircraft fitted with carbon brakes represented 66%<sup>(1)</sup> at December 31, 2017. A long-standing partner of Boeing, Safran was selected by the US aircraft manufacturer in 2014 to supply wheels and carbon brakes for all models of the Boeing 737 MAX (new engine option). At end-2017, 26 airline companies had selected Safran carbon brakes on the Boeing 737 MAX, representing a total of 1,119 aircraft. In all, 23 in-service Boeing 737 MAX are fitted with Safran carbon brakes.

At December 31, 2017, electric brake orders for the Boeing 787 Dreamliner related to 744 aircraft operated by 43 airline companies. Safran's electric brakes were fitted on 364 in-service Boeing 787 Dreamliners at December 31, 2017, with a market share of 58%<sup>(1)</sup>.

#### Electric taxiing

In 2017, Safran and Airbus signed an agreement to market an electric taxiing system to airline companies for the A320 family.

### Landing and braking control systems

In all, 1,263 landing and braking control systems and associated systems equipment were delivered by Safran to customers' assembly lines in 2017.

Lifting, steering and braking systems continued to be delivered for the A350 in the context of a major ramp-up.

In the field of innovation, Safran continues to offer its customers services that draw on the analysis of data from equipment and control systems so that it can offer preventive maintenance and therefore increase operational fleet availability, particularly for Airbus, in order to address the shift to more integrated equipment offers, for both aircraft manufacturers and airline companies.

### Industrial operations

In July, Safran reinforced its presence on the Chinese market, laying the cornerstone of its future center of excellence for landing gear maintenance, repair and overhaul on the A320 and Boeing 737 aircraft. Based in Xi'an (China), this 11,000 sq.m. center of excellence, of which 8,700 sq.m. will house workshops, will be managed by XIESA (Xi'an CEA Safran Landing Systems Services), a joint venture created in 2016 between Safran and the Chinese airline company, China Eastern Airlines. This center, which will be operational in 2019, will primarily target the Chinese domestic market, whose fleets of single-aisle jets are reaching maturity and therefore requiring landing gear overhauls.

### Engine systems and equipment

#### Nacelles and thrust reversers

A number of decisive advances were made in 2017:

- > the integrated propulsion system (nacelle and LEAP-1C engine) powering the C919 aircraft completed its first flight tests;
- > on the A320neo program, Safran has developed the industrial capacity to keep pace with the ramp-up in production of the integrated propulsion system (nacelle and LEAP-1A engine) and to offer, along with its partner, GE subsidiary Middle River Aircraft System (MRAS), the support and services expected by airline companies;
- > Safran delivered on schedule the Boeing 777X exhaust systems for the development tests on the GE9X engine. The serial design has been fixed and serial production is underway for the flight test equipment;
- > the A330neo fitted with Safran nacelles (and powered by Rolls-Royce Trent7000 engines) began its flight tests;
- > flight tests continued for the prototypes of the Global 7000 future long-range business jet fitted with Safran nacelles and GE Passport engines. Bombardier's Global 7000 jet is expected to enter into service at the end of 2018.

In 2017 Safran launched a new automated non-destructive testing (NDT) solution for composite panels of aircraft nacelles for the LEAP-1A (Airbus A320neo) and Trent7000 (A330neo) programs, at its Burnley plant in the United Kingdom. This NDT

(1) Source: Safran.

(2) EASA: European Aviation Safety Agency.

## 2 REVIEW OF OPERATIONS IN 2017 AND OUTLOOK FOR 2018

### Comments on the Group's performance in 2017 based on adjusted data

process is based on a robot named IRIS (Infra Red Inspection System), which uses infrared thermography to read data. After data processing, the information is then analyzed by an inspector using special viewing software. Finally, if needed, it is projected on the part via augmented reality. The use of infrared thermography and augmented reality is a world first.

#### Mechanical power transmission systems

At the Paris Air Show in Le Bourget, Safran unveiled its new mechanical power transmission architecture. Known as AGB<sup>(1)</sup> Next Generation, this new architecture is designed to meet the requirements of the next generation of aircraft engines, set to hit the market towards 2025.

Developed within the scope of the European research program Clean Sky 2, the AGB Next Generation features an innovative architecture that facilitates its integration with the engine and nacelle. The new position of accessories on the AGB NG also helps reduce size and weight compared to a conventional system. Traditionally placed at the edge of the fan, the AGB NG is now located near the high-pressure compressor. Changing this location helps reduce fuel consumption because it allows a smaller diameter nacelle, which in turn reduces aerodynamic drag. The AGB NG also simplifies access to accessories, thus facilitating maintenance operations.

To meet the growing needs of the LEAP program, in 2017 Safran continued to expand its specialist gears, casings and engine component production activities in Sędziszów (Poland).

#### Electrical systems and engineering

##### Power generation and distribution systems

In the first half of 2017, Safran signed a five-year contract with Air France Industries to provide auxiliary power unit (APU) maintenance on its Airbus A330 and A340 aircraft. The contract covers 160 aircraft operated by Air France and airline customers of Air France Industries.

Through its subsidiary Aerolec (a 60/40 joint venture with Thales), Safran signed an MRO agreement with Lufthansa Technik for electrical power equipment on the A380 aircraft, manufactured at the Pitstone plant (United Kingdom). This agreement allows Safran to expand its MRO activities for equipment on the Airbus A380. Under the agreement, Safran provides MRO for a five-year period for its onboard equipment on A380s operated by Lufthansa as well as Emirates, Etihad Airways, Qantas, Malaysia Airlines and Air France.

Safran developed a new variable-frequency generator on Boeing's eco-demonstrator, for which the first dynamic full-speed bench tests proved satisfactory. During the year, Safran also delivered prototypes to General Electric for its aircraft flight tests expected to begin in the first quarter of 2018.

Safran also successfully completed certification tests for the KC-390 electrical system. Embraer will now process the results and complete the certification documents before submitting them to ANAC<sup>(2)</sup>, which will rule on certification before the summer of 2018.

Safran was selected by airline companies Iberia and Vueling to repair the Ram Air Turbine (RAT) on their A320 and A330 fleets.

In 2017, the Group's efforts were recognized and rewarded by Airbus on several occasions:

- Safran picked up the "Best Performer Gold" trophy for its exceptional performance on the manufacturer's production programs;
- Aerolec was named "Best Improver" for its ongoing improvement efforts that enabled it to achieve record quality and on-time delivery rates;
- Safran also collected the "Best Performer" award for its performance and commitment in program management and technical problem resolution.

##### Electrical wiring interconnection systems (EWIS)

In 2017 Safran celebrated the delivery of its one-millionth wiring harness for the Boeing 787. Seven of its production facilities are manufacturing parts for the Boeing 787 program, involving some 1,300 people across the globe (Everett, Charleston, Denton and Wichita in the United States, Chihuahua in Mexico, Casablanca in Morocco and Nagoya in Japan) working in related management, engineering, production and installation activities.

Saifei (a joint venture between COMAC and Safran) delivered all wiring harnesses for the first two prototypes of China's C919 aircraft, which took to the air for the first time in early 2017.

Safran was selected to repair CFM and GE engine harnesses as well as landing gear harnesses. These activities were successfully developed after being transferred to the Vichy site.

Safran signed a five-year agreement with Kaman Aerospace (United States) to supply wiring harnesses on Kaman helicopters. The first harnesses were delivered in November from Mexico's Chihuahua plant.

Safran's efforts in terms of quality, service and on-time delivery were recognized and rewarded during the year. In early March, at Safran's first plant in Chihuahua (Mexico), Safran teams celebrated the on-schedule delivery of over 10,000 wiring harnesses for the fuselage and wings of the A380 aircraft throughout the last four years (i.e., the equivalent of around 100 aircraft). Since the plant opened in 2003, Safran's teams in Mexico have advanced in terms of stability and maturity and have improved their time management to achieve this excellent 100% on-time delivery rate.

Lastly, Safran signed a technological and business cooperation agreement with Diota, a leading publisher of augmented reality software solutions for industry. This agreement covers R&D work on the design, development and operation of innovative solutions using augmented and optimized reality for Safran products, tools and services.

(1) AGB: accessory gearbox.

(2) ANAC: Agência Nacional de Aviação Civil (Brazil National Civil Aviation Authority).

### Ventilation systems and electrical engines

In 2017, Safran announced the signature of several agreements concerning ventilation systems and electrical engines for aircraft:

- at the MRO Americas trade show in Orlando (United States), Safran announced that it had signed an agreement with Turkish Technic Inc. (a Turkish Airlines subsidiary) to provide electrical equipment maintenance services for Airbus A320 and A330 aircraft operated by airline companies in Europe, in former countries of the Commonwealth of Independent States, and in Asia. This five-year agreement covers maintenance services for airplane fans, brake cooling systems and APU generators supplied by Safran to a fleet of 173 aircraft;
- at the Paris Air Show in Le Bourget, Safran announced that it had been selected by Irkut Corporation (United Air Corporation - Russia) to provide development, qualification, serial production and aftermarket services for the entire ventilation system on the new Russian single-aisle MC-21 aircraft. This system is composed of eight pieces of equipment ensuring cabin air and avionics bay cooling functions.

During the year, Safran Ventilation Systems was chosen by Cessna Aircraft (a Textron subsidiary) to supply avionics cooling systems on the Denali program (single-engine turbojet private aircraft).

Lastly, in recognition of the Group's performance and improvement plans for support and services, Airbus Helicopters named Safran "Best Performer in Service & Support".

### Industrial operations

Safran completed its plan to optimize its industrial facilities in the United States, bringing together the repair and overhaul business inherited from its acquisition of Aerosource in 2011 at its Sarasota facility in Florida. In this context, Aerosource received FAA certification for its maintenance and services business.

The sale of the Salisbury site in Maryland was finalized. The sale was part of Safran's reorganization plan for its North American activities begun in 2015 and completed at the end of 2016. Safran has now centralized its entire US electrical interconnections business at its site in Denton, Texas.

## 2.1.3.3 Defense

### Adjusted key figures

| (in € millions)                                | 2016  | 2017  | Year-on-year change |
|--|-------|-------|---------------------|
| Backlog  | 2,916 | 2,868 | -2%                 |
| Orders recorded during the year                | 1,768 | 1,422 | -20%                |
| Revenue  | 1,238 | 1,345 | +9%                 |
| Recurring operating income                     | 76    | 95    | +25%                |
| Profit from operations                         | 69    | 81    | +17%                |
| Free cash flow                                 | 17    | 105   | N/A                 |
| Acquisitions of property, plant and equipment  | 60    | 57    | -5%                 |
| Research and development                       |       |       |                     |
| Self-funded R&D                                | (113) | (123) | +9%                 |
| % of revenue                                   | 9.1%  | 9.1%  | N/A                 |
| Research tax credit                            | 36    | 37    | +3%                 |
| Self-funded R&D after research tax credit      | (77)  | (86)  | +12%                |
| Capitalized expenditure                        | 43    | 44    | +2%                 |
| Amortization and impairment of R&D expenditure | (17)  | (22)  | +29%                |
| Impact on profit from operations               | (51)  | (64)  | +25%                |
| % of revenue                                   | 4.1%  | 4.8%  | +0.7 pts            |
| Headcount                                      | 7,356 | 7,578 | +3%                 |

The Defense business operates in two key sectors:

| Sector   | % of business line revenue |      |
|----------|----------------------------|------|
|          | 2016                       | 2017 |
| Avionics | 48%                        | 42%  |
| Defense  | 52%                        | 58%  |

## Review of Defense operations in 2017

Revenue was €1,345 million, up 8.6% (8.9% organically) compared to €1,238 million in 2016. The Defense division resumed organic growth in 2017, supported by the ramp-up of recently awarded contracts both for the French and export markets. Commercial momentum continued throughout 2017, with new orders representing €1.4 billion supporting the outlook for growth.

In 2017, growth was primarily driven by military sales, with strong increases in guidance systems, drones and sighting systems, partially offset by lower helicopter flight control system shipments in avionics.

Recurring operating income was up 25% at €95 million compared to €76 million in 2016. Recurring operating margin increased 100 bps to 7.1% of revenue in 2017. Higher volumes related to military contracts drove profitability. Strong cost control and industrial performance measures implemented continued to contribute positively to the margin. R&D charged to recurring operating income was a headwind as self-funded R&D intensity was sustained, at 9.1% of revenue, in order to maintain technological leadership.

## Commercial and industrial developments

Safran Electronics & Defense streamlined its organization in 2017, moving from three divisions to two (Avionics and Defense) and bringing its R&D teams together under a single technical management division. This new streamlined organization simplifies relations with customers and also facilitates research programs, synergies and integrated solutions.

Activities related to flight controls, avionics, FADEC and aerospace were absorbed into the Avionics division, which also includes navigation systems for civil and military aircraft.

Guidance systems and seekers, drones, digital combat, sights and optronic equipment were incorporated into the Defense division. This division also includes navigation systems for sea and land applications, and high-performance inertial sensors.

## Avionics

### Flight control systems

In 2017, Safran was selected to supply the throttles on Embraer's Phenom300.

### Onboard information systems/Data management and services

Safran's WEFA<sup>(1)</sup> system was selected by various airline companies throughout the year, and over 1,000 commercial aircraft are to be fitted with the system (A320ceo, A320neo, Boeing 737 NG, ATR-500 and -600). The WEFA system enables the transfer of a large volume of flight data from the aircraft to the ground through a secure and entirely automated connection. Using this data, airline companies can immediately study safety reports, plan ahead for maintenance and reduce their operating costs.

The success of this system has placed Safran as a leader in the fast-growing sector of flight data management services for airline companies and aircraft manufacturers.

In 2017, Safran acquired the French SME ISEI, a specialist in flight data acquisition systems and associated services for helicopters and light airplanes. The systems developed and produced by ISEI round out Safran's Cassiopée range of aircraft products and services, which was designed to optimize operations for airline operators.

Safran also extended its Cassiopée products and services to LEAP engines fitted on the Airbus A320neo. This new application for Safran's Cassiopée offer allows operators to collect data directly from FADEC engine control units as well as operational information from onboard the aircraft. The new service meets the needs of airline companies in terms of monitoring the situation of their aircraft.

### Electronic equipment and onboard critical software

FADEC Alliance, a joint venture between GE and FADEC International (itself a joint venture between Safran and BAE Systems), supplies the new-generation FADEC 4 control units currently fitted onto LEAP and Passport engines.

The year confirmed the success of the FADEC programs, with:

- a ramp-up in production of control units for the LEAP-1A, LEAP-1B and Passport engines respectively powering the Airbus A320neo, Boeing 737 MAX and Bombardier's new Global 7000;
- delivery of control units for tests on the GE9X program, the sole power source on the future Boeing 777X.

In 2017, Safran embarked on new in-house studies including the development of a new version of the control unit for the M88 engine powering Rafale aircraft, and also launched the FADEX program for helicopter engine controls.

### Aerospace navigation and sensors

During the year Safran was chosen by Dassault Aviation to supply Sigma navigation systems for Rafale aircraft for the Indian armed forces.

On the civil aircraft market, Safran will fit out Alstom's new tilting train with Quapason™ vibrating gyroscope inertial sensors.

### High-performance optics

Safran was selected by the European Southern Observatory (ESO), a European organization for astronomical research, to polish, mount and test all segments in the M1 primary mirror for the future Extremely Large Telescope (ELT). With a diameter of 39 meters, the M1 will be the largest primary mirror ever built worldwide. Under the contract, the Group is responsible for polishing and integrating four of the five mirrors forming the largest optical telescope in the world. "First light" (entry-into-service) of the ELT, which is located in Chile, is expected in 2024.

(1) WEFA: Wireless Extension For ACMS (Aircraft Condition Monitoring System).

In 2017, Safran produced and delivered all of the path mirrors for the high-performance Apollon laser built by the CILEX interdisciplinary extreme light center. One of the largest and most powerful lasers in the world, Apollon will be operated by the high-power laser laboratory LULI (*Laboratoire pour l'Utilisation des Lasers Intenses*), a joint organization comprising CNRS<sup>(1)</sup>, the École Polytechnique engineering school, Université Pierre-et-Marie-Curie and the French Alternative Energies and Atomic Energy Commission.

## Defense

### Optronics and sights

**Land:** As part of the Scorpion program to modernize the French army's combat capabilities, in 2017 the Ministry of Defense placed a first order for armored vehicles (319 Griffon and 20 Jaguar), for which Safran is to supply the optronic sights and navigation system.

**Air:** At the Paris Air Show in Le Bourget, Safran unveiled Euroflir™ 410, a long-range portable optronic system for aircraft, helicopters, aerostations and drones. Both day and night, Euroflir™ 410 offers unrivaled capabilities for the most demanding missions engaging armies and security forces: intelligence, surveillance, targeting, protection, intervention, search and rescue.

Regarding STRIX sights on French army Tiger helicopters, Safran signed a contract to supply 18 new Strix optronic sights with the Organization for Joint Armament Cooperation (OCCAR) and will provide maintenance support for sights already delivered.

**Sea:** Safran signed a first sales contract for its PASEO NS (Naval System) sights in 2017. PASEO NS are part of Safran's new PASEO Marine line of naval products and are used for surveillance and fire control of naval guns of all calibers. These systems offering day/night target designation and surveillance capabilities will outfit new frigates deployed by an Asian navy as from 2018.

### Soldier modernization

The various new portable optronics contracts won in 2017 confirm the good positioning of Safran technology.

The industry-leading JIM LR long-range multifunction goggles have been adopted by the armed forces of over 40 countries. New orders were booked in 2017, bringing the number of goggles in service or on order across the globe to almost 10,000, including more than 3,500 for the French armed forces.

The success of the new Compact JIM goggles when they were first unveiled at the Eurosatory defense fair in 2016 continued in 2017, with a seventh NATO country selecting the goggles for its armed forces. These goggles are more compact, lightweight (2 kg with batteries), hardwearing, and offer intuitive ergonomic features.

Safran was selected by the United States Marine Corps to supply its ultralight gun-mounted rangefinder (I-CUGR)<sup>(2)</sup>. This new equipment gives the USMC the ability to quickly range targets without taking hands off their rifles, providing more accurate first round hits. The first I-CUGR were delivered in 2017.

### Navigation and sensors

A European leader in inertial navigation and avionics<sup>(3)</sup>, Safran delivered its 150,000<sup>th</sup> resonating gyro in 2017 since the start of serial production in the 2000s.

Safran also signed a contract for the supply of EpsilonOne inertial ground navigation systems and technical integration services to outfit a first armored brigade of a Middle Eastern country. The procurement program encompasses more than 12 different vehicle types, from all-terrain 4WD and troop transport vehicles to infantry fighting vehicles and main battle tanks.

### Seekers and guidance systems

Throughout the year, Safran also successfully managed the ramp-up of AASM<sup>(4)</sup> production, enabling it to meet the projected delivery schedule following the orders placed in 2016.

In July, the MMP mid-range missile system for which Safran supplies the seekers and firing posts, was qualified by the DGA<sup>(5)</sup>. A first batch of 50 missiles and 20 firing posts were delivered to the French armed forces in late 2017.

### Drones

#### Patroller tactical drones

Thanks to its close cooperation with the French armed forces and Directorate General of Weapons Procurement (DGA), Safran's Patroller drone took part in the July 14 Bastille Day parade, flying over the Champs Élysées and transmitting images recorded by the gyro-stabilized gimbal Euroflir™ 410.

#### Tactical land-based robot

At the end of 2017, Safran was contracted by the DGA's "Furious" Science and Technology (PST) project to lay the groundwork for the future integration of land robots into the French armed forces, as part of phase II of the Scorpion modernization program. Safran has sought additional expertise from academia and small to medium-sized businesses to fulfill this contact, which involves the development of three robot demonstrators, including the eRider autonomous vehicle and a drone.

(1) French National Center for Scientific Research.

(2) I-CUGR: Integrated Compact Ultralight Gun-mounted Rangefinder.

(3) Source: Safran.

(4) AASM: Armement air-sol modulaire (Modular Air-to-Ground Weapon).

(5) DGA: French Directorate General of Weapons Procurement.

### 2.1.3.4 Security

The financial statements relating to the Security business are included in section 3.1, Note 27 of this Registration Document.

The Security business operates in two sectors:

| Sector                | % of business line revenue |      |
|-----------------------|----------------------------|------|
|                       | 2016                       | 2017 |
| Identity and Security | 86%                        | 93%  |
| Detection             | 14%                        | 7%   |

### Commercial and industrial developments

#### Identity and Security

##### Government solutions

Up to the sale of its Identity and Security business to Advent International on May 31, 2017, Safran provided identification solutions to governments under various agreements. These included population enrollment, as well as production and personalization of identity documents. Safran offered a comprehensive range of solutions and services to governments, from ID document management to use.

##### Business solutions

In early March 2017, StarChip, a subsidiary of Safran Identity & Security, announced the shipment of its one-billionth secure microcontroller. This milestone placed StarChip as a key player in the secure chip market.

##### Public security

Up to the sale of its Identity and Security business to Advent International, the owner of Oberthur Technologies, at the end of May 2017, Safran helped police forces and government bodies detect and identify potential threats in public places in order to protect people and property.

#### Detection

Safran was mainly active in air transport security, supplying baggage explosive detection systems (EDS) using X-ray tomography and X-ray diffraction, along with equipment to analyze traces of explosives (vapors or particles). Up to April 7, the date on which its Detection business was sold to Smiths Group, Safran notably announced that:

- > it had been selected by Cardiff airport (United Kingdom) to supply CTX 9800 DSi™ hold baggage explosives detection systems;
- > it had taken an order worth over USD 40 million from the TSA<sup>(1)</sup> to supply explosives detection systems;
- > its CTX explosives detection systems had been chosen by Manchester Airports Group (MAG) to outfit three UK airports.

(1) TSA: Transportation Security Administration.

## 2.2 COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.2.1 Consolidated income statement

The simplified consolidated income statement for the year ended December 31, 2017 presented below was taken directly from the consolidated financial statements included in section 3.1 of this Registration Document.

| (in € millions)   | 2016          | 2017          | Year-on-year change |
|---|---------------|---------------|---------------------|
| <b>Revenue</b>  | <b>16,482</b> | <b>16,940</b> | <b>+2.8%</b>        |
| Other operating income and expenses                               | (13,579)      | (14,323)      |                     |
| Share in profit from joint ventures                               | 87            | 154           |                     |
| <b>Recurring operating income</b>                                 | <b>2,990</b>  | <b>2,771</b>  | <b>-7.3%</b>        |
| Other non-recurring operating income and expenses                 | 349           | (90)          |                     |
| <b>Profit from operations</b>                                     | <b>3,339</b>  | <b>2,681</b>  | <b>-19.7%</b>       |
| Financial income (loss)   | (1,052)       | 3,064         |                     |
| Income tax expense  | (398)         | (1,716)       |                     |
| <b>Profit from continuing operations</b>                          | <b>1,889</b>  | <b>4,029</b>  |                     |
| Profit from discontinued operations and assets held for sale      | 74            | 823           |                     |
| Loss for the period attributable to non-controlling interests     | (55)          | (62)          |                     |
| <b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>1,908</b>  | <b>4,790</b>  |                     |

#### Consolidated revenue

Consolidated revenue climbed 2.8% year-on-year to €16,940 million in 2017 from €16,482 million in 2016.

The difference between adjusted consolidated revenue and consolidated revenue is due to the exclusion of foreign currency derivatives from the adjusted figures (see section 2.1.1). Neutralizing the impact of foreign currency hedging in 2017 increased consolidated revenue by €419 million. This year-on-year change in the revenue impact of foreign currency hedging results from movements in average exchange rates with regard to the effective hedging rates for the period on the portion of foreign currency denominated flows hedged by the Group. For example, the hedged EUR/USD rate in 2017 was 1.21, against an annual average rate of 1.13, which explains why netting out the effect of foreign currency hedging gives a consolidated revenue figure that is higher than adjusted consolidated revenue.

Year-on-year changes in revenue excluding the impact of adjusting items are analyzed below (see section 2.1.2).

#### Recurring operating income

Recurring operating income was €2,771 million in 2017 versus €2,990 million in 2016. The difference between recurring operating income and adjusted recurring operating income (see section 2.1.2), which came in at €2,470 million, reflects:

- amortization charged against intangible assets measured when allocating the purchase price for business combinations, representing €67 million in relation to the May 2005 Sagem/Snecma business combination;

- amortization charged against intangible assets measured when allocating the purchase price for other business combinations, representing €63 million;
- a positive €438 million impact resulting from foreign currency hedging transactions.

Changes in adjusted recurring operating income are analyzed above (see section 2.1.2).

#### Profit from operations

Profit from operations was down 19.7% year-on-year to €2,681 million in 2017 from €3,339 million in 2016. Profit from operations includes recurring operating income of €2,771 million (€2,990 million in 2016) and other non-recurring items, representing an expense of €90 million (income of €349 million in 2016).

Consolidated other non-recurring items in 2016 (income of €349 million) differed from adjusted other non-recurring items (loss of €18 million) since they included the remeasurement gain on the Group's contributions to ArianeGroup totaling €367 million.

Changes in profit from operations are analyzed above (see section 2.1.2).

### Financial income (loss)

Safran reported financial income of €3,064 million in 2017 compared to a financial loss of €1,052 million in 2016.

Two items account for the difference between consolidated and adjusted financial income for 2017 (see section 2.1.2):

- changes in the fair value of currency instruments hedging future cash flows, which had a positive impact of €3,476 million in 2017. This amount is recognized in full in financial income (loss) in the consolidated financial statements. However, the impact of changes in financial instruments hedging future cash flows is neutralized in the adjusted financial statements. These changes relate to volatility in the EUR/USD exchange rate, since the currency hedging portfolio was priced based on a year-end exchange rate of 1.20 at December 31, 2017, and 1.05 at end-2016;
- the impact of foreign currency hedging on the portion of foreign exchange denominated flows hedged by the Group, representing a positive €438 million impact in 2017. This impact is recognized in financial income (loss) in the consolidated financial statements and within profit from operations (mostly in revenue) in the adjusted income statement.

### Income tax benefit (expense)

The Group reported income tax expense of €1,716 million in 2017, compared with income tax expense of €398 million in 2016.

Changes in the tax effect are primarily due to changes in the fair value of currency instruments hedging future cash flows, representing a positive impact of €3,476 million in 2017 recorded in financial income (2016: negative impact of €186 million recorded in this caption).

### Consolidated profit attributable to owners of the parent

This caption represented profit of €4,790 million for 2017 compared to profit of €1,908 million for 2016. It consists of €823 million in profit from discontinued operations, including €824 million arising on the sale of the Security business and a loss of €1 million arising on this business prior to the sale (2016: €74 million in profit from discontinued operations).

## 2.2.2 Simplified consolidated balance sheet

The simplified consolidated balance sheet at December 31, 2017 presented below was taken directly from the consolidated financial statements included in section 3.1 of this Registration Document.

| <i>(in € millions)</i>                              | 2016          | 2017          |
|---|---------------|---------------|
| <b>Assets</b>                                       |               |               |
| Goodwill  | 1,864         | 1,831         |
| Property, plant and equipment and intangible assets | 8,347         | 8,759         |
| Investments in equity-accounted companies           | 2,175         | 2,119         |
| Other non-current assets                            | 1,733         | 466           |
| Derivatives (positive fair value)                   | 620           | 582           |
| Inventories and work-in-progress                    | 4,247         | 4,496         |
| Trade and other receivables                         | 6,252         | 6,371         |
| Other current assets                                | 660           | 2,709         |
| Cash and cash equivalents                           | 1,926         | 4,914         |
| Assets relating to discontinued operations          | 3,234         | -             |
| <b>TOTAL ASSETS</b>                                 | <b>31,058</b> | <b>32,247</b> |
| <b>Equity and liabilities</b>                       |               |               |
| Share capital                                       | 6,809         | 10,624        |
| Provisions  | 3,264         | 3,403         |
| Borrowings subject to specific conditions           | 699           | 569           |
| Interest-bearing financial liabilities              | 3,337         | 4,636         |
| Derivatives (negative fair value)                   | 4,385         | 805           |
| Other non-current liabilities                       | 992           | 1,030         |
| Trade and other payables                            | 10,242        | 10,822        |
| Other current liabilities                           | 536           | 358           |
| Liabilities relating to discontinued operations     | 794           | -             |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 | <b>31,058</b> | <b>32,247</b> |



## 2.2.3 Change in consolidated net debt

The year-on-year change in the Group's net debt for 2016 and 2017 can be summarized as follows:

| (in € millions)  | 2016           | 2017         |
|--|----------------|--------------|
| <b>Cash flow from operations</b>   | <b>2,651</b>   | <b>2,410</b> |
| Change in working capital  | (168)          | 316          |
| Acquisitions of property, plant and equipment                              | (704)          | (740)        |
| Acquisitions of intangible assets  | (324)          | (262)        |
| Capitalization of R&D expenditure  | (364)          | (286)        |
| <b>Free cash flow</b>  | <b>1,091</b>   | <b>1,438</b> |
| Net debt at December 31 - discontinued operations and assets held for sale | (167)          | -            |
| Dividends paid   | (642)          | (372)        |
| Divestments/acquisitions of securities and other                           | (917)          | 611          |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                             | <b>(635)</b>   | <b>1,677</b> |
| Net debt at January 1  | (748)          | (1,383)      |
| <b>Net debt at December 31</b>   | <b>(1,383)</b> | <b>294</b>   |

Cash flow from operations is calculated by taking profit or loss before tax and adjusting for income and expenses with no cash impact, for example net charges to depreciation, amortization and provisions, and changes in the fair value of financial instruments hedging future cash flows<sup>(1)</sup>. The Group's ability to finance working capital needs, acquisitions of property, plant and equipment and intangible assets and dividends out of operating activities fell by €241 million over the year, from €2,651 million in 2016 to €2,410 million in 2017.

Operations generated €1,438 million of free cash flow (58% of adjusted recurring operating income in 2017 compared to 45% in 2016), a rise of €347 million compared to the previous year. Free cash flow generation of €1,438 million results from cash from operations of €2,410 million, a decrease of €316 million in working capital needs (related to the Group's businesses and necessary efforts to meet output rates), and a fall in R&D expenses (impact of the entry-into-service of LEAP programs (see section 1.3.1.1)).

Dividends paid in the year include the final dividend payment of €0.83 per share in respect of 2016.

Divestments/acquisitions of securities primarily relate to the pledge of €2,000 million in money market funds during the tender offer for Zodiac Aerospace (see section 3.1, Note 16), and to €3,060 million in net cash received on disposals of securities, particularly the Security business (see section 3.1, Note 3).

The net debt position was €294 million at December 31, 2017, compared to €1,383 million at December 31, 2016.

At end-2017, Safran had €4,914 million of cash and cash equivalents, as well as a confirmed undrawn credit facility totaling €2,520 million.

(1) See section 3.1, "Consolidated statement of cash flows".

## 2.3 COMMENTS ON THE PARENT COMPANY FINANCIAL STATEMENTS

### 2.3.1 Safran income statement

Safran's simplified income statement for the year ended December 31, 2017 presented below was taken directly from the parent company financial statements included in section 3.3 of this Registration Document.

| <i>(in € millions)</i>              | 2016       | 2017         |
|-------------------------------------|------------|--------------|
| Revenue                             | 525        | 552          |
| Other operating income and expenses | (601)      | (586)        |
| Loss from operations                | (76)       | (34)         |
| Financial income                    | 523        | 1,225        |
| Non-recurring items                 | 323        | 25           |
| Income tax benefit                  | 200        | 144          |
| <b>PROFIT FOR THE PERIOD</b>        | <b>970</b> | <b>1,360</b> |

Revenue came in at €552 million in 2017 versus €525 million in 2016, and chiefly includes billings of general assistance services provided by the parent company to its subsidiaries, as well as specific amounts billed to certain subsidiaries (rent, employees, IT services) and miscellaneous services related to projects (research projects for example) managed by the parent company on behalf of all of its subsidiaries. The €27 million year-on-year increase in revenue results primarily from centralized research projects.

Other operating income and expenses represented a net expense of €586 million in 2017 versus a net expense of €601 million in 2016, reflecting a continued tight rein on costs.

Safran reported a loss from operations of €34 million in 2017 and €76 million in 2016.

Safran reported financial income of €1,225 million in 2017 and €523 million in 2016. Financial income includes dividends received from subsidiaries totaling €1,262 million, compared to €514 million in 2016. Lower dividends paid in 2016 were mainly attributable to the interim dividends paid in 2015 by Safran Aircraft Engines (€380 million) and Safran Electronics & Defense (€427 million).

This caption also includes a net interest expense of €3 million in 2017 (net interest income of €7 million in 2016) and foreign exchange losses of €36 million (€15 million in foreign exchange losses in 2016).

Safran reported non-recurring income of €25 million in 2017 and €323 million in 2016. Non-recurring items in 2017 mainly relate to:

- the sale of the "Morpho" brand as part of the sale of Safran's Identity and Security businesses for €15 million. The Morpho brand was not carried on the balance sheet;
- the sale of Embraer shares, generating a net capital gain of €3 million.

Income tax represented a benefit of €33 million under the Group's tax consolidation regime, compared to a benefit of €53 million in 2016. This caption also includes a net reversal from the provision for the transfer of the tax saving arising on the French tax group from Safran to its loss-making subsidiaries in an amount of €111 million in 2017 (€147 million in 2016).

On account of the above, profit for the year came in at €1,360 million, compared to €970 million in 2016.

## 2.3.2 Simplified balance sheet

Safran's simplified balance sheet at December 31, 2017 presented below was taken directly from the parent company financial statements included in section 3.3 of this Registration Document.

| <i>(in € millions)</i>                     | 2016          | 2017          |
|--|---------------|---------------|
| <b>Assets</b>                              |               |               |
| Non-current assets                         | 10,821        | 12,946        |
| Cash equivalents and marketable securities | 1,820         | 4,829         |
| Other current assets                       | 3,904         | 2,446         |
| <b>TOTAL ASSETS</b>                        | <b>16,545</b> | <b>20,221</b> |
| <b>Equity and liabilities</b>              |               |               |
| Share capital                              | 7,274         | 8,289         |
| Provisions                                 | 570           | 468           |
| Borrowings                                 | 3,040         | 4,342         |
| Other payables                             | 5,661         | 7,122         |
| <b>TOTAL EQUITY AND LIABILITIES</b>        | <b>16,545</b> | <b>20,221</b> |

The increase in equity in 2017 reflects profit for the year totaling €1,360 million, dividends paid in 2017 for a total of €340 million in respect of the remaining dividend balance for 2016, and a net reversal from tax-driven provisions amounting to €5 million.

The increase in non-current assets is chiefly attributable to the pledge of €2,000 million worth of money market funds in

connection with the Zodiac Aerospace acquisition and to the purchase of treasury shares for €403 million in the context of the share buyback program (see section 2.2.3).

The increase in borrowings results mainly from Safran's issue of €1,000 million in floating-rate bonds, divided into two tranches (see section 3, Note 22, "Interest-bearing liabilities").

## 2.3.3 Other information

### Supplier and customer payment periods

Pursuant to Article D.441-4 of the French Commercial Code, the table below shows outstanding invoices due and past due at the end of the reporting period:

|   | Article D.441 I.-1: Invoices received but not settled at December 31, 2017   |              |               |               |                   |                        | Article D.441 I.-2: Invoices issued but not settled at December 31, 2017   |              |               |               |                   |                        |
|---|--|--------------|---------------|---------------|-------------------|------------------------|--|--------------|---------------|---------------|-------------------|------------------------|
|   | 0 days (indicative)  | 1 to 30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total (1 or more days) | 0 days (indicative)  | 1 to 30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total (1 or more days) |
| <b>(A) Breakdown of past due payments</b>   |  |              |               |               |                   |                        |  |              |               |               |                   |                        |
| Number of invoices concerned  | -  |              |               |               |                   | 79                     | -  |              |               |               |                   | 290                    |
| Total amount of invoices concerned including VAT (€)  | -  | 255,800      | 70,910        | 1,734         | 356,009           | 684,454                | -  | 3,473,847    | 28,505        | 29,698        | 1,037,013         | 4,569,064              |
| % total purchases in 2017 including VAT   | -  | 0.1%         | 0.0%          | 0.0%          | 0.1%              | 0.2%                   |  |              |               |               |                   |                        |
| % revenue in 2017 including VAT   |  |              |               |               |                   |                        | -  | 0.5%         | 0.0%          | 0.0%          | 0.1%              | 0.6%                   |
| <b>(B) Invoices excluded from (A) relating to disputed or unrecognized payables and receivables</b>   |  |              |               |               |                   |                        |  |              |               |               |                   |                        |
| Number of invoices excluded   |  |              |               |               |                   | 332                    |  |              |               |               |                   | 6                      |
| Total amount of invoices excluded (€)   |  |              |               |               |                   | 2,433,094              |  |              |               |               |                   | 126,991                |
| <b>(C) Reference payment terms used (contractual or statutory terms pursuant to Article L.441-6 or L.443-1 of the French Commercial Code)</b> |  |              |               |               |                   |                        |  |              |               |               |                   |                        |
| Reference payment terms used to calculate past due payments   | <input checked="" type="checkbox"/> Contractual terms: <i>CONTRACTUAL TERMS</i><br><input type="checkbox"/> Statutory terms: (specify) |              |               |               |                   |                        | <input checked="" type="checkbox"/> Contractual terms: <i>CONTRACTUAL TERMS</i><br><input type="checkbox"/> Statutory terms: (specify) |              |               |               |                   |                        |

### Non-deductible expenses

Non-deductible expenses (Article 223 quater and Article 39.4 of the French Tax Code) amounted to €0.1 million in 2017 as in 2016, and relate to the non-deductible portion of vehicle lease payments and depreciation.

### Dividends

Dividends that have not been claimed within five years are time-barred and paid over to the French State in accordance with the applicable legislation.

Future dividends will depend on Safran's ability to generate profits, its financial position and any other factors deemed relevant by the Company's corporate governance bodies.

Details of previous dividend payments are included in the proposed appropriation of profit for 2017 and the five-year financial summary of the Company set out below.

### Proposed appropriation of 2017 profit

The Board of Directors recommends appropriating profit for 2017 as follows:

|                                   |                   |
|-----------------------------------|-------------------|
| Profit for 2017                   | €1,359,762,344.15 |
| Retained earnings <sup>(1)</sup>  | €1,801,147,979.31 |
| Profit available for distribution | €3,160,910,323.46 |
| Appropriation:                    |                   |
| Dividend                          | €709,889,028.80   |
| Retained earnings                 | €2,451,021,294.66 |

(1) Including €7,301,487.92 corresponding to the 2016 dividend due on shares held in treasury at the dividend payment date.

Accordingly, the dividend will be €1.60 per share and will be paid on May 31, 2018. The ex-dividend date will be May 29, 2018.

Individual shareholders domiciled for tax purposes in France are eligible for 40% tax relief on the full amount of their dividend pursuant to Article 158, 3-2° of the French Tax Code.

The dividends not payable on shares held in treasury will be credited to retained earnings.

The dividends paid for the past three years were as follows:

| Year | Number of shares carrying dividends rights <sup>(1)</sup> | Net dividend per share | Total payout <sup>(5)</sup> |
|------|---|------------------------|-----------------------------|
| 2016 | 409,239,433 <sup>(2)</sup>                                | €1.52                  | €626,602,111.28             |
| 2015 | 416,410,610 <sup>(3)</sup>                                | €1.38                  | €574,637,624.40             |
| 2014 | 416,459,463 <sup>(4)</sup>                                | €1.20                  | €499,711,590.56             |

(1) Total number of shares making up the Company's capital (417,029,585), less the number of Safran shares held in treasury at the dividend payment date.

(2) An interim dividend (€0.69) was paid on 415,845,481 shares and the remainder of the dividend (€0.83) was paid on 409,239,433 shares.

(3) An interim dividend (€0.60) was paid on 416,395,581 shares and the remainder of the dividend (€0.78) was paid on 416,410,610 shares.

(4) An interim dividend (€0.56) was paid on 416,388,454 shares and the remainder of the dividend (€0.64) was paid on 416,459,463 shares.

(5) Fully eligible for the 40% tax relief provided for under Article 158, 3-2° of the French Tax Code.

## Five-year financial summary of the Company

| (in €)  | 2013                      | 2014          | 2015                      | 2016                      | 2017                      |
|---|---------------------------|---------------|---------------------------|---------------------------|---------------------------|
| <b>Capital at December 31</b>   |                           |               |                           |                           |                           |
| Share capital   | 83,405,917                | 83,405,917    | 83,405,917                | 83,405,917                | 83,405,917                |
| Number of ordinary shares outstanding   | 417,029,585               | 417,029,585   | 417,029,585               | 417,029,585               | 417,029,585               |
| <b>Financial results</b>  |                           |               |                           |                           |                           |
| Profit before tax, statutory employee profit-sharing, depreciation, amortization and provisions | 351,489,419               | 218,114,906   | 1,564,574,645             | 767,391,743               | 1,251,397,582             |
| Income tax expense (benefit)  | (49,857,914)              | (135,606,853) | (102,700,757)             | (52,805,019)              | (33,064,752)              |
| Statutory employee profit-sharing for the fiscal year   | -                         | -             | -                         | -                         | -                         |
| Profit after tax, statutory employee profit-sharing, depreciation, amortization and provisions  | 327,839,113               | 654,303,872   | 1,648,209,397             | 969,870,638               | 1,359,762,344             |
| Dividend payment  | 467,073,135               | 500,435,502   | 575,500,827               | 633,884,969               | 667,247,336               |
| <b>Per share data</b>   |                           |               |                           |                           |                           |
| Profit after tax, statutory employee profit-sharing, depreciation, amortization and provisions  |                           |               |                           |                           |                           |
| > divided by the number of shares outstanding   | 0.96                      | 0.85          | 4.00                      | 1.97                      | 3.08                      |
| Profit after tax, statutory employee profit-sharing, depreciation, amortization and provisions  |                           |               |                           |                           |                           |
| > divided by the number of shares outstanding   | 0.79                      | 1.57          | 3.95                      | 2.33                      | 3.26                      |
| Net dividend  |                           |               |                           |                           |                           |
| > per ordinary share outstanding  | 1.12                      | 1.20          | 1.38                      | 1.52                      | 1.60                      |
| <b>Employees</b>  |                           |               |                           |                           |                           |
| Average number of employees during the fiscal year  | 1,211                     | 1,370         | 1,519                     | 1,577                     | 1,624                     |
| Total payroll   | 109,929,617               | 124,923,990   | 133,628,961               | 140,807,877               | 145,288,974               |
| Social security and other social welfare contributions  | 71,358,273 <sup>(1)</sup> | 75,609,338    | 88,424,113 <sup>(2)</sup> | 88,550,754 <sup>(3)</sup> | 95,952,479 <sup>(4)</sup> |

(1) Including €3.7 million in respect of the international free share plan, of which the full amount of €3.7 million was rebilled to the European subsidiaries employing the beneficiaries.

(2) Including €7.4 million in contributions paid to the insurer that manages the defined benefit pension plan.

(3) Including €5.0 million in contributions paid to the insurer that manages the defined benefit pension plan.

(4) Including €6.6 million in contributions paid to the insurer that manages the defined benefit pension plan.

## 2.4 OUTLOOK FOR 2018

2018 guidance is established considering the full application of the new IFRS 15 revenue recognition standard and is based on continuing operations (Aerospace Propulsion, Aircraft Equipment, Defense, Holding & Others) at the Group's scope as of January 1, 2018.

Compared to its 2017 estimated restated key metrics for the application of IFRS 15, Safran expects for the full year 2018:

- > adjusted revenue to grow between 2% and 4% on an organic basis. At an estimated average spot rate of USD 1.23 to the euro in 2018, adjusted revenue is expected to be flat;
- > adjusted recurring operating income to grow between 7% and 10% (at a hedged rate of USD 1.18 to the euro);
- > free cash flow to be above 50% of adjusted recurring operating income, an element of uncertainty being the rhythm of payments by state-clients.

The guidance is based notably on the following assumptions:

- > increase in aerospace OE deliveries, despite a fall in high thrust engine module volumes;
- > civil aftermarket growth in the high single digits;

> CFM56 - LEAP transition: overall negative impact on Propulsion adjusted recurring operating income in the range of €150 million to €200 million, which represents a significant reduction compared to 2017;

- lower CFM56 OE volumes,
- negative margin on LEAP deliveries;
- > reduction of self-funded R&D<sup>(1)</sup> of the order of €150 million;
- > positive impact on recurring operating income after activation and amortization of capitalized R&D;
- > capex outflows at a similar level to 2017;
- > continued benefits from productivity improvements.

Regarding the acquisition of Zodiac Aerospace, an integration team is in place and already hard at work tasked notably with deploying Safran processes and methodologies and delivering the synergies. Additional information will be provided to the market over the coming months, starting in April.

### Factors with a potential impact on results

Major risk factors that could have an adverse impact on the Group's business, financial position or results of operations are described in chapter 4.

## 2.5 ACQUISITION OF ZODIAC AEROSPACE

### 2017 key stages

#### January 19, 2017: Announcement of an initial planned business combination

Safran and Zodiac Aerospace announce that they are in exclusive negotiations with a view to a business combination. This initial plan is for a public tender offer to be launched by Safran for Zodiac Aerospace shares, followed by a merger of Zodiac Aerospace into Safran.

Following Zodiac Aerospace's publication of profit warnings for the 2016/2017 fiscal year (ended February 28, 2017) on March 14, 2017 and April 28, 2017, Safran and Zodiac Aerospace continued their exclusive negotiations and Safran conducted additional due diligence, enabling it to confirm the compelling strategic interest of an acquisition and the potential for value creation.

#### May 24, 2017: Announcement of new terms for the Offer

At the end of this process, Safran and Zodiac Aerospace entered into a business combination agreement under new terms, consisting of a tender offer on a principal basis, together with a capped subsidiary exchange offer (together, the "Offer") and published a press release announcing the new terms of their combination.

On May 23, 2017, the new terms of the transaction were unanimously approved by Safran's Board of Directors and by the Management Board and Supervisory Board of Zodiac Aerospace.

#### Between end-May and end-June 2017: Signature of agreements with Zodiac Aerospace's reference shareholders and information/consultation proceedings with the employee representative bodies of both groups

Safran signed agreements with Zodiac Aerospace's reference shareholders comprising (i) holding and tender agreements with Zodiac's largest institutional shareholders (FFP, FSP - Fonds Stratégique de Participation and certain family shareholders) representing around 27% of the share capital, and (ii) residual interest undertakings with certain Zodiac Aerospace family shareholders covering at least 5% of the share capital.

In parallel, Safran fulfilled its information obligations and Zodiac Aerospace its information and consultation obligations with regard to employee representative bodies. On June 23, 2017, Zodiac Aerospace's Works Committee issued a unanimous favorable opinion on the transaction.

(1) In application of IFRS 15, self-funded R&D for the period includes some development spending to be funded by customers and recognized in OE revenue at a later date.

## June 15, 2017: Safran Shareholders' Meeting

At Safran's Extraordinary Shareholders' Meeting, Safran shareholders approved the resolutions authorizing the issue, in the event the offer were to be successful, of class A preferred shares to Zodiac Aerospace shareholders having tendered their shares to the Subsidiary Exchange Offer (see chapter 7, sections 7.1.2.2 and 7.1.2.3 for a description of class A preferred shares).

## December 2017: Filing of the draft Offer with the AMF and acceptance of the Offer

On December 6, Safran's Board of Directors unanimously decided to file the draft Offer with the French financial markets authority (*Autorité des marchés financiers* - AMF). On the same date, Zodiac Aerospace's Supervisory Board, after having considered an independent fairness opinion, issued a unanimous informed opinion recommending that shareholders tender their shares to the Offer. On December 21, 2017, the AMF published a favorable opinion on the Offer, allowing the initial Offer period to run from December 27, 2017 to January 31, 2018.

## Rationale for the business combination

Safran is an international high-technology group operating in the aircraft propulsion and equipment, space and defense markets.

Zodiac Aerospace specializes in the design, manufacture, marketing and sale of aircraft equipment and is a world leader in many different segments (pilot and passenger seating, onboard toilets and sanitation systems, flight systems, safety equipment and technological equipment), and has a strong presence in North America.

The transaction has created a world leader in aircraft equipment, allying the market-leading positions, expertise, technologies and talents of both Safran and Zodiac Aerospace. The new entity will combine Safran's capabilities in landing gear, wheels and brakes, nacelles, power systems, actuation and avionics with Zodiac Aerospace's leading positions in seats, cabin interiors,

power distribution, lighting, fuel, oxygen and fluid systems and safety equipment.

In electrical systems, Zodiac Aerospace's assets will reinforce Safran's portfolio of technologies and position the group ideally for future development towards the "more electrical aircraft".

On a pro forma basis, the combined group would have over 91,000 employees (of which more than 45,000 in France), around €21 billion in adjusted revenue, and around €2.7 billion in adjusted recurring operating income<sup>(1)</sup>.

On this basis, the combined group would form the third largest player worldwide in the aerospace sector<sup>(2)</sup>. The combined group would become the second largest player worldwide in aircraft equipment, with pro forma revenue in this business of some €10 billion<sup>(3)</sup> and would be present in over 60 countries.

## Success of the Offer and takeover of Zodiac Aerospace by Safran

**On February 6, 2018, the AMF published the results of the initial Offer.** Safran acquired a total of 233,664,224 Zodiac Aerospace shares in the context of the Offer, representing 79.74% of the company's share capital and 71.87% of its voting rights<sup>(4)</sup>. This exceeded the acceptance threshold, set at 50% of Zodiac Aerospace's share capital or voting rights, and the withdrawal threshold, set at 66.67% of the voting rights exercisable at a shareholders' meeting. Safran therefore owns around 88.23% of Zodiac Aerospace's share capital, given (i) the treasury shares held by Zodiac Aerospace, representing 4.31% of its share capital and which were not tendered to the Offer, and (ii) Zodiac Aerospace shares covered by the residual interest undertaking, representing around 4.18% of its share capital.

**On February 13, 2018, the settlement date for the initial Offer, Safran obtained exclusive control of Zodiac Aerospace.** On the same date, Safran issued 26,651,058 class A preferred shares in consideration for the 88,847,828 Zodiac Aerospace

shares effectively tendered to the Subsidiary Exchange Offer (after application of the reductions provided for). Safran's bylaws were amended accordingly, pursuant to the terms of the thirty-second and thirty-third resolutions approved by the General Shareholders' Meeting of June 15, 2017.

**On February 13, 2018, Zodiac Aerospace's Supervisory Board met and:**

- placed on record the resignation of eight of its members;
- approved the appointment of five of its members put forward by Safran;
- appointed Louis Desanges as new Chairman of the Supervisory Board and appointed Bernard Delpit as Vice-Chairman;
- appointed a new Management Board comprising three members put forward by Safran, including the Chairman, Vincent Mascré, formerly Chairman of Safran Landing Systems.

(1) Pro forma based on Safran's results for 2016, excluding Safran Identity & Security, and Zodiac Aerospace's results for 2015/2016 at August 31, 2016.

(2) Excluding aircraft manufacturers and system builders.

(3) Pro forma based on Safran's results for 2016 and Zodiac Aerospace's results for 2015/2016 at August 31, 2016.

(4) Based on share capital comprising 293,046,975 shares, representing a maximum of 325,122,966 theoretical voting rights, given the cancellation of at least 51,484,780 double voting rights attached to Zodiac Aerospace shares held in registered form and tendered to the Offer.

## 2 REVIEW OF OPERATIONS IN 2017 AND OUTLOOK FOR 2018

### Subsequent events

On March 8, 2018, the AMF published the results of the Subsequent Offer (for the tender offer portion) which ran from February 19 to March 2, 2018 and which was designed to enable any Zodiac Aerospace shareholders who had not yet done so to tender their shares to the Offer.

### Mandatory squeeze-out

On March 23, 2018, Zodiac Aerospace's shares were delisted after Safran implemented a mandatory squeeze-out of Zodiac Aerospace's shares, pursuant to articles L.433-4 III of the Monetary and Financial Code and 237-14 et seq. of the AMF's General Regulations.

The mandatory squeeze-out procedure targeted all Zodiac Aerospace shares not tendered to the Offer, with the exception of (i) the 12,625,784 Zodiac Aerospace treasury shares being treated as Zodiac Aerospace shares held by Safran, (ii) the 12,565,235 Zodiac Aerospace shares which remain targeted by the residual

Safran acquired 27,310,744 additional Zodiac Aerospace shares in the context of the Subsequent Offer, bringing the total number of shares acquired in the Offer to 286,241,204, representing 97.67% of the share capital and at least 96.61% of the voting rights of Zodiac Aerospace.

### Next steps

#### Merger

Safran reserves the right to consider the best ways in which Zodiac Aerospace can be integrated within the Group and to merge Zodiac Aerospace into Safran by any means subsequent to the Offer. The terms and conditions of any such merger would be subject to prior consultation with the employee representative bodies of Safran and Zodiac Aerospace in the allotted timeframes, and where appropriate to a review by the AMF in compliance with applicable regulations.

interest undertaking described in paragraph 1.4.3 of Safran's information memorandum, and (iii) the 384,717 free shares in their holding period and shares blocked in Zodiac Aerospace's company savings plan (*plan d'épargne d'entreprise* – PEE) with respect to which a call option has been granted to Safran under the liquidity mechanism described in paragraph 1.4.4 of Safran's information memorandum. The mandatory squeeze-out targeted a total of 6,829,279 Zodiac Aerospace shares, and was executed at the same price as that of the Offer, i.e., a price of €25 per Zodiac Aerospace share (net of all expenses).

#### Business combination: operational issues

On December 1, 2017, Safran appointed Hélène Moreau-Leroy to head up the Zodiac integration project, responsible for:

- > structuring and leading the project;
- > putting in place measures to guarantee business continuity;
- > delivering on synergies;
- > rolling out methodological processes and tools;
- > optimizing corporate support functions and processes driving customer satisfaction and operational efficiency.

## 2.6 SUBSEQUENT EVENTS

None.





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# FINANCIAL STATEMENTS

# 3



## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

The consolidated financial statements of Safran and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union at the date the consolidated financial statements were approved by the Board of Directors.

### Simplified consolidated income statement

| (in € millions)            | 2016   | 2017   |
|----------------------------|--------|--------|
| Revenue                    | 16,482 | 16,940 |
| Recurring operating income | 2,990  | 2,771  |
| Profit from operations     | 3,339  | 2,681  |
| Attributable profit        | 1,908  | 4,790  |

## PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

The parent company financial statements for the year ended December 31, 2017 have been prepared in accordance with the rules and regulations applicable in France pursuant to Regulation 2016-07 of November 4, 2016 issued by the French accounting standards-setter (*Autorité des Normes Comptables - ANC*) as well as the subsequent opinions and recommendations issued by the ANC.

### Simplified parent company income statement

| (in € millions)                            | 2016 | 2017  |
|--|------|-------|
| Revenue                                    | 525  | 552   |
| Profit from ordinary activities before tax | 447  | 1,191 |
| Profit for the year                        | 970  | 1,360 |

## IN ACCORDANCE WITH ARTICLE 28 OF REGULATION (EC) 809/2004 OF THE EUROPEAN COMMISSION, THE FOLLOWING INFORMATION IS INCORPORATED BY REFERENCE IN THIS REGISTRATION DOCUMENT:

- The consolidated and parent company financial statements for the year ended December 31, 2015 and the corresponding audit reports as presented in sections 3.2 and 3.4 of the 2015 Registration Document filed with the AMF on March 30, 2016 under number D. 16-0225; the consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union;
- The consolidated and parent company financial statements for the year ended December 31, 2016 and the corresponding audit reports as presented in sections 3.2 and 3.4 of the 2016 Registration Document filed with the AMF on March 30, 2017 under number D. 17-0275; the consolidated financial statements were prepared in accordance with IFRS as adopted by the European Union.

Those sections of the 2015 and 2016 Registration Documents that are not incorporated by reference in this document are either considered no longer pertinent for investors or are dealt with in another section of the 2017 Registration Document.

## 3.1 GROUP CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

### Consolidated income statement

| <i>(in € millions)</i>  | Note     | 2016           | 2017          |
|---|----------|----------------|---------------|
| <b>Revenue</b>  | <b>5</b> | <b>16,482</b>  | <b>16,940</b> |
| Other income  | 5        | 277            | 278           |
| <b>Income from operations</b>   |          | <b>16,759</b>  | <b>17,218</b> |
| Change in inventories of finished goods and work-in-progress  |          | 308            | 227           |
| Capitalized production  |          | 624            | 501           |
| Raw materials and consumables used  | 5        | (9,340)        | (9,709)       |
| Personnel costs   | 5        | (4,406)        | (4,353)       |
| Taxes   |          | (286)          | (284)         |
| Depreciation, amortization and increase in provisions, net of use   | 5        | (634)          | (1,078)       |
| Asset impairment  | 5        | (237)          | (72)          |
| Other recurring operating income and expenses   | 5        | 115            | 167           |
| Share in profit from joint ventures   | 13       | 87             | 154           |
| <b>Recurring operating income</b>   |          | <b>2,990</b>   | <b>2,771</b>  |
| Other non-recurring operating income and expenses   | 5        | 349            | (90)          |
| <b>Profit from operations</b>   |          | <b>3,339</b>   | <b>2,681</b>  |
| Cost of net debt  |          | (51)           | (57)          |
| Foreign exchange gain (loss)  |          | (943)          | 3,143         |
| Other financial income and expense  |          | (58)           | (22)          |
| <b>Financial income (loss)</b>  | <b>6</b> | <b>(1,052)</b> | <b>3,064</b>  |
| <b>Profit before tax</b>  |          | <b>2,287</b>   | <b>5,745</b>  |
| Income tax expense  | 7        | (398)          | (1,716)       |
| <b>Profit from continuing operations</b>  |          | <b>1,889</b>   | <b>4,029</b>  |
| Profit from discontinued operations and disposal gain   | 27       | 74             | 823           |
| <b>PROFIT FOR THE PERIOD</b>  |          | <b>1,963</b>   | <b>4,852</b>  |
| <b>Attributable to:</b>   |          |                |               |
| > owners of the parent  |          | 1,908          | 4,790         |
| <i>continuing operations</i>  |          | 1,836          | 3,968         |
| <i>discontinued operations</i>  |          | 72             | 822           |
| > non-controlling interests   |          | 55             | 62            |
| <i>continuing operations</i>  |          | 53             | 61            |
| <i>discontinued operations</i>  |          | 2              | 1             |
| <b>Earnings per share from continuing operations attributable to owners of the parent</b> <i>(in €)</i>   | <b>8</b> |                |               |
| Basic earnings per share  |          | 4.41           | 9.67          |
| Diluted earnings per share  |          | 4.33           | 9.50          |
| <b>Earnings per share from discontinued operations attributable to owners of the parent</b> <i>(in €)</i> | <b>8</b> |                |               |
| Basic earnings per share  |          | 0.17           | 2.00          |
| Diluted earnings per share  |          | 0.17           | 1.97          |

## Consolidated statement of comprehensive income

| <i>(in € millions)</i>  | Note | 2016         | 2017         |
|---|------|--------------|--------------|
| <b>Profit for the period</b>  |      | <b>1,963</b> | <b>4,852</b> |
| <b>Other comprehensive income</b>   |      |              |              |
| <b>Items to be reclassified to profit</b>   |      | <b>12</b>    | <b>(517)</b> |
| Available-for-sale financial assets   | 12   | (6)          | (7)          |
| Foreign exchange differences and net investment hedges  |      | (9)          | (211)        |
| Income tax related to components of other comprehensive income to be reclassified to profit                     |      | 8            | (40)         |
| Share in other comprehensive income of equity-accounted companies to be reclassified to profit (net of tax)     | 13   | 11           | (33)         |
| Items related to discontinued operations to be reclassified to profit   |      | 8            | (220)        |
| Income tax on items related to discontinued operations to be reclassified to profit                             |      | -            | (6)          |
| <b>Items not to be reclassified to profit</b>   |      | <b>(109)</b> | <b>34</b>    |
| Actuarial gains and losses on post-employment benefits  | 20.c | (131)        | 43           |
| Income tax related to components of other comprehensive income not to be reclassified to profit                 |      | 24           | (7)          |
| Share in other comprehensive income of equity-accounted companies not to be reclassified to profit (net of tax) |      | (1)          | (2)          |
| Items related to discontinued operations not to be reclassified to profit (net of tax)                          |      | (1)          | -            |
| <b>Other comprehensive income (expense) for the period</b>  |      | <b>(97)</b>  | <b>(483)</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>  |      | <b>1,866</b> | <b>4,369</b> |
| <b>Attributable to:</b>   |      |              |              |
| ➤ owners of the parent  |      | 1,811        | 4,312        |
| <i>continuing operations</i>  |      | 1,730        | 3,716        |
| <i>discontinued operations</i>  |      | 81           | 596          |
| ➤ non-controlling interests   |      | 55           | 57           |
| <i>continuing operations</i>  |      | 53           | 56           |
| <i>discontinued operations</i>  |      | 2            | 1            |

### In 2017:

Other comprehensive income relating to foreign exchange differences and net investment hedges includes:

- €13 million in foreign exchange losses (gains of €7 million in 2016) arising in the period on long-term financing for foreign subsidiaries. This financing meets the criteria for classification as a net investment in a foreign operation and is treated in accordance with the applicable provisions of IAS 21;
- €138 million in foreign exchange gains (losses of €36 million in 2016) 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; and
- €336 million in foreign exchange losses (gains of €20 million in 2016) arising in the period on foreign operations.

Other comprehensive income relating to equity-accounted companies (net of tax) includes (see Note 13, "Investments in equity-accounted companies"):

- €49 million in translation losses (gains of €11 million in 2016) arising in the period on foreign joint ventures;
- a positive amount of €16 million relating to cash flow hedges of joint ventures (nil in 2016); and
- €2 million in actuarial losses arising on employee benefit obligations for joint ventures (losses of €1 million in 2016).

Items of comprehensive income to be reclassified to profit relating to discontinued operations comprise pre-tax income of €220 million in unrealized foreign exchange differences reclassified to profit further to the disposal of the Security businesses during the first half of 2017, and mainly relate to the US entities sold as part of this divestment. The related tax reclassified to profit represents income of €6 million.

## Consolidated balance sheet

### Assets

| <i>(in € millions)</i>                        | Note | Dec. 31, 2016 | Dec. 31, 2017 |
|---|------|---------------|---------------|
| Goodwill                                      | 9    | 1,864         | 1,831         |
| Intangible assets                             | 10   | 5,178         | 5,241         |
| Property, plant and equipment                 | 11   | 3,169         | 3,518         |
| Non-current financial assets                  | 12   | 382           | 324           |
| Investments in equity-accounted companies     | 13   | 2,175         | 2,119         |
| Non-current derivatives (positive fair value) | 26   | 28            | 16            |
| Deferred tax assets                           | 7    | 1,351         | 142           |
| <b>Non-current assets</b>                     |      | <b>14,147</b> | <b>13,191</b> |
| Current financial assets                      | 12   | 147           | 2,113         |
| Current derivatives (positive fair value)     | 26   | 592           | 566           |
| Inventories and work-in-progress              | 14   | 4,247         | 4,496         |
| Trade and other receivables                   | 15   | 6,252         | 6,371         |
| Tax assets                                    | 7    | 513           | 596           |
| Cash and cash equivalents                     | 16   | 1,926         | 4,914         |
| <b>Current assets</b>                         |      | <b>13,677</b> | <b>19,056</b> |
| Assets related to discontinued operations     | 27   | 3,234         | -             |
| <b>TOTAL ASSETS</b>                           |      | <b>31,058</b> | <b>32,247</b> |

### Equity and liabilities

| <i>(in € millions)</i>                                      | Note | Dec. 31, 2016 | Dec. 31, 2017 |
|---|------|---------------|---------------|
| Share capital   | 18   | 83            | 83            |
| Consolidated retained earnings                              | 18   | 4,495         | 5,420         |
| Net unrealized gains on available-for-sale financial assets | 18   | 35            | 28            |
| Profit for the period                                       |      | 1,908         | 4,790         |
| <b>Equity attributable to owners of the parent</b>          |      | <b>6,521</b>  | <b>10,321</b> |
| <b>Non-controlling interests</b>                            |      | <b>288</b>    | <b>303</b>    |
| <b>Total equity</b>   |      | <b>6,809</b>  | <b>10,624</b> |
| Provisions  | 19   | 1,706         | 1,497         |
| Borrowings subject to specific conditions                   | 21   | 699           | 569           |
| Non-current interest-bearing financial liabilities          | 22   | 2,392         | 3,246         |
| Non-current derivatives (negative fair value)               | 26   | -             | -             |
| Deferred tax liabilities                                    | 7    | 987           | 1,022         |
| Other non-current financial liabilities                     | 24   | 5             | 8             |
| <b>Non-current liabilities</b>                              |      | <b>5,789</b>  | <b>6,342</b>  |
| Provisions  | 19   | 1,558         | 1,906         |
| Current interest-bearing financial liabilities              | 22   | 945           | 1,390         |
| Trade and other payables                                    | 23   | 10,242        | 10,822        |
| Tax liabilities   | 7    | 179           | 214           |
| Current derivatives (negative fair value)                   | 26   | 4,385         | 805           |
| Other current financial liabilities                         | 24   | 357           | 144           |
| <b>Current liabilities</b>                                  |      | <b>17,666</b> | <b>15,281</b> |
| Liabilities related to discontinued operations              | 27   | 794           | -             |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         |      | <b>31,058</b> | <b>32,247</b> |

## Consolidated statement of changes in shareholders' equity

| (in € millions)                                    | Share capital | Additional paid-in capital | Treasury shares | Available-for-sale financial assets | Foreign exchange differences and net investment hedges | 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         |
|--|---------------|----------------------------|-----------------|-------------------------------------|--|---|--|------------------------------|---------------------|---|---------------------------|---------------|
| <b>At January 1, 2016</b>                          | <b>83</b>     | <b>3,360</b>               | <b>(19)</b>     | <b>41</b>                           | <b>522</b>   | <b>2,229</b>                                | <b>(363)</b>   | <b>(424)</b>                 | <b>198</b>          | <b>5,627</b>                                | <b>266</b>                | <b>5,893</b>  |
| Comprehensive income (expense) for the period      | -             | -                          | -               | (6)                                 | 8  | -   | (131)  | 1,908                        | 32 <sup>(1)</sup>   | 1,811                                       | 55                        | 1,866         |
| Acquisitions/disposals of treasury shares          | -             | -                          | (38)            | -                                   | -  | -   | -  | -                            | -                   | (38)  | -                         | (38)          |
| Dividends  | -             | -                          | -               | -                                   | -  | (325)                                       | -  | -                            | -                   | (325)                                       | (30)                      | (355)         |
| 2016 interim dividend                              | -             | -                          | -               | -                                   | -  | (287)                                       | -  | -                            | -                   | (287)                                       | -                         | (287)         |
| OCEANE 2016-2020 bond                              | -             | -                          | -               | -                                   | -  | 44  | -  | -                            | -                   | 44  | -                         | 44            |
| Share buyback program                              | -             | -                          | (42)            | -                                   | -  | (208)                                       | -  | -                            | -                   | (250)                                       | -                         | (250)         |
| Acquisition of non-controlling interests           | -             | -                          | -               | -                                   | -  | -   | -  | -                            | (6)                 | (6)   | (1)                       | (7)           |
| Other movements, including appropriation of profit | -             | -                          | -               | -                                   | -  | (439)                                       | 15   | 424                          | (55)                | (55)  | (2)                       | (57)          |
| <b>At December 31, 2016</b>                        | <b>83</b>     | <b>3,360</b>               | <b>(99)</b>     | <b>35</b>                           | <b>530</b>   | <b>1,014</b>                                | <b>(479)</b>   | <b>1,908</b>                 | <b>169</b>          | <b>6,521</b>                                | <b>288</b>                | <b>6,809</b>  |
| Comprehensive income (expense) for the period      | -             | -                          | -               | (7)                                 | (474)  | 16  | 40   | 4,790                        | (53) <sup>(1)</sup> | 4,312                                       | 57                        | 4,369         |
| Acquisitions/disposals of treasury shares          | -             | -                          | (8)             | -                                   | -  | -   | -  | -                            | -                   | (8)   | -                         | (8)           |
| Dividends  | -             | -                          | -               | -                                   | -  | (340)                                       | -  | -                            | -                   | (340)                                       | (32)                      | (372)         |
| Share buyback program                              | -             | -                          | (402)           | -                                   | -  | 208   | -  | -                            | -                   | (194)                                       | -                         | (194)         |
| Acquisition of non-controlling interests           | -             | -                          | -               | -                                   | -  | -   | -  | -                            | -                   | -   | -                         | -             |
| Other movements, including appropriation of profit | -             | -                          | -               | -                                   | -  | 1,902                                       | 6  | (1,908)                      | 30                  | 30  | (10)                      | 20            |
| <b>At December 31, 2017</b>                        | <b>83</b>     | <b>3,360</b>               | <b>(509)</b>    | <b>28</b>                           | <b>56</b>  | <b>2,800</b>                                | <b>(433)</b>   | <b>4,790</b>                 | <b>146</b>          | <b>10,321</b>                               | <b>303</b>                | <b>10,624</b> |

(1) See table below:

| (in € millions)  | Tax impact on actuarial gains and losses | Tax impact on foreign exchange differences | Total |
|--|--|--|-------|
| Comprehensive income (expense) for 2016 (attributable to owners of the parent) |  | 8  | 32    |
| Comprehensive income (expense) for 2017 (attributable to owners of the parent) | (7)                                      | (46)                                       | (53)  |



## Consolidated statement of cash flows

| (in € millions)  | Note                         | 2016           | 2017         |
|--|------------------------------|----------------|--------------|
| <b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>  |                              |                |              |
| Profit attributable to owners of the parent  |                              | 1,908          | 4,790        |
| Depreciation, amortization, impairment and provisions <sup>(1)</sup>                             |                              | 927            | 1,080        |
| Share in profit (loss) from equity-accounted companies (net of dividends received)               | 13                           | (63)           | (110)        |
| Change in fair value of currency and commodity derivatives <sup>(2)</sup>                        | 26                           | 81             | (3,608)      |
| Capital gains and losses on asset disposals <sup>(3)</sup>                                       |                              | (364)          | (20)         |
| Profit (loss) from discontinued operations and disposal gain (before tax)                        |                              | (110)          | (990)        |
| Profit attributable to non-controlling interests   |                              | 55             | 62           |
| Other <sup>(4)</sup>   |                              | 217            | 1,206        |
| <b>Cash flow from operations, before change in working capital</b>                               |                              | <b>2,651</b>   | <b>2,410</b> |
| Change in inventories and work-in-progress   | 14                           | (347)          | (308)        |
| Change in operating receivables and payables <sup>(5)</sup>                                      | 15, 23, 26                   | 219            | 561          |
| Change in other receivables and payables   | 15, 23                       | (40)           | 63           |
| <b>Change in working capital</b>   |                              | <b>(168)</b>   | <b>316</b>   |
|  | <b>TOTAL I<sup>(6)</sup></b> | <b>2,483</b>   | <b>2,726</b> |
| <b>II. CASH FLOW USED IN INVESTING ACTIVITIES</b>  |                              |                |              |
| Capitalization of R&D expenditure <sup>(7)</sup>   | 10                           | (364)          | (286)        |
| Payments for the purchase of intangible assets, net of proceeds <sup>(8)</sup>                   |                              | (324)          | (262)        |
| Payments for the purchase of property, plant and equipment, net of proceeds <sup>(9)</sup>       |                              | (704)          | (740)        |
| Payments arising from the acquisition of investments or businesses, net                          |                              | (810)          | (54)         |
| Proceeds arising from the sale of investments or businesses, net                                 |                              | 2              | 3,060        |
| Proceeds (payments) arising from the sale (acquisition) of investments and loans <sup>(10)</sup> |                              | 5              | (1,974)      |
|  | <b>TOTAL II</b>              | <b>(2,195)</b> | <b>(256)</b> |
| <b>III. CASH FLOW FROM (USED IN) FINANCING ACTIVITIES</b>  |                              |                |              |
| Change in share capital - owners of the parent   |                              | -              | -            |
| Change in share capital - non-controlling interests  |                              | (9)            | (4)          |
| Acquisitions and disposals of treasury shares  | 18.b                         | (38)           | (449)        |
| Repayment of borrowings and long-term debt   | 22                           | (73)           | (66)         |
| Increase in borrowings   | 22                           | 682            | 1,058        |
| Change in repayable advances   | 21                           | (24)           | (25)         |
| Change in short-term borrowings  | 22                           | 10             | 449          |
| Dividends and interim dividends paid to owners of the parent                                     | 18.e                         | (612)          | (340)        |
| Dividends paid to non-controlling interests  |                              | (30)           | (32)         |
|  | <b>TOTAL III</b>             | <b>(94)</b>    | <b>591</b>   |
| <b>CASH FLOW FROM OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS</b>                            | <b>TOTAL IV</b>              | <b>171</b>     | <b>14</b>    |
| <b>CASH FLOW USED IN INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS</b>                         | <b>TOTAL V</b>               | <b>(111)</b>   | <b>(52)</b>  |
| <b>CASH FLOW USED IN FINANCING ACTIVITIES OF DISCONTINUED OPERATIONS</b>                         | <b>TOTAL VI</b>              | <b>(8)</b>     | <b>(198)</b> |
| <b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES</b>   | <b>TOTAL VII</b>             | <b>15</b>      | <b>(17)</b>  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>I+II+III+IV+V+VI+VII</b>  | <b>261</b>     | <b>2,808</b> |
| Cash and cash equivalents at beginning of period   |                              | 1,659          | 1,926        |
| Cash and cash equivalents of discontinued operations at beginning of period                      |                              | 186            | 180          |
| Cash and cash equivalents at end of period   | 16                           | 1,926          | 4,914        |
| Cash and cash equivalents of discontinued operations at end of period                            |                              | 180            | -            |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |                              | <b>261</b>     | <b>2,808</b> |

(1) Including in 2017: depreciation and amortization for €802 million (€726 million in 2016), impairment for €73 million (€243 million in 2016) and additions to provisions for €205 million (reversals of provisions for €42 million in 2016).

(2) Including losses of €3,604 million arising on currency derivatives (gains of €131 million in 2016) (see Note 26, "Management of market risks and derivatives").

(3) Including in 2016: a revaluation gain of €367 million in respect of the contribution to ArianeGroup.

(4) Including in 2017: deferred tax income of €1,197 million arising on the change in fair value of currency derivatives (deferred tax expense of €54 million in 2016).

(5) Including in 2017: net premiums on currency options for €50 million (see Note 26, "Management of market risks and derivatives"), shown on the balance sheet under current derivatives with a negative fair value (net premiums paid for €20 million in 2016).

(6) Including in 2017: €582 million in taxes paid (€292 million in taxes paid in 2016), of which €72 million in interest paid (€50 million in 2016) and €24 million in interest received (€20 million in 2016).

(7) Including in 2017: capitalized interest of €11 million (€20 million in 2016).

(8) Including in 2017: €291 million in disbursements for acquisitions of intangible assets (€313 million in 2016), €16 million in proceeds from disposals (zero proceeds in 2016) and changes in amounts payable on acquisitions of non-current assets representing a positive €13 million (a negative €11 million in 2016).

(9) Including in 2017: €786 million in disbursements for acquisitions of property, plant and equipment (€738 million in 2016), changes in amounts payable on acquisitions of non-current assets representing a positive €24 million (a negative €5 million in 2016) and €22 million in proceeds from disposals (€39 million in 2016).

(10) Including in 2017: €2,000 million arising from money market funds pledged during the tender offer for Zodiac Aerospace, reclassified under other financial assets (see Note 12, "Current and non-current financial assets").

## Notes to the Group consolidated financial statements

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

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

The Board of Directors' meeting of February 26, 2018 adopted and authorized for issue the 2017 consolidated financial statements. The consolidated financial statements will be final once they have been approved by the General Shareholders' Meeting.

## 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/finance/accounting/ias/index\\_en.htm](http://ec.europa.eu/finance/accounting/ias/index_en.htm)) at the date the consolidated financial statements were approved by the Board of Directors. They include standards approved by the IASB, namely IFRS, International Accounting Standards (IAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC).

### Changes in accounting policies

#### New IFRS standards, amendments and interpretations effective as of January 1, 2017

- Amendments to IAS 7, "Statement of Cash Flows" - Disclosure Initiative.
- Amendments to IAS 12, "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses.

These standards, interpretations and amendments effective for reporting periods beginning on or after January 1, 2017 do not have a material impact on the Group's consolidated financial statements.

#### New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2017

None.

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

- IFRS 9, "Financial Instruments".
- IFRS 15, "Revenue from Contracts with Customers".
- IFRS 16, "Leases".
- IFRS 17, "Insurance Contracts".

- Amendments to IAS 28, "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures.
- Amendments to IAS 28, "Investments in Associates and Joint Ventures", and IFRS 10, "Consolidated Financial Statements" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Amendments to IAS 40, "Investment Property" - Transfers of Investment Property.
- Amendments to IFRS 2, "Share-based Payments" - Classification and Measurement of Share-based Payment Transactions.
- Amendments to IFRS 9, "Financial Instruments" - Prepayment Features with Negative Compensation.
- Annual Improvements to IFRSs published in December 2016 (2014-2016 cycle).
- Annual Improvements to IFRSs published in December 2017 (2015-2017 cycle).
- IFRIC 22, "Foreign Currency Transactions and Advance Consideration".
- IFRIC 23, "Uncertainty over Income Tax Treatments".

With the exception of IFRS 9 and IFRS 15, which are effective for financial periods beginning on or after January 1, 2018, and IFRS 16, effective for financial periods beginning on or after January 1, 2019, 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.

The Group is in the process of assessing the impacts resulting from the first-time application of these standards, amendments and interpretations.

The analyses carried out on the hedging provisions of IFRS 9 indicate that most of the derivative instruments used by the Group as part of its foreign currency hedging policy will not be eligible for hedge accounting within the meaning of the standard. The Group will not therefore be able to apply hedge accounting in managing its foreign currency risk on future foreign currency cash flows (see Note 1.f, "Translation of foreign currency transactions and foreign currency derivatives"). Concerning the classification/measurement of financial assets/liabilities and the impairment of financial assets (trade receivables, loans, etc.) (see Note 1.m, "Equity investments, loans and receivables"), the negative impact on equity of applying IFRS 9 using the "limited retrospective" approach at January 1, 2018 will be less than €10 million. This impact results solely from the new financial asset impairment method, which takes into account an estimate of expected losses. The comparative 2017 data included in the 2018 financial statements will not be restated in this respect.

Regarding the application of IFRS 15, the main changes in accounting treatment at Group level are described below (for the current treatment of revenue, see Note 1.g, "Revenue").

### Sales of original equipment engines and spare engines, serial production equipment and spare parts

Revenue relating to serial products and spare parts is currently recognized on delivery of the goods and the application of IFRS 15 will not change this pattern of recognition.

Concerning the transaction price to adopt for these contracts under IFRS 15, few changes are expected as compared to current practices, except for the treatment of certain performance warranties in the Aerospace Propulsion and Aircraft Equipment segments. Performance warranties granted to customers along with extended warranties will be recognized as a deduction from revenue, whereas they are currently recognized in expenses.

In the Aircraft Equipment segment, the Group expects changes in the accounting for trade concessions granted to customers in the form of goods free of charge. In accordance with IFRS 15, these will be deducted from the transaction price, whereas they are currently recognized in expenses. The pattern in which they are recognized in income may also be altered.

### Contracts with multiple elements

The main change resulting from the application of IFRS 15 in the Defense sector concerns contracts with "multiple elements", which include development work, sales of goods and sales of services. Most of the Group's "multiple-element" contracts are found in the Defense sector.

Revenue from these contracts is currently recognized as an overall performance obligation, either as technical milestones are achieved or based on the percentage-of-completion (cost-to-cost method).

Applying IFRS 15 will require the Group to identify separate performance obligations for each contract and to determine the time at which each obligation is satisfied. Accordingly, this may alter the pattern in which the Group recognizes revenue and margins under these contracts.

- Generally speaking, the portion of the contract concerning specific development work or customization assignments will not represent a specific performance obligation since the development and customization are inseparable from serial production. Financing received from the customer will be recognized in revenue as and when the various performance obligations are satisfied.
- The costs associated with development and installation will be recognized as the contract "fulfillment cost" and accounted for in expenses over the contract term.
- Revenue generated on the serial production portion of the contract will be recognized either on delivery of the goods, or on a percentage-of-completion basis (cost-to-cost method), depending on the nature of the performance obligation.

### Sales of time and materials service contracts

Services under these contracts are generally provided over the short term. Revenue generated on these contracts is currently recognized once the repair service has been provided. There will be no change to this accounting treatment as a result of IFRS 15.

Concerning the transaction price to adopt for such contracts under IFRS 15, few changes are expected as compared to current practices, except for the treatment of certain performance warranties in the Aerospace Propulsion segment. Performance warranties granted to customers will be recognized as a deduction from revenue, whereas they are currently recognized in expenses.

### Sales of installed base maintenance and support contracts

➤ In the Aerospace Propulsion and Aircraft Equipment segments, certain maintenance and support contracts require a fleet of engines or various equipment to be kept in flying condition. Revenue under these contracts is currently recognized in line with the flying hours/landings billed. Under IFRS 15, the different services provided under each such contract represent a single performance obligation and the related revenue is to be recognized on a percentage-of-completion basis (cost-to-cost method).

This represents the biggest change for the Group resulting from IFRS 15 in terms of both revenue recognition and the accounting for the associated margins.

Concerning the transaction price for these contracts, few changes are expected when applying IFRS 15 as compared to current practices, except for the treatment of certain performance warranties discussed in the section on time and materials service contracts.

➤ In the Defense sector, the pattern of revenue recognition under certain fixed-price maintenance contracts may alter depending on the type of service. Revenue will be recognized based on the percentage-of-completion (cost-to-cost method) rather than on billing milestones.

### Sales of studies

Sales of studies include standalone sales and development sales associated with the delivery of the goods.

Under IFRS 15, the Group will be required to identify the separate performance obligations existing in the contract for each of these sales.

➤ Sales of studies

Each study to be completed generally represents a separate performance obligation.

The pattern of recognizing revenue will depend on how control is transferred: i.e., over time or at a given point in time.

Revenue under these contracts is currently recognized based on the percentage-of-completion (cost-to-cost method) or on the achievement of billing milestones.

Under IFRS 15, revenue will be recognized based on the percentage of costs incurred (transfer over time) or once the performance obligation has been satisfied.

Sales of studies only represent a very minor part of the Group's business and are found in all of its business activities.

➤ Sales of development work associated with serial production deliveries.

Development work may be carried out prior to production and be wholly or partly financed by the customer.

Sales of development work primarily concern the Aircraft Equipment and Defense sectors.

In the Group's contracts, financed development work is generally inseparable from serial production and does not therefore represent a separate performance obligation. Under IFRS 15, client-financed development work is to be recognized in full within "serial" revenue on the delivery of the goods, whereas currently it is generally recognized within sales of studies during the development phase, based on either the percentage-of-completion (cost-to-cost method), on billing milestones, or on delivery of serial production.

## Estimated impacts

IFRS 15 will be applied with effect from January 1, 2018 using the "full retrospective" approach.

Accordingly, opening equity at January 1, 2017 will be restated for the impacts of the first-time application of the new standard, and the comparative data for 2017 presented in the 2018 consolidated financial statements will also be restated.

The impact on opening equity results from the retrospective application of IFRS 15, which in certain cases (notably for maintenance contracts based on flying hours/landings and for contracts where revenue is based on the percentage-of-completion) gives rise to deferred recognition of revenue and of the associated margins as compared to current accounting practice.

The Group estimates a negative impact on consolidated equity at January 1, 2017 of around €0.8 billion, taking account of the related deferred tax effect. At this stage, the estimated impact may evolve as the impact assessment calculations are finalized.

Consolidated revenue and recurring operating income will be impacted by:

- a base effect relating to the reclassification of expenses as a deduction from revenue. This essentially concerns certain warranties, concessions and penalties. The base effect should be marginal with regard to the volume of revenue and neutral with regard to profit from operations;
- an effect resulting from the deferred recognition of revenue and of the associated margins, attributable to:
  - revenue under maintenance contracts henceforth being recognized on a percentage-of-completion basis (cost-to-cost method),
  - various performance obligations being identified within contracts for which the pattern of revenue recognition will differ,
  - the total transaction price of a contract being allocated to each identified performance obligation, along with the appropriate pattern of revenue recognition (inclusion of certain rebates, warranties, various obligations, etc.).

The impact of applying IFRS 15 on the 2017 consolidated income statement (revenue and recurring operating income) is estimated at:

- a negative €0.6 billion on 2017 revenue totaling €16.9 billion;
- a negative €0.3 billion on 2017 recurring operating income totaling €2.8 billion.

The impact of applying IFRS 15 to 2017 adjusted revenue and recurring operating income is estimated at:

- a negative €0.6 billion on 2017 adjusted revenue totaling €16.5 billion;
- a negative €0.3 billion on 2017 adjusted recurring operating income totaling €2.5 billion.

These estimates may evolve as the impact assessment calculations are finalized.

IFRS 15 has no impact on the related cash flows.

Regarding IFRS 16, "Leases", the Group is in the process of identifying leases so as to be able to apply the "modified retrospective" approach at January 1, 2019, with the impact of applying the standard being recorded against equity at that date. Accordingly, the comparative 2018 data included in the 2019 financial statements will not be restated.

## a) Basis of measurement used to prepare the consolidated financial statements

The consolidated financial statements are prepared on a historical cost basis except for certain assets and liabilities, as allowed by IFRS. The categories of assets and liabilities not measured at historical cost are disclosed in the sections below.

## b) Consolidation

### Basis of consolidation

Entities over which Safran directly or indirectly exercises permanent de facto or de jure control are fully consolidated when their contribution to certain consolidated indicators is material or when their business is strategic for the Group. These are entities over which the Group has the power to direct the relevant activities in order to earn returns and can affect those returns through its power over the investee. Power generally results from holding a majority of voting rights (including potential voting rights when these are substantive) or contractual rights.

Entities controlled jointly by Safran and another group, known as joint arrangements, are entities for which decisions about the relevant activities (budget, management appointments, etc.) require the unanimous consent of the parties sharing control. There are two types of joint arrangement:

- joint operations are entities where, based on the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement, or other facts and circumstances, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each partner accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation, unless the arrangement specifies otherwise;
- joint ventures are entities where the parties that have joint control of the arrangement have rights to the net assets of the arrangement only. Each partner recognizes its share in the net assets of the venture using the equity method.

Entities over which Safran exercises significant influence (associates) are accounted for under the equity method. Significant influence is presumed to exist when the Group holds at least 20% of the voting rights. However, significant influence must be demonstrated when the Group holds less than 20% of the voting rights. The fact that the Group is represented on its investee's management body (Board of Directors, etc.) indicates that it exercises significant influence over that investee.

A company effectively enters the scope of consolidation at the date on which sole or joint control is acquired or significant influence is exercised.

The removal of a company from the scope of consolidation is effective as of the date sole or joint control or significant influence is relinquished. If the loss of control occurs without any transfer of interest, for example due to dilution, the company's removal from the scope of consolidation is simultaneous with the event that triggers such loss of control or significant influence.

Non-controlling interests represent the portion of profit and net assets not held by owners of the parent, and are presented separately in the income statement, statement of comprehensive income and shareholders' equity.

IFRS 10 states that any changes in the percent interest in a fully consolidated company that do not result in the loss or acquisition of control are to be recognized in equity attributable to owners of the parent. This applies to acquisitions of additional shares in a subsidiary after control has been obtained in a previous acquisition or to sales of shares that do not result in a loss of control.

Sales of shares that result in a loss of control are to be recognized in profit or loss and the gain or loss on disposal is to be calculated on the entire ownership interest at the date of the transaction. Certain other items of comprehensive income attributable to majority shareholders will be reclassified to income. Any residual interest retained is to be remeasured at fair value through profit or loss when control is relinquished.

Acquisitions of shares that give the Group sole control over an entity will be recognized in accordance with the policies governing business combinations described in Note 1.c.

### Intragroup transactions

All material transactions between fully consolidated companies are eliminated, as are internally generated Group profits.

When a fully consolidated company carries out a transaction (e.g., sale or transfer of an asset to a joint operation, joint venture or associate), any resulting gains or losses are recognized in the consolidated financial statements solely to the extent of the percentage interest held in the joint operation, joint venture or associate outside the Group.

However, when a fully consolidated company carries out a transaction (e.g., purchase of an asset) with one of its joint operations, joint ventures or associates, the Group's share of the gain or loss is only recognized in the consolidated financial statements when the fully consolidated entity resells that asset to a third party.

Such transactions are not eliminated when the joint operation acts solely as an intermediary (agent) or renders balanced services for the benefit of, or as a direct extension of, the businesses of its various shareholders.

## c) Business combinations

The Group applies the revised IFRS 3.

### Acquisition method

Business combinations are accounted for using the acquisition method at the date on which control is obtained:

- identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value;
- where applicable, non-controlling interests in the acquiree are measured either at fair value or at the Group's share in the acquiree's net identifiable assets (including fair value adjustments). This option is available for all business combinations based on a case-by-case analysis of each transaction;
- acquisition-related costs (transaction fees) must be recognized separately from the combination as expenses in the period in which they are incurred;
- adjustments to contingent consideration for a business combination are measured at fair value at the acquisition date, even if it is unlikely that an outflow of resources will be required to settle the obligation. After the acquisition date,

any adjustments to the consideration are measured at fair value at the end of each reporting period. The cost of the combination, including where appropriate the estimated fair value of any contingent consideration, is finalized within the 12 months following the acquisition (measurement period). Any changes in the fair value of such consideration more than 12 months after the measurement period are recognized in profit or loss. Only items that should have been taken into account at the date of the combination but for which the acquirer did not hold all of the relevant information at that date can give rise to an adjustment in the purchase price consideration.

Any previously held interests in the acquiree are remeasured to fair value, with the resulting gain or loss recognized in profit or loss.

### Goodwill

At the acquisition date, goodwill is measured as the difference between:

- the acquisition-date fair value of the consideration transferred, plus the amount of any non-controlling interest in the acquiree, measured based on the share in the net assets acquired (including fair value adjustments), or on the overall value of the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

When goodwill arises on the acquisition of fully consolidated companies or interests in joint operations, it is carried under assets in the balance sheet under the heading "Goodwill". Negative goodwill is recorded immediately in profit or loss. However, goodwill arising on the acquisition of interests in joint ventures and associates is recorded on the line "Investments in equity-accounted companies", in accordance with IAS 28.

Goodwill may be adjusted within 12 months of the acquisition to take into account the definitive estimate of the fair value of the assets acquired and liabilities assumed. Only new information about facts and circumstances existing at the date of the combination can give rise to an adjustment against goodwill. Beyond this period, adjustments are recorded in profit or loss.

Goodwill arising as part of a business combination is allocated to cash-generating units (CGUs), as described in Note 1.I, "Impairment of non-current assets". It is not amortized but is tested for impairment at least annually and whenever there are events or circumstances indicating that it may be impaired, as described in Note 1.I. Impairment is taken to profit or loss and may not be reversed.

## d) Discontinued operations and assets (or disposal groups) held for sale

A non-current asset or group of non-current assets and directly associated liabilities are classified as held for sale if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable within a maximum period of one year. Non-current assets or disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and are presented on separate lines of the consolidated balance sheet.

In accordance with IFRS 5, a discontinued operation represents a separate major line of business or geographic area of operations for the Group that either has been disposed of, or is classified as held for sale. The income, expenses and cash flows attributable to the operations disposed of or held for sale are presented on separate lines of the consolidated financial statements for all periods presented. The assets and liabilities attributable to the operations disposed of or held for sale are presented on separate lines of the consolidated balance sheet for the last period presented only.

In accordance with IFRS 5, further to classification as discontinued operations or assets held for sale:

- > the activities are measured at the lower of their carrying amount and their fair value less estimated costs to sell;
- > depreciation/amortization of the non-current assets relating to the activities ceases;
- > the non-current assets included in the discontinued operations are no longer tested for impairment;
- > symmetrical positions on the balance sheet between continuing operations and discontinued operations continue to be eliminated.

## e) Translation methods

The financial statements of subsidiaries with a different functional currency than that used by the Group are translated into euros as follows:

- > assets and liabilities are translated at the year-end closing exchange rate, while income statement and cash flow items are translated at the average exchange rate for the year;
- > translation gains and losses resulting from the difference between the closing exchange rate at the previous year-end and the closing exchange rate at the end of the current reporting period, and from the difference between the average and closing exchange rates for the period, are recorded in equity as translation adjustments.

On disposal of a foreign operation, cumulative foreign exchange differences are recognized in profit or loss as a component of the gain or loss on disposal. For any disposal, the foreign exchange differences recognized in profit or loss are determined based on direct consolidation of the foreign operation in the Group's financial statements.

Note 1.v discusses the net investment hedge set up by the Group for some of its foreign operations.

## f) Translation of foreign currency transactions and foreign currency derivatives

Transactions denominated in currencies other than the presentation currencies of Group entities are translated into euros at the exchange rate prevailing at the transaction date.

At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Any resulting foreign exchange gains and losses are recognized in "Financial income (loss)" for the period, except for translation differences relating to a financial instrument designated as a net investment hedge, which are reported in other comprehensive income (see Note 1.v). Advances and downpayments paid or

received continue to be recorded at the initial amount for which they were recognized.

Long-term monetary assets held by a Group entity on a foreign subsidiary for which settlement is neither planned nor likely to occur in the foreseeable future, represent an investment in a foreign operation. In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", foreign exchange differences arising on these items are recorded in other comprehensive income (OCI) up to the date on which the investment is sold, when they are recognized as part of the gain or loss on disposal. If the transaction does not qualify as a net investment in a foreign operation, the corresponding exchange differences are recognized in the income statement.

The Group uses currency derivatives to manage and hedge its exposure to fluctuations in exchange rates which can impact revenue net of foreign currency denominated purchases. The Group's forex hedging policy along with the forward currency contracts and options it uses are described in Note 26, "Management of market risks and derivatives".

Pursuant to IAS 39, these foreign currency derivatives are recognized in the balance sheet at their fair value at the end of the reporting period. In view of the constraints resulting from applying IFRS 3 to the Sagem-Snecma business combination, the Group decided that none of its foreign currency derivatives qualified for hedge accounting. Accordingly, any changes in the fair value of these derivatives are recognized in "Financial income (loss)".

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## g) Revenue

The main types of contracts identified in the Group are serial product and spare part sales contracts, installed base maintenance and/or support contracts, and design sales contracts.

If a payment deferral has a material impact on the calculation of the fair value of the consideration to be received, the future payments are discounted in order to calculate the fair value. This reduces the revenue recognized in proportion to the financial component inherent to the payment deferral.

Conversely, when the Group receives payments on account from customers, the revenue recognized is not increased by the financial component inherent to prepayments.

### Serial product and spare part sales contracts

Revenue is only recognized if the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and if it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue on serial product and spare part sales contracts is generally recognized on delivery of the goods, net of any discounts granted. If there is a risk that the transaction will be canceled or that the receivable identified at the inception of the contract will not be collected, no revenue is recognized. When this is no longer the case, revenue is recorded.

Under certain serial product sales contracts, customers are explicitly required to fund development:

- > when the Group collects the financing from the customer during the development phase, the associated revenue is recognized on a percentage-of-completion basis by reference to the costs incurred to complete the development, or as and when the contractually defined technical milestones are met. In this last case, the development costs incurred are first recognized in "Inventories and work-in-progress". These costs are then expensed as and when the technical milestones defined upstream are met, at which time a portion of the financing received is recognized in revenue;
- > when the financing for these contracts is contractually guaranteed by the customer for a specific number of units to be produced and delivered during the serial production phase, the design and development costs incurred are first recognized in "Inventories and work-in-progress". On delivery of each unit, a portion of these costs is expensed and the related guaranteed financing is booked in revenue.

### Service contracts (including design sales contracts, installed base maintenance and support contracts)

Under service contracts, revenue may only be recognized if:

- > the stage of contract completion can be measured reliably; and
- > the costs incurred in respect of the contract and the costs to complete the contract can be measured reliably.

Revenue from Group service contracts is chiefly recorded as and when billings are made, which in turn is based on units of labor such as flying hours (for installed base maintenance and support contracts, for example), or on technical milestones formally set down in such contracts (for example in the case of multiple-element Defense contracts which include the sale of both the development and the serial production). Revenue earned on certain design sales contracts is recognized based on the percentage of costs incurred.

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

If revenue billed to the customer is representative of the contractual stage of completion, the costs to be recognized are measured on the basis of the margin set forth in the contract. If calculated costs are less than actual costs, the temporarily excess costs are maintained in inventories and work-in-progress. If calculated costs are greater than actual costs, a provision for services to be rendered is recognized for the difference.

Forecast contract margins are reviewed on a regular basis. A provision is set aside for any losses on completion as soon as such losses are foreseeable.

The main changes in accounting treatment relating to the application of IFRS 15, "Revenue from Contracts with Customers", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

### h) Current and deferred tax

Tax expense (tax income) is the aggregate of current tax and deferred tax recorded in the income statement.

Current tax expense is the amount of income tax payable for a period, calculated in accordance with the rules established by the relevant tax authorities on the basis of taxable profit for the period. Current tax expense also includes any penalties recognized in respect of tax adjustments recorded in the period. The tax expense is recognized in profit or loss unless it relates to items recognized directly in equity, in which case the tax expense is recognized directly in equity.

Deferred tax assets and liabilities are calculated for each entity on temporary differences arising between the carrying amount of assets and liabilities and their corresponding tax base. The tax base depends on the tax regulations prevailing in the countries where the Group manages its activities. Tax losses and tax credits that can be carried forward are also taken into account.

Deferred tax assets are recognized in the balance sheet if it is likely that they will be recovered in subsequent years. The value of deferred tax assets is reviewed at the end of each annual reporting period.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset when tax is levied by the same tax authority and offsetting is permitted by the local tax authorities.

The liability method is applied and the impact of changes in tax rates is recognized in profit or loss for the period in which the corresponding tax law was enacted and the change in tax rate decided, unless the transactions concerned are recognized directly in equity.

The 3% tax on dividend distributions applicable in France is recognized as a tax expense in the period in which the related dividends were paid. Following the legality of this tax being called into question during 2017, the Group received a partial repayment. This partial repayment and the balance due at the end of the reporting period are recognized as tax benefits in the 2017 accounts.

Research tax credits in France, or any similar tax arrangements in other jurisdictions, are considered as operating subsidies related to research and development expenses incurred during the period. Accordingly, they are classified under the heading "Other income" in the income statement, and not as a decrease in income tax expense. The recognition of all or part of research tax credits received in the year as revenue can be deferred over several periods provided the tax credits relate to development expenditures capitalized in the Group's consolidated financial statements.

The CICE tax credit introduced to boost competitiveness and employment in France is also recognized in "Other income" as it is treated as an operating subsidy.

### i) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of ordinary shares issued and outstanding during the period, less the average number of ordinary shares purchased and held as treasury shares.



Diluted earnings per share is calculated by dividing profit by the weighted average number of shares issued or to be issued at the end of the reporting period, excluding treasury shares and including the impact of all potentially dilutive ordinary shares, particularly those resulting from convertible bonds or an outstanding share buyback program. The dilutive impact of convertible bonds results from the shares that may be created if all bonds issued were to be converted. The dilutive impact of share buyback programs is calculated using the reverse treasury stock method which compares the closing share price with the average share price for the period concerned.

## j) Intangible assets

Intangible assets are recognized on the balance sheet at fair value, historical cost or production cost, depending on the method of acquisition. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset are included in the cost of that asset when a significant period of time is needed to prepare the asset for its intended use or sale (generally more than 12 months). The initial amount recorded on the balance sheet is reduced by accumulated amortization and impairment losses, where appropriate.

### Intangible assets acquired in a business combination

These assets are recognized at fair value at the date control was acquired and are amortized on a straight-line basis, as described below:

- intangible assets recognized at the time of the 2005 Sagem-Snecma merger and on the acquisition of Rolls Royce's stake in the RTM322 program and classified under "Aircraft programs" are accounted for by program (the fair value of each recognized aircraft program, covering several types of intangible asset such as technologies, backlogs and customer relations) and are amortized over the residual useful life of the programs, not to exceed 20 years;
- intangible assets acquired as part of a business combination carried out since the Group was established (also including technologies, customer relations and other intangible assets acquired) are amortized over the estimated useful life of each identified intangible asset (3 to 23 years).

### Separately acquired intangible assets

Software is recognized at acquisition cost and amortized on a straight-line basis over its useful life (between one and five years).

Patents are capitalized at acquisition cost and amortized over their useful life, i.e., the shorter of the period of legal protection and their economic life.

Contributions paid to third parties in connection with aircraft programs (participation in certification costs, etc.) are considered as acquired intangible assets and are therefore capitalized unless the program proves unprofitable.

## Research and development costs

Research and development costs are recognized as expenses in the period in which they are incurred. However, internally financed development expenditures are capitalized if the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset and the intention and ability (availability of technical, financial and other resources) to complete the intangible asset and use or sell it;
- the probability that future economic benefits will flow from the asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

In the Group's businesses, all criteria for capitalizing development expenditures are met when the decision to launch the development concerned is taken by management and program/project profitability as validated by relevant internal or external sources can be demonstrated. Development expenditures cannot be capitalized before this time.

Capitalization of development expenditures ceases as soon as the product to which the expenditures relate is brought into service.

Capitalized development expenditures are stated at production cost and amortized using the straight-line method as from the initial delivery of the product, over a useful life not exceeding 20 years.

Intangible assets are tested for impairment in accordance with the methods set out in Note 1.I.

## k) Property, plant and equipment

Property, plant and equipment are recorded in the balance sheet at historical purchase cost or production cost less accumulated depreciation and impairment losses.

Borrowing costs directly attributable to the acquisition, construction or production of an item of property, plant and equipment are included in the cost of that item when a significant period of time is needed to prepare the asset for its intended use or sale (generally more than 12 months).

Replacement and major overhaul costs are identified as components of property, plant and equipment. Other repair and maintenance costs are expensed as incurred.

For finance leases, the capitalized asset and the borrowing cost at the inception of the lease are stated at the lower of market value and the present value of minimum lease payments.

During the lease period, payments are apportioned between the finance cost and the reduction of the debt in order to produce a constant periodic rate of interest for the remaining balance of the liability for each period.

The gross amount of items of property, plant and equipment is depreciated over the expected useful life of their main components, mainly using the straight-line method.

If the transfer of ownership at the end of a finance lease term is certain, the item of property, plant and equipment is depreciated over its useful life. Otherwise, the item of property, plant and equipment is depreciated over the shorter of its useful life and the term of the lease.

The main useful lives applied are as follows:

|                              |              |
|------------------------------|--------------|
| Buildings                    | 15-40 years; |
| Technical facilities         | 5-40 years;  |
| Equipment, tooling and other | 5-15 years.  |

Property, plant and equipment are tested for impairment in accordance with the methods set out in Note 1.l.

### l) Impairment of non-current assets

Non-current assets, and particularly goodwill acquired in a business combination, are allocated to cash-generating units (CGUs)<sup>(1)</sup>. Two types of CGUs are defined within the Group:

- CGUs corresponding to programs, projects, or product families associated with specific assets: development expenditures, property, plant and equipment used in production;
- CGUs to which goodwill is allocated, corresponding to the business segments monitored by Group management and relating chiefly to the Group's main subsidiaries.

In the event of a sale or restructuring of the Group's internal operations which affects the composition of one or more of the CGUs to which goodwill has been allocated, the allocations are revised using a method based on relative value. This method takes the proportion represented by the business sold or transferred in the cash flows and terminal value of the original CGU at the date of sale or transfer.

Impairment tests are performed at least once a year (in the first half of the year) on assets with indefinite useful lives or on non-amortizable assets such as goodwill. Impairment tests are also carried out on amortizable assets, where the amortization/depreciation period has not yet begun. Impairment testing is carried out whenever there is an indication of impairment irrespective of whether the assets are amortizable/depreciable.

At the end of each reporting period, the Group's entities assess whether there are events or circumstances indicating that an asset may be impaired. Such events or circumstances notably include material adverse changes which in the long term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) or the Group's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, disputes and litigation, etc.).

If such events or circumstances exist, the recoverable amount of the asset is estimated. If the carrying amount of the asset exceeds its recoverable amount, the asset is considered as impaired and its carrying amount is reduced to its recoverable amount by recognizing an impairment loss under "Profit from operations".

Recoverable amount is defined as the higher of an asset's or group of assets' fair value less costs to sell and value in use.

Value in use is the present value of expected future cash flows, determined using a benchmark discount rate that reflects the Group's weighted average cost of capital (WACC). This discount rate is a post-tax rate applied to post-tax cash flows, which gives the same result as that which would have been obtained by applying a pre-tax rate to pre-tax cash flows, as required by IAS 36.

Future cash flows are calculated differently depending on the assets tested:

- assets allocated to programs, projects or product families: expected future cash flows are projected over the life of the development programs or projects, capped at 40 years, and are discounted at the benchmark rate. Certain programs or projects are also subject to a specific risk premium. This long timeframe better reflects the characteristics of the Group's operating cycles (aircraft and defense), where assets tend to have a long useful life and slow product development;
- goodwill: expected future cash flows are calculated based on the medium-term plans established for the next four years and estimated cash flows for years five to ten (or beyond year ten for certain activities with a longer development and production cycle), and are discounted at the benchmark rate. The value in use of the assets is the sum of the present value of these cash flows and the terminal value, calculated based on standardized flows representing long-term activities for years five to ten (or beyond year ten for certain activities), taking into account a perpetual growth rate.

Should a test on a CGU's assets indicate an impairment loss, the Group first establishes the recoverable amount of the assets considered separately. Any impairment loss is initially allocated to goodwill and then to the assets of the CGU pro-rata to their carrying amount.

In the event of an identified loss in value, any impairment loss recognized against goodwill cannot be reversed. For other assets, indications of impairment are analyzed at the end of each subsequent reporting period, and if there are favorable changes in the estimates which led to the recognition of the impairment, the impairment loss is reversed through profit or loss.

### m) Equity investments, loans and receivables

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", equity investments in non-consolidated companies are classified as available-for-sale and therefore measured at fair value. For listed securities, fair value corresponds to market price. If fair value cannot be measured reliably, investments are recognized at cost, less any impairment losses. Changes in fair value are recognized directly in equity, unless there is an objective indication that the financial asset is impaired (see below). In this case, an impairment loss is recognized in profit or loss. The impairment loss is reversed through profit or loss only on the disposal of the investments.

Loans and receivables are carried at historical cost and may be written down if there is an objective indication of impairment. The impairment loss corresponds to the difference between the carrying amount and the recoverable amount, and is recognized in profit or loss. It may be reversed if the recoverable amount subsequently increases to above the carrying amount.

(1) A CGU is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

An objective indication of impairment is a significant or prolonged reduction in the value of the asset:

- for assets available for sale, an objective indication results from a significant drop in the estimated future cash flows associated with these assets, major difficulties of the issuer, a substantial drop in the expected return on these assets, or a significant or prolonged fall in the fair value of listed financial assets;
- for loans and receivables, an objective indication results from the Group's awareness that the debtor is in financial difficulty (payment default, liquidation, etc.).

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## n) Inventories and work-in-progress

Inventories and work-in-progress are measured at the lower of cost determined using the weighted average cost formula, and net realizable value.

Cost is calculated based on normal production capacity and therefore excludes any idle capacity costs.

Net realizable value represents the estimated selling price less the costs required to complete the asset or make the sale.

Borrowing costs incurred during the production phase are included in the value of inventories when the eligibility conditions are met.

## o) Cash and cash equivalents

Cash and cash equivalents include available funds, highly liquid short-term investments (three months or less) and term deposits with exit options exercisable at no penalty within less than three months that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

These assets are recognized at market value (fair value) or amortized cost, as appropriate.

Cash equivalents subject to usage restriction (e.g., pledges) are recorded under other financial assets for the duration of the restriction.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## p) Treasury shares

All treasury shares held by the Group are deducted from consolidated equity based on their acquisition price, regardless of whether they were repurchased in connection with a liquidity agreement or under a share buyback program initiated by the Group. Gains and losses on the disposal of treasury shares are recorded directly in equity and do not impact profit or loss for the period.

For share buyback programs outstanding at the end of the reporting period, the firm obligation to repurchase shares is recognized in the form of a liability for the acquisition of shares,

against a reduction in consolidated retained earnings. This liability, which is not included in calculations of the Group's net financial position, is cleared as and when the disbursements relating to the share buybacks are made.

## q) Share-based payment

The Group occasionally grants various share-based payments to its employees, including free shares, long-term variable compensation and leveraged or unleveraged savings plans.

In accordance with IFRS 2, Share-based Payment, these arrangements are measured at fair value taking into account any lock-up period for shares granted. The fair value of equity-settled instruments is determined at the grant date. The fair value of cash-settled instruments is revised up to the date of payment. These employee benefits represent personnel costs and are recognized on a straight-line basis over the period during which the rights vest, with an offsetting entry to consolidated retained earnings for equity-settled plans and to liabilities for cash-settled plans.

## r) Provisions

The Group records provisions when it recognizes a present probable or potential (in the event of a business combination) legal or constructive obligation as a result of a past event for which an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of that obligation.

For taxes levied by public authorities, the liability is recognized at the date of the obligating event for each levy, such as that defined by applicable local regulations.

## Provisions for losses on completion and losses arising on delivery commitments

A provision for losses on completion is recognized for contracts managed on a percentage-of-completion basis, and a provision for losses arising on delivery commitments is recognized for sales contracts, when:

- a contract (or combination of contracts), signed before the end of the reporting period, gives rise to obligations for the Group in the form of the delivery of goods, the provision of services or the payment of termination indemnities;
- the Group's obligation and the expected economic benefits can be measured reliably;
- it is highly probable that the contract (or combination of contracts) will be onerous (the unavoidable costs of meeting the obligations under the contract [or combination of contracts] exceed the expected economic benefits).

Unavoidable costs for which a provision is recognized represent the lower of the net cost of executing the contract (i.e., the forecast loss on the contract) and the cost of failing to execute the contract (e.g., withdrawal costs in the event of early termination).

In the case of original equipment sales contracts, the expected economic benefits correspond to the contract cash flows associated with the highly probable cash flows from the spare part activities provided under the contracts.

The cash flows used in this analysis are discounted to take into account their spread over time.

Under onerous contracts, losses arising on delivery commitments are recognized primarily as a deduction from inventories and work-in-progress (for the completed portion of the contract and directly related to the contract or combination of contracts), and shown in provisions for work to be completed.

### Provisions for financial guarantees on sales

As part of its civil engine sales campaigns, the Group grants two types of guarantees to its customers:

- financial guarantees, under which it provides a guarantee to the lending institutions that finance its customer;
- guarantees covering the value of assets, under which Safran grants the customer an option to return the aircraft at a given date for an agreed price.

These commitments are undertaken by the Group together with its partner General Electric, and form part of financing packages proposed by aircraft manufacturers to airline companies. They generally correspond to the share represented by Group engines in the financing of the aircraft.

Financial commitments are generally granted on signature of the sales agreement, but do not actually take effect until the customer so requests.

These guarantees generate risks. However, the total gross amount of the guarantees does not reflect the net risk to which the Group is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, i.e., the aircraft pledged.

A provision is recognized in respect of these guarantees, reflecting events likely to generate a future outflow of resources for the Group.

### Provisions for operating warranties, performance warranties, and standard warranty extensions

These provisions are recorded to cover the Group's share of probable future disbursements with respect to operating and performance warranties on deliveries of engines and equipment and standard warranty extensions that may be granted. Operating warranties generally cover a period of one to three years depending on the type of equipment delivered. Performance warranties are generally granted for longer periods. These provisions are calculated as appropriate based on technical files or statistics, particularly with respect to the return of parts covered by operating warranties, and standard warranty extensions or performance tracking indicators (consumption, noise, emissions, etc.) for performance warranties.

The main changes in accounting treatment relating to the application of IFRS 15, "Revenue from Contracts with Customers", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

### s) Post-employment benefits

In compliance with the laws and practices of each country in which it operates, the Group grants its employees post-employment benefits (pensions, termination payments, early retirement plans, etc.) as well as other long-term benefits including long-service awards, jubilee benefits and loyalty premiums.

For its basic plans and other defined contribution plans, the contribution paid in the period is recognized in expenses when due. No provision is recorded.

Provisions recognized for obligations under defined benefit plans are measured using the projected unit credit method. This determines, for each employee, the present value of the benefits to which the employee's current and past services will grant entitlement on retirement. The actuarial calculations include demographic (retirement date, employee turnover rate, etc.) and financial (discount rate, salary increase rate, etc.) assumptions, and are performed at the end of each reporting period for which accounts are published.

When plans are funded, the plan assets are placed with entities that are responsible for paying the benefits in the countries concerned. These assets are measured at fair value. Provisions are recorded to cover shortfalls in the fair value of plan assets compared with the present value of the Group's obligations.

An asset surplus is only recognized in the balance sheet when it represents future economic benefits effectively available to the Group.

In accordance with the revised IAS 19, changes in actuarial gains and losses arising on defined benefit plans are recognized in "Other comprehensive income" within equity and not subsequently reclassified to profit.

The Group distinguishes between operating components and financial components when presenting defined benefit expense:

- service cost for the period is shown in profit from operations, along with past service costs arising on the introduction of a new plan or curtailments or settlements of an existing plan, which are recognized immediately in this caption;
- the cost relating to unwinding the discount on the net pension liability (asset) is shown in financial income (loss).

### t) Borrowings subject to specific conditions

The Group receives public financing in the form of repayable advances to develop aircraft and defense projects. These advances are repaid based on the revenue generated by future sales of engines or equipment.

Repayable advances are treated as sources of financing and are recognized in liabilities in the consolidated balance sheet under the heading "Borrowings subject to specific conditions".

At inception, they are measured at the amount of cash received or, when acquired, at the value of probable future cash flows discounted at market terms at the acquisition date. They are subsequently measured at amortized cost at the end of each reporting period, taking into account the most recent repayment estimations.

The present value of estimated repayments, based on management's best estimates, is regularly compared with the net carrying amount of repayable advances, defined as the sum of amounts received, plus any interest capitalized at the end of the reporting period, less repayments made. If as a result of this analysis the present value of estimated repayments is durably more or less than the carrying amount of the repayable advances over three consecutive years, that unrecognized portion of the present value of the advance which is higher or lower than the carrying amount is taken to profit or loss.

For certain contracts, the Group has to pay a fee based on replacement sales realized under the program once the advance has been fully repaid. This fee is not considered as repayment of an advance but as an operating expense.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## u) Interest-bearing financial liabilities

On initial recognition, interest-bearing financial liabilities are measured at the fair value of the amount received, less any directly attributable transaction costs. Besides the specific conditions applicable to hedge accounting (Note 1.v), interest-bearing financial liabilities are subsequently carried at amortized cost using the effective interest rate method.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## v) Derivatives and hedge accounting

The Group uses derivative instruments to hedge potential risks arising from its operating and financial activities. These instruments are primarily used to hedge its exposure to the risk of fluctuations in exchange rates. The derivatives used can include forward currency contracts and currency options or interest rate swaps. The Group's market risk management policy is described in Note 26, "Management of market risks and derivatives".

Most derivatives are traded over-the-counter and no quoted prices are available. Consequently, they are measured using models commonly used by market participants to price such instruments (discounted cash flow method or option pricing models). Counterparty risk and proprietary credit risk are taken into account when measuring derivatives.

For a derivative or non-derivative hedging instrument to be eligible for hedge accounting, the hedging relationship must be formally designated and documented at inception and its effectiveness must be demonstrated throughout the life of the instrument using documented effectiveness tests.

The accounting principles applicable to foreign currency derivatives used to hedge foreign exchange risk are set out in Note 1.f.

The Group contracted a net investment hedge of some of its US operations using USD debt. Changes in the fair value of the debt attributable to the hedged foreign exchange risk are recognized within other comprehensive income for the effective portion of the hedge. Changes in fair value attributable to the ineffective portion of the hedge are taken to profit or loss. Amounts carried in equity are taken to profit or loss when the hedged investment is sold or unwound. The interest rate component of the hedging instrument is shown in "Financial income (loss)".

Certain derivatives used to hedge interest rate risk on fixed-rate financial assets and liabilities may be designated as hedging instruments in a fair value hedging relationship. In this case, the borrowings hedged by the interest rate derivatives (mainly interest rate swaps) are adjusted to reflect the change in fair value attributable to the hedged risk. Changes in the fair value of hedged items are taken to profit or loss for the period and offset by symmetrical changes in the fair value of the interest rate swaps (effective portion).

The Group may use derivative instruments to hedge the risk of fluctuations in the price of certain listed commodities. This price risk affects its purchases of semi-finished products with a high commodity component. Pursuant to IAS 39, these commodity derivatives are recognized in the balance sheet at their fair value at the end of the reporting period and the Group recognizes changes in the fair value of these instruments in "Financial income (loss)" if it is unable to apply hedge accounting.

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## w) Sale of receivables

The Group sells some of its trade receivables to financial institutions, generally within the scope of confirmed factoring facilities. The related assets may only be removed from the balance sheet if the rights to the future cash flows from the receivables are transferred, along with substantially all of the associated risks and rewards (payment default, late-payment risk, etc.).

The main changes in accounting treatment relating to the application of IFRS 9, "Financial Instruments", effective for financial periods beginning on or after January 1, 2018, are described in the "Changes in accounting policies" section of this note.

## x) Structure of the consolidated balance sheet

The Group is engaged in a variety of activities, most of which have long operating cycles. Consequently, assets and liabilities generally realized or unwound within the scope of the operating cycle (inventories and work-in-progress, receivables, advances and downpayments received from customers, trade and other payables, and foreign currency and commodity derivatives, etc.) are presented with no separation between current and non-current portions. However, other financial assets and liabilities as well as provisions are considered as current if they mature within 12 months of the end of the reporting period. All other financial assets, liabilities and provisions are considered non-current.

## y) Recurring operating income

To make the Group's operating performance more transparent, it includes an intermediate operating indicator known as "Recurring operating income" in its reporting.

This sub-total includes the share of profit from joint ventures accounted for under the equity method, since all joint ventures are involved in businesses directly related to the Group's core activities.

This sub-total excludes income and expenses which are largely unpredictable because of their unusual, infrequent and/or material nature, such as:

- > impairment losses recognized against goodwill, impairment losses or reversals of impairment losses recognized against

intangible assets relating to programs, projects or product families as a result of an event that substantially alters the economic profitability of such programs, projects or product families (e.g., significant decrease in forecast volumes, difficulties encountered during the development phase, renegotiated sales agreements, changes in the production process, etc.);

- > capital gains and losses on disposals of operations;
- > gains on remeasuring any previously held equity interests in the event of step acquisitions or transfers made to joint ventures;
- > other unusual and/or material items not directly related to the Group's ordinary operations.

## 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 Note 1.I. 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 Note 1.j. 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 under the percentage-of-completion method:** the Group uses the percentage-of-completion method to account for certain contracts. Under this method, it recognizes revenue based on the percentage of work completed, calculated by reference to the contract milestones met or 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 is recognized within losses on completion;

- > **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.

The specific nature of any receivables from governments or government-backed entities is taken into account when determining bad debt risk for each receivable and therefore when estimating the amount of any impairment loss.

## e) Allocation of the cost of business combinations

Business combinations are recorded using the acquisition (purchase) method. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at fair value at the date control is acquired.

One of the most important areas in which estimates are used in accounting for a business combination concerns the calculation of fair value and the underlying assumptions applied. The fair value of certain items acquired in a business combination can be measured reliably, for example property, plant and equipment using market prices. However, the fair value of other items such as intangible assets or contingent liabilities may prove more difficult to establish. These complex measurements are usually performed by independent experts based on a series of assumptions. These experts are generally required to estimate the impact of future events that are uncertain at the date of the combination.

## f) Disputes and litigation

Certain Group subsidiaries may be party to regulatory, legal or arbitration proceedings which, because of their inherent uncertainty, could have a material impact on the Group's financial position (see Note 31, "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 SCOPE OF CONSOLIDATION

### Main changes in the scope of consolidation in 2017

#### Sale of the Security businesses

Safran announced on April 7, 2017, that it had finalized the sale of Morpho Detection LLC, Morpho Detection International LLC and other detection assets to Smiths Group Plc for an enterprise value of USD 710 million. The divested companies were deconsolidated as from that date.

On May 31, 2017, Safran finalized the disposal of its identity and security businesses to Advent International for an enterprise value of €2.4 billion. The divested companies were deconsolidated as from that date.

These transactions generated a disposal gain recognized in "Profit from discontinued operations" in a post-tax amount of €824 million (see Note 27, "Discontinued operations").

Safran granted vendor warranties as part of these disposals (see Note 30.b., "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation").

#### Structil

On October 2, 2017, Safran Ceramics and Mitsubishi Chemical Corporation finalized the sale of all shares and voting rights attached to the share capital of Structil, which they held at 80.05% and 19.95% respectively, to the Hexcel group. Structil specializes in high-performance carbon-fiber composite materials for the aerospace industry and other high-tech industries.

In Safran's consolidated financial statements, the sale of shares and land for €38 million generated a capital gain of €25 million, net of selling costs. This is recognized in "Non-recurring operating income" (see Note 5, "Breakdown of the main components of profit from operations").

Safran granted a vendor warranty as part of this disposal (See Note 30.b., "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation").

### Other transactions that may impact the scope of consolidation

#### Tender offer for Zodiac Aerospace

On January 19, 2017, Safran announced its intention to acquire Zodiac Aerospace through an agreed public tender offer and a subsequent merger, after approval of the main terms and conditions of the transaction by the Board of Directors of Safran and the Supervisory Board of Zodiac Aerospace.

On May 24, 2017, Safran and Zodiac Aerospace announced that they would no longer pursue this transaction structure and had entered into a new business combination agreement.

Pursuant to this agreement, Safran filed a Tender Offer for Zodiac Aerospace's shares on December 7, 2017 (declared compliant by the AMF on December 21, 2017), consisting of:

- a primary cash offer targeting 100% of Zodiac Aerospace's shares (excluding any treasury shares held by Zodiac Aerospace) at a price of €25 per Zodiac Aerospace share;
- a subsidiary exchange offer pursuant to which Zodiac Aerospace shareholders would receive a number of Safran preferred shares determined on the basis of a ratio between a value of €24 per Zodiac Aerospace share and the market price of Safran ordinary shares, within a +5%/-5% collar mechanism, resulting in an exchange ratio of 0.300 to 0.332 Safran preferred shares per Zodiac Aerospace share. The number of Zodiac Aerospace shares that could be tendered to the subsidiary exchange offer was capped at 88,847,828 shares.

The final exchange ratio was set on January 17, 2018, at 0.300 Safran preferred shares for 1 Zodiac Aerospace share, in accordance with the terms set out in the information memorandum.

Upon completion of the initial Offer period, which ran from December 27, 2017 to January 31, 2018, 91,414,451 Zodiac Aerospace shares had been tendered under the Principal Tender Offer, and 142,249,773 Zodiac Aerospace shares under the Subsidiary Exchange Offer. As the limit of Zodiac Aerospace shares which could be tendered to the Subsidiary Exchange Offer, set at 88,847,828 Zodiac Aerospace shares, was exceeded, 53,401,945 Zodiac Aerospace shares were carried over to the Principal Tender Offer. In the overall context of the Offer, Safran therefore acquired a total of 233,664,224 shares, representing 79.74% of Zodiac Aerospace's share capital, excluding treasury shares. In its declaration submitted to the AMF on February 7, 2018, Safran stated that it held 88.23% of the share capital of Zodiac Aerospace considering (i) the shares tendered to the Offer, (ii) the 12,625,784 treasury shares held by Zodiac Aerospace, representing 4.31% of the share capital of Zodiac Aerospace and which were not tendered to the Offer, and (iii) the remaining Zodiac Aerospace shares covered by the residual interest undertaking described in section 1.4.3 of the information memorandum prepared by Safran (i.e., around 4.18% of the share capital of Zodiac Aerospace). Since both the acceptance threshold set at 50% of the share capital or voting rights of Zodiac Aerospace, and the withdrawal threshold set at 66.67% of the voting rights exercisable at a Zodiac Aerospace Shareholders' Meeting, had been exceeded, the Offer had a positive outcome.

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, and 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, the share capital of Safran increased by the amount of €5 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 have not yet done so to tender their shares to the Offer.

In the United States of America, the Tender Offer was open only to qualified institutional buyers. Outside of France, it was not open in any jurisdiction where authorization for the offer would be required.

## Main changes in the scope of consolidation in 2016

### Airbus Safran Launchers (ASL) Joint Venture

On January 14, 2015, Airbus Group and Safran completed the first phase of the creation of their 50-50 joint arrangement, Airbus Safran Launchers (ASL). During this phase, the coordination and the management of all existing civil launchers programs along with Safran's investments in Europropulsion, Regulus and Arianespace were contributed to the joint venture. In return for these first phase contributions, Safran received 50% of the shares issued by ASL, which were recognized within "Investments in equity-accounted companies" for €69 million. A revaluation gain of €36 million on the activities and investments contributed during this first phase was recognized in first-half 2015 within "Other non-recurring operating income and expenses". On August 12, 2015, the European Space Agency awarded ASL the Ariane 6 development contract.

On May 20, 2016, Airbus Group and Safran signed the phase 2 Master Agreement fully enabling the joint venture to design, develop, produce and market all activities related to civil and military launchers and associated propulsion systems, and completing the coordination and the management of all civil launchers programs and associated investments, already managed by ASL since the completion of the first phase.

Pursuant to this agreement, on June 30, 2016 Safran contributed to the joint venture all the assets and liabilities relating to the design, development, production and commercial activities related to launcher propulsion systems for civil and military applications, as well as its investments in Pyroalliance and APP Beheer BV. In order to respect the 50-50 balance between both partners, Safran subscribed to two reserved capital increases carried out by ASL Holding SAS for a total amount of €750 million. In return for these contributions and capital increases, Safran received 50% of the shares issued by ASL Holding SAS, which were recognized within "Investments in equity-accounted companies" for €1,398 million. The loss of control in the activities and the investments contributed during this second phase led to the recognition of a revaluation gain of €367 million in "Other non-recurring operating income and expenses" for 2016, exempt from tax pursuant to deferred tax rules.

To complete the last phase of the project, ASL's acquisition of CNES' 34.68% stake in Arianespace was approved by the European Commission in mid-July 2016 and finalized at end-December 2016, bringing ASL's interest in Arianespace to 74%. Changes in Arianespace's share ownership mark the new governance arrangements in place for European launchers.

The allocation of the purchase price to the acquired entity's amortizable intangible assets finalized in June 2017 generated an amortization expense net of the deferred tax effect of €44 million in 2017, before the impact of the future tax rate decrease (€12 million in second-half 2016). (See Note 13, "Investments in equity-accounted companies".)

On July 1, 2017, Airbus Safran Launchers (ASL) became ArianeGroup following the change of its corporate name.

### Safran Ventilation Systems

On June 15, 2016, the AMF approved Safran's public tender offer followed by a mandatory squeeze-out of the 4.85% of Technofan's share capital not owned by Safran on the date the offer was registered. The offer applied to 30,495 shares at a price per share of €245, equal to a total acquisition price of €7.5 million, to acquire Technofan's non-controlling interests, reducing consolidated equity by €6 million at December 31, 2016.

## NOTE 4 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"). These consolidation sub-groups are organized based on the type of products and services they sell. Three operating segments have been identified based on these criteria.

The Security segment has been classified within "discontinued operations" since 2016 (see Note 27).

### Aerospace Propulsion

The Group designs, develops, produces and markets propulsion systems for commercial aircraft, military transport, training and combat aircraft, business aircraft, rocket engines, civil and military helicopters, tactical missiles and drones. This segment also includes maintenance, repair and overhaul (MRO) activities and the sale of spare parts.

### Aircraft Equipment

Safran covers the full life cycle of systems and equipment for civil and military aircraft and helicopters. The Group is involved in landing gear and brakes, engine systems and associated equipment such as thrust reversers and nacelles, and mechanical power transmission systems. The Group is also present at the different stages of the electrical power generation cycle, associated engineering services, and ventilation systems. Aircraft Equipment also includes maintenance, repair and related services and the sale of spare parts.

### Defense

Defense includes all businesses serving naval, land and aviation defense industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defense applications.

Safran develops inertial navigation systems for aviation, naval and land applications, flight commands for helicopters, tactical optronic systems and drones (gyrostabilized optronic pods, periscopes, infrared cameras, multifunction binoculars, and air surveillance systems), as well as defense equipment and systems.

### 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

The segment information presented in the tables below is identical to that presented to the Chief Executive Officer,

who – in accordance with the Group's governance structure – has been designated as the "Chief Operating Decision Maker" for the assessment of the performance of business segments and the allocation of resources between the different businesses.

The assessment of each business segment's performance by the Chief Executive Officer is based on adjusted contribution figures as explained in the Foreword (see section 2.1).

Data for each business segment are prepared in accordance with the same accounting principles as those used for the consolidated financial statements (see Note 1, "Accounting policies"), except for the restatements made in respect of adjusted data (see section 2.1).

Inter-segment sales are performed on an arm's length basis.

Free cash flow represents cash flow from operating activities less any net disbursements relating to acquisitions of property, plant and equipment and intangible assets.

Gross operating working capital represents the gross balance of trade receivables, inventories and trade payables.

Segment assets represent the sum of goodwill, intangible assets, property, plant and equipment, investments in joint ventures and all current assets except cash and cash equivalents and tax assets.

Non-current assets comprise goodwill, property, plant and equipment, intangible assets and investments in equity-accounted associates and joint ventures.

Quantified segment information for 2016 and 2017 is presented below.

## Segment information

The operating segments and key indicators shown are defined in Note 4.

### At December 31, 2017

| (in € millions)  | Aerospace Propulsion | Aircraft Equipment | Defense      | Total operating segments | Holding company and other | Total adjusted data | Currency hedges | Impacts of business combinations | Total consolidated data |
|--|----------------------|--------------------|--------------|--------------------------|---------------------------|---------------------|-----------------|----------------------------------|-------------------------|
| <b>Revenue</b>   | <b>9,741</b>         | <b>5,415</b>       | <b>1,345</b> | <b>16,501</b>            | <b>20</b>                 | <b>16,521</b>       | <b>419</b>      | <b>-</b>                         | <b>16,940</b>           |
| <b>Recurring operating income (loss)</b>                                       | <b>1,729</b>         | <b>682</b>         | <b>95</b>    | <b>2,506</b>             | <b>(36)</b>               | <b>2,470</b>        | <b>431</b>      | <b>(130)</b>                     | <b>2,771</b>            |
| Other non-recurring operating income and expenses                              | (40)                 | (14)               | (14)         | (68)                     | (22)                      | (90)                | -               | -                                | (90)                    |
| <b>Profit (loss) from operations<sup>(1)</sup></b>                             | <b>1,689</b>         | <b>668</b>         | <b>81</b>    | <b>2,438</b>             | <b>(58)</b>               | <b>2,380</b>        | <b>431</b>      | <b>(130)</b>                     | <b>2,681</b>            |
| <b>Free cash flow</b>  | <b>1,158</b>         | <b>328</b>         | <b>105</b>   | <b>1,591</b>             | <b>(153)</b>              | <b>1,438</b>        | <b>-</b>        | <b>-</b>                         | <b>1,438</b>            |
| <b>Gross operating working capital</b>   | <b>(215)</b>         | <b>1,284</b>       | <b>317</b>   | <b>1,386</b>             | <b>(178)</b>              | <b>1,208</b>        | <b>-</b>        | <b>-</b>                         | <b>1,208</b>            |
| <b>Segment assets<sup>(2)</sup></b>  | <b>15,003</b>        | <b>5,993</b>       | <b>2,151</b> | <b>23,147</b>            | <b>3,107</b>              | <b>26,254</b>       | <b>-</b>        | <b>-</b>                         | <b>26,254</b>           |
| (1) Of which depreciation, amortization and increase in provisions, net of use | (639)                | (245)              | (63)         | (947)                    | (19)                      | (966)               | (7)             | (105)                            | (1,078)                 |
| Of which impairment  | (29)                 | (37)               | (6)          | (72)                     | -                         | (72)                | -               | -                                | (72)                    |

(2) The increase in Holding company and other segment assets in 2017 is mainly due to the reclassification of €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace. These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction (see Note 16, "Cash and cash equivalents").

## At December 31, 2016

| (in € millions)  | Aerospace Propulsion | Aircraft Equipment | Defense      | Total operating segments | Holding company and other | Total adjusted data | Currency hedges | Impacts of business combinations | Total consolidated data |
|--|----------------------|--------------------|--------------|--------------------------|---------------------------|---------------------|-----------------|----------------------------------|-------------------------|
| <b>Revenue</b>   | <b>9,391</b>         | <b>5,145</b>       | <b>1,238</b> | <b>15,774</b>            | <b>7</b>                  | <b>15,781</b>       | <b>701</b>      | <b>-</b>                         | <b>16,482</b>           |
| <b>Recurring operating income (loss)</b>                                       | <b>1,786</b>         | <b>567</b>         | <b>76</b>    | <b>2,429</b>             | <b>(25)</b>               | <b>2,404</b>        | <b>712</b>      | <b>(126)</b>                     | <b>2,990</b>            |
| Other non-recurring operating income and expenses                              | 3                    | (5)                | (7)          | (9)                      | (9)                       | (18)                | -               | 367                              | 349                     |
| <b>Profit (loss) from operations<sup>(1)</sup></b>                             | <b>1,789</b>         | <b>562</b>         | <b>69</b>    | <b>2,420</b>             | <b>(34)</b>               | <b>2,386</b>        | <b>712</b>      | <b>241</b>                       | <b>3,339</b>            |
| <b>Free cash flow</b>  | <b>929</b>           | <b>165</b>         | <b>17</b>    | <b>1,111</b>             | <b>(20)</b>               | <b>1,091</b>        | <b>-</b>        | <b>-</b>                         | <b>1,091</b>            |
| <b>Gross operating working capital</b>   | <b>(92)</b>          | <b>1,215</b>       | <b>392</b>   | <b>1,515</b>             | <b>(67)</b>               | <b>1,448</b>        | <b>-</b>        | <b>-</b>                         | <b>1,448</b>            |
| <b>Segment assets</b>  | <b>14,463</b>        | <b>6,088</b>       | <b>2,011</b> | <b>22,562</b>            | <b>1,062</b>              | <b>23,624</b>       | <b>-</b>        | <b>-</b>                         | <b>23,624</b>           |
| (1) Of which depreciation, amortization and increase in provisions, net of use | (248)                | (191)              | (46)         | (485)                    | (31)                      | (516)               | (4)             | (114)                            | (634)                   |
| Of which impairment  | (207)                | (18)               | (9)          | (234)                    | 3                         | (231)               | (6)             | -                                | (237)                   |

## Revenue (adjusted data)

| (in € millions)                                      | 2016          | 2017          |
|--|---------------|---------------|
| <b>Aerospace Propulsion</b>                          |               |               |
| Original equipment and related products and services | 3,801         | 3,915         |
| Services   | 5,350         | 5,726         |
| Sales of studies                                     | 204           | 65            |
| Other  | 36            | 35            |
| <b>Sub-total</b>                                     | <b>9,391</b>  | <b>9,741</b>  |
| <b>Aircraft Equipment</b>                            |               |               |
| Original equipment and related products and services | 3,182         | 3,364         |
| Services   | 1,635         | 1,749         |
| Sales of studies                                     | 199           | 169           |
| Other  | 129           | 133           |
| <b>Sub-total</b>                                     | <b>5,145</b>  | <b>5,415</b>  |
| <b>Defense</b>                                       |               |               |
| Sales of equipment                                   | 799           | 887           |
| Services   | 325           | 333           |
| Sales of studies                                     | 111           | 123           |
| Other  | 3             | 2             |
| <b>Sub-total</b>                                     | <b>1,238</b>  | <b>1,345</b>  |
| <b>Holding company and other</b>                     |               |               |
| Sales of studies and other                           | 7             | 20            |
| <b>Sub-total</b>                                     | <b>7</b>      | <b>20</b>     |
| <b>TOTAL</b>   | <b>15,781</b> | <b>16,521</b> |

## Information by geographic area

### At December 31, 2017

| (in € millions)                               | France | Europe (excl. France) | Americas | Asia and Oceania | Africa & Middle East | Total adjusted data | Currency hedges | Total consolidated data |
|---|--------|-----------------------|----------|------------------|----------------------|---------------------|-----------------|-------------------------|
| Revenue by location of customers              | 3,214  | 4,366                 | 5,259    | 2,468            | 1,214                | 16,521              | 419             | 16,940                  |
| %   | 20%    | 26%                   | 32%      | 15%              | 7%                   |                     |                 |                         |
| Non-current assets by location <sup>(1)</sup> | 9,885  | 1,509                 | 993      | 259              | 63                   |                     |                 | 12,709                  |
| %   | 78%    | 12%                   | 8%       | 2%               | 0%                   |                     |                 |                         |

(1) Excluding financial assets, derivatives and deferred tax assets.

### At December 31, 2016

| (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              | 3,262  | 3,439                 | 5,345    | 2,368            | 1,367                | 15,781              | 701             | 16,482                  |
| %   | 21%    | 22%                   | 34%      | 15%              | 8%                   |                     |                 |                         |
| Non-current assets by location <sup>(1)</sup> | 9,580  | 1,515                 | 991      | 236              | 64                   |                     |                 | 12,386                  |
| %   | 77%    | 12%                   | 8%       | 2%               | 1%                   |                     |                 |                         |

(1) Excluding financial assets, derivatives and deferred tax assets.

As in the previous year, the Safran Group carried out sales with three major customers during 2017:

➤ Airbus Group: sales of original equipment engines for aircraft and helicopters for the Aerospace Propulsion operating segment; landing and braking systems, wiring and electrical connection systems and nacelles for the Aircraft Equipment operating segment; and navigation systems, flight control systems and flight-data recording systems for the Defense operating segment;

➤ Boeing Group: sales of original equipment engines for aircraft for the Aerospace Propulsion operating segment; and landing and braking systems, wiring and electrical connection systems for the Aircraft Equipment operating segment;

➤ General Electric Group: sales of fleet maintenance spare parts for the Aerospace Propulsion operating segment.

## NOTE 5 BREAKDOWN OF THE MAIN COMPONENTS OF PROFIT FROM OPERATIONS

### Revenue

| (in € millions)                                      | 2016          | 2017          |
|--|---------------|---------------|
| Original equipment and related products and services | 8,116         | 8,363         |
| Services   | 7,648         | 8,020         |
| Sales of studies                                     | 535           | 372           |
| Other  | 183           | 185           |
| <b>TOTAL</b>   | <b>16,482</b> | <b>16,940</b> |

## Other income

| (in € millions)                                  | 2016       | 2017       |
|--|------------|------------|
| Research tax credit <sup>(1)</sup>               | 139        | 140        |
| Competitiveness and employment tax credit (CICE) | 37         | 41         |
| Other operating subsidies                        | 81         | 78         |
| Other operating income and expenses              | 20         | 19         |
| <b>TOTAL</b>                                     | <b>277</b> | <b>278</b> |

(1) Of which €8 million in connection with additional research tax credits in respect of 2016, included in 2017 income (€5 million in respect of 2015 included in 2016 income).

## Raw materials and consumables used

This caption breaks down as follows for the period:

| (in € millions)                   | 2016           | 2017           |
|-----------------------------------|----------------|----------------|
| Raw materials, supplies and other | (2,531)        | (2,829)        |
| Bought-in goods                   | (118)          | (143)          |
| Changes in inventories            | 36             | 79             |
| Sub-contracting                   | (4,179)        | (4,428)        |
| Purchases not held in inventory   | (479)          | (444)          |
| External service expenses         | (2,069)        | (1,944)        |
| <b>TOTAL</b>                      | <b>(9,340)</b> | <b>(9,709)</b> |

## Personnel costs

| (in € millions)                   | 2016           | 2017           |
|-----------------------------------|----------------|----------------|
| Wages and salaries                | (2,720)        | (2,666)        |
| Social security contributions     | (1,141)        | (1,115)        |
| Statutory employee profit-sharing | (142)          | (144)          |
| Optional employee profit-sharing  | (165)          | (161)          |
| Additional contributions          | (54)           | (64)           |
| Corporate social contribution     | (74)           | (77)           |
| Other employee costs              | (110)          | (126)          |
| <b>TOTAL</b>                      | <b>(4,406)</b> | <b>(4,353)</b> |

The decrease in personnel costs primarily relates to the transfer of 3,500 employees further to the contribution at June 30, 2016 of the space business to the Airbus Safran Launchers joint venture (renamed ArianeGroup on July 1, 2017).

Full-time equivalent employees of consolidated companies, excluding jointly controlled entities, represented 55,238 people on average in 2017 (56,976 people on average in 2016).

## Depreciation, amortization and increase in provisions, net of use

| (in € millions)  | 2016         | 2017           |
|--|--------------|----------------|
| <b>Net depreciation and amortization expense</b>                         |              |                |
| > intangible assets  | (333)        | (382)          |
| > property, plant and equipment  | (393)        | (420)          |
| <b>Total net depreciation and amortization expense<sup>(1)</sup></b>     | <b>(726)</b> | <b>(802)</b>   |
| <b>Net increase in provisions</b>  | <b>92</b>    | <b>(276)</b>   |
| <b>DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE</b> | <b>(634)</b> | <b>(1,078)</b> |

(1) Of which depreciation and amortization of assets measured at fair value at the time of the Sagem-Snecma merger: €67 million in 2017 and €70 million in 2016; and during recent acquisitions: €40 million in 2017 and €44 million in 2016.

### Asset impairment

| (in € millions)                                     | Impairment expense |              | Reversals  |            |
|---|--------------------|--------------|------------|------------|
|   | 2016               | 2017         | 2016       | 2017       |
| Property, plant and equipment and intangible assets | (40)               | (74)         | 4          | 4          |
| Financial assets                                    | (9)                | (44)         | 10         | 2          |
| Inventories and work-in-progress                    | (506)              | (500)        | 324        | 493        |
| Receivables   | (55)               | (46)         | 35         | 93         |
| <b>TOTAL</b>  | <b>(610)</b>       | <b>(664)</b> | <b>373</b> | <b>592</b> |

### Other recurring operating income and expenses

| (in € millions)                                    | 2016       | 2017       |
|--|------------|------------|
| Capital gains and losses on asset disposals        | 2          | (6)        |
| Royalties, patents and licenses                    | (23)       | (26)       |
| Losses on irrecoverable receivables                | (11)       | (7)        |
| Other operating income and expenses <sup>(1)</sup> | 147        | 206        |
| <b>TOTAL</b>                                       | <b>115</b> | <b>167</b> |

(1) Of which income of €136 million in 2017 relating to the review of the probability that borrowings subject to specific conditions will be repaid (income of €9 million in 2016) (see Notes 1.t. and 21, "Borrowings subject to specific conditions").

### Other non-recurring operating income and expenses

| (in € millions)                                       | 2016       | 2017        |
|---|------------|-------------|
| Gains on remeasuring previously held equity interests | 367        | -           |
| Capital gains on asset disposals                      | -          | 23          |
| Impairment net of reversals on intangible assets      | -          | (23)        |
| Other non-recurring items                             | (18)       | (90)        |
| <b>TOTAL</b>  | <b>349</b> | <b>(90)</b> |

For 2017, "Capital gains on asset disposals" (€23 million) corresponds mainly to the sale of Structil (see Note 3, "Scope of consolidation").

The Group also decided to analyze the situation of the assets associated with the Falcon 5X program following Dassault Aviation's announcement on December 13, 2017 that it had decided to initiate proceedings to terminate the Silvercrest contract, leading to the cancelation of the Falcon 5X program. These analyses led the Group to write down assets it had specifically committed to this program for an amount of €23 million. As a reminder, the intangible assets relating specifically to the development of the Silvercrest engine and certain other specific assets relating to this program were written down in full for an amount of €654 million in 2015.

"Other non-recurring items" include €61 million in transaction and integration costs, particularly those relating to Safran's tender

offer on Zodiac Aerospace's share capital (see Note 3, "Scope of consolidation"), and the payment of €29 million in respect of an arbitral award (see Note 31 "Disputes and litigation").

At December 31, 2016, the revaluation gain arising from the loss of control in the activities and the investments transferred during the second phase of the creation of ASL (since renamed ArianeGroup), the 50-50 joint arrangement between Airbus Group and Safran, was included within "Other non-recurring operating income and expenses" for €367 million (see Note 3, "Scope of consolidation").

Besides this gain, other non-recurring items chiefly included €15 million in transaction and integration costs arising on business combinations.

## NOTE 6 FINANCIAL INCOME (LOSS)

| <i>(in € millions)</i>  | 2016           | 2017         |
|---|----------------|--------------|
| Financial expense on interest-bearing financial liabilities     | (71)           | (81)         |
| Financial income on cash and cash equivalents                   | 20             | 24           |
| <b>Cost of net debt</b>   | <b>(51)</b>    | <b>(57)</b>  |
| Gain (loss) on foreign currency hedging instruments             | (186)          | 3,476        |
| Foreign exchange gains and losses                               | (730)          | (428)        |
| Net foreign exchange gains (losses) on provisions               | (27)           | 95           |
| <b>Foreign exchange gain (loss)</b>                             | <b>(943)</b>   | <b>3,143</b> |
| Gain or loss on interest rate and commodity hedging instruments | 15             | 4            |
| Capital gains or losses on financial asset disposals            | -              | 17           |
| Impairment of available-for-sale financial assets               | (3)            | (2)          |
| Dividends received  | 2              | 3            |
| Other financial provisions                                      | 4              | -            |
| Interest component of IAS 19 expense                            | (16)           | (12)         |
| Impact of discounting   | (71)           | (35)         |
| Other   | 11             | 3            |
| <b>Other financial income and expense</b>                       | <b>(58)</b>    | <b>(22)</b>  |
| <b>FINANCIAL INCOME (LOSS)</b>                                  | <b>(1,052)</b> | <b>3,064</b> |
| <b>of which financial expense</b>                               | <b>(1,104)</b> | <b>(558)</b> |
| <b>of which financial income</b>                                | <b>52</b>      | <b>3,622</b> |

In 2017, the €3,476 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. This gain results chiefly from the change in the EUR/USD closing exchange rate (1.20 at December 31, 2017 versus 1.05 at December 31, 2016).

The €428 million foreign exchange loss includes €438 million relating to the loss on unwinding currency derivatives hedging operating cash flows recognized in profit or loss in the period. This foreign exchange loss reflects the fact that the currency derivatives unwound in the period broadly guaranteed a EUR/USD exchange rate of USD 1.21 for €1, which proved less favorable than the actual exchange rate observed during the period.

## NOTE 7 INCOME TAX

### Income tax expense

Income tax expense breaks down as follows:

| <i>(in € millions)</i>                        | 2016         | 2017           |
|---|--------------|----------------|
| Current income tax benefit (expense)          | (348)        | (515)          |
| Deferred tax benefit (expense) <sup>(1)</sup> | (50)         | (1,201)        |
| <b>TOTAL TAX BENEFIT (EXPENSE)</b>            | <b>(398)</b> | <b>(1,716)</b> |

(1) Including €1,198 million in deferred tax expense in 2017 arising on fair value adjustments to currency derivatives (deferred tax of €64 million in 2016).

### Effective tax rate

The effective tax rate breaks down as follows:

| (in € millions)  | 2016          | 2017           |
|--|---------------|----------------|
| Profit before tax (A)  | 2,287         | 5,745          |
| Standard tax rate applicable to the parent company                           | 34.43%        | 34.43%         |
| <b>Tax expense at standard rate</b>  | <b>(787)</b>  | <b>(1,978)</b> |
| Impact of permanent differences  | 86            | 22             |
| Impact of research and CICE tax credits                                      | 59            | 61             |
| Impact of different tax rates (France/international)                         | 28            | 64             |
| Impact of unrecognized tax   | 1             | 10             |
| Positive impact of tax reassessments   | 31            | -              |
| Impact of tax on dividends paid by Safran                                    | (18)          | 76             |
| Impact of changes in tax rates on deferred taxes                             | 172           | 130            |
| Impact of joint ventures   | 29            | 54             |
| Impact of other items  | 1             | (155)          |
| <b>Current income tax benefit (expense) recognized in profit or loss (B)</b> | <b>(398)</b>  | <b>(1,716)</b> |
| <b>EFFECTIVE TAX RATE (B)/(A)</b>  | <b>17.40%</b> | <b>29.87%</b>  |

The increase in the effective tax rate between 2016 and 2017 is mainly attributable to the impact of the recognition of significant fair value adjustments in connection with the currency hedging portfolio in 2017 pre-tax profit.

In France, the 2018 Finance Act had the following impacts on the Group's 2017 income tax expense:

- the French Constitutional Council's decision to rule unconstitutional the 3% contribution on dividends, has given rise to the repayment of the corresponding levy previously paid since 2013. The Group therefore recognized net current tax income of €76 million in 2017 within "Impact of tax on dividends paid by Safran";
- in parallel, an exceptional contribution of 15% and an additional contribution of 15% were introduced for groups whose revenue exceeds €3 billion. This generated a current income tax expense for the Group of €115 million for 2017 recorded under "Impact of other items";
- the Group recognized net deferred tax income of €120 million in 2017 within "Impact of changes in tax rates on deferred taxes", further to the progressive decrease in the corporate tax rate to 25% by 2022 (25.83% including the additional contribution), in line with the 2017 and 2018 Finance Acts. Consequently, deferred tax assets and liabilities expected to reverse in 2021 were calculated at a rate of 26.5% (27.37%

including the additional contribution), and items expected to reverse in 2022 and beyond were calculated at 25% (25.83% including the additional contribution).

Belgium also voted to cut the corporate tax rate in two stages: first in 2018 and 2019, the corporate tax rate will decrease from 33% (33.99% including the additional crisis contribution) to 29% (29.58% including the additional contribution). It will subsequently be cut to 25% in 2020. This change in corporate tax rate gave rise to the recognition in 2017 of net deferred tax income of €28 million within "Impact of changes in tax rates on deferred taxes".

US tax reform voted at the end of 2017 included two measures with significant implications for the Group's tax charge:

- firstly, the corporate tax rate was cut from 35% to 21%, effective January 1, 2018. As a result, a deferred tax expense of €18 million was recognized in the 2017 consolidated financial statements within "Impact of changes in tax rates on deferred taxes";
- secondly, a toll charge transition tax was introduced for unremitted post-1986 accumulated earnings in non-US subsidiaries owned at more than 10%. This led to a current income tax expense for the Group of €54 million, recorded under "Impact of other items".



## Deferred tax assets and liabilities

### Deferred tax assets (liabilities) in the balance sheet

| (in € millions)   | Assets       | Liabilities  | Net          |
|---|--------------|--------------|--------------|
| <b>Net deferred tax assets (liabilities) at December 31, 2016</b> | <b>1,351</b> | <b>987</b>   | <b>364</b>   |
| Deferred taxes recognized in profit or loss <sup>(1)</sup>        | (1,176)      | 25           | (1,201)      |
| Deferred taxes recognized directly in equity                      | (4)          | 19           | (23)         |
| Reclassifications   | (18)         | (3)          | (15)         |
| Foreign exchange differences                                      | (4)          | 2            | (6)          |
| Changes in scope of consolidation                                 | (7)          | (8)          | 1            |
| <b>NET DEFERRED TAX ASSETS (LIABILITIES) AT DECEMBER 31, 2017</b> | <b>142</b>   | <b>1,022</b> | <b>(880)</b> |

(1) Including €1,198 million in deferred tax expense in 2017 arising on fair value adjustments to currency derivatives (deferred tax of €64 million in 2016).

### Deferred tax asset bases

| (in € millions)                                     | Dec. 31, 2016 | Dec. 31, 2017  |
|---|---------------|----------------|
| <b>Deferred tax asset bases</b>                     |               |                |
| Property, plant and equipment and intangible assets | (4,585)       | (4,581)        |
| Inventories   | 184           | 248            |
| Current assets/liabilities                          | 390           | 123            |
| Financial assets/liabilities                        | 3,870         | 248            |
| Provisions  | 1,417         | 1,247          |
| Tax adjustments                                     | (447)         | (530)          |
| Losses carried forward and tax credits              | 366           | 225            |
| <b>TOTAL DEFERRED TAX ASSET BASES</b>               | <b>1,195</b>  | <b>(3,020)</b> |
| <b>Total gross deferred tax balance (A)</b>         | <b>470</b>    | <b>(852)</b>   |
| <b>Total unrecognized deferred tax assets (B)</b>   | <b>106</b>    | <b>28</b>      |
| <b>TOTAL NET DEFERRED TAXES RECOGNIZED (A)-(B)</b>  | <b>364</b>    | <b>(880)</b>   |

## Current tax assets and liabilities

Current tax assets and liabilities break down as follows:

| (in € millions)  | Assets     | Liabilities | Net        |
|--|------------|-------------|------------|
| <b>Net tax assets (liabilities) at December 31, 2016</b> | <b>513</b> | <b>179</b>  | <b>334</b> |
| Movements during the period                              | 111        | 3           | 108        |
| Current taxes recognized directly in equity              | -          | 45          | (45)       |
| Foreign exchange differences                             | (25)       | (13)        | (12)       |
| Other movements  | (3)        | -           | (3)        |
| <b>NET TAX ASSETS (LIABILITIES) AT DECEMBER 31, 2017</b> | <b>596</b> | <b>214</b>  | <b>382</b> |

## NOTE 8 EARNINGS PER SHARE

|  | Index                 | 2016        | 2017        |
|--|-----------------------|-------------|-------------|
| <b>Numerator (in € millions)</b>   |                       |             |             |
| Profit for the period attributable to owners of the parent               | (A)                   | 1,908       | 4,790       |
| Profit from continuing operations attributable to owners of the parent   | (I)                   | 1,836       | 3,968       |
| Profit from discontinued operations attributable to owners of the parent | (J)                   | 72          | 822         |
| <b>Denominator (in shares)</b>   |                       |             |             |
| Total number of shares   | (B)                   | 417,029,585 | 417,029,585 |
| Number of treasury shares held   | (C)                   | 1,838,487   | 7,742,624   |
| Number of shares excluding treasury shares                               | (D)=(B-C)             | 415,191,098 | 409,286,961 |
| Weighted average number of shares (excluding treasury shares)            | (D')                  | 416,325,118 | 410,241,043 |
| Potentially dilutive ordinary shares                                     | (E)                   | 7,293,830   | 7,277,205   |
| Weighted average number of shares after dilution                         | (F)=(D'+E)            | 423,618,948 | 417,518,248 |
| <b>Ratio: earnings per share from continuing operations (in €)</b>       |                       |             |             |
| Basic earnings per share   | (K)=(I*1million)/(D') | 4.41        | 9.67        |
| Diluted earnings per share   | (L)=(I*1million)/(F)  | 4.33        | 9.50        |
| <b>Ratio: earnings per share from discontinued operations (in €)</b>     |                       |             |             |
| Basic earnings per share   | (M)=(J*1million)/(D') | 0.17        | 2.00        |
| Diluted earnings per share   | (N)=(J*1million)/(F)  | 0.17        | 1.97        |

At December 31, 2017, potentially dilutive ordinary shares comprise shares that may be issued if all of the options issued by the Group on January 5, 2016 as part of the issue of bonds convertible and/or exchangeable for new and/or existing shares (OCEANE – see Note 18.c., “Convertible bond issues”) are converted.

The calculation of earnings per share in 2017 does not include the issuance of 26,651,058 Class A Preferred Shares on February 13, 2018 to the shareholders of Zodiac Aerospace who tendered their shares to the subsidiary exchange offer (see Note 3, “Scope of consolidation”). The Class A Preferred Shares bear dividend rights as from their date of issuance.

## NOTE 9 GOODWILL

Goodwill breaks down as follows:

| <i>(in € millions)</i>            | Dec. 31, 2016<br>Net | Changes<br>in scope of<br>consolidation | Impairment | Price adjustments<br>and allocation to<br>identifiable assets<br>and liabilities | Translation<br>adjustments<br>and other | Dec. 31, 2017<br>Net |
|-----------------------------------|----------------------|---|------------|--|---|----------------------|
| Safran Aircraft Engines           | 392                  | -                                       | -          | -  | -                                       | 392                  |
| Safran Helicopter Engines         | 306                  | -                                       | -          | -  | 1                                       | 307                  |
| Safran Aero Booster               | 47                   | -                                       | -          | -  | -                                       | 47                   |
| Other                             | 1                    | -                                       | -          | -  | -                                       | 1                    |
| <b>Total Aerospace Propulsion</b> | <b>746</b>           | <b>-</b>                                | <b>-</b>   | <b>-</b>   | <b>1</b>                                | <b>747</b>           |
| Safran Nacelles                   | 213                  | -                                       | -          | -  | -                                       | 213                  |
| Safran Engineering Services       | 78                   | -                                       | -          | -  | -                                       | 78                   |
| Safran Landing Systems            | 188                  | -                                       | -          | -  | 2                                       | 190                  |
| Safran Ventilation Systems        | 10                   | -                                       | -          | -  | -                                       | 10                   |
| Safran Electrical & Power         | 491                  | -                                       | -          | -  | (27)                                    | 464                  |
| <b>Total Aircraft Equipment</b>   | <b>980</b>           | <b>-</b>                                | <b>-</b>   | <b>-</b>   | <b>(25)</b>                             | <b>955</b>           |
| Safran Electronics & Defense      | 138                  | -                                       | -          | -  | (9)                                     | 129                  |
| <b>Total Defense</b>              | <b>138</b>           | <b>-</b>                                | <b>-</b>   | <b>-</b>   | <b>(9)</b>                              | <b>129</b>           |
| <b>TOTAL</b>                      | <b>1,864</b>         | <b>-</b>                                | <b>-</b>   | <b>-</b>   | <b>(33)</b>                             | <b>1,831</b>         |

### Annual impairment tests

The Group tests goodwill for impairment during the first half of the year.

The Group performed annual impairment tests on the cash-generating units (CGUs) presented above, by comparing their value in use with their net carrying amount.

The main assumptions used in determining the value in use of CGUs are described below:

- expected future cash flows are determined over a period consistent with the useful life of the assets included in each CGU. This is generally estimated at 10 years but may be extended for businesses with longer development and production cycles;
- operating forecasts used to determine expected future cash flows take into account general economic data, specific inflation rates for each geographic area, a USD exchange rate based on available market information and mid- to long-term macroeconomic assumptions. These projections and assumptions are based on the Group's medium-term plan for the next four years, while projections and assumptions beyond this period are based on management's best case long-term scenario;
- the value in use of CGUs is equal to the sum of these discounted estimated future cash flows plus a terminal value, calculated by applying the growth rate expected for the relevant businesses to standardized cash flows representing long-term business activity, which usually corresponds to the last year in the long-term plan;

- the growth rate used to calculate terminal value was set at 1.5% for the Defense CGU (unchanged from 2016) and at 2% for the Aerospace Propulsion and Aircraft Equipment CGUs (unchanged from 2016);
- the average USD exchange rate adopted is 1.18 for years 2018 to 2020 and 1.35 thereafter. These exchange rate assumptions were used for forecasting during the first half of the year, and take into account the foreign currency hedging portfolio (see Note 26, "Management of market risks and derivatives");
- the benchmark post-tax discount rate used is 7.5% (unchanged from 2016) and is applied to post-tax cash flows.

Based on these tests, no impairment was deemed necessary in addition to that already recognized against individual assets. Furthermore, the recoverable amount of each CGU wholly justifies the goodwill balances recorded in Group assets. No impairment of goodwill was recognized as a result of the annual impairment tests in 2016.

A sensitivity analysis was carried out in respect of the Group's main goodwill balances, by introducing the following changes to the main assumptions:

- a 5% increase or decrease in the USD/EUR exchange rate;
- a 0.5% increase in the benchmark discount rate;
- a 0.5% decrease in the perpetual growth rate.

In 2017 as in 2016, the above changes in the main assumptions taken individually do not result in values in use lower than the carrying amounts of goodwill balances.

## NOTE 10 INTANGIBLE ASSETS

Intangible assets break down as follows:

| (in € millions)                       | Dec. 31, 2016 |                             |              | Dec. 31, 2017 |                             |              |
|---------------------------------------|---------------|-----------------------------|--------------|---------------|-----------------------------|--------------|
|                                       | Gross         | Amortization/<br>impairment | Net          | Gross         | Amortization/<br>impairment | Net          |
| Aircraft programs                     | 2,367         | (1,326)                     | 1,041        | 2,363         | (1,459)                     | 904          |
| Development expenditures              | 3,946         | (1,265)                     | 2,681        | 4,185         | (1,384)                     | 2,801        |
| Commercial agreements and concessions | 973           | (312)                       | 661          | 1,096         | (354)                       | 742          |
| Software                              | 523           | (452)                       | 71           | 547           | (467)                       | 80           |
| Commercial relationships              | 227           | (90)                        | 137          | 198           | (80)                        | 118          |
| Technology                            | 93            | (22)                        | 71           | 83            | (25)                        | 58           |
| Other                                 | 642           | (126)                       | 516          | 683           | (145)                       | 538          |
| <b>TOTAL</b>                          | <b>8,771</b>  | <b>(3,593)</b>              | <b>5,178</b> | <b>9,155</b>  | <b>(3,914)</b>              | <b>5,241</b> |

Movements in intangible assets break down as follows:

| (in € millions)                                  | Gross        | Amortization/<br>impairment | Net          |
|--|--------------|-----------------------------|--------------|
| <b>At December 31, 2016</b>                      | <b>8,771</b> | <b>(3,593)</b>              | <b>5,178</b> |
| Capitalization of R&D expenditure <sup>(1)</sup> | 286          | -                           | 286          |
| Capitalization of other intangible assets        | 117          | -                           | 117          |
| Acquisitions of other intangible assets          | 174          | -                           | 174          |
| Disposals and retirements                        | (50)         | 33                          | (17)         |
| Amortization                                     | -            | (382)                       | (382)        |
| Impairment losses recognized in profit or loss   | -            | (73)                        | (73)         |
| Reclassifications                                | (80)         | 69                          | (11)         |
| Changes in scope of consolidation                | (5)          | 6                           | 1            |
| Foreign exchange differences                     | (58)         | 26                          | (32)         |
| <b>AT DECEMBER 31, 2017</b>                      | <b>9,155</b> | <b>(3,914)</b>              | <b>5,241</b> |

(1) Including €11 million in capitalized interest on R&D expenditure at December 31, 2017 (€20 million at December 31, 2016).

Research and development expenditure recognized in recurring operating income for the period totaled €955 million including amortization (€867 million in 2016). This amount does not include the research tax credit recognized in recurring operating income within other income (see Note 5, "Breakdown of the main components of profit from operations").

Amortization was recognized in respect of intangible assets for €107 million relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger (€67 million), and to assets identified as part of other business combinations (€40 million).

As a result of the impairment tests carried out at December 31, 2017, assets that the Group had specifically committed to the Falcon 5X program were written down in an amount of €23 million (see Note 5, "Breakdown of the main components of profit from operations"), while intangible assets relating to an Aircraft Equipment program were written down in an amount of €34 million.

No impairment losses were recognized as a result of the impairment tests carried out in 2016.

## NOTE 11 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment break down as follows:

| (in € millions)                             | Dec. 31, 2016 |                             |              | Dec. 31, 2017 |                             |              |
|---|---------------|-----------------------------|--------------|---------------|-----------------------------|--------------|
|   | Gross         | Depreciation/<br>impairment | Net          | Gross         | Depreciation/<br>impairment | Net          |
| Land  | 209           | -                           | 209          | 204           | -                           | 204          |
| Buildings                                   | 1,559         | (687)                       | 872          | 1,624         | (750)                       | 874          |
| Technical facilities, equipment and tooling | 4,416         | (3,028)                     | 1,388        | 4,711         | (3,127)                     | 1,584        |
| Assets in progress, advances                | 690           | (78)                        | 612          | 750           | (76)                        | 674          |
| Site development and preparation costs      | 50            | (28)                        | 22           | 51            | (30)                        | 21           |
| Buildings on land owned by third parties    | 92            | (34)                        | 58           | 90            | (31)                        | 59           |
| Computer hardware and other equipment       | 369           | (361)                       | 8            | 459           | (357)                       | 102          |
| <b>TOTAL</b>                                | <b>7,385</b>  | <b>(4,216)</b>              | <b>3,169</b> | <b>7,889</b>  | <b>(4,371)</b>              | <b>3,518</b> |

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

| (in € millions)                                | Gross        | Depreciation/<br>impairment | Net          |
|--|--------------|-----------------------------|--------------|
| <b>At December 31, 2016</b>                    | <b>7,385</b> | <b>(4,216)</b>              | <b>3,169</b> |
| Internally produced assets                     | 110          | -                           | 110          |
| Additions <sup>(1)</sup>                       | 678          | -                           | 678          |
| Disposals and retirements                      | (202)        | 174                         | (28)         |
| Depreciation                                   | -            | (420)                       | (420)        |
| Impairment losses recognized in profit or loss | -            | (14)                        | (14)         |
| Reclassification <sup>(2)</sup>                | 81           | 14                          | 95           |
| Changes in scope of consolidation              | (24)         | 21                          | (3)          |
| Foreign exchange differences                   | (139)        | 70                          | (69)         |
| <b>AT DECEMBER 31, 2017</b>                    | <b>7,889</b> | <b>(4,371)</b>              | <b>3,518</b> |

(1) Including €2 million in assets held under finance leases.

(2) €102 million, corresponding to the cumulative elimination of intragroup transactions entered into between the Group and a joint venture in prior periods, was reclassified from property, plant and equipment to investments in equity-accounted companies.

Assets held under finance leases and recognized in property, plant and equipment break down as follows:

| (in € millions)                             | Dec. 31, 2016 |                             |            | Dec. 31, 2017 |                             |            |
|---|---------------|-----------------------------|------------|---------------|-----------------------------|------------|
|   | Gross         | Depreciation/<br>impairment | Net        | Gross         | Depreciation/<br>impairment | Net        |
| Land  | 16            | -                           | 16         | 16            | -                           | 16         |
| Buildings                                   | 236           | (58)                        | 178        | 235           | (67)                        | 168        |
| Technical facilities, equipment and tooling | 18            | (7)                         | 11         | 18            | (8)                         | 10         |
| Site development and preparation costs      | 7             | (2)                         | 5          | 10            | (3)                         | 7          |
| Buildings on land owned by third parties    | 18            | -                           | 18         | 18            | (2)                         | 16         |
| Computer hardware and other equipment       | 20            | (20)                        | -          | 20            | (20)                        | -          |
| <b>TOTAL</b>                                | <b>315</b>    | <b>(87)</b>                 | <b>228</b> | <b>317</b>    | <b>(100)</b>                | <b>217</b> |

## NOTE 12 CURRENT AND NON-CURRENT FINANCIAL ASSETS

Financial assets include:

| (in € millions)                             | Dec. 31, 2016 |              |            | Dec. 31, 2017 |              |              |
|---|---------------|--------------|------------|---------------|--------------|--------------|
|   | Gross         | Impairment   | Net        | Gross         | Impairment   | Net          |
| Non-consolidated investments <sup>(1)</sup> | 488           | (188)        | 300        | 442           | (216)        | 226          |
| Other financial assets                      | 316           | (87)         | 229        | 2,298         | (87)         | 2,211        |
| <b>TOTAL</b>                                | <b>804</b>    | <b>(275)</b> | <b>529</b> | <b>2,740</b>  | <b>(303)</b> | <b>2,437</b> |

(1) Of which Embraer listed securities for €39 million at December 31, 2016, classified in Level 1 of the IFRS 13 fair value hierarchy. The Embraer shares were sold in 2017 for €41 million.

Non-consolidated investments are classified as available-for-sale and measured at fair value or at cost if fair value cannot be reliably measured.

needed to be recognized based on available information and the current market climate.

The Group reviewed the value of each of its available-for-sale investments in order to determine whether any impairment loss

No material write-downs were recognized in 2017.

### Other financial assets

Other financial assets break down as follows:

| (in € millions)                     | Dec. 31, 2016 | Dec. 31, 2017 |
|-------------------------------------|---------------|---------------|
| Loans to non-consolidated companies | 152           | 108           |
| Loans to employees                  | 32            | 31            |
| Deposits and guarantees             | 7             | 2,007         |
| Loans linked to sales financing     | 1             | -             |
| Other                               | 37            | 65            |
| <b>TOTAL</b>                        | <b>229</b>    | <b>2,211</b>  |
| <b>Non-current</b>                  | <b>82</b>     | <b>98</b>     |
| <b>Current</b>                      | <b>147</b>    | <b>2,113</b>  |

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

The table below shows movements in other financial assets:

| (in € millions)                   |              |
|-----------------------------------|--------------|
| <b>At December 31, 2016</b>       | <b>229</b>   |
| Increase                          | 34           |
| Decrease                          | (60)         |
| Reclassifications                 | 2,011        |
| Changes in scope of consolidation | (3)          |
| <b>AT DECEMBER 31, 2017</b>       | <b>2,211</b> |

The increase in Other financial assets in 2017 is mainly due to the reclassification of €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace.

These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction (see Note 16, "Cash and cash equivalents").

## NOTE 13 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, 2016 | Dec. 31, 2017 |
|----------------------|---------------|---------------|
| ArianeGroup          | 1,484         | 1,550         |
| Other joint ventures | 691           | 569           |
| <b>TOTAL</b>         | <b>2,175</b>  | <b>2,119</b>  |

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

| (in € millions)                           |              |
|---|--------------|
| <b>At December 31, 2016</b>               | <b>2,175</b> |
| Share in profit from ArianeGroup          | 86           |
| Share in profit from other joint ventures | 68           |
| Dividends received from joint ventures    | (44)         |
| Changes in scope of consolidation         | 34           |
| Reclassification <sup>(1)</sup>           | (106)        |
| Foreign exchange differences              | (77)         |
| Other movements                           | (17)         |
| <b>AT DECEMBER 31, 2017</b>               | <b>2,119</b> |

(1) €106 million, corresponding to the cumulative eliminations of intragroup transactions generated between the Group and a joint venture in prior periods, was reclassified from property, plant and equipment (€102 million) and inventories (€4 million) to investments in equity-accounted companies.

The Group's off-balance sheet commitments with joint ventures are described in Note 29, "Related parties".

The Group has interests in the following joint ventures which are accounted for using the equity method:

- > Airbus Safran Launchers (ASL), which changed corporate name to ArianeGroup on July 1, 2017: launchers;
- > Shannon Engine Support Ltd: leasing of CFM56 and LEAP engines, modules, equipment and tooling to airline companies;
- > ULIS: manufacture of uncooled infrared detectors;
- > SOFRADIR: manufacture of cooled infrared detectors;

- > Safran Martin-Baker France: manufacture of ejectable seating;
- > A-Pro: repair of landing gear for regional and business jets;
- > CFM Materials LP: sale of used CFM56 parts;
- > Roxel SAS: holding company;
- > Roxel France SA: motors for tactical missiles;
- > Roxel Ltd: motors for tactical missiles;
- > SAIFEI: electrical wiring;
- > Fadec International LLC: digital engine control systems.

ArianeGroup is the Group's sole material joint venture.

### 3 FINANCIAL STATEMENTS

#### Group consolidated financial statements at December 31, 2017

Financial information for ArianeGroup can be summarized as follows:

| (in € millions)   | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Non-current assets  | 1,093         | 1,167         |
| Current assets  | 5,518         | 5,335         |
| <i>of which: cash and cash equivalents</i>  | 797           | 807           |
| Non-current liabilities   | (526)         | (496)         |
| <i>of which: non-current financial liabilities</i>  | (35)          | (31)          |
| Current liabilities   | (6,511)       | (6,470)       |
| <i>of which: current financial liabilities</i>  | (333)         | (36)          |
| Non-controlling interests   | 8             | 7             |
| <b>Net assets of ArianeGroup (excl. goodwill and PPA) – attributable to owners of the parent (based on a 100% interest)</b> | <b>(434)</b>  | <b>(471)</b>  |
| Equity share in net assets of ArianeGroup (excl. goodwill and PPA) (based on a 50% interest)                                | (217)         | (236)         |
| Purchase price allocation, net of deferred taxes <sup>(1)</sup>   | 350           | 609           |
| <b>Safran equity share – Net assets of ArianeGroup<sup>(1)</sup></b>  | <b>133</b>    | <b>374</b>    |
| <b>Goodwill<sup>(1)</sup></b>   | <b>1,351</b>  | <b>1,176</b>  |
| <b>CARRYING AMOUNT OF INVESTMENT IN ARIANEGROUP</b>   | <b>1,484</b>  | <b>1,550</b>  |

(1) Provisional allocation of the purchase price at December 31, 2016; final allocation of the purchase price at June 30, 2017.

| (in € millions)   | 2016       | 2017       |
|---|------------|------------|
| <b>Profit for the period attributable to owners of the parent</b>               | <b>100</b> | <b>218</b> |
| Other comprehensive income  | (4)        | 28         |
| <b>Total comprehensive income attributable to owners of the parent</b>          | <b>96</b>  | <b>246</b> |
| Safran equity share – Profit for the period                                     | 50         | 109        |
| Amortization of purchase price allocation, net of deferred taxes <sup>(1)</sup> | (12)       | (44)       |
| Deferred tax rate change <sup>(2)</sup>   |            | 21         |
| <b>Safran equity share in profit of ArianeGroup</b>                             | <b>38</b>  | <b>86</b>  |
| Safran equity share – Other comprehensive income                                | (2)        | 14         |
| <b>Safran equity share in comprehensive income of ArianeGroup</b>               | <b>36</b>  | <b>100</b> |

(1) Provisional allocation of the purchase price at December 31, 2016; final allocation of the purchase price at June 30, 2017.

(2) Impact of the future corporate tax rate reduction following the amending Finance Act for 2017 on deferred tax liabilities on final allocation of the purchase price (see Note 7, "Income tax").

In 2017, ArianeGroup paid €50 million in interim dividends (of which €25 million for Safran).

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

| (in € millions)                     | 2016      | 2017      |
|-------------------------------------|-----------|-----------|
| Profit from continuing operations   | 49        | 68        |
| Profit from discontinued operations | 1         | -         |
| Other comprehensive income          | 11        | (49)      |
| <b>Total comprehensive income</b>   | <b>61</b> | <b>19</b> |



## NOTE 14 INVENTORIES AND WORK-IN-PROGRESS

Inventories and work-in-progress break down as follows:

| (in € millions)            | Dec. 31, 2016<br>Net | Dec. 31, 2017<br>Net |
|----------------------------|----------------------|----------------------|
| Raw materials and supplies | 519                  | 532                  |
| Finished goods             | 1,995                | 2,127                |
| Work-in-progress           | 1,721                | 1,782                |
| Bought-in goods            | 12                   | 55                   |
| <b>TOTAL</b>               | <b>4,247</b>         | <b>4,496</b>         |

Movements in inventories and work-in-progress can be analyzed as follows:

| (in € millions)                   | Gross        | Impairment   | Net          |
|-----------------------------------|--------------|--------------|--------------|
| <b>At December 31, 2016</b>       | <b>5,063</b> | <b>(816)</b> | <b>4,247</b> |
| Movements during the period       | 308          | -            | 308          |
| Net impairment expense            | -            | (12)         | (12)         |
| Reclassification <sup>(1)</sup>   | 24           | (8)          | 16           |
| Changes in scope of consolidation | -            | (1)          | (1)          |
| Foreign exchange differences      | (71)         | 9            | (62)         |
| <b>AT DECEMBER 31, 2017</b>       | <b>5,324</b> | <b>(828)</b> | <b>4,496</b> |

(1) €4 million, corresponding to the cumulative elimination of intragroup transactions entered into between the Group and a joint venture in prior periods, was reclassified from inventories and work-in-progress to investments in equity-accounted companies.

## NOTE 15 TRADE AND OTHER RECEIVABLES

| (in € millions)  | Dec. 31, 2016<br>Net | Movements<br>during the<br>period | Impairment/<br>reversal | Changes<br>in scope of<br>consolidation | Reclassifications | Translation<br>adjustments | Dec. 31, 2017<br>Net |
|--|----------------------|-----------------------------------|-------------------------|---|-------------------|----------------------------|----------------------|
| <b>Operating receivables</b>                                   | <b>5,696</b>         | <b>(1)</b>                        | <b>58</b>               | <b>6</b>                                | <b>(1)</b>        | <b>(34)</b>                | <b>5,724</b>         |
| Debit balances on trade payables/advance payments to suppliers | 224                  | 193                               | -                       | -                                       | (2)               | (1)                        | 414                  |
| Trade receivables  | 5,462                | (189)                             | 58                      | 6                                       | 1                 | (33)                       | 5,305                |
| Current operating accounts                                     | 1                    | -                                 | -                       | -                                       | -                 | -                          | 1                    |
| Employee-related receivables                                   | 9                    | (5)                               | -                       | -                                       | -                 | -                          | 4                    |
| <b>Other receivables</b>                                       | <b>556</b>           | <b>44</b>                         | <b>1</b>                | <b>55</b>                               | <b>-</b>          | <b>(9)</b>                 | <b>647</b>           |
| Prepayments  | 30                   | 11                                | -                       | -                                       | (2)               | (1)                        | 38                   |
| VAT receivables  | 461                  | 80                                | -                       | -                                       | -                 | (5)                        | 536                  |
| Other State receivables  | 11                   | -                                 | -                       | -                                       | -                 | -                          | 11                   |
| Other receivables  | 54                   | (47)                              | 1                       | 55                                      | 2                 | (3)                        | 62                   |
| <b>TOTAL</b>   | <b>6,252</b>         | <b>43</b>                         | <b>59</b>               | <b>61</b>                               | <b>(1)</b>        | <b>(43)</b>                | <b>6,371</b>         |

In both 2017 and 2016, the Group sold trade receivables under an agreement requiring derecognition under IFRS. The terms and conditions of this agreement are presented in Note 22, "Interest-bearing financial liabilities".

### 3 FINANCIAL STATEMENTS

#### Group consolidated financial statements at December 31, 2017

The table below provides a breakdown of the carrying amount of trade receivables by maturity:

| (in € millions)             | Carrying amount at Dec. 31 | Neither past due nor impaired | Past due but not impaired at Dec. 31 (in days) |       |        |         |       | Total past due but not impaired | Past due and impaired <sup>(1)</sup> |
|-----------------------------|----------------------------|-------------------------------|--|-------|--------|---------|-------|---------------------------------|--------------------------------------|
|                             |                            |                               | < 30   | 31-90 | 90-180 | 181-360 | > 360 |                                 |                                      |
| <b>At December 31, 2016</b> |                            |                               |  |       |        |         |       |                                 |                                      |
| Trade receivables           | 5,462                      | 4,962                         | 117  | 140   | 64     | 62      | 36    | 419                             | 81                                   |
| <b>AT DECEMBER 31, 2017</b> |                            |                               |  |       |        |         |       |                                 |                                      |
| Trade receivables           | 5,305                      | 4,860                         | 106  | 136   | 60     | 31      | 53    | 386                             | 59                                   |

(1) Certain receivables are only partially written down.

## NOTE 16 CASH AND CASH EQUIVALENTS

| (in € millions)        | Dec. 31, 2016 | Dec. 31, 2017 |
|------------------------|---------------|---------------|
| Money-market funds     | 21            | 1,293         |
| Short-term investments | 1,113         | 2,077         |
| Sight deposits         | 792           | 1,544         |
| <b>TOTAL</b>           | <b>1,926</b>  | <b>4,914</b>  |

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)                   |              |
|-----------------------------------|--------------|
| <b>At December 31, 2016</b>       | <b>1,926</b> |
| Movements during the period       | 4,983        |
| Changes in scope of consolidation | 16           |
| Foreign exchange differences      | (11)         |
| Reclassifications                 | (2,000)      |
| <b>AT DECEMBER 31, 2017</b>       | <b>4,914</b> |

During 2017, €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace was reclassified under other financial assets (see Note 12, "Current

and non-current financial assets"). These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction.

## NOTE 17 SUMMARY OF FINANCIAL ASSETS

The table below presents the carrying amount of the Group's financial assets at December 31, 2016 and December 31, 2017:

|   | Carrying amount           |                             |   |  | Total<br>= A+B+C+D |
|---|---------------------------|-----------------------------|---|--|--------------------|
|   | At amortized cost         |                             | At fair value   |  |                    |
|   | Loans and receivables (A) | Assets held to maturity (B) | Financial assets at fair value (through profit or loss) (C) | Financial assets available for sale (through equity) (D) |                    |
| <b>At December 31, 2016</b><br><i>(in € millions)</i> |                           |                             |   |  |                    |
| <b>Non-current financial assets</b>                   |                           |                             |   |  |                    |
| Non-consolidated investments                          |                           |                             |   | 300  | 300                |
| Non-current derivatives (positive fair value)         |                           |                             | 28  |  | 28                 |
| Other non-current financial assets                    | 82                        |                             |   |  | 82                 |
| <b>Sub-total non-current financial assets</b>         | <b>82</b>                 | <b>-</b>                    | <b>28</b>   | <b>300</b>   | <b>410</b>         |
| Other current financial assets                        | 147                       |                             |   |  | 147                |
| Current derivatives (positive fair value)             |                           |                             | 592   |  | 592                |
| Trade receivables                                     | 5,462                     |                             |   |  | 5,462              |
| Current operating accounts and other receivables      | 55                        |                             |   |  | 55                 |
| Cash and cash equivalents                             | 1,905                     |                             | 21  |  | 1,926              |
| <b>Sub-total current financial assets</b>             | <b>7,569</b>              | <b>-</b>                    | <b>613</b>  | <b>-</b>   | <b>8,182</b>       |
| <b>TOTAL FINANCIAL ASSETS</b>                         | <b>7,651</b>              | <b>-</b>                    | <b>641</b>  | <b>300</b>   | <b>8,592</b>       |

|   | Carrying amount           |                             |   |  | Total<br>= A+B+C+D |
|---|---------------------------|-----------------------------|---|--|--------------------|
|   | At amortized cost         |                             | At fair value   |  |                    |
|   | Loans and receivables (A) | Assets held to maturity (B) | Financial assets at fair value (through profit or loss) (C) | Financial assets available for sale (through equity) (D) |                    |
| <b>At December 31, 2017</b><br><i>(in € millions)</i> |                           |                             |   |  |                    |
| <b>Non-current financial assets</b>                   |                           |                             |   |  |                    |
| Non-consolidated investments                          |                           |                             |   | 226  | 226                |
| Non-current derivatives (positive fair value)         |                           |                             | 16  |  | 16                 |
| Other non-current financial assets                    | 98                        |                             |   |  | 98                 |
| <b>Sub-total non-current financial assets</b>         | <b>98</b>                 | <b>-</b>                    | <b>16</b>   | <b>226</b>   | <b>340</b>         |
| Other current financial assets                        | 2,113                     |                             |   |  | 2,113              |
| Current derivatives (positive fair value)             |                           |                             | 566   |  | 566                |
| Trade receivables                                     | 5,305                     |                             |   |  | 5,305              |
| Current operating accounts and other receivables      | 63                        |                             |   |  | 63                 |
| Cash and cash equivalents                             | 3,621                     |                             | 1,293   |  | 4,914              |
| <b>Sub-total current financial assets</b>             | <b>11,102</b>             | <b>-</b>                    | <b>1,859</b>  | <b>-</b>   | <b>12,961</b>      |
| <b>TOTAL FINANCIAL ASSETS</b>                         | <b>11,200</b>             | <b>-</b>                    | <b>1,875</b>  | <b>226</b>   | <b>13,301</b>      |

The Group did not reclassify any financial assets between the amortized cost and fair value categories in 2016 or 2017.

### Fair value of financial assets

The fair value of financial assets recorded at amortized cost is close to their carrying amount.

Safran uses the fair value hierarchy set out in IFRS 13 to determine the classification of financial assets at fair value:

- > Level 1: inputs that reflect quoted prices for identical assets or liabilities in active markets;
- > Level 2: directly or indirectly observable inputs other than quoted prices for identical assets or liabilities in active markets;
- > Level 3: unobservable inputs.

The Group's financial assets carried at fair value at December 31, 2016 are shown below:

| (in € millions)                   | Level 1   | Level 2    | Level 3  | Total      |
|-----------------------------------|-----------|------------|----------|------------|
| Non-consolidated investments*     | 39        | -          | -        | 39         |
| Derivatives (positive fair value) | -         | 620        | -        | 620        |
| Cash and cash equivalents         | 21        | -          | -        | 21         |
| <b>TOTAL</b>                      | <b>60</b> | <b>620</b> | <b>-</b> | <b>680</b> |

(\* Excluding investments at cost.

The Group's financial assets carried at fair value at December 31, 2017 are shown below:

| (in € millions)                   | Level 1      | Level 2    | Level 3  | Total        |
|-----------------------------------|--------------|------------|----------|--------------|
| Non-consolidated investments*     | -            | -          | -        | -            |
| Derivatives (positive fair value) | -            | 582        | -        | 582          |
| Cash and cash equivalents         | 1,293        | -          | -        | 1,293        |
| <b>TOTAL</b>                      | <b>1,293</b> | <b>582</b> | <b>-</b> | <b>1,875</b> |

(\* Excluding investments at cost.

In 2017 and 2016, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

### Offsetting of financial assets and financial liabilities

| At December 31, 2016<br>(in € millions) | Gross carrying amount<br>(A) | Amount offset<br>(B) | Net amount on<br>the balance sheet <sup>(1)</sup><br>(C) | Amount subject to offset<br>agreement but not offset<br>(D) | Net<br>(C) - (D) |
|---|------------------------------|----------------------|--|---|------------------|
| Derivatives (positive fair value)       | 620                          | -                    | 620  | 617   | 3                |

(1) See Note 26, "Management of market risks and derivatives".

| At December 31, 2017<br>(in € millions) | Gross carrying amount<br>(A) | Amount offset<br>(B) | Net amount on<br>the balance sheet <sup>(1)</sup><br>(C) | Amount subject to offset<br>agreement but not offset<br>(D) | Net<br>(C) - (D) |
|---|------------------------------|----------------------|--|---|------------------|
| Derivatives (positive fair value)       | 582                          | -                    | 582  | 508   | 74               |

(1) See Note 26, "Management of market risks and derivatives".

The tables above show the financial assets for which an offsetting agreement exists with respect to financial liabilities.

At both December 31, 2017 and December 31, 2016, the Group did not offset any financial assets and liabilities on its balance sheet, since it did not meet the conditions specified in IAS 32. Master offsetting (netting) agreements governing the subscription of OTC derivatives with bank counterparties provide for a right of

set-off only in the event of default, insolvency or bankruptcy of one of the parties to the agreement.

The amounts subject to an offset agreement but not offset comprise a portion of the Group's derivatives with a negative fair value, since amounts can only be offset if they relate to the same counterparty.

## NOTE 18 CONSOLIDATED SHAREHOLDERS' EQUITY

### a) Share capital

At December 31, 2017, Safran's share capital was fully paid up and comprised 417,029,585 shares, each with a par value of €0.20.

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

### b) Breakdown of share capital and voting rights

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

#### December 31, 2016

| Shareholders             | Number of shares   | % share capital | Number of voting rights <sup>(1)</sup> | % voting rights <sup>(1)</sup> |
|--------------------------|--------------------|-----------------|--|--------------------------------|
| Private investors        | 318,282,922        | 76.32%          | 335,107,792                            | 64.90%                         |
| French State             | 58,393,131         | 14.00%          | 116,786,262                            | 22.62%                         |
| Employees <sup>(2)</sup> | 38,515,045         | 9.24%           | 64,409,240                             | 12.48%                         |
| Treasury shares          | 1,838,487          | 0.44%           | -                                      | -                              |
| <b>TOTAL</b>             | <b>417,029,585</b> | <b>100.00%</b>  | <b>516,303,294</b>                     | <b>100.00%</b>                 |

(1) Exercisable voting rights.

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code (Code de commerce).

#### December 31, 2017

| Shareholders             | Number of shares   | % share capital | Number of voting rights <sup>(1)</sup> | % voting rights <sup>(1)</sup> |
|--------------------------|--------------------|-----------------|--|--------------------------------|
| Private investors        | 320,032,130        | 76.74%          | 336,208,280                            | 66.12%                         |
| French State             | 58,393,131         | 14.00%          | 116,786,262                            | 22.97%                         |
| Employees <sup>(2)</sup> | 30,861,700         | 7.40%           | 55,471,370                             | 10.91%                         |
| Treasury shares          | 7,742,624          | 1.86%           | -                                      | -                              |
| <b>TOTAL</b>             | <b>417,029,585</b> | <b>100.00%</b>  | <b>508,465,912</b>                     | <b>100.00%</b>                 |

(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 7,742,624 treasury shares have no voting rights.

#### Treasury shares

The number of treasury shares has increased since December 31, 2016 following:

- > the purchase of 96,948 shares under the Group's liquidity agreement, net of shares sold;
- > the purchase of 5,807,189 shares in connection with the implementation of the share buyback program.

On May 19, 2016, 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 €80 per share. This authorization was renewed by the Shareholders' Meeting of June 15, 2017, which set the maximum purchase price at €95 per share.

Pursuant to these authorizations and to the liquidity agreement signed in 2012 with Oddo BHF, the Company purchased 3,700,272 shares for €284 million, and sold 3,603,324 shares for €278 million.

At December 31, 2017, 195,356 shares were held in connection with the liquidity agreement.

On December 12, 2016, Safran announced a buyback program for up to €450 million worth of its own shares in order to neutralize the dilutive effect of equity instruments on its balance sheet.

- > on December 8, 2016, Safran signed a share purchase agreement with a bank for an initial buyback tranche of up to €250 million;
- > on February 27, 2017, Safran signed a share purchase agreement with a different investment services firm for a second tranche of up to €200 million.

Within the scope of these agreements, at December 31, 2017, the two tranches had been successively completed for a total of 6,428,664 shares at a value of €444 million.

### c) Convertible bond issues

On January 5, 2016, Safran issued 7,277,205 bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) for a total nominal amount of €650 million.

The bonds do not carry any coupon.

Bondholders have the option of converting their bonds into shares on a one-for-one basis. This option can be exercised at any point after the issue date and up to the seventh trading day preceding the standard or early redemption date.

The bonds come with an early redemption option that the issuer may trigger if the share price exceeds 130% of par value and that the bearer may trigger in the event of a change of control.

Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on December 31, 2020.

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

The effective annual interest rate on the liability component is 1.50% including issuance fees.

### d) Dividend distribution

A dividend payout of €1.52 per share was approved in respect of 2016, of which an interim dividend of €0.69 per share was paid in that year, representing a total of €287 million. The balance of €0.83 per share was paid in first-half 2017, representing a payout of €340 million.

At the Shareholders' Meeting to be held on May 25, 2018 to approve the financial statements for the year ended December 31, 2017, the Board of Directors will recommend payment of a dividend of €1.60 per share in respect of 2017, representing a total payout of €710 million for 443,680,643 shares comprising the share capital at the time the dividend is paid. The 26,651,058 Class A Preferred Shares issued on February 13, 2018 in consideration for the 88,847,828 Zodiac Aerospace shares tendered to the Subsidiary Exchange Offer, bear dividend rights as from their issuance date.

## NOTE 19 PROVISIONS

Provisions break down as follows:

| (in € millions)  | Dec. 31, 2016 | Additions    | Reversals    |                   |              | Changes in scope of consolidation | Other       | Dec. 31, 2017 |
|--|---------------|--------------|--------------|-------------------|--------------|-----------------------------------|-------------|---------------|
|  |               |              | Utilizations | Reclassifications | Surplus      |                                   |             |               |
| Performance warranties   | 780           | 367          | (92)         | -                 | (267)        | -                                 | 25          | 813           |
| Financial guarantees   | 14            | -            | -            | -                 | (9)          | -                                 | -           | 5             |
| Services to be rendered  | 849           | 591          | (381)        | -                 | (31)         | -                                 | (15)        | 1,013         |
| Post-employment benefits   | 867           | 67           | (81)         | -                 | (1)          | (1)                               | (38)        | 813           |
| Sales agreements and long-term receivables                                     | 301           | 136          | (16)         | -                 | (27)         | -                                 | 35          | 429           |
| Provisions for losses on completion and losses arising on delivery commitments | 138           | 24           | (19)         | (1)               | (34)         | -                                 | (50)        | 58            |
| Disputes and litigation  | 39            | 13           | (12)         | -                 | (2)          | -                                 | 1           | 39            |
| Other  | 276           | 94           | (47)         | (45)              | (22)         | -                                 | (23)        | 233           |
| <b>TOTAL</b>   | <b>3,264</b>  | <b>1,292</b> | <b>(648)</b> | <b>(46)</b>       | <b>(393)</b> | <b>(1)</b>                        | <b>(65)</b> | <b>3,403</b>  |
| <b>Non-current</b>   | <b>1,706</b>  |              |              |                   |              |                                   |             | <b>1,497</b>  |
| <b>Current</b>   | <b>1,558</b>  |              |              |                   |              |                                   |             | <b>1,906</b>  |

On December 13, 2017, Dassault Aviation announced that it had initiated the procedure to terminate the Silvercrest contract with Safran. For this program, the Group recorded all necessary

provisions to cover its contractual commitments as they currently stand, including the penalties payable to Dassault in connection with the development phase.

The impacts on the income statement can be analyzed as follows:

| (in € millions)                                     | Dec. 31, 2017 |
|---|---------------|
| Net amount recognized in profit from operations     | (290)         |
| Net reversals recognized in financial income (loss) | 85            |
| <b>TOTAL</b>  | <b>(205)</b>  |

## NOTE 20 POST-EMPLOYMENT BENEFITS

The Group has various commitments in respect of defined benefit pension plans, retirement termination benefits and other commitments, mainly in France and the United Kingdom. The accounting treatment applied to these commitments is detailed in Note 1.s.

### a) Presentation of post-employment benefits

#### France

##### Defined benefit pension plans

At December 31, 2017, the Group closed the defined benefit supplementary pension plan set up in France in late 2013. It also froze all conditional entitlements at December 31, 2016.

The beneficiaries of this closed plan are Group executive managers with five years' service at December 31, 2017.

The conditional entitlements, which remain subject to the terms and conditions set when the plan was originally put in place, were frozen accordingly:

- > the cut-off date for calculating length of service was December 31, 2016; no additional conditional entitlements were accrued after that date;
- > the benefit payable is calculated based on length of service as at December 31, 2016 in the beneficiary category (up to 10 years) and on the average compensation for the years 2014 to 2016, revised annually using the actuarial assumptions applied to calculate retirement benefit provisions;
- > the additional benefits payable are capped at three times the annual social security ceiling ("PASS") in France. Total benefits under all regimes cannot exceed 35% of the benchmark compensation.

The closure of this plan is part of a change in supplementary pension arrangements for Group executive managers, with the introduction of an "Article 83" supplementary defined benefit plan (mandatory collective plan) and an "Article 82" defined contribution plan (voluntary collective plan) as of January 1, 2017.

##### Retirement termination benefits

This heading includes obligations in respect of statutory termination benefits due on retirement and supplementary payments required by the collective bargaining agreement for the metallurgy industry.

##### Other long-term benefits

In France, other long-term benefits mainly comprise obligations in respect of long-service awards and bonuses.

#### United Kingdom

##### Defined benefit pension plans

There are three pension funds in place at Safran Landing Systems UK Ltd/Safran Landing Systems Services UK Ltd, Safran Nacelles Ltd and Safran UK. These pension funds have been contracted out, which means they replace the mandatory supplementary pension plan. The plans are managed by trusts. Beneficiaries no longer accrue any rights under these plans.

#### Rest of the world

The Group offers its other employees post-employment benefits and long-service bonuses in accordance with local laws and practices. The main regions concerned in relation to continuing operations are:

Americas: pension funds in Canada; retirement termination benefits in Mexico;

Europe: pension funds in Switzerland; pension funds and retirement termination benefits in Belgium, retirement termination benefits and long-service bonuses in Poland.

### b) Financial position

| (in € millions)                                    | Dec. 31, 2016 | Dec. 31, 2017 | France     | United Kingdom | Rest of the world |
|--|---------------|---------------|------------|----------------|-------------------|
| Gross obligation                                   | 1,513         | 1,467         | 623        | 600            | 244               |
| Fair value of plan assets                          | 646           | 665           | 8          | 509            | 148               |
| <b>Provision recognized in the accounts</b>        | <b>867</b>    | <b>813</b>    | <b>615</b> | <b>102</b>     | <b>96</b>         |
| > Defined benefit pension plans                    | 268           | 201           | 30         | 102            | 69                |
| > Retirement termination benefits                  | 559           | 568           | 543        | -              | 25                |
| > Long-service bonuses and other employee benefits | 40            | 44            | 42         | -              | 2                 |
| <b>RECOGNIZED NET PLAN ASSETS</b>                  | <b>-</b>      | <b>(11)</b>   | <b>-</b>   | <b>(11)</b>    | <b>-</b>          |

### 3 FINANCIAL STATEMENTS

Group consolidated financial statements at December 31, 2017

| (in € millions)                             | Dec. 31, 2016 | Dec. 31, 2017 | Defined benefit pension plans | Retirement termination benefits | Long-service bonuses and other long-term benefits |
|---|---------------|---------------|-------------------------------|---------------------------------|---|
| Gross obligation                            | 1,513         | 1,467         | 855                           | 568                             | 44  |
| Fair value of plan assets                   | 646           | 665           | 665                           | -                               | -   |
| <b>Provision recognized in the accounts</b> | <b>867</b>    | <b>813</b>    | <b>201</b>                    | <b>568</b>                      | <b>44</b>   |
| <b>RECOGNIZED NET PLAN ASSETS</b>           | <b>-</b>      | <b>(11)</b>   | <b>(11)</b>                   | <b>-</b>                        | <b>-</b>  |

The decrease in the gross obligation results from the following factors:

- an increase of €22 million following updates to demographic assumptions (mortality tables) used in actuarial assumptions of obligations in the UK;
- a decrease in the obligation due to foreign exchange differences arising on foreign operations, particularly €23 million in differences arising on subsidiaries in the UK; and

- a limited effect from changes in actuarial assumptions (0.10 point increase in the discount rate for the eurozone and 0.15 point decrease for the UK).

The value of plan assets also rose due to the return generated by the investment strategies adopted by, and contributions paid to, pension funds in the UK, despite foreign exchange losses arising on the translation of GBP-denominated assets.

The cost of the Group's pension obligations in 2016 and 2017 can be analyzed as follows:

| (in € millions)   | 2016        | 2017        |
|---|-------------|-------------|
| Current service cost  | (48)        | (55)        |
| Actuarial gains and losses (on other long-term benefits)                | (2)         | (1)         |
| Change in retirement plans (implementation, curtailment and settlement) | 1           | 3           |
| Plan administration costs   | -           | (1)         |
| <b>Total operating component of the pension expense</b>                 | <b>(49)</b> | <b>(54)</b> |
| Interest cost on the net benefit obligation                             | (16)        | (12)        |
| <b>Total financing component of the pension expense</b>                 | <b>(16)</b> | <b>(12)</b> |
| <b>TOTAL</b>  | <b>(65)</b> | <b>(66)</b> |

The Group expects to pay a total of €34 million into its defined benefit pension plans in 2018.

Main assumptions used to calculate the gross benefit obligation:

|  |                      | Eurozone   | United Kingdom  |
|--|----------------------|--|-----------------|
| <b>Discount rate</b>                   | Dec. 31, 2016        | 1.30%  | 2.75%           |
|  | <b>Dec. 31, 2017</b> | <b>1.40%</b>   | <b>2.60%</b>    |
| <b>Inflation rate</b>                  | Dec. 31, 2016        | 1.75%  | 3.35%           |
|  | <b>Dec. 31, 2017</b> | <b>1.75%</b>   | <b>3.20%</b>    |
| <b>Rate of annuity increases</b>       | Dec. 31, 2016        | 1.00%  | 3.35%           |
|  | <b>Dec. 31, 2017</b> | <b>1.00%</b>   | <b>3.20%</b>    |
| <b>Rate of future salary increases</b> | Dec. 31, 2016        | 1.12%-5.00%  | N/A             |
|  | <b>Dec. 31, 2017</b> | <b>1.12%-5.00%</b>   | <b>N/A</b>      |
| <b>Retirement age</b>                  | Dec. 31, 2016        | Managerial: 64/65 years<br>Non-managerial: 62/65 years               | 65 years        |
|  | <b>Dec. 31, 2017</b> | <b>Managerial: 64/65 years</b><br><b>Non-managerial: 62/65 years</b> | <b>65 years</b> |

The discount rates are determined by reference to the yield on private investment-grade bonds (AA), using the Iboxx index for the Group's two main regions (Eurozone and United Kingdom).



## Sensitivity analysis

A 0.5% increase or decrease in the main actuarial assumptions would have the following impacts on the gross value of the projected benefit obligation at December 31, 2017:

| <i>(in € millions)</i>            |               |               |
|-----------------------------------|---------------|---------------|
| <b>Sensitivity (basis points)</b> | <b>-0.50%</b> | <b>+0.50%</b> |
| Discount rate                     | 113           | (103)         |
| Inflation rate                    | (55)          | 53            |
| Rate of future salary increases   | (47)          | 42            |

*For the purpose of the analysis, it was assumed that all other variables remained the same.*

The change in the value of the gross projected benefit obligation would have mainly affected actuarial gains and losses recognized in other comprehensive income.

## c) Change in the gross benefit obligation and plan assets

### Change in gross benefit obligation

| <i>(in € millions)</i>  |               |               |                               |                                 |                         |
|---|---------------|---------------|-------------------------------|---------------------------------|-------------------------|
|   | Dec. 31, 2016 | Dec. 31, 2017 | Defined benefit pension plans | Retirement termination benefits | Other employee benefits |
| <b>GROSS BENEFIT OBLIGATION AT BEGINNING OF PERIOD</b>                              | <b>1,457</b>  | <b>1,513</b>  | <b>914</b>                    | <b>559</b>                      | <b>40</b>               |
| <b>A. Pension expense</b>   |               |               |                               |                                 |                         |
| Current service cost  | 48            | 55            | 11                            | 40                              | 4                       |
| Actuarial gains and losses (on other long-term benefits)                            | 2             | 1             | -                             | -                               | 1                       |
| Change in retirement plans (implementation, curtailment and settlement)             | (1)           | (3)           | (3)                           | (1)                             | 1                       |
| Interest cost   | 35            | 28            | 21                            | 7                               | -                       |
| <b>Total expense recognized in the income statement</b>                             | <b>84</b>     | <b>81</b>     | <b>29</b>                     | <b>46</b>                       | <b>6</b>                |
| <b>B. Actuarial gains and losses arising in the period on post-employment plans</b> |               |               |                               |                                 |                         |
| Actuarial gains and losses resulting from changes in demographic assumptions        | 1             | (23)          | (25)                          | 2                               | -                       |
| Actuarial gains and losses resulting from changes in financial assumptions          | 230           | 11            | 20                            | (9)                             | -                       |
| Experience adjustments  | -             | (9)           | (11)                          | 2                               | -                       |
| <b>Total revaluation recognized in other comprehensive income for the period</b>    | <b>231</b>    | <b>(21)</b>   | <b>(16)</b>                   | <b>(5)</b>                      | <b>-</b>                |
| <b>C. Other items</b>   |               |               |                               |                                 |                         |
| Employee contributions  | 2             | 1             | 1                             | -                               | -                       |
| Benefits paid   | (83)          | (74)          | (40)                          | (31)                            | (3)                     |
| Changes in scope of consolidation   | (70)          | (1)           | -                             | (1)                             | -                       |
| Other movements   | (1)           | -             | -                             | -                               | -                       |
| Foreign exchange differences  | (83)          | (32)          | (33)                          | -                               | 1                       |
| Reclassification within discontinued operations                                     | (24)          | -             | -                             | -                               | -                       |
| <b>Total other items</b>  | <b>(259)</b>  | <b>(106)</b>  | <b>(72)</b>                   | <b>(32)</b>                     | <b>(2)</b>              |
| <b>GROSS BENEFIT OBLIGATION AT END OF PERIOD</b>                                    | <b>1,513</b>  | <b>1,467</b>  | <b>855</b>                    | <b>568</b>                      | <b>44</b>               |
| Average weighted term of pension plans  | 16            | 15            | 18                            | 12                              | 9                       |

## Change in fair value of plan assets

| <i>(in € millions)</i>  | Dec. 31, 2016 | Dec. 31, 2017 | Defined benefit pension plans | Retirement termination benefits | Other employee benefits |
|---|---------------|---------------|-------------------------------|---------------------------------|-------------------------|
| <b>FAIR VALUE OF PLAN ASSETS AT BEGINNING OF PERIOD</b>                             | <b>602</b>    | <b>646</b>    | <b>646</b>                    | -                               | -                       |
| <b>A. Income</b>  |               |               |                               |                                 |                         |
| Interest income on plan assets  | 19            | 16            | 16                            | -                               | -                       |
| Plan administration costs   | (1)           | (1)           | (1)                           | -                               | -                       |
| <b>Total income recognized in the income statement</b>                              | <b>18</b>     | <b>15</b>     | <b>15</b>                     | -                               | -                       |
| <b>B. Actuarial gains and losses arising in the period on post-employment plans</b> |               |               |                               |                                 |                         |
| Return on plan assets (excluding interest income component)                         | 100           | 21            | 21                            | -                               | -                       |
| <b>Total revaluation recognized in other comprehensive income for the period</b>    | <b>100</b>    | <b>21</b>     | <b>21</b>                     | -                               | -                       |
| <b>C. Other items</b>   |               |               |                               |                                 |                         |
| Employee contributions  | 2             | 1             | 1                             | -                               | -                       |
| Employer contributions  | 27            | 45            | 45                            | -                               | -                       |
| Benefits paid   | (33)          | (38)          | (38)                          | -                               | -                       |
| Changes in scope of consolidation   | -             | -             | -                             | -                               | -                       |
| Other movements   | -             | (1)           | (1)                           | -                               | -                       |
| Foreign exchange differences  | (69)          | (24)          | (24)                          | -                               | -                       |
| Reclassification within discontinued operations                                     | (1)           | -             | -                             | -                               | -                       |
| <b>Total other items</b>  | <b>(74)</b>   | <b>(17)</b>   | <b>(17)</b>                   | -                               | -                       |
| <b>FAIR VALUE OF PLAN ASSETS AT END OF PERIOD</b>                                   | <b>646</b>    | <b>665</b>    | <b>665</b>                    | -                               | -                       |

## d) Asset allocation

|  | United Kingdom<br>% allocation at |               | Other European countries<br>% allocation at |               |
|--|-----------------------------------|---------------|---|---------------|
|  | Dec. 31, 2016                     | Dec. 31, 2017 | Dec. 31, 2016                               | Dec. 31, 2017 |
| Shares                                   | 31.79%                            | 33.88%        | 18.79%                                      | 19.22%        |
| Bonds and debt instruments               | 30.04%                            | 28.98%        | 60.67%                                      | 60.78%        |
| Property                                 | 7.13%                             | 7.10%         | 7.76%                                       | 7.80%         |
| Mutual funds and other diversified funds | 26.93%                            | 27.98%        | 0.00%                                       | 0.00%         |
| Cash and cash equivalents                | 4.11%                             | 2.06%         | 3.17%                                       | 2.69%         |
| Other                                    | 0.00%                             | 0.00%         | 9.61%                                       | 9.51%         |

An active market price exists for all plan assets except property.

In the United Kingdom, the Group's long-term aim is to limit its exposure to defined benefit plans and ultimately endeavor to contract out these obligations to insurance firms under favorable market conditions. In the meantime, the Group is committed to ensuring that its pension obligations are adequately funded.

The Group's investment policy for pension funds in the UK combines safe harbor investments (in monetary funds, government bonds, bond funds), to secure the medium-term funding of obligations, with riskier investments such as in equity funds and real estate funds, whose expected profitability over the long term guarantees the financial stability of the plans.

## e) Contributions to defined contribution plans

The expense for 2017 in respect of defined contribution plans amounts to €224 million (€217 million in 2016).

These contributions relate to statutory pension plans and mandatory collective defined contribution supplementary pension plans, known as "Article 83" plans, for the Group's companies in France.

A Group agreement signed on November 6, 2017 harmonized all supplementary pension plans for engineers and managerial-grade

staff in France and introduced the plan for companies which had not previously had such a plan in place, effective from January 1, 2018.

The Group also introduced two new supplementary pension plans in France from January 1, 2017:

- > a mandatory collective defined contribution plan, known as an "Article 83" additional plan, for managerial-grade staff whose compensation is more than four times the social security ceiling;
- > a voluntary collective defined contribution plan, known as an "Article 82" plan, for executive managers whose compensation is more than seven times the social security ceiling.

## NOTE 21 BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

This caption mainly includes repayable advances granted by public bodies.

Movements in this caption break down as follows:

| <i>(in € millions)</i>   |              |
|--|--------------|
| <b>At December 31, 2016</b>  | <b>699</b>   |
| New advances received  | 13           |
| Advances repaid  | (38)         |
| <b>Sub-total: changes giving rise to cash flows</b>                    | <b>(25)</b>  |
| Cost of borrowings and discounting                                     | 33           |
| Foreign exchange differences   | (2)          |
| Adjustments to the probability of repayment of advances <sup>(1)</sup> | (136)        |
| <b>Sub-total: changes with no cash impacts</b>                         | <b>(105)</b> |
| <b>AT DECEMBER 31, 2017</b>  | <b>569</b>   |

*(1) See Note 5, "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. No reliable estimate can be made of the fair value of such borrowings.

## NOTE 22 INTEREST-BEARING FINANCIAL LIABILITIES

### Breakdown of interest-bearing financial liabilities

| <i>(in € millions)</i>  | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Bond issue  | 215           | 1,209         |
| OCEANE convertible bond   | 613           | 622           |
| Senior unsecured notes in USD   | 1,154         | 1,006         |
| Finance lease liabilities   | 165           | 140           |
| Other long-term borrowings  | 245           | 269           |
| <b>Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)</b> | <b>2,392</b>  | <b>3,246</b>  |
| Finance lease liabilities   | 25            | 26            |
| Other long-term borrowings  | 223           | 258           |
| Accrued interest not yet due  | 15            | 15            |
| <b>Current interest-bearing financial liabilities, long-term at inception</b>                                       | <b>263</b>    | <b>299</b>    |
| Commercial paper  | 250           | 850           |
| Short-term bank facilities and equivalent   | 432           | 241           |
| <b>Current interest-bearing financial liabilities, short-term at inception</b>                                      | <b>682</b>    | <b>1,091</b>  |
| <b>Total current interest-bearing financial liabilities (less than 1 year)</b>                                      | <b>945</b>    | <b>1,390</b>  |
| <b>TOTAL INTEREST-BEARING FINANCIAL LIABILITIES<sup>(1)</sup></b>   | <b>3,337</b>  | <b>4,636</b>  |

Movements in this caption break down as follows:

| <i>(in € millions)</i>  |              |
|---|--------------|
| <b>At December 31, 2016</b>   | <b>3,337</b> |
| Increase in long-term borrowings at inception (excluding finance lease liabilities)         | 1,058        |
| Decrease in long-term borrowings at inception   | (66)         |
| Change in short-term borrowings   | 449          |
| <b>Sub-total: changes giving rise to cash flows</b>   | <b>1,441</b> |
| Increase in finance lease liabilities   | 2            |
| Accrued interest  | -            |
| Changes in scope of consolidation   | 2            |
| Foreign exchange differences  | (142)        |
| Change in the fair value of borrowings hedged with interest rate instruments <sup>(1)</sup> | (12)         |
| Reclassifications and other   | 8            |
| <b>Sub-total: changes with no cash impacts</b>  | <b>(142)</b> |
| <b>AT DECEMBER 31, 2017</b>   | <b>4,636</b> |

(1) See Note 26, "Management of market risks and derivatives".

Analysis by maturity:

| <i>(in € millions)</i>                 | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Maturing in:                           |               |               |
| 1 year or less                         | 945           | 1,390         |
| More than 1 year and less than 5 years | 1,101         | 2,552         |
| Beyond 5 years                         | 1,291         | 694           |
| <b>TOTAL</b>                           | <b>3,337</b>  | <b>4,636</b>  |

Analysis by currency:

| (in millions of currency units) | Dec. 31, 2016 |              | Dec. 31, 2017 |              |
|---------------------------------|---------------|--------------|---------------|--------------|
|                                 | Currency      | EUR          | Currency      | EUR          |
| EUR                             | 1,811         | 1,811        | 3,450         | 3,450        |
| USD                             | 1,596         | 1,515        | 1,384         | 1,154        |
| Other                           | N/A           | 11           | N/A           | 31           |
| <b>TOTAL</b>                    |               | <b>3,337</b> |               | <b>4,636</b> |

Analysis by type of interest rate:

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

| (in € millions) | Total         |               | Non-current   |                       |              |                       | Current       |                       |              |                       |
|-----------------|---------------|---------------|---------------|-----------------------|--------------|-----------------------|---------------|-----------------------|--------------|-----------------------|
|                 | Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2017         |              | Dec. 31, 2016         | Dec. 31, 2017 |                       |              |                       |
|                 | Base          | Base          | Base          | Average interest rate | Base         | Average interest rate | Base          | Average interest rate | Base         | Average interest rate |
| Fixed rate      | 2,405         | 2,912         | 2,044         | 3.27%                 | 1,892        | 3.17%                 | 361           | 0.33%                 | 1,020        | 0.10%                 |
| Floating rate   | 932           | 1,724         | 348           | 0.89%                 | 1,354        | 0.33%                 | 584           | 0.29%                 | 370          | 0.56%                 |
| <b>TOTAL</b>    | <b>3,337</b>  | <b>4,636</b>  | <b>2,392</b>  | <b>2.92%</b>          | <b>3,246</b> | <b>1.99%</b>          | <b>945</b>    | <b>0.31%</b>          | <b>1,390</b> | <b>0.22%</b>          |

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

| (in € millions) | Total         |               | Non-current   |                       |              |                       | Current       |                       |              |                       |
|-----------------|---------------|---------------|---------------|-----------------------|--------------|-----------------------|---------------|-----------------------|--------------|-----------------------|
|                 | Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2017         |              | Dec. 31, 2016         | Dec. 31, 2017 |                       |              |                       |
|                 | Base          | Base          | Base          | Average interest rate | Base         | Average interest rate | Base          | Average interest rate | Base         | Average interest rate |
| Fixed rate      | 1,183         | 1,823         | 822           | 2.04%                 | 805          | 1.97%                 | 361           | 0.33%                 | 1,018        | 0.10%                 |
| Floating rate   | 2,154         | 2,813         | 1,570         | 2.41%                 | 2,441        | 1.62%                 | 584           | 0.29%                 | 372          | 0.56%                 |
| <b>TOTAL</b>    | <b>3,337</b>  | <b>4,636</b>  | <b>2,392</b>  | <b>2.28%</b>          | <b>3,246</b> | <b>1.71%</b>          | <b>945</b>    | <b>0.31%</b>          | <b>1,390</b> | <b>0.22%</b>          |

The Group's net debt position is as follows:

| (in € millions)  | Dec. 31, 2016  | Dec. 31, 2017 |
|--|----------------|---------------|
| Cash and cash equivalents (A) <sup>(1)</sup>                   | 1,926          | 4,914         |
| Interest-bearing financial liabilities (B)                     | 3,337          | 4,636         |
| Fair value of interest rate derivatives hedging borrowings (C) | 28             | 16            |
| <b>TOTAL (A) - (B) + (C)</b>                                   | <b>(1,383)</b> | <b>294</b>    |

(1) During 2017, €2,000 million in money market funds which were pledged during the tender offer for Zodiac Aerospace was reclassified under other financial assets (see Note 12, "Current and non-current financial assets"). These money market funds could not be classified under cash and cash equivalents during the offer period due to their usage restriction.

Safran's issue of USD 1.2 billion in senior unsecured notes on the US private placement market on February 9, 2012 was maintained in US dollars and no currency swaps were taken out in this respect. Changes in the euro value of this issue had a positive impact of €138 million on the Group's net debt at December 31, 2017.

Since this issue is classified as a net investment hedge, the offsetting entry was an increase in consolidated equity (see the consolidated statement of comprehensive income).

The Group's gearing ratio is shown below:

| (in € millions)      | Dec. 31, 2016 | Dec. 31, 2017 |
|----------------------|---------------|---------------|
| Net debt             | (1,383)       | 294           |
| Total equity         | 6,809         | 10,624        |
| <b>GEARING RATIO</b> | <b>20.31%</b> | <b>N/A</b>    |

### Main long-term borrowings at inception

> On February 9, 2012, Safran issued USD 1.2 billion in senior unsecured notes on the US private placement market, which included:

- USD 155 million of 7-year notes due February 2019 at a 3.70% fixed-rate coupon (tranche A);
- USD 540 million of 10-year notes due February 2022 at a 4.28% fixed-rate coupon (tranche B);
- USD 505 million of 12-year notes due February 2024 at a 4.43% fixed-rate coupon (tranche C).

A USD interest rate hedge (floating-rate swap on 6-month US Libor) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively. Tranche A has been kept at a fixed rate.

The issue's initial fixed-rate interest came out at 3.70% in 2017 after taking account of interest rate derivatives.

> Issuance on June 28, 2017 of floating-rate bonds for a total amount of €1 billion in two tranches:

- €500 million of two-year bonds due June 2019 at a fixed-rate coupon of 3-month Euribor +30 basis points (floor at 0%), issued at 100.059% of nominal (tranche 1);
- €500 million of four-year bonds due June 2021 at a fixed-rate coupon of 3-month Euribor +57 basis points (floor at 0%), issued at 100% of nominal (tranche 2).

These bonds have been maintained at variable rates.

> Bonds convertible and/or exchangeable for new and/or existing shares ("OCEANE" bonds) on January 5, 2016 for a nominal total amount of €650 million. These bonds do not carry a coupon and were offered at an issue price of €676 million, or 104% of par, corresponding to a gross yield-to-maturity of -0.78%. Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on December 31, 2020. The effective annual interest rate on the liability component is 1.50% including issuance fees (see Note 18.c, "Convertible bond issues").

> Ten-year bonds: €200 million issued to French investors on April 11, 2014 and maturing on April 11, 2024. The interest rate on these bonds was hedged by a floating-rate swap on 3-month Euribor.

> The issue's initial fixed-rate interest came out at 1.20% in 2017 after taking account of interest rate derivatives.

> European Investment Bank (EIB) borrowings: €112.5 million (€150 million at December 31, 2016). These borrowings bear floating-rate interest indexed to 3-month Euribor plus 0.73% and are repayable in equal yearly installments between December 17, 2013 and December 17, 2020.

> Employee savings financing under the Group employee savings plan: €351.2 million (€305.7 million at December 31, 2016).

The maximum maturity is five years and the amount falling due within one year is €218 million. The interest rate is set annually and indexed to the five-year French treasury bill rate (BTAN), i.e., 0.70% for 2017 and 0.87% for 2016.

> Safran Helicopter Engines real estate lease financing contract: €24 million (€30 million at December 31, 2016), of which €6 million was due within one year. The lease bears fixed-rate interest of 4.7% and expires in November 2021.

> Safran University real estate lease financing contract: €39 million (€43 million at December 31, 2016), of which €4 million was due within one year. The lease bears floating-rate interest and expires in October 2026.

> Safran R&T Center real estate lease financing contract: €36 million (€38 million at December 31, 2016), of which €4 million was due within one year. The lease bears floating-rate interest and expires in February 2026.

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

### Main short-term borrowings

> Commercial paper: €850 million (€250 million at December 31, 2016).

This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

> Financial current accounts with joint ventures: €93 million (€87 million at December 31, 2016). Interest is indexed to Euribor.

Other short-term borrowings consist mainly of bank overdrafts.

### Sale of receivables without recourse

Net debt at both December 31, 2017 and December 31, 2016 does not include the CFM Inc. trade receivable assigned without recourse.

This confirmed 364-day facility for USD 2,350 million with a syndicate of nine banks led by Crédit Agricole CIB (USD 2,350 million at December 31, 2016), due to expire in December 2017, was extended by addendum to February 2018 in November 2017. USD 1,862 million (USD 931 million at 50%) had been drawn from the facility at December 31, 2017, versus USD 1,768 million (USD 884 million at 50%) at December 31, 2016.

## NOTE 23 TRADE AND OTHER PAYABLES

| (in € millions)                      | Dec. 31, 2016 | Movements during the period | Changes in scope of consolidation | Foreign exchange differences | Reclassifications | Dec. 31, 2017 |
|--------------------------------------|---------------|-----------------------------|-----------------------------------|------------------------------|-------------------|---------------|
| <b>Operating payables</b>            | <b>9,243</b>  | <b>533</b>                  | <b>(36)</b>                       | <b>(50)</b>                  | <b>(5)</b>        | <b>9,685</b>  |
| Credit balances on trade receivables | 2,001         | (395)                       | -                                 | -                            | -                 | 1,606         |
| Advance payments from customers      | 3,832         | 734                         | (1)                               | (5)                          | -                 | 4,560         |
| Trade payables                       | 2,250         | 134                         | (35)                              | (40)                         | (5)               | 2,304         |
| Current operating account            | 2             | 1                           | -                                 | -                            | -                 | 3             |
| Employee-related liabilities         | 1,158         | 59                          | -                                 | (5)                          | -                 | 1,212         |
| <b>Other liabilities</b>             | <b>999</b>    | <b>97</b>                   | <b>64</b>                         | <b>(20)</b>                  | <b>(3)</b>        | <b>1,137</b>  |
| State aid, accrued payables          | 19            | (1)                         | -                                 | -                            | -                 | 18            |
| State, other taxes and duties        | 181           | 44                          | -                                 | (1)                          | -                 | 224           |
| Deferred income                      | 661           | 105                         | -                                 | (3)                          | (2)               | 761           |
| Other                                | 138           | (51)                        | 64                                | (16)                         | (1)               | 134           |
| <b>TOTAL</b>                         | <b>10,242</b> | <b>630</b>                  | <b>28</b>                         | <b>(70)</b>                  | <b>(8)</b>        | <b>10,822</b> |

Deferred income primarily concerns revenue billed on a percentage-of-completion basis and revenue deferred.

Trade and other payables fall due as shown below:

| (in € millions)                   | Total         | Less than 12 months | More than 12 months |
|-----------------------------------|---------------|---------------------|---------------------|
| Operating payables <sup>(1)</sup> | 9,685         | 7,681               | 2,004               |
| Other liabilities                 | 1,137         | 982                 | 155                 |
| <b>TOTAL</b>                      | <b>10,822</b> | <b>8,663</b>        | <b>2,159</b>        |

(1) Operating payables maturing in more than 12 months correspond essentially to advances and downpayments received from customers.

## NOTE 24 OTHER CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

| (in € millions)  | Dec. 31, 2016 | Movements during the period | Changes in scope of consolidation | Foreign exchange differences | Other    | Dec. 31, 2017 |
|--|---------------|-----------------------------|-----------------------------------|------------------------------|----------|---------------|
| Payables on purchases of property, plant and equipment and intangible assets | 108           | 37                          | 2                                 | -                            | -        | 147           |
| Payables on purchases of investments   | 254           | (248)                       | (1)                               | -                            | -        | 5             |
| <b>TOTAL</b>   | <b>362</b>    | <b>(211)</b>                | <b>1</b>                          | <b>-</b>                     | <b>-</b> | <b>152</b>    |
| <b>Non-current</b>   | <b>5</b>      |                             |                                   |                              |          | <b>8</b>      |
| <b>Current</b>   | <b>357</b>    |                             |                                   |                              |          | <b>144</b>    |

A payable of €250 million relating to the share buyback program launched on December 8, 2016 was settled in the first quarter of 2017.

## NOTE 25 SUMMARY OF FINANCIAL LIABILITIES

The table below presents the carrying amount of the Group's financial liabilities at December 31, 2016 and December 31, 2017:

### At December 31, 2016

| (in € millions)  | Carrying amount  |                                     | Total         |
|--|--|-------------------------------------|---------------|
|  | Financial liabilities at amortized cost <sup>(1)</sup> | Financial liabilities at fair value |               |
| Borrowings subject to specific conditions                                    | 699  |                                     | 699           |
| Non-current interest-bearing financial liabilities                           | 2,392  |                                     | 2,392         |
| Current interest-bearing financial liabilities                               | 945  |                                     | 945           |
| Trade payables   | 2,250  |                                     | 2,250         |
| Payables on purchases of investments   | 254  | -                                   | 254           |
| Payables on purchases of property, plant and equipment and intangible assets | 108  |                                     | 108           |
| Current operating accounts   | 2  |                                     | 2             |
| Current derivatives (negative fair value)                                    |  | 4,385                               | 4,385         |
| <b>TOTAL FINANCIAL LIABILITIES</b>   | <b>6,650</b>   | <b>4,385</b>                        | <b>11,035</b> |

(1) Including financial liabilities hedged by fair value hedging instruments.

### At December 31, 2017

| (in € millions)  | Carrying amount  |                                     | Total        |
|--|--|-------------------------------------|--------------|
|  | Financial liabilities at amortized cost <sup>(1)</sup> | Financial liabilities at fair value |              |
| Borrowings subject to specific conditions                                    | 569  |                                     | 569          |
| Non-current interest-bearing financial liabilities                           | 3,246  |                                     | 3,246        |
| Current interest-bearing financial liabilities                               | 1,390  |                                     | 1,390        |
| Trade payables   | 2,304  |                                     | 2,304        |
| Payables on purchases of investments   | 5  | -                                   | 5            |
| Payables on purchases of property, plant and equipment and intangible assets | 147  |                                     | 147          |
| Current operating accounts   | 3  |                                     | 3            |
| Current derivatives (negative fair value)                                    |  | 805                                 | 805          |
| <b>TOTAL FINANCIAL LIABILITIES</b>   | <b>7,664</b>   | <b>805</b>                          | <b>8,469</b> |

(1) Including financial liabilities hedged by fair value hedging instruments.

The fair value of financial liabilities is determined by reference to the future cash flows associated with each liability, discounted at market interest rates at the end of the reporting period, with the

exception of borrowings subject to specific conditions, whose fair value cannot be estimated reliably given the uncertainties regarding the amounts to be repaid and the timing of repayment.



At December 31, 2017 and December 31, 2016, the fair value of financial liabilities approximates their carrying amount, except in the case of the following items:

| (in € millions)                                       | 2016            |            | 2017            |            |
|---|-----------------|------------|-----------------|------------|
|   | Carrying amount | Fair value | Carrying amount | Fair value |
| Borrowings subject to specific conditions             | 699             | N/A        | 569             | N/A        |
| Interest-bearing financial liabilities <sup>(1)</sup> | 3,337           | 3,424      | 4,636           | 4,710      |

(1) This fair value measurement relates to Level 2 in the fair value hierarchy (see Note 17, "Summary of financial assets").

Safran uses the fair value hierarchy described in Note 17 to determine the classification of financial liabilities at fair value.

The Group's financial liabilities carried at fair value at December 31, 2016 are shown below:

| (in € millions)                   | Level 1  | Level 2      | Level 3  | Total        |
|-----------------------------------|----------|--------------|----------|--------------|
| Derivatives (negative fair value) | -        | 4,385        | -        | 4,385        |
| <b>TOTAL</b>                      | <b>-</b> | <b>4,385</b> | <b>-</b> | <b>4,385</b> |

The Group's financial liabilities carried at fair value at December 31, 2017 are shown below:

| (in € millions)                   | Level 1  | Level 2    | Level 3  | Total      |
|-----------------------------------|----------|------------|----------|------------|
| Derivatives (negative fair value) | -        | 805        | -        | 805        |
| <b>TOTAL</b>                      | <b>-</b> | <b>805</b> | <b>-</b> | <b>805</b> |

In 2017 and 2016, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

## Offsetting of financial liabilities and financial assets

### At December 31, 2016

| (in € millions)                   | Gross carrying amount (A) | Amount offset (B) | Net amount on the balance sheet <sup>(1)</sup> (C) | Amount subject to offset agreement but not offset (D) | Net (C) - (D) |
|-----------------------------------|---------------------------|-------------------|--|---|---------------|
| Derivatives (negative fair value) | 4,385                     | -                 | 4,385  | 617   | 3,768         |

(1) See Note 26, "Management of market risks and derivatives".

### At December 31, 2017

| (in € millions)                   | Gross carrying amount (A) | Amount offset (B) | Net amount on the balance sheet <sup>(1)</sup> (C) | Amount subject to offset agreement but not offset (D) | Net (C) - (D) |
|-----------------------------------|---------------------------|-------------------|--|---|---------------|
| Derivatives (negative fair value) | 805                       | -                 | 805  | 508   | 297           |

(1) See Note 26, "Management of market risks and derivatives".

The tables above show the financial liabilities for which an offsetting agreement exists with respect to financial assets.

At both December 31, 2017 and December 31, 2016, the Group did not offset any financial liabilities and financial assets on its balance sheet, since it did not meet the conditions specified in IAS 32. Master offsetting (netting) agreements governing the subscription of OTC derivatives with bank counterparties provide

for a right of set-off only in the event of default, insolvency or bankruptcy of one of the parties to the agreement.

The amounts subject to an offsetting agreement but not offset comprise a portion of the Group's derivatives with a positive fair value, since amounts can only be offset if they relate to the same counterparty.

## NOTE 26 MANAGEMENT OF MARKET RISKS AND DERIVATIVES

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

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

| (in € millions)                                 | Dec. 31, 2016 |                | Dec. 31, 2017 |              |
|---|---------------|----------------|---------------|--------------|
|   | Assets        | Liabilities    | Assets        | Liabilities  |
| <b>Interest rate risk management</b>            | <b>28</b>     | <b>-</b>       | <b>16</b>     | <b>-</b>     |
| Fixed-for-floating interest rate swaps          | 28            | -              | 16            | -            |
| <b>Foreign currency risk management</b>         | <b>592</b>    | <b>(4,385)</b> | <b>566</b>    | <b>(805)</b> |
| Currency swaps                                  | -             | -              | -             | -            |
| Purchase and sale of forward currency contracts | 97            | (2,065)        | 135           | (349)        |
| Currency option contracts                       | 495           | (2,320)        | 431           | (455)        |
| <b>TOTAL</b>                                    | <b>620</b>    | <b>(4,385)</b> | <b>582</b>    | <b>(805)</b> |

### Foreign currency risk management

Most Aerospace Propulsion and Aircraft Equipment revenue is denominated in US dollars, which is virtually the sole currency used in the civil aviation industry. The net excess of revenues over expenses for these activities totaled USD 7.3 billion for 2017.

To protect its earnings, the Group implements a hedging policy (see below) with the aim of reducing uncertainty factors affecting operating profitability and allowing it to adapt its cost structure to a volatile monetary environment.

#### Hedging policy

Two basic principles underscore the foreign currency risk management policy defined by Safran for most of its subsidiaries:

- to protect the Group's economic performance from random fluctuations in the US dollar;
- to optimize the quality of hedging whenever possible, without jeopardizing the Group's economic performance (first principle).

Protecting economic performance means setting a minimum USD exchange rate parity over an applicable term. Minimum

parity corresponds to a USD exchange rate that allows Safran to meet its operating profit targets. Hedging arrangements have been made accordingly over a four-year timeframe.

#### Management policy

The hedging policy is based on managing the financial instrument portfolio so that the exchange rate parity does not fall below a pre-defined minimum threshold.

In building up its hedging portfolio, the Group primarily uses forward sales, accumulators and the combination of optional instruments with or without barriers.

Optimization measures are also used with a view to improving the minimum exchange rate parity, and seek to protect the Group's economic performance at all times. They are based on products that allow the Group to take advantage of any improvement in the underlying exchange rate parities, without calling into question the original minimum threshold.

These products consist chiefly of forward purchases, accumulators and the combination of optional instruments with or without barriers.

## Foreign currency derivatives

The portfolio of foreign currency derivatives breaks down as follows:

| (in millions of currency units)        | Dec. 31, 2016             |                                |                  |              | Dec. 31, 2017             |                                |                  |              |
|--|---------------------------|--------------------------------|------------------|--------------|---------------------------|--------------------------------|------------------|--------------|
|  | Fair value <sup>(1)</sup> | Notional amount <sup>(1)</sup> | Less than 1 year | 1 to 5 years | Fair value <sup>(1)</sup> | Notional amount <sup>(1)</sup> | Less than 1 year | 1 to 5 years |
| <b>Forward exchange contracts</b>      | <b>(1,967)</b>            |                                |                  |              | <b>(215)</b>              |                                |                  |              |
| Short USD position                     | (1,962)                   | 14,266                         | 12,516           | 1,750        | (164)                     | 10,253                         | 10,203           | 50           |
| Of which against EUR                   | (1,918)                   | 13,678                         | 11,978           | 1,700        | (165)                     | 10,097                         | 10,097           | -            |
| Long USD position                      | 82                        | (632)                          | (247)            | (385)        | (16)                      | (1,069)                        | (869)            | (200)        |
| Of which against EUR                   | 82                        | (632)                          | (247)            | (385)        | (14)                      | (851)                          | (651)            | (200)        |
| Short EUR position against GBP         | (2)                       | (210)                          | (210)            | -            | -                         | -                              | -                | -            |
| Short EUR position against CAD         | 9                         | -                              | 40               | (40)         | 7                         | 16                             | 3                | 13           |
| Long PLN position against EUR          | -                         | (195)                          | (75)             | (120)        | -                         | (40)                           | (40)             | -            |
| Long MXN position against USD          | (94)                      | (5,850)                        | (3,050)          | (2,800)      | (42)                      | (4,000)                        | (2,650)          | (1,350)      |
| <b>Currency option contracts</b>       | <b>(1,826)</b>            |                                |                  |              | <b>(24)</b>               |                                |                  |              |
| USD put purchased                      | 149                       | 10,350                         | 8,550            | 1,800        | 309                       | 13,795                         | 12,795           | 1,000        |
| USD call purchased                     | 178                       | (4,720)                        | (3,260)          | (1,460)      | 23                        | (4,160)                        | (2,800)          | (1,360)      |
| USD call sold                          | (2,215)                   | 25,910                         | 19,360           | 6,550        | (239)                     | 29,859                         | 25,867           | 3,992        |
| USD put sold                           | (45)                      | (9,440)                        | (6,520)          | (2,920)      | (175)                     | (6,520)                        | (3,800)          | (2,720)      |
| EUR put purchased                      | -                         | -                              | -                | -            | 7                         | 300                            | 300              | -            |
| EUR call sold                          | (20)                      | 210                            | 210              | -            | (4)                       | 600                            | 600              | -            |
| Accumulators - sell USD <sup>(2)</sup> | (27)                      | 1,790                          | 1,790            | -            | 10                        | 774                            | -                | 774          |
| Accumulators - buy USD <sup>(2)</sup>  | 154                       | (4,122)                        | (552)            | (3,570)      | 44                        | (2,580)                        | (2,580)          | -            |
| Accumulators - buy GBP <sup>(2)</sup>  | -                         | -                              | -                | -            | 1                         | (541)                          | (541)            | -            |
| <b>TOTAL</b>                           | <b>(3,793)</b>            |                                |                  |              | <b>(239)</b>              |                                |                  |              |

(1) Fair values are expressed in millions of euros; notional amounts are expressed in millions of currency units.

(2) Notional amounts for accumulators represent the maximum cumulative amount until the instrument is unwound.

In the balance sheet, the €3,554 million increase in the fair value of foreign currency derivatives between December 31, 2016 and December 31, 2017 reflects a €3,604 million increase in the fair value of currency hedging instruments not yet settled at December 31, 2017 and a €50 million decrease in net premiums.

In the income statement, in view of the accounting constraints resulting from the application of IAS 39 and the nature of the hedging instruments used, the Group decided not to apply hedge accounting and therefore to recognize all changes in the fair value of its derivatives in "Financial income (loss)".

Accordingly, changes in the fair value of derivatives not yet settled at December 31, 2017 (increase of €3,604 million) along

with changes in the fair value of derivatives settled in 2017 (increase of €17 million) following the collection of advances from customers in foreign currency, representing a positive amount of €3,621 million, are included in "Financial income (loss)" for the period, as follows:

- €3,476 million in "Gain (loss) on foreign currency hedging instruments", corresponding to derivatives hedging revenue net of future purchases;
- €70 million in "Foreign exchange gains and losses", corresponding to derivatives hedging balance sheet positions; and
- a positive €75 million in "Foreign exchange gains and losses", corresponding to premiums due over the period.

### Exposure and sensitivity to foreign currency risk

The exposure of the Group's financial instruments to EUR/USD foreign currency risk can be summarized as follows:

| (in USD millions)   | Dec. 31, 2016  | Dec. 31, 2017  |
|---|----------------|----------------|
| Total assets excluding derivatives  | 1,662          | 2,078          |
| Total liabilities excluding derivatives   | (2,714)        | (2,621)        |
| Derivatives hedging balance sheet positions <sup>(1)</sup>                          | (507)          | (819)          |
| <b>NET EXPOSURE AFTER THE IMPACT OF DERIVATIVES HEDGING BALANCE SHEET POSITIONS</b> | <b>(1,559)</b> | <b>(1,362)</b> |

(1) Notional amount.

Assets and liabilities excluding derivatives primarily consist of operating receivables and payables denominated in USD in the balance sheets of Group subsidiaries whose functional currency is the euro, and unsecured notes issued by Safran on the US private placement market for USD 1.2 billion.

In addition to this net exposure, the Group has EUR/USD currency derivatives hedging revenue net of future purchases. These had a negative fair value of USD 272 million, compared to a total negative fair value of USD 258 million for EUR/USD currency derivatives at December 31, 2017 (negative fair value of USD 3,765 million and USD 3,821 million, respectively, at December 31, 2016).

The sensitivity of financial instruments to a 5% increase or decrease in the EUR/USD exchange rate is as follows:

| Impact on balance sheet positions (in € millions)     | Dec. 31, 2016 |       | Dec. 31, 2017 |      |
|---|---------------|-------|---------------|------|
|   | USD           | USD   | USD           | USD  |
| Closing rate  | 1.05          |       | 1.20          |      |
| EUR/USD exchange rate change assumptions              | -5%           | +5%   | -5%           | +5%  |
| EUR/USD exchange rate used for sensitivity analysis   | 1.00          | 1.11  | 1.14          | 1.26 |
| Impact recognized through profit or loss (before tax) | (1,810)       | 1,399 | (501)         | (51) |
| Impact recognized through equity (before tax)         | (61)          | 56    | (54)          | 49   |

### Interest rate risk management

The Group's exposure to fluctuations in interest rates covers two types of risk:

- fair value risk in respect of fixed-rate financial assets and liabilities. Interest rate fluctuations impact the market value of these assets and liabilities;
- cash flow risk in respect of floating-rate financial assets and liabilities. Interest rate fluctuations have a direct impact on the Group's profit or loss.

These swaps are eligible for fair value hedge accounting.

Within the framework of its interest rate risk management policy, the Group arbitrates between these two types of risks using financial instruments specific to fixed-income markets (interest rate swaps and options, etc.).

### Exposure to euro interest rate risk

An interest rate swap was taken out to convert the fixed rate payable on the €200 million bond issue carried out in first-half 2014 and maturing in April 2024 to a floating rate.

| (in € millions)            | Dec. 31, 2016 |                     |                  |              |                   | Dec. 31, 2017 |                     |                  |              |                   |
|----------------------------|---------------|---------------------|------------------|--------------|-------------------|---------------|---------------------|------------------|--------------|-------------------|
|                            | Fair value    | Notional amount (€) | Less than 1 year | 1 to 5 years | More than 5 years | Fair value    | Notional amount (€) | Less than 1 year | 1 to 5 years | More than 5 years |
| <b>Interest rate swaps</b> |               |                     |                  |              |                   |               |                     |                  |              |                   |
| Fixed-for-floating         | 17            | 200                 | -                | -            | 200               | 12            | 200                 | -                | -            | 200               |
| <b>TOTAL</b>               | <b>17</b>     |                     |                  |              |                   | <b>12</b>     |                     |                  |              |                   |

For the €200 million bond issue, changes in the fair value of the hedging instrument and the hedged item within the scope of this hedge are recognized in "Financial income (loss)" as follows:

| (in € millions)  | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Change in fair value of hedging instrument                 | 5             | (5)           |
| Change in fair value of hedged item                        | (5)           | 5             |
| <b>IMPACT OF FAIR VALUE INTEREST RATE HEDGES ON PROFIT</b> | <b>-</b>      | <b>-</b>      |

Exposure to euro interest rate risk before and after hedging:

| Dec. 31, 2016<br>(in € millions)       | Current     |                | Non-current |               | Total      |               |
|--|-------------|----------------|-------------|---------------|------------|---------------|
|  | Fixed rate  | Floating rate  | Fixed rate  | Floating rate | Fixed rate | Floating rate |
| Interest-bearing financial liabilities | 16          | 567            | 887         | 341           | 903        | 908           |
| Other financial assets                 | 35          | 103            | -           | 74            | 35         | 177           |
| Cash and cash equivalents              | 25          | 1,628          | -           | -             | 25         | 1,628         |
| <b>Net exposure before hedging</b>     | <b>(44)</b> | <b>(1,164)</b> | <b>887</b>  | <b>267</b>    | <b>843</b> | <b>(897)</b>  |
| Derivatives <sup>(1)</sup>             | -           | -              | (200)       | 200           | (200)      | 200           |
| <b>Net exposure after hedging</b>      | <b>(44)</b> | <b>(1,164)</b> | <b>687</b>  | <b>467</b>    | <b>643</b> | <b>(697)</b>  |

(1) Notional amount.

| Dec. 31, 2017<br>(in € millions)       | Current    |                | Non-current |               | Total        |                |
|--|------------|----------------|-------------|---------------|--------------|----------------|
|  | Fixed rate | Floating rate  | Fixed rate  | Floating rate | Fixed rate   | Floating rate  |
| Interest-bearing financial liabilities | 871        | 349            | 883         | 1,347         | 1,754        | 1,696          |
| Other financial assets                 | -          | 2,109          | -           | 70            | -            | 2,179          |
| Cash and cash equivalents              | 24         | 4,556          | -           | -             | 24           | 4,556          |
| <b>Net exposure before hedging</b>     | <b>847</b> | <b>(6,316)</b> | <b>883</b>  | <b>1,277</b>  | <b>1,730</b> | <b>(5,039)</b> |
| Derivatives <sup>(1)</sup>             | -          | -              | (200)       | 200           | (200)        | 200            |
| <b>Net exposure after hedging</b>      | <b>847</b> | <b>(6,316)</b> | <b>683</b>  | <b>1,477</b>  | <b>1,530</b> | <b>(4,839)</b> |

(1) Notional amount.

## Exposure to USD interest rate risk

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market (USPP) has also been partially converted to a floating rate. At their inception, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million has been kept at a fixed rate. These swaps are eligible for fair value hedge accounting.

Fixed-rate borrower/floating-rate lender swaps for a nominal amount of USD 960 million were contracted in November and December 2017 in connection with a financing transaction. The swaps are for a term of between one and three months and were taken out on behalf of a joint arrangement 50%-owned by the Group. Since the arrangement classifies as a joint operation, it gives rise to a floating-rate borrower/fixed-rate lender swap for a nominal amount of USD 480 million after elimination of intragroup items. These swaps are not eligible for hedge accounting.

| (in € millions)                | Dec. 31, 2016 |                       |                  |              |                   | Dec. 31, 2017 |                       |                  |              |                   |
|--------------------------------|---------------|-----------------------|------------------|--------------|-------------------|---------------|-----------------------|------------------|--------------|-------------------|
|                                | Fair value    | Notional amount (USD) | Less than 1 year | 1 to 5 years | More than 5 years | Fair value    | Notional amount (USD) | Less than 1 year | 1 to 5 years | More than 5 years |
| <b>USD interest rate swaps</b> |               |                       |                  |              |                   |               |                       |                  |              |                   |
| Fixed-for-floating             | 11            | 1,245                 | 200              | -            | 1,045             | 4             | 1,525                 | 480              | 540          | 505               |
| Floating-for-fixed             | -             | 400                   | 400              | -            | -                 | -             | 960                   | 960              | -            | -                 |
| <b>TOTAL</b>                   | <b>11</b>     |                       |                  |              |                   | <b>4</b>      |                       |                  |              |                   |

Changes in the fair value of the hedging instrument and hedged item within the scope of the hedge of the senior unsecured notes issue are recognized in "Financial income (loss)" as follows:

| (in € millions)  | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Change in fair value of hedging instrument                 | (13)          | (7)           |
| Change in fair value of hedged item                        | 13            | 7             |
| <b>IMPACT OF FAIR VALUE INTEREST RATE HEDGES ON PROFIT</b> | <b>-</b>      | <b>-</b>      |

### 3 FINANCIAL STATEMENTS

#### Group consolidated financial statements at December 31, 2017

Exposure to USD interest rate risk before and after hedging:

| Dec. 31, 2016<br>(in USD millions)     | Current    |               | Non-current  |               | Total        |               |
|--|------------|---------------|--------------|---------------|--------------|---------------|
|  | Fixed rate | Floating rate | Fixed rate   | Floating rate | Fixed rate   | Floating rate |
| Interest-bearing financial liabilities | 361        | 16            | 1,219        | -             | 1,580        | 16            |
| Other financial assets                 | 2          | 6             | 9            | -             | 11           | 6             |
| Cash and cash equivalents              | 76         | 61            | -            | -             | 76           | 61            |
| <b>Net exposure before hedging</b>     | <b>283</b> | <b>(51)</b>   | <b>1,210</b> | <b>-</b>      | <b>1,493</b> | <b>(51)</b>   |
| Derivatives <sup>(1)</sup>             | 200        | (200)         | (1,045)      | 1,045         | (845)        | 845           |
| <b>Net exposure after hedging</b>      | <b>483</b> | <b>(251)</b>  | <b>165</b>   | <b>1,045</b>  | <b>648</b>   | <b>794</b>    |

(1) Notional amount.

| Dec. 31, 2017<br>(in USD millions)     | Current    |               | Non-current  |               | Total        |               |
|--|------------|---------------|--------------|---------------|--------------|---------------|
|  | Fixed rate | Floating rate | Fixed rate   | Floating rate | Fixed rate   | Floating rate |
| Interest-bearing financial liabilities | 154        | 21            | 1,209        | -             | 1,363        | 21            |
| Other financial assets                 | 2          | 1             | 7            | -             | 9            | 1             |
| Cash and cash equivalents              | 87         | 189           | -            | -             | 87           | 189           |
| <b>Net exposure before hedging</b>     | <b>65</b>  | <b>(169)</b>  | <b>1,202</b> | <b>-</b>      | <b>1,267</b> | <b>(169)</b>  |
| Derivatives <sup>(1)</sup>             | 480        | (480)         | (1,045)      | 1,045         | (565)        | 565           |
| <b>Net exposure after hedging</b>      | <b>545</b> | <b>(649)</b>  | <b>157</b>   | <b>1,045</b>  | <b>702</b>   | <b>396</b>    |

(1) Notional amount.

### Sensitivity to interest rate risk

The aggregate sensitivity of net exposures to EUR and USD interest rate risk after the impact of hedging is shown below:

| Impact of changes in interest rates (in € millions) | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Interest rate assumptions used                      | +1%           | +1%           |
| Impact on profit or loss (before tax)               | 0             | 45            |
| Impact on equity (before tax)                       | -             | -             |

### Management of commodity risk

Since 2009, the Group's policy had been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel, platinum and oil). The policy sought to protect the Group's economic performance from commodity price volatility.

The Group decided to discontinue this hedge at the end of 2016 as the risk was not deemed material for the Group.

### Equity risk management

The Embraer shares that Safran held until 2017 were its only source of exposure to the risk of fluctuations in the stock market. These shares were sold in the second half of 2017 for €41 million.

### Counterparty risk management

The Group is exposed to counterparty risk on the following:

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

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

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

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their wide geographic spread.

Note 15 provides a breakdown of trade receivables by maturity.

## 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 December 31, 2017, 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.

Further to the announcement on January 19, 2017 of the planned acquisition of Zodiac Aerospace, Safran signed a €4 billion bridge loan with a banking syndicate. The bridge facility has a maturity of 12 months, with two six-month extension options. Further to Safran's €1 billion bond issue on June 28, 2017, the total amount available under the bridge facility was reduced by approximately the same amount, to €3 billion. On July 10, 2017, Safran signed an addendum to the bridge facility in order to adapt it to the revised transaction structure for the planned acquisition of Zodiac Aerospace, which was announced on May 24, 2017, and reduced the amount available under the bridge facility to €1 billion.

During the tender offer for Zodiac Aerospace, Safran pledged €2 billion in money market funds. As a result, these could not be recognized under cash and cash equivalents for the offer period (see Note 16, "Cash and cash equivalents").

A number of financial covenants apply to the EIB borrowings set up in 2010 (see Note 22).

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 22).

The terms "net debt", "EBITDA" and "total equity" used in connection with the EIB borrowings and senior unsecured notes issued on the US private placement market are defined as follows:

- > net debt: 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 27 DISCONTINUED OPERATIONS

All of the activities comprising the Security segment, which were presented within assets held for sale at December 31, 2016, were sold during the first half of 2017 (see Note 3, "Scope of consolidation").

The vendor warranties granted in connection with these disposals are presented in Note 30.b., "Off-balance sheet commitments and contingent liabilities relating to the Group's scope of consolidation".

In accordance with IFRS 5, "Profit from discontinued operations" as presented in the consolidated income statement for 2017 includes the contribution of discontinued operations up to the finalization date of each of the disposals (i.e., three months for the detection businesses, five months for the identity and security businesses), the disposal gain net of disposal costs and the associated tax effect:

| (in € millions)  | 2016      | 2017       |
|--|-----------|------------|
| Revenue  | 1,972     | 748        |
| Recurring operating income                                   | 91        | 39         |
| <b>Profit (loss) for the period</b>                          | <b>74</b> | <b>(1)</b> |
| Post-tax disposal gain on detection and security businesses  | -         | 824        |
| <b>Profit from discontinued operations and disposal gain</b> | <b>74</b> | <b>823</b> |
| <b>Attributable to:</b>                                      |           |            |
| > Owners of the parent                                       | 72        | 822        |
| > Non-controlling interests                                  | 2         | 1          |

Amortization and depreciation were no longer charged against intangible assets and property, plant and equipment (i) as of April 30, 2016 for the detection businesses, and (ii) as of September 30, 2016 for the identity and security businesses. Discontinuing amortization and depreciation had an overall positive impact of €65 million on pre-tax profit (€42 million on net profit) of discontinued operations in 2017 (€60 million impact on pre-tax profit and €38 million impact on net profit in 2016).

Other comprehensive income relating to discontinued operations and reclassified to profit at the disposal date are presented separately in the consolidated statement of comprehensive income.

## NOTE 28 INTERESTS IN JOINT OPERATIONS

The Group has interests in a number of joint operations whose contribution is recognized line-by-line in the financial statements. The joint operations are:

- > CFM International Inc. and CFM International SA: coordination of the CFM56 and LEAP engine programs with General Electric and program marketing;
- > Famat: manufacture of large casings subcontracted by Safran Aircraft Engines and General Electric;

- > Matis: manufacture of aircraft wiring;
- > CFAN: production of composite fan blades for turbo engines;
- > Propulsion Technologies International: engine repair and maintenance.

The table below shows the Group's share in the various financial indicators of these joint operations, which is included in the consolidated financial statements:

| <i>(in € millions)</i>                                | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Current assets  | 125           | 114           |
| Non-current assets                                    | 185           | 166           |
| Current liabilities                                   | 178           | 180           |
| Non-current liabilities                               | 11            | 25            |
| Operating income                                      | 79            | 72            |
| Operating expenses                                    | (51)          | (44)          |
| Financial income (loss)                               | (7)           | (8)           |
| Income tax expense <sup>(1)</sup>                     | (2)           | (43)          |
| Profit (loss) for the period                          | 18            | (24)          |
| Other comprehensive income                            | 3             | (11)          |
| Comprehensive income                                  | 21            | (35)          |
| Cash flow from operating activities <sup>(2)</sup>    | 12            | 20            |
| Cash flow used in investing activities                | (12)          | (13)          |
| Cash flow used in financing activities <sup>(2)</sup> | (11)          | (6)           |

(1) Including an expense of €35 million in 2017 in connection with the tax on repatriated profits at CFM Inc. (see Note 7, "Income tax").

(2) See Note 22, "Interest-bearing financial liabilities" – trade receivables factoring programs at CFM Inc.

## NOTE 29 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 (formerly Herakles, renamed Safran Ceramics on June 30, 2016 following the contributions made to Airbus Safran Launchers) 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:

| <i>(in € millions)</i>                                   | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Sales to related parties other than joint ventures       | 2,982         | 3,329         |
| Purchases from related parties other than joint ventures | (78)          | (61)          |



| (in € millions)   | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Amounts receivable from related parties other than joint ventures | 1,371         | 1,486         |
| Amounts payable to related parties other than joint ventures      | 1,661         | 2,036         |

| (in € millions)   | 2016  | 2017  |
|---|-------|-------|
| Commitments to related parties other than joint ventures <sup>(1)</sup> | 2,408 | 2,158 |

(1) See Note 30.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)                        | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Sales to joint ventures <sup>(1)</sup> | 255           | 450           |
| Purchases from joint ventures          | (108)         | (106)         |

| (in € millions)                        | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Amounts receivable from joint ventures | 35            | 141           |
| Amounts payable to joint ventures      | 64            | 6             |

| (in € millions)                                    | 2016 | 2017 |
|--|------|------|
| Commitments given to joint ventures <sup>(2)</sup> | -    | 131  |

(1) Mainly with Shannon Engine Support Limited.

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

## Management compensation

Management executives comprise members of the Board of Directors and Executive Management, as well as any persons with the power to take management decisions with regard to Safran's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Group.

Management executives comprise the 17 members of the Board of Directors, including the Chairman of the Board and the Chief

Executive Officer, as well as the five officers considered as having the power to take management decisions with regard to Safran's strategy and future development, or with regular access to privileged information concerning Safran.

All compensation and benefits awarded to members of the Board of Directors and to members of Executive Management are shown on a gross basis, including the fixed portion of compensation and the provision for the variable portion to be paid in the subsequent year.

| (in € millions)                    | 2016 | 2017 |
|------------------------------------|------|------|
| Short-term benefits <sup>(1)</sup> | 8.9  | 10.4 |
| Post-employment benefits           | 1.1  | 0.8  |
| Other long-term benefits           | -    | -    |
| Termination benefits               | 0.6  | -    |
| Share-based payment                | 1.0  | 2.0  |

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.

The Group's total post-employment benefit commitments and other long-term benefit commitments in respect of management executives amounted to €12.0 million at December 31, 2017 and €11.4 million at December 31, 2016.

## NOTE 30 OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

### a) Off-balance sheet commitments and contingent liabilities relating to the Group's operating activities

#### Commitments given and contingent liabilities

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

| (in € millions)   | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Purchase commitments on intangible assets                                   | 245           | 95            |
| Purchase commitments on property, plant and equipment                       | 368           | 363           |
| Guarantees given in connection with the performance of operating agreements | 4,269         | 3,590         |
| Operating lease commitments   | 429           | 317           |
| Financial guarantees granted on the sale of Group products                  | 29            | 29            |
| Other commitments given   | 262           | 369           |
| <b>TOTAL*</b>   | <b>5,602</b>  | <b>4,763</b>  |

(\* Including the Security segment for €395 million at December 31, 2016 (the Security segment businesses were sold in 2017).

#### Guarantees given in connection with the performance of operating agreements

These guarantees relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers) in which Safran or the subsidiary provide a joint and several guarantee that its subsidiaries will perform their duties under their

contractual obligations. These guarantees are given in respect of research, design, development, manufacturing, marketing and product support programs in place at Group subsidiaries. They are generally granted for the term of the program concerned, and are capped at a certain amount.

Guarantees granted to Airbus are shown within "Guarantees granted to related parties" in Note 29, "Related parties".

#### Operating lease commitments

Commitments under operating leases can be analyzed as follows:

| (in € millions)             | Dec. 31, 2016 | Dec. 31, 2017 | Period to maturity |              |                |
|-----------------------------|---------------|---------------|--------------------|--------------|----------------|
|                             | Total         | Total         | Less than 1 year   | 1 to 5 years | Beyond 5 years |
| Operating lease commitments | 429           | 317           | 56                 | 185          | 76             |
| <b>TOTAL*</b>               | <b>429</b>    | <b>317</b>    | <b>56</b>          | <b>185</b>   | <b>76</b>      |

(\* Including the Security segment for €125 million at December 31, 2016 (the Security segment businesses were sold in 2017).

#### 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 35 million at December 31, 2017 (USD 31 million at December 31, 2016), or €29 million (€29 million at December 31, 2016). 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 20 million at December 31, 2017 (USD 25 million at December 31, 2016), 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 31, "Disputes and litigation".

## Commitments received

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

| (in € millions)  | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Commitments received from banks on behalf of suppliers | 33            | 18            |
| Completion warranties                                  | 30            | 21            |
| Endorsements and guarantees received                   | 3             | 3             |
| Other commitments received                             | 9             | 96            |
| <b>TOTAL*</b>  | <b>75</b>     | <b>138</b>    |

(\* Including the Security segment for €9 million at December 31, 2016 (the Security segment businesses were sold in 2017).

## 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.

### Vendor warranties given

| (in € millions)          | Dec. 31, 2016 | Dec. 31, 2017 |
|--------------------------|---------------|---------------|
| Vendor warranties given* | 5             | 333           |

(\* Vendor warranties, the amount of which may be fixed or determinable.

### Vendor warranties received

| (in € millions)             | Dec. 31, 2016 | Dec. 31, 2017 |
|-----------------------------|---------------|---------------|
| Vendor warranties received* | 3             | 0             |

(\* Including the Security segment for €3 million at December 31, 2016 (the Security segment businesses were sold in 2017).

### Vendor warranties granted in connection with the disposal of the Security businesses (see Note 3, "Scope of consolidation")

In connection with the sale of the identity and security businesses on May 31, 2017, Safran granted Advent International a vendor warranty valued at €180 million at December 31, 2017, as well as a specific indemnity capped at BRL 200 million (€50 million at December 31, 2017) to cover any financial consequences arising from the dispute between Morpho do Brasil and the Brazilian tax authorities concerning the calculation method for value added tax on certain products.

In connection with the sale of the detection businesses on April 7, 2017, Safran granted Smiths Group Plc a vendor warranty valued at USD 74 million (€62 million at December 31, 2017).

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 December 31, 2017.

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

Commitments received in respect of financing relate to:

- the unused portion of the trade receivables factoring facility requiring deconsolidation of the receivables concerned (see Note 22, "Interest-bearing financial liabilities");
- the confirmed, undrawn syndicated credit line (see Note 26, "Management of market risks and derivatives"); and
- the bridge facility set up as part of the acquisition of Zodiac Aerospace (see Note 26, "Management of market risks and derivatives").

## NOTE 31 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.
- At the end of 2002, a group of French manufacturers, including the former Snecma Group, was collectively the subject of a request for arbitration as part of a dispute with the Republic of China relating to a former business contract. After withdrawal of this request, the customer then filed another

request for arbitration in November 2012 on similar grounds to those invoked in 2002. The three manufacturers were jointly ordered to pay a total sum of €227 million (including interest) to the Republic of China under an arbitration award notified to them on October 25, 2017. Safran Aircraft Engines paid €29 million, including fees, corresponding to its share of the award. The corresponding expense was recorded under other non-recurring operating income and expenses in the Group's 2017 accounts.

As no party appealed the decision, the proceedings are now closed.

- On April 2, 2014, Safran was fined by the European Commission relating to the activities of Silec Cable, a former subsidiary of Sagem SA which was sold to General Cable at the end of 2005. General Cable, which was also fined, filed a claim against Safran under the sale agreement in order to protect its rights. Safran paid the €8.5 million fine in 2014. Relying on the European Commission's findings, a number of cable buyers have initiated proceedings for reimbursement of overcharges against the companies fined by the Commission. Safran's joint and several liability with other suppliers has been alleged in one such legal action, and the Group could be at risk of further claims in Europe. At the date of this report, it is not possible to evaluate any potential financial risk.

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

## NOTE 32 SUBSEQUENT EVENTS

None.

## NOTE 33 LIST OF CONSOLIDATED COMPANIES

|  | Country        | 2016                  |            | 2017                 |            |
|--|----------------|-----------------------|------------|----------------------|------------|
|  |                | Consolidation method  | % interest | Consolidation method | % interest |
| <b>Safran SA</b>   | <b>France</b>  | <b>Parent company</b> |            |                      |            |
| <b>Aerospace Propulsion</b>  |                |                       |            |                      |            |
| Safran Aircraft Engines  | France         | FC                    | 100.00     | FC                   | 100.00     |
| CFAN   | United States  | JO                    | 50.00      | JO                   | 50.00      |
| CFM International SA   | France         | JO                    | 50.00      | JO                   | 50.00      |
| CFM International, Inc.  | United States  | JO                    | 50.00      | JO                   | 50.00      |
| CFM Materials LP   | United States  | EQ                    | 50.00      | EQ                   | 50.00      |
| Famat  | France         | JO                    | 50.00      | JO                   | 50.00      |
| Fan Blade Associates, Inc.   | United States  | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aero Composite  | France         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aerospace Composites, LLC                                     | United States  | FC                    | 100.00     | FC                   | 100.00     |
| Shannon Engine Support Limited                                       | Ireland        | EQ                    | 50.00      | EQ                   | 50.00      |
| Safran Aircraft Engines Mexico                                       | Mexico         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aircraft Engines Poland <sup>(1)</sup>                        | Poland         | -                     | -          | FC                   | 100.00     |
| Safran Aircraft Engine Services Americas                             | Mexico         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aircraft Engine Services Morocco                              | Morocco        | FC                    | 51.00      | FC                   | 51.00      |
| Safran MDS, S.A. de C.V.   | Mexico         | FC                    | 100.00     | FC                   | 100.00     |
| Snecma Participations  | France         | FC                    | 100.00     | FC                   | 100.00     |
| Snecma Participations, Inc.  | United States  | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aircraft Engine Services Brussels                             | Belgium        | FC                    | 100.00     | FC                   | 100.00     |
| Snecma Suzhou Co, Ltd  | China          | FC                    | 100.00     | FC                   | 100.00     |
| Safran Aircraft Engines Guiyang                                      | China          | FC                    | 90.00      | FC                   | 90.00      |
| Propulsion Technologies International, LLC                           | United States  | JO                    | 50.00      | JO                   | 50.00      |
| Safran Aero Boosters   | Belgium        | FC                    | 67.19      | FC                   | 67.19      |
| Safran Test Cells, Inc.  | United States  | FC                    | 67.19      | FC                   | 67.19      |
| Safran Aero Boosters Programs, LLC                                   | United States  | FC                    | 67.19      | FC                   | 67.19      |
| Safran Aero Boosters, Inc.   | United States  | FC                    | 67.19      | FC                   | 67.19      |
| Safran Helicopter Engines  | France         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Power Units   | France         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Power Units San Diego, LLC                                    | United States  | FC                    | 100.00     | FC                   | 100.00     |
| Turbomeca Africa <sup>(2)</sup>                                      | South Africa   | FC                    | 51.00      | -                    | -          |
| Turbomeca America Latina <sup>(3)</sup>                              | Uruguay        | FC                    | 100.00     | -                    | -          |
| Safran Helicopter Engines Asia Pte. Ltd                              | Singapore      | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines Australia Pty Ltd                          | Australia      | FC                    | 100.00     | FC                   | 100.00     |
| Safran Moteurs d'Hélicoptères Canada Inc.                            | Canada         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines Brasil Industria e Comercio do Brasil Ltda | Brazil         | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines Germany GmbH                               | Germany        | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines Tianjin Co. Ltd                            | China          | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines UK Limited                                 | United Kingdom | FC                    | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines USA, Inc.                                  | United States  | FC                    | 100.00     | FC                   | 100.00     |

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

(1) First-time consolidation in 2017.

(2) Divested in November 2017.

(3) Left the Group in 2017.

# 3 FINANCIAL STATEMENTS

Group consolidated financial statements at December 31, 2017

|   | Country        | 2016                 |            | 2017                 |            |
|---|----------------|----------------------|------------|----------------------|------------|
|   |                | Consolidation method | % interest | Consolidation method | % interest |
| Safran Helicopter Engines Mexico                                  | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Helicopter Engines South Africa <sup>(1)</sup>             | South Africa   | -                    | -          | FC                   | 100.00     |
| Roxel France  | France         | EQ                   | 50.00      | EQ                   | 50.00      |
| Roxel Limited   | United Kingdom | EQ                   | 50.00      | EQ                   | 50.00      |
| Roxel   | France         | EQ                   | 50.00      | EQ                   | 50.00      |
| Structuil <sup>(4)</sup>  | France         | FC                   | 80.00      | -                    | -          |
| ArianeGroup Holding   | France         | EQ                   | 50.00      | EQ                   | 50.00      |
| <b>Aircraft Equipment</b>   |                |                      |            |                      |            |
| Safran Nacelles   | France         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Nacelles Limited   | United Kingdom | FC                   | 100.00     | FC                   | 100.00     |
| Safran Nacelles Morocco   | Morocco        | FC                   | 100.00     | FC                   | 100.00     |
| Aircelle Europe Services <sup>(1)</sup>                           | France         | FC                   | 100.00     | -                    | -          |
| Safran System Aerostructures                                      | France         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems  | France         | FC                   | 100.00     | FC                   | 100.00     |
| Aero Precision Repair & Overhaul Company, Inc.                    | United States  | EQ                   | 50.00      | EQ                   | 50.00      |
| Safran Landing Systems Services Dinard                            | France         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Kentucky, LLC                              | United States  | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Wheel & Brake Services, LLC <sup>(2)</sup> | United States  | -                    | -          | FC                   | 100.00     |
| Safran Landing Systems Malaysia Sdn. Bhd.                         | Malaysia       | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Canada Inc.                                | Canada         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems UK Ltd                                     | United Kingdom | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems México S.A. de C.V.                        | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Services Américas S.A. de C.V.             | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Services Singapore Pte. Ltd                | Singapore      | FC                   | 60.00      | FC                   | 60.00      |
| Safran Landing Systems Services Miami, Inc.                       | United States  | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Services UK Ltd                            | United Kingdom | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Services Querétaro S.A. de C.V.            | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Holdings Singapore Pte. Ltd                | Singapore      | FC                   | 100.00     | FC                   | 100.00     |
| Safran Filtration Systems   | France         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Landing Systems Suzhou Co., Ltd                            | China          | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power   | France         | FC                   | 100.00     | FC                   | 100.00     |
| Aerosource Inc.   | United States  | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power Chihuahua S.A. de C.V.                  | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Safran Engineering Services GmbH                                  | Germany        | FC                   | 100.00     | FC                   | 100.00     |
| Labinal Investments, LLC  | United States  | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power USA, LLC                                | United States  | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power Morocco S.A                             | Morocco        | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power Mexico SA de CV                         | Mexico         | FC                   | 100.00     | FC                   | 100.00     |
| Labinal Salisbury, LLC <sup>(3)</sup>                             | United States  | FC                   | 100.00     | -                    | -          |
| Matis Aerospace   | Morocco        | JO                   | 50.00      | JO                   | 50.00      |

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

(1) Merged into Safran Nacelles on January 1, 2017.

(2) First-time consolidation in 2017.

(3) Merged into Safran Electrical & Power USA, LLC on March 31, 2017.

(4) Divested on October 2, 2017.

|  | Country              | 2016                 |            | 2017                 |            |
|--|----------------------|----------------------|------------|----------------------|------------|
|  |                      | Consolidation method | % interest | Consolidation method | % interest |
| Safran Engineering Services                              | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Engineering Services India Pvt Ltd                | India                | FC                   | 100.00     | FC                   | 100.00     |
| Safran Engineering Services Maroc                        | Morocco              | FC                   | 100.00     | FC                   | 100.00     |
| Safran Engineering Services UK Ltd                       | United Kingdom       | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electrical & Power UK Ltd                         | United Kingdom       | FC                   | 100.00     | FC                   | 100.00     |
| Safran Power USA, LLC                                    | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Safran Ventilation Systems                               | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Ventilation Systems USA, LLC                      | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Shanghai SAIFEI Aviation EWIS Manufacturing Co., Ltd     | China                | EQ                   | 49.00      | EQ                   | 49.00      |
| Safran Transmission Systems                              | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Transmission Systems Poland S.p. Z.o.o.           | Poland               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Martin-Baker France                               | France               | EQ                   | 50.00      | EQ                   | 50.00      |
| <b>Defense</b>   |                      |                      |            |                      |            |
| Safran Electronics & Defense                             | France               | FC                   | 100.00     | FC                   | 100.00     |
| Optics 1, Inc.   | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electronics & Defense Services Asia Pte Ltd       | Singapore            | FC                   | 60.00      | FC                   | 60.00      |
| Safran Electronics & Defense Canada Inc.                 | Canada               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electronics & Defense Avionics USA, LLC           | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Safran Electronics & Defense Germany GmbH                | Germany              | FC                   | 100.00     | FC                   | 100.00     |
| Sofradir   | France               | EQ                   | 50.00      | EQ                   | 50.00      |
| ULIS   | France               | EQ                   | 50.00      | EQ                   | 50.00      |
| Safran Vectronix AG                                      | Switzerland          | FC                   | 100.00     | FC                   | 100.00     |
| Sagem USA, Inc.  | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Fadec International, LLC <sup>(1)</sup>                  | United States        | -                    | -          | EQ                   | 50.00      |
| Safran Reosc   | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Colibrys SA                                       | Switzerland          | FC                   | 100.00     | FC                   | 100.00     |
| <b>Security*</b>   |                      |                      |            |                      |            |
| <b>Divested on May 31, 2017:</b>                         |                      |                      |            |                      |            |
| Safran Identity & Security                               | France               | FC                   | 100.00     | -                    | -          |
| Aleat  | Albania              | FC                   | 75.00      | -                    | -          |
| Bioscrypt Inc.   | Canada               | FC                   | 100.00     | -                    | -          |
| Electronic Identity Management & Security Solutions, LLC | United Arab Emirates | EQ                   | 40.00      | -                    | -          |
| L-1 Secure Credentialing, LLC                            | United States        | FC                   | 100.00     | -                    | -          |
| Morpho Australasia Pty. Ltd                              | Australia            | FC                   | 100.00     | -                    | -          |
| Morpho B.V.  | Netherlands          | FC                   | 100.00     | -                    | -          |
| Morpho Canada, Inc.                                      | Canada               | FC                   | 100.00     | -                    | -          |
| Morpho Maroc Groupe Safran                               | Morocco              | FC                   | 100.00     | -                    | -          |
| Morpho South Africa (Pty) Ltd                            | South Africa         | FC                   | 100.00     | -                    | -          |
| MorphoTrak LLC   | United States        | FC                   | 100.00     | -                    | -          |
| MorphoTrust USA, LLC.                                    | United States        | FC                   | 100.00     | -                    | -          |
| Morpho UK Ltd  | United Kingdom       | FC                   | 100.00     | -                    | -          |
| Morpho USA, Inc.   | United States        | FC                   | 100.00     | -                    | -          |

FC: Full consolidation. JO: Joint operation. EQ: Equity method.

\* Classified under discontinued operations at December 31, 2016 and divested in 2017.

(1) First-time consolidation in 2017.

### 3 FINANCIAL STATEMENTS

Group consolidated financial statements at December 31, 2017

|  | Country              | 2016                 |            | 2017                 |            |
|--|----------------------|----------------------|------------|----------------------|------------|
|  |                      | Consolidation method | % interest | Consolidation method | % interest |
| Trans Digital Technologies Limited Liability Company | United States        | FC                   | 100.00     | -                    | -          |
| Morpho Cards GmbH                                    | Germany              | FC                   | 100.00     | -                    | -          |
| Morpho Cards Sdn. Bhd                                | Malaysia             | FC                   | 100.00     | -                    | -          |
| Morpho do Brasil S.A.                                | Brazil               | FC                   | 100.00     | -                    | -          |
| Morpho Cards de Colombia SAS                         | Colombia             | FC                   | 100.00     | -                    | -          |
| PT. Morpho Cards Indonesia                           | Indonesia            | FC                   | 100.00     | -                    | -          |
| Morpho Cards (Singapore) Pte. Ltd                    | Singapore            | FC                   | 100.00     | -                    | -          |
| Morpho Cards Peru                                    | Peru                 | FC                   | 100.00     | -                    | -          |
| Morpho Cards Lda                                     | Portugal             | FC                   | 100.00     | -                    | -          |
| Morpho Cards Romania SRL                             | Romania              | FC                   | 100.00     | -                    | -          |
| Morpho N.A. Inc.                                     | United States        | FC                   | 100.00     | -                    | -          |
| Morpho South Africa (Pty) Ltd                        | South Africa         | FC                   | 100.00     | -                    | -          |
| CPS Technologies                                     | France               | FC                   | 100.00     | -                    | -          |
| Morpho Cards Czech S.R.O                             | Czech Republic       | FC                   | 100.00     | -                    | -          |
| Smart Chip Limited                                   | India                | FC                   | 95.89      | -                    | -          |
| Syscom Corporation Limited                           | India                | FC                   | 95.89      | -                    | -          |
| Orga Zelenograd Smart Cards and Systems, ZAO         | Russia               | FC                   | 100.00     | -                    | -          |
| Morpho Cards FZ-LLC                                  | United Arab Emirates | FC                   | 100.00     | -                    | -          |
| Morpho Cards Mexico                                  | Mexico               | FC                   | 100.00     | -                    | -          |
| Morpho de Argentina SA                               | Argentina            | FC                   | 100.00     | -                    | -          |
| <b>Divested on April 7, 2017:</b>                    |                      |                      |            |                      |            |
| Morpho Detection, LLC.                               | United States        | FC                   | 100.00     | -                    | -          |
| Morpho Detection International, LLC                  | United States        | FC                   | 100.00     | -                    | -          |
| Morpho Detection Germany GmbH                        | Germany              | FC                   | 100.00     | -                    | -          |
| Morpho Detection UK Limited                          | United Kingdom       | FC                   | 100.00     | -                    | -          |
| Syagen Technology LLC                                | United States        | FC                   | 100.00     | -                    | -          |
| <b>Holding co. and other</b>                         |                      |                      |            |                      |            |
| Établissements Vallaroché                            | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran Ceramics                                      | France               | FC                   | 100.00     | FC                   | 100.00     |
| Safran UK Ltd  | United Kingdom       | FC                   | 100.00     | FC                   | 100.00     |
| Safran USA Inc.                                      | United States        | FC                   | 100.00     | FC                   | 100.00     |
| Société de réassurance Vallaroché SA                 | Luxembourg           | FC                   | 100.00     | FC                   | 100.00     |

FC: Full consolidation. JO: Joint operation. EQ: Equity method.



## NOTE 34 AUDIT FEES

Pursuant to Standard No. 2016-09 issued on December 2, 2016 by the French accounting standards-setter (*Autorité des normes comptables* - ANC), the following table shows the amount of fees paid to the Group's Statutory Auditors as included on the consolidated income statement for the year, a distinction

being made between fees charged for the statutory audit of the consolidated financial statements and those charged for other services, where applicable. The fees shown for subsidiaries are those consolidated according to the full consolidation method.

|                                    | Ernst & Young         |             |             |             | Mazars                |             |             |             | Total                 |             |             |             |  |
|------------------------------------|-----------------------|-------------|-------------|-------------|-----------------------|-------------|-------------|-------------|-----------------------|-------------|-------------|-------------|--|
|                                    | Amount<br>(excl. VAT) |             | %           |             | Amount<br>(excl. VAT) |             | %           |             | Amount<br>(excl. VAT) |             | %           |             |  |
|                                    | 2016                  | 2017        | 2016        | 2017        | 2016                  | 2017        | 2016        | 2017        | 2016                  | 2017        | 2016        | 2017        |  |
| <i>(in € millions)</i>             |                       |             |             |             |                       |             |             |             |                       |             |             |             |  |
| <b>A) Statutory audit services</b> |                       |             |             |             |                       |             |             |             |                       |             |             |             |  |
| A.1) Safran (issuer)               | 0.63                  | 0.83        | 13%         | 17%         | 0.63                  | 0.79        | 12%         | 17%         | 1.26                  | 1.62        | 12%         | 17%         |  |
| A.2) Subsidiaries                  | 3.74                  | 2.92        | 76%         | 61%         | 3.33                  | 2.77        | 61%         | 60%         | 7.07                  | 5.69        | 68%         | 60%         |  |
| <b>Sub-total</b>                   | <b>4.37</b>           | <b>3.75</b> | <b>89%</b>  | <b>78%</b>  | <b>3.96</b>           | <b>3.56</b> | <b>73%</b>  | <b>77%</b>  | <b>8.33</b>           | <b>7.31</b> | <b>80%</b>  | <b>77%</b>  |  |
| <b>B) Other services</b>           |                       |             |             |             |                       |             |             |             |                       |             |             |             |  |
| B.1) Safran (issuer)               | 0.32                  | 0.86        | 7%          | 18%         | 0.38                  | 0.94        | 7%          | 20%         | 0.70                  | 1.80        | 7%          | 19%         |  |
| B.2) Subsidiaries                  | 0.22                  | 0.21        | 4%          | 4%          | 1.12                  | 0.13        | 20%         | 3%          | 1.34                  | 0.34        | 13%         | 4%          |  |
| <b>Sub-total</b>                   | <b>0.54</b>           | <b>1.07</b> | <b>11%</b>  | <b>22%</b>  | <b>1.50</b>           | <b>1.07</b> | <b>27%</b>  | <b>23%</b>  | <b>2.04</b>           | <b>2.14</b> | <b>20%</b>  | <b>23%</b>  |  |
| <b>TOTAL</b>                       | <b>4.91</b>           | <b>4.82</b> | <b>100%</b> | <b>100%</b> | <b>5.46</b>           | <b>4.63</b> | <b>100%</b> | <b>100%</b> | <b>10.37</b>          | <b>9.45</b> | <b>100%</b> | <b>100%</b> |  |

### Statutory audit fees

These are payable for all work that is an integral part of the statutory audit, i.e., all work necessary to produce audit reports or any other reports or representations to be made available to the Ordinary Shareholders' Meeting called to approve the financial statements.

Services are provided by the Statutory Auditors and other persons responsible for audits, members of their networks, certifying the parent company and consolidated financial statements of the parent company and fully consolidated subsidiaries in France and other countries.

### Fees for other services

These services concern work falling within the scope of services usually rendered in conjunction with the statutory audit engagement (drafting of specific reports and statements, due diligence procedures) or any other specific engagement, generally representing one-off or agreed-on services.

### 3.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2017

*This is a free translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.*

*This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Safran SA,

#### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Safran for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

#### Basis for Opinion

##### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

##### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*Code de déontologie*) for statutory auditors.

#### Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

#### Recognition of revenue and margins under support-by-the-hour contracts

*Notes 1.g, 2.a and 5 to the consolidated financial statements*

The Group has entered into support-by-the-hour engine maintenance contracts with certain customers spanning several years.

As described in Notes 1.g and 2.a to the consolidated financial statements, the margin on these contracts is recognized on a percentage-of-completion basis. Revenue is recognized as flight hours are billed, while costs to be recognized are determined by management based on the estimated percentage margin on completion of the contract. A provision is set aside for any losses on completion as soon as such losses are foreseeable.

Forecast contract margins are regularly revised by management. This approach requires the Group to estimate results on completion based on forecast future cash flows, taking into account contractual items and internal estimates of costs to be incurred.

We deemed the recognition of revenue and margins on support-by-the-hour contracts to be a key audit matter given the sensitivity of margins on completion to the estimates and assumptions used by management.

##### How our audit addressed this risk

In Group subsidiary Safran Aircraft Engines, which accounts for most major support-by-the-hour contracts, we:

- > analyzed the procedures for forecasting contract revenue and contract costs;
- > reviewed the consistency of the technical model enabling the in-flight behavior of the engine to be assessed and the engine servicing schedule to be determined;
- > for each major contract, met with the management controllers responsible for monitoring the contract business plans, and assessed estimates of contract revenue and costs on completion, including the degree of uncertainty applied, in particular by comparing the costs incurred to date with previous estimates;
- > analyzed any changes in contracts and the reflection of those changes in the business plans;
- > reviewed, on a test basis, the existence of revenue recognized through reconciliations with amounts billed by-the-hour.

### Contract liabilities: provisions for performance warranties and provisions for sales contracts

Notes 1.r, 2.a, 2.b and 19 to the consolidated financial statements

As part of its contractual relations, the Group may recognize provisions for guarantee commitments given as well as provisions relating to late deliveries or additional costs (claims received from customers or exposure to contractual penalties):

- Provisions for performance warranties cover probable future payments under the various warranties granted by the Group to its customers in respect of equipment sold. Provisions for warranties are determined using statistical data regarding the estimated frequency and cost of probable repairs, and based on the experience of operational staff.
- Provisions for sales contracts correspond to provisions booked further to customer claims or when the Group is exposed to contractual penalties. These provisions are estimated based on contractual commitments and on an assessment of the scenarios deemed most probable by operational staff.

These provisions recognized under contract liabilities represented €1,242 million at December 31, 2017, including €813 million relating to performance warranties and €429 million relating to sales contracts.

We deemed this issue to be a key audit matter given the significance of the amounts in question, the complexity of the assumptions underlying the estimates, and the degree of judgement required of management in calculating these provisions.

#### How our audit addressed this risk

We reviewed the procedures implemented by management to identify and list all risks relating to contractual commitments.

For each material risk identified, we reviewed the analysis of the risk by management, along with the corresponding documentation and any written consultations from external advisors, where appropriate. Our work involved:

- evaluating the appropriateness of the approach used by management to estimate the amount of provisions to be recognized in respect of these risks;
- analyzing the appropriateness of the assumptions used to estimate provisions for warranties;
- reconciling the estimated cost of repairs used to estimate provisions for warranties with historical data;
- meeting with managers of the programs for all material individual provisions;
- analyzing the arithmetic consistency of the calculations made and reconciling the initial data with contractual data, where appropriate.

We also analyzed the appropriateness of the related disclosures provided in the notes to the consolidated financial statements.

### Measurement and completeness of foreign currency derivatives

Notes 1.f, 1.v and 26 to the consolidated financial statements

Most of the revenue generated in the Propulsion and Aircraft Equipment businesses is denominated in US dollars. The net excess of revenues over expenses for these activities totaled USD 7.3 billion for 2017. To protect its operating profitability against fluctuations in the EUR/USD exchange rate, the Group's policy is to hedge its USD exposure using foreign currency derivatives and to maintain the exchange rate above a guaranteed hedged rate over a period of four years.

The main derivatives used in this respect are forward sales and foreign currency options (accumulators and a combination of optional instruments with or without knock-in options). Options are used to improve the guaranteed hedged rate with a view to protecting the Group's economic performance.

In the balance sheet, the derivatives portfolio is carried at fair value in accordance with IAS 39, and represented an amount of €566 million in assets and €805 million in liabilities at December 31, 2017. Most derivatives are traded over-the-counter and no quoted prices are available. Consequently, they are measured using models commonly used by pricing services.

In the income statement, the Group does not apply hedge accounting as defined by IAS 39 given the nature of the instruments used. Consequently, all changes in the fair value of foreign currency derivatives during the year are included in financial income (loss). In 2017, the amount recorded in financial income (loss) was €3,476 million.

We deemed the measurement of foreign currency derivatives to be a key audit matter given the material impacts on the Group's consolidated financial statements, the complexity of the valuation models used and the volume of instruments negotiated.

#### How our audit addressed this risk

We reviewed Safran SA's forex strategy and assessed whether the information given in this regard in Note 26 to the consolidated financial statements was appropriate.

As part of our internal control review, we analyzed the procedures put in place by management for approving, contracting and booking market transactions. We also tested the effectiveness of key IT controls for the applications used by the Cash Management department, including the interface with the accounting teams.

To verify that foreign currency derivatives were correctly accounted for, we:

- checked the reconciliation between Safran SA's derivatives portfolio and information received from bank counterparties, in order to ensure that all transactions were documented;
- checked that there was no material discrepancy between the value of the derivatives estimated by Safran SA and the values sent by the bank counterparties;
- carried out a counter-valuation of the derivatives portfolio, assisted by our experts, in order to validate the amounts recorded by management in the financial statements.

### Intangible asset impairment tests (goodwill and programs)

Notes 1.c, 1.j, 1.l, 2.a, 9 and 10 to the consolidated financial statements

In the context of its creation and development, the Group has carried out acquisitions resulting in the recognition of goodwill and intangible assets relating to aerospace programs (Sagem/Snecma merger and RRTM acquisition). The Group also capitalizes development costs when it can be demonstrated that they meet the requisite criteria, as described in Note 1.l to the consolidated financial statements.

Goodwill is tested for impairment at the level of each cash-generating unit (CGU) at least annually and whenever there is an indication that it may be impaired. At the end of each annual reporting period, management also performs impairment tests on assets allocated to programs (aerospace programs and capitalized development costs) before they begin to be depreciated/amortized, or if events or circumstances indicate a risk of impairment.

The recoverable amounts of these assets are chiefly determined by discounting the future cash flows expected to arise from the cash-generating units, projects or programs to which the assets tested relate.

At December 31, 2017, the total amount of goodwill represented €1,831 million, while total intangible assets represented €5,241 million, including €904 million relating to aerospace programs and €2,801 million relating to capitalized development costs.

We deemed the value of these intangible assets to be a key audit matter given their significance in the consolidated financial statements and because the calculation of their recoverable amount requires management to use major estimates and assumptions.

#### How our audit addressed this risk

We reviewed the basis for implementing these impairment tests. In particular, we considered:

- the elements included in the carrying amount of each cash-generating unit (CGU) and program;
- the appropriateness of the assumptions underlying the estimates used by management to forecast its future cash flows, especially:
  - the consistency of the volumes and production rates associated with the products sold in light of information and forecasts provided by the main contractors and management's long-term analyses,
  - the appropriateness of the EUR/USD exchange rate assumption used,
  - the consistency of the growth rates used to forecast future cash flows compared to available independent analyses,
  - the appropriateness of the discount rates applied to estimated future cash flows, verifying in particular that the various inputs used to calculate the weighted average cost of capital of each CGU were sufficient to approximate the return demanded by market participants for similar activities;

- the analyses performed by management to ascertain the sensitivity of value in use to reasonably possible changes in the main assumptions used;
- the consistency of past and future cash flows compared to management's most recent estimates, as presented to the Board of Directors during the budget process.

We also ensured that the disclosures provided in Notes 1.c, 1.j, 1.l, 2.a, 9 and 10 to the consolidated financial statements were appropriate.

### Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

### Report on Other Legal and Regulatory Requirements

#### Appointment of the Statutory Auditors

We were appointed as statutory auditors of SAFRAN SA by the Annual General Meeting held on May 28, 2008 for MAZARS and on May 27, 2010 for ERNST & YOUNG et Autres.

As at December 31, 2017, MAZARS and ERNST & YOUNG et Autres were in the 10th year and 8th year of total uninterrupted engagement respectively.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

### Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit

evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

### Report to the Audit and Risk Committee

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit and Risk the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense and Courbevoie, March 27, 2018

The Statutory Auditors

*French original signed by*

#### ERNST & YOUNG et Autres

Jean-Roch Varon

Nicolas Macé

#### MAZARS

Gaël Lamant

Christophe Berrard

### 3.3 PARENT COMPANY FINANCIAL STATEMENTS AT DECEMBER 31, 2017

#### Parent company income statement at December 31, 2017

| <i>(in € millions)</i>  | Note       | Dec. 31, 2016 | Dec. 31, 2017 |
|---|------------|---------------|---------------|
| <b>Operating income</b>   |            |               |               |
| Revenue   | 4.1        | 525           | 552           |
| Operating expense transfers   | 4.2        | 2             | 42            |
| Reversal of depreciation, amortization and provisions                               |            | 24            | 24            |
| Other income  |            | 11            | 13            |
| <b>Operating income (1)</b>   |            | <b>562</b>    | <b>631</b>    |
| <b>Operating expenses</b>   |            |               |               |
| Cost of goods sold in the year:   |            |               |               |
| > Raw materials   |            | (1)           | (2)           |
| > Sub-contracting purchases   |            | -             | (4)           |
| > Purchases not held in inventory and supplies                                      |            | (14)          | (17)          |
| > External service expenses   |            | (307)         | (314)         |
| Taxes and duties other than income tax  |            | (17)          | (21)          |
| Payroll costs:  |            |               |               |
| > Wages and salaries  |            | (141)         | (145)         |
| > Social security contributions   |            | (89)          | (96)          |
| Charges to depreciation, amortization, provisions and impairment:                   |            |               |               |
| > Charges to depreciation, amortization and impairment of non-current assets        |            | (38)          | (33)          |
| > Charges to impairment of current assets   |            | (1)           | -             |
| > Charges to provisions for contingencies and losses                                |            | (29)          | (31)          |
| Other expenses  |            | (1)           | (2)           |
| <b>Operating expenses (2)</b>   |            | <b>(638)</b>  | <b>(665)</b>  |
| <b>Loss from operations (1)-(2)</b>   |            | <b>(76)</b>   | <b>(34)</b>   |
| Financial income  |            | 593           | 1,318         |
| Financial expenses  |            | (70)          | (93)          |
| <b>Financial income</b>   | <b>4.3</b> | <b>523</b>    | <b>1,225</b>  |
| <b>Profit from ordinary activities before tax</b>                                   |            | <b>447</b>    | <b>1,191</b>  |
| Non-recurring income  |            | 1,105         | 78            |
| Non-recurring expenses  |            | (782)         | (53)          |
| <b>Non-recurring income</b>   | <b>4.4</b> | <b>323</b>    | <b>25</b>     |
| Income tax benefit  | 4.6        | 53            | 33            |
| Movements in provisions set aside to cover income taxes of loss-making subsidiaries | 4.6        | 147           | 111           |
| <b>PROFIT FOR THE YEAR</b>  |            | <b>970</b>    | <b>1,360</b>  |

## Parent company balance sheet at December 31, 2017

## Assets

| (in € millions)                      | Note       | Dec. 31, 2016 | Dec. 31, 2017         |   |               |
|--------------------------------------|------------|---------------|-----------------------|---|---------------|
|                                      |            |               | Gross carrying amount | Depreciation, amortization and impairment | Net           |
| <b>Intangible assets</b>             | <b>3.1</b> | <b>17</b>     | <b>111</b>            | <b>89</b>                                 | <b>22</b>     |
| > Other intangible assets            |            | 17            | 111                   | 89  | 22            |
| <b>Property, plant and equipment</b> | <b>3.1</b> | <b>108</b>    | <b>203</b>            | <b>99</b>                                 | <b>104</b>    |
| <b>Financial assets</b>              | <b>3.1</b> | <b>10,697</b> | <b>12,954</b>         | <b>134</b>                                | <b>12,820</b> |
| > Equity investments                 |            | 10,131        | 10,159                | 56  | 10,103        |
| > Other financial assets             |            | 566           | 2,795                 | 78  | 2,717         |
| <b>Total non-current assets</b>      |            | <b>10,822</b> | <b>13,268</b>         | <b>322</b>                                | <b>12,946</b> |
| Payments on account                  | 3.2        | 8             | 6                     | -   | 6             |
| Trade receivables                    | 3.2        | 21            | 28                    | 1   | 27            |
| Other receivables                    | 3.2        | 450           | 461                   | 1   | 460           |
| Group current accounts               | 3.2        | 3,038         | 1,753                 | -   | 1,753         |
| Marketable securities                | 3.3        | 1,170         | 3,425                 | -   | 3,425         |
| Cash at bank and in hand             | 3.3        | 650           | 1,404                 | -   | 1,404         |
| Prepayments                          | 3.5        | 9             | 68                    | -   | 68            |
| <b>Total current assets</b>          |            | <b>5,346</b>  | <b>7,145</b>          | <b>2</b>                                  | <b>7,143</b>  |
| Redemption premiums                  | 3.6        | 1             | 1                     | -   | 1             |
| Unrealized foreign exchange losses   | 3.6        | 376           | 131                   | -   | 131           |
| <b>TOTAL ASSETS</b>                  |            | <b>16,545</b> | <b>20,545</b>         | <b>324</b>                                | <b>20,221</b> |

## Equity and liabilities

| (in € millions)  | Note       | Dec. 31, 2016 | Dec. 31, 2017 |
|--|------------|---------------|---------------|
| Share capital  | 3.7        | 83            | 83            |
| Other equity   | 3.7        | 6,192         | 6,822         |
| Tax-driven provisions  | 3.7        | 29            | 24            |
| <b>Profit for the year</b>   | <b>3.7</b> | <b>970</b>    | <b>1,360</b>  |
| <b>Total equity</b>  |            | <b>7,274</b>  | <b>8,289</b>  |
| <b>Provisions for contingencies and losses</b>                                 | <b>3.8</b> | <b>570</b>    | <b>468</b>    |
| Bond issue   | 3.9        | 850           | 1,850         |
| USD senior unsecured notes issue   | 3.9        | 1,138         | 1,001         |
| Other loans and borrowings   | 3.9        | 1,052         | 1,491         |
| Group current accounts   | 3.9        | 4,302         | 5,994         |
| Trade payables   | 3.9        | 183           | 205           |
| Other liabilities  | 3.9        | 935           | 771           |
| Deferred income  | 3.11       | 29            | 21            |
| <b>Financial liabilities, operating payables and miscellaneous liabilities</b> |            | <b>8,489</b>  | <b>11,333</b> |
| Unrealized foreign exchange gains  | 3.12       | 212           | 131           |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |            | <b>16,545</b> | <b>20,221</b> |

## Parent company statement of cash flows

| (in € millions)  | Dec. 31, 2016       | Dec. 31, 2017  |
|--|---------------------|----------------|
| <b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>  |                     |                |
| Profit for the year  | 970                 | 1,360          |
| <b>Non-cash income and expenses</b>  |                     |                |
| Depreciation, amortization, impairment and provisions  | (150)               | (75)           |
| Capital gains and losses on asset disposals  | (291)               | (17)           |
| Other  | 2                   | -              |
| <b>Cash flow from operations, before change in working capital</b>                             | <b>531</b>          | <b>1,268</b>   |
| Net change in current accounts*  | 129                 | 2,978          |
| Net change in other receivables and payables   | (36)                | (17)           |
| <b>Change in working capital</b>   | <b>93</b>           | <b>2,961</b>   |
| <b>TOTAL I</b>   | <b>624</b>          | <b>4,229</b>   |
| <b>II. CASH FLOW USED IN INVESTING ACTIVITIES</b>  |                     |                |
| Payments for purchases of intangible assets and property, plant and equipment, net of proceeds | (30)                | (21)           |
| Payments for purchases of equity investments, net of proceeds                                  | (614)               | (452)          |
| Payments for purchases of other financial assets, net of proceeds**                            | 250                 | (1,709)        |
| <b>TOTAL II</b>  | <b>(394)</b>        | <b>(2,182)</b> |
| <b>III. CASH FLOW USED IN FINANCING ACTIVITIES</b>   |                     |                |
| Dividends paid to shareholders   | (325)               | (340)          |
| Interim dividend   | (287)               | -              |
| Increase in borrowings   | -                   | 50             |
| Repayment of borrowings and long-term debt   | (42)                | (40)           |
| New bond issue   | 650                 | 1,000          |
| Change in long-term borrowings***  | 36                  | (138)          |
| Change in short-term borrowings  | 69                  | 430            |
| <b>TOTAL III</b>   | <b>101</b>          | <b>962</b>     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>I + II + III</b> | <b>331</b>     |
| Opening cash and cash equivalents  | 1,489               | 1,820          |
| Closing cash and cash equivalents  | 1,820               | 4,829          |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>331</b>          | <b>3,009</b>   |

(\*) Classified in operating items in view of the nature of the Company's operations.

(\*\*) Including €2 billion in money market funds pledged during the tender offer for Zodiac Aerospace, reclassified to other financial assets (see Note 3.1, "Intangible assets, property, plant and equipment and financial assets").

(\*\*\*) Impact resulting from the translation into euros of USD senior unsecured notes at the closing exchange rate.



## Notes to the parent company financial statements

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## FOREWORD

The data set out below are an integral part of the parent company financial statements. They are expressed in millions of euros unless otherwise indicated.

The 2017 financial year spans 12 months.

Safran may also be referred to as “the Company” in these notes.

The total balance sheet at December 31, 2017 prior to the appropriation of profit represents €20,221,366,165.76.

Accounting profit for 2017 represents €1,359,762,344.15.

## NOTE 1 ACTIVITY OF THE COMPANY AND 2017 HIGHLIGHTS

### 1.1 Activity of the Company

As the Group's parent company, Safran performs the following functions for the Group companies:

- it holds and manages shares in the main Group subsidiaries;
- it steers and develops the Group, determining: Group strategy; research and technology (R&T) policy; sales policy; legal and financial policy; human resources policy; personnel training, retraining and skills matching by Safran University; communications; and oversight of operations;
- it provides:
  - support on legal, taxation and financial matters, essentially in the following areas: cash pooling as part of the management of advances and investments between Safran and each Group company; currency risk management policy as part of efforts to protect companies and reduce uncertainty regarding the economic performance of operating subsidiaries resulting from fluctuations in exchange rates (mainly USD); and tax consolidation in jurisdictions where Safran is liable for the entire income tax charge, additional income tax contributions and the annual minimum tax charge due by the tax group comprising itself and its tax-consolidated subsidiaries, and
  - services within the scope of Shared Services Centers in the following areas: payroll administration and management, recruitment, non-production purchases, IT, and some accounting services.

### 1.2 2017 highlights

On January 19, 2017, Safran announced its intention to acquire Zodiac Aerospace through an agreed public tender offer and a subsequent merger, following approval of the main terms and conditions of the transaction by the Board of Directors of Safran and the Supervisory Board of Zodiac Aerospace.

On May 24, 2017, Safran and Zodiac Aerospace announced that they would no longer pursue this transaction structure and had entered into a new business combination agreement.

Pursuant to this agreement, Safran filed a Tender Offer for Zodiac Aerospace's shares on December 7, 2017 (declared compliant by the AMF on December 21, 2017), consisting of:

- a primary cash offer targeting 100% of Zodiac Aerospace's shares (excluding any treasury shares held by Zodiac Aerospace) at a price of €25 per Zodiac Aerospace share;
- a subsidiary exchange offer pursuant to which Zodiac Aerospace shareholders would receive a number of Safran preferred shares determined on the basis of a ratio between a value of €24 per Zodiac Aerospace share and the market price of

Safran ordinary shares, within a 5%/-5% collar mechanism, resulting in an exchange ratio of 0.300 to 0.332 Safran preferred shares per Zodiac Aerospace share. The number of Zodiac Aerospace shares that could be tendered to the subsidiary exchange offer was capped at 88,847,828 shares.

The final exchange ratio was set on January 17, 2018 at 0.300 Safran preferred share for 1 Zodiac Aerospace share, in accordance with the terms set out in the Information Memorandum.

Upon completion of the initial Offer period, which ran from December 27, 2017 to January 31, 2018, 91,414,451 Zodiac Aerospace shares had been tendered under the Principal Tender Offer, and 142,249,773 Zodiac Aerospace shares under the Subsidiary Exchange Offer. As the limit of Zodiac Aerospace shares which could be tendered to the Subsidiary Exchange Offer, set at 88,847,828 Zodiac Aerospace shares, was exceeded, 53,401,945 Zodiac Aerospace shares were carried over to the Principal Tender Offer. In the overall context of the Offer, Safran therefore acquired a total of 233,664,224 shares, representing 79.74% of Zodiac Aerospace's share capital, excluding treasury shares. In its declaration submitted to the AMF on February 7, 2018, Safran stated that it held 88.23% of the share capital of Zodiac Aerospace considering (i) the shares tendered to the Offer, (ii) the 12,625,784 treasury shares held by Zodiac Aerospace, representing 4.31% of the share capital of Zodiac Aerospace and which were not tendered to the Offer, and (iii) the remaining Zodiac Aerospace shares covered by the residual interest undertaking described in section 1.4.3 of the Information Memorandum prepared by Safran (i.e., around 4.18% of the share capital of Zodiac Aerospace). Since both the acceptance threshold set at 50% of the share capital or voting rights of Zodiac Aerospace, and the withdrawal threshold set at 66.67% of the voting rights exercisable at a Zodiac Aerospace shareholders' meeting, had been exceeded, the Offer therefore has a positive outcome.

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, and 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 €5 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 institutional buyers. Outside of France, it was not open in any jurisdiction where authorization for the Offer would be required.

On June 28, 2017, Safran completed a €1 billion floating rate notes offering in 2-year and 4-year tranches of €500 million each.

The proceeds of the issue will be used by Safran to meet its general business needs and could partly help finance the primary cash offer for Zodiac Aerospace.

Safran purchased the shares of ArianeGroup held by its subsidiary Safran Transmission Systems for €10 million, giving it a direct stake of 50% in this joint venture with Airbus.

## NOTE 2 ACCOUNTING POLICIES

### 2.1 Accounting rules and methods

#### 2.1.1 Standards applied

The parent company financial statements for the year ended December 31, 2017 have been prepared in accordance with the rules and regulations applicable in France pursuant to Regulation 2016-07 of November 4, 2016 and subsequent opinions and recommendations of the French accounting standard setter (*Autorité des normes comptables* – ANC).

The financial statements have been prepared on a going concern basis using the accruals method in accordance with the basic principle of prudence and with the general rules for preparing and presenting parent company financial statements, in order to provide a true and fair value of the Company. Accounting policies have been applied consistently from one period to the next.

Unless otherwise stated, accounting items are carried at historical cost.

#### 2.1.2 Change in accounting policies

For reporting periods beginning on or after January 1, 2017, the Company applies ANC Regulation 2015-05 on future financial instruments and hedging transactions. This new regulation had no impact on the parent company financial statements.

### 2.2 Intangible assets

All intangible assets are valued at purchase cost.

The gross cost of intangible asset items is amortized over the expected useful life of these assets using the straight-line method:

- patents and licenses are amortized over the shorter of the period of legal protection and period of effective use;
- application software is carried at purchase cost plus any development costs incurred in order to bring it into operation, and is amortized on a straight-line basis over a period of one to five years.

Research and development costs are recorded as expenses in the period in which they are incurred.

### 2.3 Property, plant and equipment

As required by the applicable accounting regulations (Regulation 2004-06 issued by the French accounting standards committee, *Comité de la réglementation comptable* – CRC), since January 1, 2005 property, plant and equipment have been depreciated over their useful lives.

Property, plant and equipment are recorded in the balance sheet at historical purchase cost less accumulated depreciation and impairment losses.

Purchase cost comprises the purchase price, ancillary fees and all costs directly attributable to bringing the asset to the location and condition ready for its intended use.

Assets purchased in a foreign currency are translated into euros at the exchange rate prevailing on the transaction date.

Assets produced by the Company are recorded at production cost.

In compliance with CRC Regulation 04-06, significant components of certain assets such as buildings whose useful lives differ from that of the asset as a whole are recognized and depreciated separately. Interest accrued on borrowings during the development and construction phases is not included as part of the cost of the assets concerned.

#### 2.3.1 Depreciation

The main useful lives applied to property, plant and equipment are as follows:

|  |                      |
|--|----------------------|
| ➤ buildings  | 15 to 40 years       |
| ➤ building improvements, fixtures and fittings                   | 10 years             |
| ➤ office furniture   | 6 years and 8 months |
| ➤ office equipment   | 6 years and 8 months |
| ➤ vehicles   | 4 years              |
| ➤ technical installations, equipment, industrial tools and other | 3 to 10 years        |

Property, plant and equipment are depreciated on a straight-line or declining-balance basis.

#### 2.3.2 Impairment

If there is evidence that an asset may be impaired at year-end, the Company performs an impairment test. The Company considers external indications of impairment such as events or changes in the market environment with an adverse impact on the entity

that occurred during the reporting period or will occur in the near future, along with internal indications of impairment such as obsolescence or significant changes in the way in which an asset is used.

Impairment is recognized in the income statement when the recoverable amount of the asset falls below its carrying amount. Recoverable amount is the higher of fair value and value in use.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, less costs to sell. Value in use is based on the present value of expected future cash flows, calculated using a benchmark discount rate which reflects the Group's weighted average cost of capital.

## 2.4 Financial assets

Financial assets are recorded at purchase price.

The 2007 French Finance Act introduced a tax treatment for equity investment acquisition expenses requiring their capitalization (inclusion in the cost price of securities) and amortization over a period of five years by way of accelerated tax depreciation.

Therefore, in accordance with the opinion issued by the CNC Urgent Issues Taskforce (*Comité d'urgence*) on June 15, 2007, the Company elected for a change in tax option from January 1, 2007, whereby the gross carrying amount of equity investments purchased after this date corresponds to the purchase price of the securities plus acquisition expenses. These acquisition expenses are then subject to accelerated tax depreciation over a period of five years.

Where the recoverable amount of equity investments is less than their carrying amount, impairment is recognized for the amount of the difference.

The fair value of equity investments is calculated:

- based on their average stock market price for the month preceding the year-end for listed investments;
- based on their share in net equity, adjusted where appropriate for significant unrealized capital gains net of taxes; or
- based on the intrinsic value of equity, reflecting the present value of the expected future cash flows (enterprise value), less debt where appropriate, for other equity investments.

Provisions are recorded in respect of loans and other financial assets when their recovery is uncertain.

For reporting periods beginning on or after January 1, 2016, the Company applies ANC Regulation 2015-06 of November 23, 2015 on the accounting treatment of technical merger deficits.

The only impact of this new requirement in the parent company financial statements was the reclassification of the residual deficit arising on the 2005 Sagem/Snecma merger from intangible assets to financial assets and its allocation to unrealized capital gains recognized on equity investments in former Snecma subsidiaries at the date of the merger.

They correspond to unrealized capital gains on certain equity investments carried in Snecma's balance sheet, based on Sagem SA's 83.39% stake in Snecma following the tender offer but before the merger. The capital gains were determined using the same approach as that applied to measure the fair values of the identifiable assets and liabilities of the Snecma group companies at April 1, 2005 for recognition in Safran's consolidated balance sheet. The merger deficit was therefore allocated to Snecma's

various equity investments on the basis of the breakdown described in Note 3.1.

The merger deficit is tested annually for impairment. In the event that any of the underlying equity investments are sold, the portion of the deficit allocated to the investment concerned will be released to the income statement.

## 2.5 Receivables and payables

Receivables and payables are recorded at nominal value.

Impairment in value is recognized on receivables where their recoverable amount is less than their carrying amount.

## Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date.

Receivables and payables in foreign currencies are translated into euros at the exchange rate prevailing at year-end, while any resulting translation gains or losses are recorded under unrealized foreign exchange gains or losses. A provision is set aside for any unrealized foreign exchange losses at December 31, unless the losses are offset by potential gains in the same currency and over the same period.

On August 20, 2014, the Company set up a net investment hedge relating to one of its US subsidiaries using debt denominated in US dollars (unsecured notes issued on the US private placement market).

## 2.6 Marketable securities

Marketable securities are measured as described below:

- the gross value of marketable securities reflects their purchase price excluding ancillary fees;
- when the fair value of marketable securities, determined based on their value in use and their probable trading value, is less than their gross carrying value, impairment is recognized for the amount of the difference. The fair value of listed securities is determined based on their average stock market price for the month preceding the year-end.

## Treasury shares

Treasury shares are recorded at purchase cost. Fair value is equal to the lower of purchase cost and the average stock market price for the month preceding the year-end. Impairment is recorded when the purchase cost exceeds the average stock market price. However, the following specific accounting rules apply for stock option and free share plans or any other type of employee share ownership plan:

- when shares are earmarked for a specific stock option plan whose exercise is considered probable, an additional calculation is performed for each plan. A contingency provision is recorded when the option exercise price is less than the fair value;
- when shares are allocated to a specific free share plan, their carrying amount corresponds to either (i) the purchase price of the shares if they were allocated to the plan as from its inception, or (ii) the carrying amount of the shares at the date they are reclassified if they are allocated to the plan subsequent to their acquisition. These shares are not measured at fair value due to the underlying commitment to grant them to employees, which is covered by a provision recorded under liabilities in the balance sheet.

## 2.7 Cash at bank and in hand

This caption consists mainly of bank accounts held by the Company.

Foreign-currency denominated liquid assets held at year-end are translated into euros at the exchange rate prevailing at December 31.

Any resulting translation gains or losses are recorded in financial income and expenses.

## 2.8 Tax-driven provisions

Increases in standard depreciation and amortization rates for intangible assets and/or property, plant and equipment, as permitted by the tax authorities to encourage investment, are considered as "accelerated tax depreciation/amortization" and are recorded in tax-driven provisions in equity.

Provisions for accelerated tax depreciation/amortization are also recorded in respect of equity investment acquisition expenses.

## 2.9 Provisions for contingencies and losses

A provision is recognized when the Company has a present obligation and it is likely or certain that this obligation will give rise to an outflow of economic resources with no equivalent consideration in return.

Provisions for contingencies and losses are recognized as described below:

- provisions for contingencies are set aside based on the risk known at the end of the current reporting period. The amount of the provision reflects the amount of any damages claimed or estimated based on the progress of proceedings and on the opinion of the Company's legal counsel;
- provisions for losses relate mainly to:
  - the expense relating to the refund of tax savings made on loss-making subsidiaries,
  - employee benefit obligations (see Note 2.9.1).

### Employee benefit obligations

The Company has various obligations under defined benefit plans, the most important of which are described below:

The Company's obligations for end-of-career bonuses payable pursuant to the metallurgy industry collective bargaining agreement or company agreements are covered by provisions.

Managerial-grade staff are also covered by a supplementary defined contribution plan as well as a defined benefit retirement plan.

These obligations are recognized and measured in accordance with ANC Recommendation 2013-02 on the recognition and measurement of employee benefit obligations. All obligations under defined benefit plans are measured by an independent actuary.

Where appropriate, the impact of changes in actuarial assumptions underlying the calculation of post-employment benefits (end-of-career bonuses and top-hat retirement plans) is spread over the expected average remaining working lives of employees in accordance with the corridor method. Any liabilities not covered by a provision (actuarial differences and unrecognized past service costs) are recorded in off-balance sheet commitments.

All components of the net periodic pension cost (service cost, amortization of actuarial gains and losses, impacts of plan amendments, interest cost and return on plan assets) are recorded in the income statement.

## 2.10 Financial instruments

### Foreign currency hedges

Given the high number of foreign-currency denominated transactions carried out by certain subsidiaries, Safran manages foreign currency risk on behalf of these companies by hedging forecast commercial transactions using forwards and options.

The fair value of financial instruments set up by Safran to hedge the net position of foreign-currency denominated operating receivables and payables of subsidiaries covered by a Safran foreign exchange guarantee is recorded in the balance sheet.

The fair value of financial instruments used to hedge future transactions denominated in foreign currencies is not recorded in the balance sheet.

Premiums paid and received on options are initially recorded in the balance sheet and then released to the income statement on maturity or expiration of the options.

Foreign currency gains and losses arising on these transactions along with hedging gains and losses transferred to subsidiaries are recorded as foreign exchange gains and losses.

### Interest rate hedges

The Company may use interest rate swaps to hedge its exposure to changes in interest rates.

## 2.11 Revenue

Revenue recognized by the Company mainly arises from the provision of services and general assistance provided to the Group's subsidiaries.

Recurring services are billed on a monthly basis.

## 2.12 Non-recurring income

The Company uses the definition of non-recurring items laid down in the French General Chart of Accounts as defined by ANC Regulation 2016-07 of November 4, 2016.

In particular, non-recurring items include capital gains and losses arising on the sale of non-current assets.

## 2.13 Income tax and tax consolidation in France

The Company elected for the Group tax consolidation regime set out in articles 223A to 223Q of the French Tax Code (*Code général des impôts*), and a tax consolidation group was set up by Safran SA, registered in Paris under number RCS 562 082 909 on January 1, 2005.

In fiscal 2017, the tax consolidation group included the following companies:

- Safran (head of the tax group)
- Établissements Vallaroche

# 3 FINANCIAL STATEMENTS

## Parent company financial statements at December 31, 2017

- > Lexvall 22
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- > Safran Corporate Ventures
- > Safran Electrical & Power
- > Safran Electronics & Defense
- > Safran Engineering Services
- > Safran Filtration Systems
- > Safran Helicopter Engines
- > Safran International Resources
- > Safran Landing Systems
- > Safran Transmission Systems
- > Safran Nacelles
- > Safran Power Units

- > Safran Reosc
- > Safran SMA
- > Safran System Aerostructures
- > Safran Ventilation Systems
- > Snecma Participations
- > Snecmasat
- > SSI
- > Vallaroché Conseil

In accordance with the tax consolidation agreements entered into between Safran and its subsidiaries, each subsidiary in the tax group records in its accounts the amount of tax that it would have paid on a stand-alone basis. Any tax savings or additional liabilities arising as a result of tax consolidation are recorded by Safran in its capacity as head of the tax group.

Any tax savings arising on the use of tax losses of subsidiaries in the tax consolidation group are recorded in Safran's income statement and neutralized by way of a provision. This provision is released to profit or loss when prior year losses are used by the consolidated subsidiary or when they become time-barred and may no longer be used by the subsidiary concerned.

## NOTE 3 NOTES TO THE BALANCE SHEET

### 3.1 Intangible assets, property, plant and equipment and financial assets

#### Gross carrying amount

Movements in non-current assets break down as follows:

| (in € millions)   | Dec. 31, 2016 | Acquisitions,<br>contributions,<br>creations,<br>increases | Reclassifications | Sales,<br>spin-offs,<br>decreases | Dec. 31, 2017 |
|---|---------------|--|-------------------|-----------------------------------|---------------|
| Concessions, patents, licenses, software and similar rights | 118           | 20   | 1                 | (30)                              | 109           |
| Intangible assets in progress                               | 1             | 2  | (1)               | -                                 | 2             |
| <b>Intangible assets</b>                                    | <b>119</b>    | <b>22</b>  | <b>-</b>          | <b>(30)</b>                       | <b>111</b>    |
| Land  | 6             | -  | -                 | -                                 | 6             |
| Buildings   | 94            | 1  | 1                 | -                                 | 96            |
| Installations, equipment and tools                          | 22            | 2  | 2                 | -                                 | 26            |
| Other property, plant and equipment                         | 58            | 3  | 2                 | (3)                               | 60            |
| Property, plant and equipment in progress                   | 12            | 10   | (5)               | (2)                               | 15            |
| Payments on account   | -             | -  | -                 | -                                 | -             |
| <b>Property, plant and equipment</b>                        | <b>192</b>    | <b>16</b>  | <b>-</b>          | <b>(5)</b>                        | <b>203</b>    |
| Financial investments <sup>(1)(2)</sup>                     | 10,189        | 10   | -                 | (40)                              | 10,159        |
| Loans to equity investments <sup>(3)</sup>                  | 491           | 81   | -                 | (349)                             | 223           |
| Other long-term investments                                 | 78            | -  | -                 | -                                 | 78            |
| Loans   | 16            | -  | -                 | (1)                               | 15            |
| Other financial assets <sup>(4)</sup>                       | 58            | 2,421  | -                 | -                                 | 2,479         |
| <b>Financial assets</b>                                     | <b>10,832</b> | <b>2,512</b>   | <b>-</b>          | <b>(390)</b>                      | <b>12,954</b> |
| <b>TOTAL NON-CURRENT ASSETS</b>                             | <b>11,143</b> | <b>2,550</b>   | <b>-</b>          | <b>(425)</b>                      | <b>13,268</b> |

(1) In accordance with ANC Regulation 2015-06, the merger deficit has been reclassified as an unrealized capital gain on equity investments and allocated to "Equity investments" for a total amount of €3,069 million. The merger deficit breaks down as follows: Safran Nacelles (€185 million), Safran Landing Systems (€172 million), Safran Electronics & Defense (€31 million), Safran Electrical & Power and Safran Engineering Services (€214 million), Safran Aircraft Engines (€2,098 million), Safran Aero Boosters (€164 million), Safran Helicopter Engines and Safran Power Units (€205 million).

(2) The increase in "Financial investments" is attributable to the additional stake acquired in Airbus Safran Launchers (ASL) for €10 million. Decreases primarily concern the sale of Embraer shares with a carrying amount of €38 million in the financial statements.

(3) Changes in this caption solely reflect grants and repayments of intragroup loans.

(4) The increase in this caption mainly reflects money market funds pledged for €2 billion in connection with the Zodiac acquisitions, and the acquisition of treasury shares for €403 million under the share buyback program.

#### Depreciation and amortization

| (in € millions)   | Dec. 31, 2016 | Additions | Reversals   | Dec. 31, 2017 |
|---|---------------|-----------|-------------|---------------|
| Concessions, patents, licenses, software and similar rights | 102           | 16        | (29)        | 89            |
| <b>Total intangible assets</b>                              | <b>102</b>    | <b>16</b> | <b>(29)</b> | <b>89</b>     |
| Land  | 1             | -         | -           | 1             |
| Buildings   | 42            | 6         | -           | 48            |
| Installations, equipment and tools                          | 6             | 3         | -           | 9             |
| Other property, plant and equipment                         | 35            | 9         | (3)         | 41            |
| <b>Total property, plant and equipment</b>                  | <b>84</b>     | <b>18</b> | <b>(3)</b>  | <b>99</b>     |

#### Asset impairment

| (in € millions)                | Dec. 31, 2016 | Additions | Reversals  | Dec. 31, 2017 |
|--------------------------------|---------------|-----------|------------|---------------|
| Impairment of financial assets | 135           | 2         | (3)        | 134           |
| Impairment of current assets   | 2             | -         | -          | 2             |
| <b>TOTAL</b>                   | <b>137</b>    | <b>2</b>  | <b>(3)</b> | <b>136</b>    |

### List of subsidiaries and investments

Disclosures provided in accordance with Article R.123-197.2 of the French Commercial Code

| (in € millions) <sup>(1)</sup><br>Company   | Business line      | Share capital      | Equity other than share capital and profit | % voting rights | % share capital held |
|---|--------------------|--------------------|--|-----------------|----------------------|
| <b>A. Detailed information on subsidiaries and associates whose gross carrying amount exceeds 1% of Safran's share capital (i.e., €0.8 million)</b> |                    |                    |  |                 |                      |
| <b>1. Subsidiaries (more than 50%-owned)</b>  |                    |                    |  |                 |                      |
| <b>a) French companies</b>  |                    |                    |  |                 |                      |
| > ArianeGroup Holding (SIREN: 519032171, Paris, France)   | Holding company    | 374.1              | 3,308.1                                    | 50.0            | 50.0                 |
| > Établissements Vallaroché (SIREN: 542028154, Paris, France)   | Holding company    | 15.6               | (0.2)                                      | 100.0           | 100.0                |
| > Safran Aircraft Engines (SIREN: 414815217, Paris, France)   | Propulsion         | 154.1              | 271.7                                      | 97.4            | 97.4                 |
| > Safran Ceramics (SIREN: 440513059, Le Haillan, France)  | Propulsion         | 0.1                | 15.5                                       | 100.0           | 100.0                |
| > Safran Electrical & Power (SIREN: 301501391, Blagnac, France)   | Aircraft Equipment | 12.5               | 23.9                                       | 96.8            | 96.8                 |
| > Safran Electronics & Defense (SIREN: 480107911, Boulogne-Billancourt, France)   | Defense            | 372.9              | 109.9                                      | 95.5            | 95.5                 |
| > Safran Helicopter Engines (SIREN: 338481955, Bordes, France)  | Propulsion         | 38.8               | 162.1                                      | 100.0           | 100.0                |
| > Safran Landing Systems (SIREN: 712019538, Velizy-Villacoublay, France)  | Aircraft Equipment | 83.7               | 391.7                                      | 100.0           | 100.0                |
| > Safran Nacelles (SIREN: 352050512, Gonfreville-l'Orcher)  | Aircraft Equipment | 56.7               | 40.8                                       | 88.5            | 88.5                 |
| > Safran Transmission Systems (SIREN: 692015217, Colombes, France)  | Aircraft Equipment | 36.8               | 17.8                                       | 100.0           | 100.0                |
| > Safran Ventilation Systems (SIREN 710802547, Blagnac, France)   | Aircraft Equipment | 1.3                | 9.8  | 100.0           | 100.0                |
| > SnecmaSat (SIREN: 418540233, Paris, France)   | Holding company    | 0.2                | 0.0  | 100.0           | 100.0                |
| <b>b) Foreign companies</b>   |                    |                    |  |                 |                      |
| > Safran Aero Boosters  | Propulsion         | 54.9               | 296.1                                      | 67.2            | 67.2                 |
| > Safran China  | Holding company    | 2.7                | 1.1  | 100.0           | 100.0                |
| > Safran Electrical Power UK Ltd  | Aircraft Equipment | 258.9              | (90.3)                                     | 100.0           | 100.0                |
| > Safran Morocco  | Defense            | 1.7                | (0.3)                                      | 100.0           | 100.0                |
| > Safran Serviços de Suporte de Programas Aeronauticos  | Aircraft Equipment | 1.0                | 0.3  | 100.0           | 100.0                |
| > Safran UK Ltd   | Holding company    | 18.3               | (1.5)                                      | 100.0           | 100.0                |
| > Safran USA Inc.   | Holding company    | 0.0 <sup>(2)</sup> | 1,918.3                                    | 100.0           | 100.0                |
| <b>2. Investments (10%- to 50%-owned)</b>   |                    |                    |  |                 |                      |
| <b>a) French companies</b>  |                    |                    |  |                 |                      |
| > Corse Composites Aéronautiques <sup>(3)</sup>   | Aircraft Equipment | 1.7                | 44.5                                       | 24.8            | 24.8                 |
| > Eurotradia International <sup>(3)</sup>   | Aircraft Equipment | 3.0                | 29.2                                       | 11.2            | 11.2                 |
| > FCPR Aerofund II  | Investment fund    | 75.0               |  | 16.6            | 16.6                 |
| > FCPR Aerofund III   | Investment fund    | 167.0              |  | 18.0            | 18.0                 |
| > Mobewire  | Communications     | 1.9                |  | 10.6            | 10.6                 |

#### B. Summary information concerning other subsidiaries and investments

##### 1. Subsidiaries (more than 50%-owned)

(a) French companies

(b) Foreign companies

##### 2. Investments (10%- to 50%-owned)

(a) French companies

(b) Foreign companies

(1) For foreign companies, share capital, equity, revenue and profit amounts were translated into euros at the exchange rate prevailing at December 31, 2017.

(2) Additional paid-in capital of US-based entities is shown under "Equity other than share capital and profit".

(3) Situation at December 31, 2016.



| Carrying amount of investments |         | Outstanding loans and advances granted | Guarantees and endorsements given by the Company | 2017 revenue | 2017 profit | Dividends received by Safran in 2017 | Receivables | Liabilities |
|--------------------------------|---------|--|--|--------------|-------------|--------------------------------------|-------------|-------------|
| Gross                          | Net     |  |  |              |             |                                      |             |             |
| 1,510.9                        | 1,510.9 |  |  | 10.0         | 113.5       | 25.0                                 | 0.2         | 71.0        |
| 62.8                           | 35.9    |  |  |              | (1.8)       |                                      | 0.7         |             |
| 195.4                          | 195.4   |  | 24.6   | 8,853.8      | 621.1       | 804.1                                | 1.1         | 3,150.6     |
| 40.3                           | 40.3    |  |  | 28.0         | 34.1        | 45.1                                 | 100.0       | 60.1        |
| 185.6                          | 185.6   |  | 406.7  | 652.2        | 71.3        | 25.3                                 | 24.4        | 16.2        |
| 595.0                          | 595.0   |  | 135.1  | 1,341.9      | 716.6       | 65.3                                 | 0.1         | 888.4       |
| 539.0                          | 539.0   |  | 1.9  | 1,157.8      | 56.3        | 53.3                                 | 170.1       | 51.6        |
| 560.5                          | 560.5   |  | 2.1  | 2,122.4      | 201.7       | 118.2                                | 395.7       | 19.4        |
| 924.2                          | 924.2   |  | 792.1  | 1,294.5      | 43.2        | 30.1                                 | 253.5       | 32.1        |
| 163.8                          | 163.8   |  | 101.9  | 437.2        | 85.2        | 35.8                                 | 28.9        | 0.7         |
| 41.2                           | 41.2    |  |  | 101.2        | 8.5         | 7.1                                  | 0.1         | 8.0         |
| 9.3                            | 0.2     |  |  |              |             |                                      |             | 0.2         |
| 115.6                          | 115.6   |  |  | 732.3        | 120.9       | 48.6                                 |             | 513.1       |
| 2.5                            | 2.5     |  |  | 15.9         | 0.6         |                                      | 1.8         | 1.1         |
| 275.1                          | 275.1   |  | 33.4   | 140.6        | 10.8        |                                      |             | 40.3        |
| 1.8                            | 1.5     |  |  | 1.3          | 0.1         |                                      |             | 0.2         |
| 1.5                            | 1.3     |  |  | 0.4          | (0.2)       |                                      |             | 0.1         |
| 40.0                           | 22.9    |  |  | 4.2          | 7.2         |                                      | 0.7         | 0.0         |
| 1,774.3                        | 1,774.3 |  | 157.5  | 25.4         | (349.7)     |                                      |             | 964.2       |
| 1.0                            | 1.0     |  |  | 55.1         | 1.0         |                                      |             |             |
| 2.1                            | 2.1     |  |  | 30.8         | 0.6         | 0.1                                  |             |             |
| 13.0                           | 13.0    |  |  |              |             |                                      |             |             |
| 30.0                           | 30.0    |  |  |              |             |                                      |             |             |
| 1.0                            |         |  |  |              |             |                                      |             |             |
| 0.1                            | 0.1     |  |  |              |             | 2.9                                  |             |             |
| 2.6                            | 1.5     |  |  |              |             |                                      | 1.2         | 1.4         |
| 0.3                            | 0.3     |  |  |              |             | 1.3                                  |             |             |

### 3.2 Receivables

Receivables break down as follows at December 31, 2017:

| <i>(in € millions)</i>                         | Gross carrying amount at Dec. 31, 2017 | Less than 1 year | Between 1 and 5 years | More than 5 years |
|--|--|------------------|-----------------------|-------------------|
| Payments on account made on outstanding orders | 6                                      | 6                | -                     | -                 |
| Trade receivables                              | 28                                     | 28               | -                     | -                 |
| <b>Operating receivables</b>                   | <b>34</b>                              | <b>34</b>        | -                     | -                 |
| Miscellaneous receivables                      | 461                                    | 461              | -                     | -                 |
| Group current accounts                         | 1,753                                  | 1,753            | -                     | -                 |
| Prepayments                                    | 68                                     | 68               | -                     | -                 |
| Unrealized foreign exchange losses             | 131                                    | 131              | -                     | -                 |
| <b>Other receivables</b>                       | <b>2,413</b>                           | <b>2,413</b>     | -                     | -                 |

### 3.3 Marketable securities, cash at bank and in hand

This caption breaks down as follows:

| <i>(in € millions)</i>                                 | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Marketable securities                                  | 1,170         | 3,425         |
| Cash at bank and in hand                               | 650           | 1,404         |
| <b>MARKETABLE SECURITIES, CASH AT BANK AND IN HAND</b> | <b>1,820</b>  | <b>4,829</b>  |

Marketable securities comprise:

| <i>(in € millions)</i> | Dec. 31, 2016 | Dec. 31, 2017 |
|------------------------|---------------|---------------|
| Treasury shares        | 58            | 69            |
| Other securities       | 1,112         | 3,356         |
| <b>TOTAL</b>           | <b>1,170</b>  | <b>3,425</b>  |

#### Treasury shares

| <i>(in € millions)</i>                    | Dec. 31, 2016 | Purchase  | Sale        | Dec. 31, 2017 |
|---|---------------|-----------|-------------|---------------|
| Number of shares                          | 1,217,012     | 3,700,272 | (3,603,324) | 1,313,960*    |
| Gross value                               | 58            | 284       | (273)       | 69            |
| Impairment                                | -             | -         | -           | -             |
| Net value                                 | 58            | -         | -           | 69            |
| <i>* Including</i>                        |               |           |             |               |
| > shares earmarked for employees          |               |           |             | 1,118,604     |
| > shares held under a liquidity agreement |               |           |             | 195,356       |

The Company's trading in its own shares was carried out under the liquidity agreement managed by Oddo Corporate Finance.

#### Other securities

Other securities include short-term money market investments and term deposits with liquid exit options exercisable at no cost within three months, readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

### 3.4 Accrued income

In accordance with the accrual principle, accrued income is recorded in the following asset headings:

| <i>(in € millions)</i>      | Dec. 31, 2016 | Dec. 31, 2017 |
|-----------------------------|---------------|---------------|
| Loans to equity investments | 3             | -             |
| Trade receivables           | 9             | 19            |
| Other receivables           | 3             | 2             |
| <b>TOTAL</b>                | <b>15</b>     | <b>21</b>     |

### 3.5 Prepayments

Prepayments amounted to €68 million at December 31, 2017.

Since Safran chose to capitalize its share acquisition costs, the Company recognized an amount of €57 million in prepayments, which will be included in the cost of Zodiac Aerospace shares.

Other prepayments mainly include expenses on IT maintenance agreements and insurance costs.

### 3.6 Unrealized foreign exchange losses and redemption premiums

Unrealized foreign exchange losses represented €131 million at December 31, 2017.

They primarily result from the translation into euros of foreign currency borrowings, loans and current accounts at the 2017 year-end exchange rate.

Redemption premiums on bonds amounted to €1 million at December 31, 2017. These premiums are amortized on a straight-line basis over the term of the bonds.

### 3.7 Equity

#### Share capital

At December 31, 2017, Safran's share capital was fully paid up and comprised 417,029,585 shares, each with a par value of €0.20.

The Safran share (ISIN code: FR0000073272/Ticker symbol: SAF) is listed continuously on Compartment A of the Eurolist market of Euronext Paris and is eligible for the deferred settlement service.

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

#### December 31, 2016

| Shareholders             | Number of shares   | % share capital | Number of voting rights | % voting rights <sup>(1)</sup> |
|--------------------------|--------------------|-----------------|-------------------------|--------------------------------|
| Private investors        | 318,282,922        | 76.32%          | 335,107,792             | 64.91%                         |
| French State             | 58,393,131         | 14.00%          | 116,786,262             | 22.62%                         |
| Employees <sup>(2)</sup> | 38,515,045         | 9.24%           | 64,409,240              | 12.48%                         |
| Treasury shares          | 1,838,487          | 0.44%           | -                       | -                              |
| <b>TOTAL</b>             | <b>417,029,585</b> | <b>100.00%</b>  | <b>516,303,294</b>      | <b>100.00%</b>                 |

(1) Exercisable voting rights.

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

### December 31, 2017

| Shareholders             | Number of shares   | % share capital | Number of voting rights | % voting rights <sup>(1)</sup> |
|--------------------------|--------------------|-----------------|-------------------------|--------------------------------|
| Private investors        | 320,032,130        | 76.74%          | 336,208,280             | 66.12%                         |
| French State             | 58,393,131         | 14.00%          | 116,786,262             | 22.97%                         |
| Employees <sup>(2)</sup> | 30,861,700         | 7.40%           | 55,471,370              | 10.91%                         |
| Treasury shares          | 7,742,624          | 1.86%           | -                       | -                              |
| <b>TOTAL</b>             | <b>417,029,585</b> | <b>100.00%</b>  | <b>508,465,912</b>      | <b>100.00%</b>                 |

(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 7,742,624 treasury shares have no voting rights.

### Changes in shareholders' equity

| (in € millions)               | Dec. 31, 2016 | Appropriation of 2016 profit | Increase     | Decrease   | Dec. 31, 2017 |
|-------------------------------|---------------|------------------------------|--------------|------------|---------------|
| Share capital                 | 83            | -                            | -            | -          | 83            |
| Additional paid-in capital    | 3,290         | -                            | -            | -          | 3,290         |
| Legal reserve                 | 8             | -                            | -            | -          | 8             |
| Tax-driven reserves           | 302           | -                            | -            | -          | 302           |
| Other reserves <sup>(1)</sup> | 1,421         | -                            | -            | -          | 1,421         |
| Retained earnings             | 1,458         | 343                          | -            | -          | 1,801         |
| 2016 interim dividend         | (287)         | 287                          | -            | -          | -             |
| Tax-driven provisions         | 29            | -                            | 4            | (9)        | 24            |
| 2016 profit                   | 970           | (970)                        | -            | -          | -             |
| 2017 profit                   | -             | -                            | 1,360        | -          | 1,360         |
| <b>TOTAL</b>                  | <b>7,274</b>  | <b>(340)<sup>(2)</sup></b>   | <b>1,364</b> | <b>(9)</b> | <b>8,289</b>  |

(1) Including €513 million in reserves hedging treasury shares held at December 31, 2017.

(2) Outstanding 2016 dividend paid in 2017.

### 3.8 Tax-driven provisions and provisions for contingencies and losses

Movements in tax-driven provisions can be analyzed as follows:

| (in € millions)  | Dec. 31, 2016 | Additions | Reversals |            | Dec. 31, 2017 |
|--|---------------|-----------|-----------|------------|---------------|
|  |               |           | Surplus   | Utilized   |               |
| Accelerated tax depreciation/amortization                          | 18            | 3         | -         | (9)        | 12            |
| Accelerated tax depreciation/amortization (share acquisition fees) | 11            | 1         | -         | -          | 12            |
| <b>TOTAL TAX-DRIVEN PROVISIONS</b>                                 | <b>29</b>     | <b>4</b>  | <b>-</b>  | <b>(9)</b> | <b>24</b>     |

Provisions for contingencies and losses can be analyzed as follows:

| (in € millions)  | Dec. 31, 2016 | Additions | Reversals   |             | Dec. 31, 2017 |
|--|---------------|-----------|-------------|-------------|---------------|
|  |               |           | Surplus     | Utilized    |               |
| Foreign exchange losses                                      | 8             | 7         | -           | (8)         | 7             |
| Disputes and litigation                                      | 12            | 7         | -           | (5)         | 14            |
| <b>Contingency provisions</b>                                | <b>20</b>     | <b>14</b> | <b>-</b>    | <b>(13)</b> | <b>21</b>     |
| Retirement benefits and similar obligations                  | 29            | 9         | -           | (16)        | 22            |
| Income tax – loss-making subsidiaries, under-capitalization* | 506           | 4         | (82)        | (32)        | 396           |
| Other  | 15            | 16        | -           | (2)         | 29            |
| <b>Loss provisions</b>                                       | <b>550</b>    | <b>29</b> | <b>(82)</b> | <b>(50)</b> | <b>447</b>    |
| <b>TOTAL</b>   | <b>570</b>    | <b>43</b> | <b>(82)</b> | <b>(63)</b> | <b>468</b>    |
| Loss from operations   |               | 31        | -           | 23          |               |
| Financial income (loss)                                      |               | 7         | -           | 8           |               |
| Non-recurring income (expense)                               |               | 5         | 82          | 32          |               |
| <b>TOTAL</b>   |               | <b>43</b> | <b>82</b>   | <b>63</b>   |               |

(\*) See Note 4.6, "Income tax expense".

## Employee benefit obligations

The main assumptions used to calculate the Company's employee benefit obligations were as follows:

|   | Dec. 31, 2016   | Dec. 31, 2017   |
|---|-----------------|-----------------|
| Discount rate   | 1.30%           | 1.40%           |
| Inflation rate  | 1.75%           | 1.75%           |
| Expected return on plan assets                        | 1.30%           | 1.40%           |
| Rate of future salary increases                       | 1.12%-5.00%     | 1.12%-5.00%     |
| Probable retirement age of managerial-grade staff     | 64 years        | 64 years        |
| Probable retirement age of non managerial-grade staff | 62 years        | 62 years        |
| Mortality tables used                                 | INSEE 2010-2012 | INSEE 2013-2015 |

The table below shows movements in employee benefit obligations:

| (in € millions)  | Dec. 31, 2016 | Dec. 31, 2017 | Defined benefit pension plans | Retirement termination benefits |
|--|---------------|---------------|-------------------------------|---------------------------------|
| Present value of obligation  | 80            | 60            | 29                            | 31                              |
| Fair value of plan assets  | (6)           | (3)           | (3)                           | -                               |
| <b>Funding shortfall</b>   | <b>74</b>     | <b>57</b>     | <b>26</b>                     | <b>31</b>                       |
| > o/w provision  | 74            | 60            | 29                            | 31                              |
| > o/w plan assets  | -             | (3)           | (3)                           | -                               |
| Unrecognized actuarial gains and losses and past service costs         | (46)          | (38)          | (26)                          | (12)                            |
| <b>Benefit obligations covered by a provision in the balance sheet</b> | <b>28</b>     | <b>19</b>     | <b>-</b>                      | <b>19</b>                       |
| Current service cost   | 4             | 4             | 2                             | 2                               |
| Interest cost  | 2             | 1             | 1                             | -                               |
| Amortization of actuarial gains and losses                             | 4             | (1)           | (2)                           | 1                               |
| <b>Expense</b>   | <b>10</b>     | <b>4</b>      | <b>1</b>                      | <b>3</b>                        |
| Benefits paid  | (11)          | (13)          | (11)                          | (2)                             |
| <b>PROVISION CHARGE/(REVERSAL)</b>                                     | <b>(1)</b>    | <b>(9)</b>    | <b>(10)</b>                   | <b>1</b>                        |

### Defined benefit pension plans

At December 31, 2017, the Group closed the defined benefit supplementary pension plan set up in France in late 2013. It also froze all conditional entitlements at December 31, 2016.

The beneficiaries of this closed plan are Group executive managers with five years' service at December 31, 2017.

The conditional entitlements, which remain subject to the terms and conditions set when the plan was originally put in place, were frozen accordingly:

- > the cut-off date for calculating length of service was December 31, 2016; no additional conditional entitlements were accrued after that date;
- > the benefit payable is calculated based on length of service as at December 31, 2016 in the beneficiary category (up to 10 years) and on the average compensation for the years 2014 to 2016, revised annually using the actuarial assumptions applied to calculate retirement benefit provisions;

- > the additional benefits payable are capped at three times the annual social security ceiling ("PASS") in France. Total benefits under all regimes cannot exceed 35% of the benchmark compensation.

The closure of this plan is part of a change in supplementary pension arrangements for Group executive managers, with the introduction of an "Article 83" supplementary defined benefit plan (mandatory collective plan) and an "Article 82" defined contribution plan (voluntary collective plan) as of January 1, 2017.

### Retirement termination benefits

This heading includes obligations in respect of statutory termination benefits due on retirement and supplementary payments required by the collective bargaining agreement for the metallurgy industry.

## 3.9 Financial liabilities, operating payables and other liabilities

Movements in these items can be analyzed as follows:

| <i>(in € millions)</i>                                  | Total<br>at Dec. 31, 2017 | Less than 1 year | Between<br>1 and 5 years | More than 5 years |
|---|---------------------------|------------------|--------------------------|-------------------|
| Bond issue  | 1,850                     | -                | 1,650                    | 200               |
| USD senior unsecured notes issue                        | 1,001                     | -                | 580                      | 421               |
| Miscellaneous loans and borrowings:                     |                           |                  |                          |                   |
| > Deposits and guarantees received                      | 2                         | -                | -                        | 2                 |
| > Other loans and borrowings                            | 1,475                     | 1,217            | 258                      | -                 |
| > Accrued interest                                      | 14                        | 14               | -                        | -                 |
| <b>Financial liabilities</b>                            | <b>4,342</b>              | <b>1,231</b>     | <b>2,488</b>             | <b>623</b>        |
| Group current accounts                                  | 5,994                     | 5,994            | -                        | -                 |
| Trade payables  | 164                       | 164              | -                        | -                 |
| Amounts payable on non-current assets                   | 41                        | 24               | 17                       | -                 |
| Other liabilities                                       | 771                       | 642              | 23                       | 106               |
| Deferred income   | 21                        | 7                | 14                       | -                 |
| Unrealized foreign exchange gains                       | 131                       | 131              | -                        | -                 |
| <b>Operating payables and miscellaneous liabilities</b> | <b>7,122</b>              | <b>6,962</b>     | <b>54</b>                | <b>106</b>        |

### Financial liabilities

#### Bond issue

- > On April 11, 2014, Safran issued €200 million worth of ten-year bonds to French investors, maturing on April 11, 2024. The interest rate on these bonds was hedged by a floating-rate swap on 3-month Euribor.  
The issue's initial fixed-rate interest came out at 1.20% in 2017 after taking account of interest rate derivatives.
- > On June 28, 2017, Safran issued floating-rate bonds for a total amount of €1 billion in two tranches:
  - €500 million of two-year bonds (maturing in June 2019), paying a fixed coupon set at 3-month Euribor 0.30% (coupon floored at 0%), comprising tranche 1. This tranche was issued at 100.059% of par;
  - €500 million of four-year bonds (maturing in June 2021), paying a fixed coupon set at 3-month Euribor 0.57% (coupon floored at 0%), comprising tranche 2. This tranche was issued at 100% of par.

### OCEANE

On January 5, 2016, Safran issued bonds convertible into and/or exchangeable for new and/or existing shares ("OCEANE" bonds) for a total nominal amount of €650 million. The issue comprised 7,277,205 zero-coupon bonds each with a par value of €89.32, issued at €92.89 (i.e., 104% of par, corresponding to a negative gross yield-to-maturity of 0.78%) and bringing the total issue proceeds to €676 million. Unless converted, redeemed or bought back and canceled prior to maturity, the bonds are redeemable at par on December 31, 2020.

### USD senior unsecured notes issue

On February 9, 2012, Safran issued USD 1.2 billion in senior unsecured notes on the US private placement market (i.e., €1,001 million at the December 31, 2017 exchange rate), which included:

- USD 155 million of notes due February 2019 at a 3.70% coupon (tranche A);
- USD 540 million of notes due February 2022 at a 4.28% coupon (tranche B);

- USD 505 million of notes due February 2024 at a 4.43% coupon (tranche C).

A USD interest rate hedge (floating-rate swap on 6-month US Libor) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively. Tranche A has been kept at a fixed rate.

The issue's initial fixed-rate interest came out at 3.70% in 2017 after taking account of interest rate derivatives.

### 3.10 Accrued expenses

Accrued expenses are included in the following liability headings:

| <i>(in € millions)</i>                | Dec. 31, 2016 | Dec. 31, 2017 |
|---------------------------------------|---------------|---------------|
| Other bond issues                     | 15            | 14            |
| Miscellaneous loans and borrowings    | -             | -             |
| Trade payables                        | 99            | 134           |
| Taxes and payroll costs               | 69            | 73            |
| Amounts payable on non-current assets | 7             | 20            |
| Other liabilities                     | 8             | 7             |
| <b>TOTAL</b>                          | <b>198</b>    | <b>248</b>    |

### 3.11 Deferred income

Deferred income amounted to €21 million at December 31, 2017.

As the issue price of the OCEANE bonds in January 2016 exceeded the redemption price, the difference of €21 million was recognized in deferred income at December 31, 2016, and is being taken to financial income on a straight-line basis over the remaining term of the bonds (see Note 3.9, "Financial liabilities, operating payables and other liabilities"). At December 31, 2017, this item totaled €16 million.

Deferred income also included rent-free periods amounting to €5 million, to be recognized on a straight-line basis over the terms of the leases until 2021.

### 3.12 Unrealized foreign exchange gains

Unrealized foreign exchange gains amounted to €131 million at December 31, 2017.

They primarily resulted from the translation into euros of foreign currency loans and current accounts at the 2017 year-end exchange rate.

## NOTE 4 NOTES TO THE INCOME STATEMENT

### 4.1 Revenue

| <i>(in € millions)</i>                | Dec. 31, 2016 | Dec. 31, 2017 |
|---------------------------------------|---------------|---------------|
| General assistance                    | 170           | 170           |
| Administrative and financial services | 83            | 82            |
| R&T services                          | 119           | 154           |
| Group projects                        | 1             | 2             |
| IT services                           | 125           | 121           |
| Seconded employees                    | 15            | 9             |
| Real estate income                    | 12            | 14            |
| <b>TOTAL</b>                          | <b>525</b>    | <b>552</b>    |

## 4.2 Expense transfers

Expense transfers amounted to €42 million and mainly concerned expenses rebilled to Group subsidiaries.

Safran incurred legal and advisory fees in connection with the disposal of its identity and security businesses and these were rebilled to two of its subsidiaries in the year (shareholders of the discontinued operation), in an amount of €32 million.

## 4.3 Financial income and expenses

Financial income and expenses break down as follows:

| <i>(in € millions)</i>                            | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Dividends received and other investment income    | 514           | 1,262         |
| Interest and similar income                       | 52            | 45            |
| Impairment of equity investments                  | 3             | 3             |
| Other reversals of provisions for financial items | 24            | 8             |
| Foreign exchange gains                            | -             | -             |
| <b>Financial income</b>                           | <b>593</b>    | <b>1,318</b>  |
| Impairment of equity investments                  | (2)           | (1)           |
| Other charges to provisions for financial items   | (8)           | (8)           |
| Interest and similar expenses                     | (45)          | (48)          |
| Foreign exchange losses                           | (15)          | (36)          |
| <b>Financial expenses</b>                         | <b>(70)</b>   | <b>(93)</b>   |
| <b>FINANCIAL INCOME</b>                           | <b>523</b>    | <b>1,225</b>  |

A breakdown of dividends is provided in the table of subsidiaries and investments.

Other movements in provisions for financial items mainly relate to the provision for foreign exchange losses.

For the purpose of providing a meaningful comparison, foreign exchange gains and losses are presented on a single line of the income statement for the same fiscal year.

## 4.4 Non-recurring items

Non-recurring items can be analyzed as follows:

| <i>(in € millions)</i>                          | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Change in tax-driven provisions                 | 11            | 5             |
| Income from non-capital transactions            | 1             | 1             |
| Income from capital transactions                | 1,064         | 64            |
| Expenses on non-capital transactions            | (3)           | (5)           |
| Expenses on capital transactions                | (772)         | (42)          |
| Net charges to provisions and expense transfers | 22            | 2             |
| <b>NON-RECURRING INCOME</b>                     | <b>323</b>    | <b>25</b>     |

Non-recurring items for 2017 mainly relate to:

- > the sale of the "Morpho" brand in the context of the disposal of Safran's identity and security businesses, representing an amount of €15 million (the value of the Morpho brand was not reflected on the balance sheet);
- > the sale of shares in Embraer which generated a net capital gain of €3 million.

## 4.5 Statutory employee profit-sharing

No employee profit-sharing expenses were recognized in either 2017 or 2016.



## 4.6 Income tax expense

### 2017 Group relief

The application of tax consolidation in France led to the recognition of a net tax expense totaling €43 million in the 2017 parent company financial statements (2016: net tax benefit of €71 million).

This breaks down as:

- > tax income of €305 million arising on the payment of tax by consolidated subsidiaries as though they had been taxed on a stand-alone basis; and
- > a tax expense of €348 million resulting from the consolidated tax expense of €538 million, partially offset by €190 million in tax credits.

### Provisions set aside to cover income taxes of loss-making subsidiaries

Safran refunds the tax savings arising due to the use of tax losses of subsidiaries when the subsidiaries return to profit. A provision is set aside in the Company's financial statements in this respect.

A net amount of €107 million was reversed from this provision in 2017, mainly as a result of:

- > the reversal of the provision concerning the subsidiary Safran SMA for €39 million;

- > the gradual reduction in the income tax rate in France over the next five years as introduced by the 2018 Finance Act, applicable to tax losses to be utilized, representing an amount of €43 million.

### Other

The 2018 Finance Act had the following impact on the Company's 2017 income tax expense:

- > the French Constitutional Council's decision to rule unconstitutional the 3% contribution on dividends will lead to the repayment of these amounts previously paid since 2013. The Group therefore recognized net tax income of €76 million in 2017;
- > in parallel, the introduction of an exceptional contribution of 15% and an additional contribution of 15%, included in profit for the tax consolidation group, generated a €121 million tax expense for the tax consolidation group, including a net expense of €33 million for Safran SA at December 31, 2017.

The CICE tax credit amounted to €1 million in respect of both 2017 and 2016.

Non-deductible expenses (Article 223 *quater* and Article 39.4 of the French Tax Code) amounted to €0.1 million in both 2017 and 2016 and relate to the non-deductible portion of vehicle lease payments and depreciation.

## NOTE 5 OTHER INFORMATION

### 5.1 Off-balance sheet commitments and contingent liabilities

#### Commitments given

| <i>(in € millions)</i>   | Dec. 31, 2016 | Dec. 31, 2017 |
|--|---------------|---------------|
| Commitments given by Safran to third parties on behalf of its subsidiaries       | 1,504         | 1,361         |
| Commitments given by Safran to customs authorities on behalf of its subsidiaries | 20            | 13            |
| Vendor warranties given  | -             | 291           |
| Actuarial gains and losses   | 45            | 40            |
| Other commitments given  | 142           | 101           |
| <b>TOTAL<sup>(1)</sup></b>   | <b>1,711</b>  | <b>1,806</b>  |
| <i>(1) Of which related parties.</i>   | <i>1,534</i>  | <i>1,676</i>  |

Commitments given to third parties relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers), in which Safran provides 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.

During the tender offer for Zodiac Aerospace, Safran pledged €2 billion in money market funds.

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 December 31, 2017, as well as a specific indemnity capped at BRL 200 million (€50 million at December 31, 2017) to cover any financial consequences arising from the dispute between Morpho do Brasil and the Brazilian tax authorities concerning the calculation method for value added tax on certain products.

In connection with the sale of the detection businesses on April 7, 2017, Safran granted Smiths Group PLC a vendor warranty valued at USD 74 million (€62 million at December 31, 2017).

## Commitments received

| (in € millions)            | Dec. 31, 2016 | Dec. 31, 2017 |
|----------------------------|---------------|---------------|
| Other commitments received | 62            | 74            |
| <b>TOTAL</b>               | <b>62</b>     | <b>74</b>     |

Commitments received primarily relate to commitments for the financing of civil programs.

### 5.1.1 Finance lease liabilities

The Company entered into two real estate finance leases for the Safran University campus and for the Safran Tech site in 2014.

| (in € millions) | Value at inception | Carrying amount at Dec. 31, 2016 | Theoretical charges to depreciation |            | Net       |
|-----------------|--------------------|----------------------------------|-------------------------------------|------------|-----------|
|                 |                    |                                  | Current period                      | Cumulative |           |
| Land            | 9                  | 9                                | -                                   | -          | 9         |
| Buildings       | 97                 | 92                               | 4                                   | 13         | 79        |
| <b>TOTAL</b>    | <b>106</b>         | <b>101</b>                       | <b>4</b>                            | <b>13</b>  | <b>88</b> |

| (in € millions) | Lease payments made |            | Lease payments outstanding |                       |                   | Residual purchase price (as per the lease) |
|-----------------|---------------------|------------|----------------------------|-----------------------|-------------------|--|
|                 | Current period      | Cumulative | Less than 1 year           | Between 1 and 5 years | More than 5 years |  |
| Land            | -                   | -          | -                          | -                     | 9                 | n/m  |
| Buildings       | 8                   | 27         | 11                         | 40                    | 25                | -  |
| <b>TOTAL</b>    | <b>8</b>            | <b>27</b>  | <b>11</b>                  | <b>40</b>             | <b>34</b>         | <b>-</b>                                   |

### 5.1.2 Financial and hedging instruments

Safran holds derivative financial instruments including forward contracts, swaps and options which are used for the purposes of all Group companies to hedge (i) highly probable future transactions, determined on the basis of the order backlog and budget forecasts, and (ii) the net balance sheet position of foreign-currency denominated trade receivables and payables of subsidiaries.

As part of the cash pooling agreement entered into between Safran and its subsidiaries, Safran grants its subsidiaries a foreign exchange guarantee under which it commits to buying or selling net foreign currency surpluses or requirements at a guaranteed annual exchange rate. The guaranteed rates are based on worst-case scenarios and Safran undertakes to repay its subsidiaries any gain resulting from the difference between the actual traded rates and the communicated guaranteed rates, based on the currency and net volumes. These exchange rate gains are repaid at least annually.

The portfolio of foreign currency derivatives breaks down as follows:

| (in millions of currency units)                            | Dec. 31, 2016             |                                |                  |                       | Dec. 31, 2017             |                                |                  |                       |
|--|---------------------------|--------------------------------|------------------|-----------------------|---------------------------|--------------------------------|------------------|-----------------------|
|  | Fair value <sup>(1)</sup> | Notional amount <sup>(1)</sup> | Less than 1 year | Between 1 and 5 years | Fair value <sup>(1)</sup> | Notional amount <sup>(1)</sup> | Less than 1 year | Between 1 and 5 years |
| <b>Instruments with no optimization component</b>          | <b>(1,967)</b>            |                                |                  |                       | <b>(215)</b>              |                                |                  |                       |
| Short USD position   | (1,962)                   | 14,266                         | 12,516           | 1,750                 | (164)                     | 10,253                         | 10,203           | 50                    |
| of which against EUR                                       | (1,918)                   | 13,678                         | 11,978           | 1,700                 | (165)                     | 10,097                         | 10,097           | -                     |
| Long USD position  | 82                        | (632)                          | (247)            | (385)                 | (16)                      | (1,069)                        | (869)            | (200)                 |
| of which against EUR                                       | 82                        | (632)                          | (247)            | (385)                 | (14)                      | (851)                          | (651)            | (200)                 |
| Short EUR position against GBP                             | (2)                       | (210)                          | (210)            | -                     | -                         | -                              | -                | -                     |
| Short EUR position against CAD                             | 9                         | -                              | 40               | (40)                  | 7                         | 16                             | 3                | 13                    |
| Long PLN position against EUR                              | -                         | (195)                          | (75)             | (120)                 | -                         | (40)                           | (40)             | -                     |
| Long MXN position against USD                              | (94)                      | (5,850)                        | (3,050)          | (2,800)               | (42)                      | (4,000)                        | (2,650)          | (1,350)               |
| <b>Instruments with a risk-free optimization component</b> | <b>(1,826)</b>            |                                |                  |                       | <b>(24)</b>               |                                |                  |                       |
| USD put purchased  | 149                       | 10,350                         | 8,550            | 1,800                 | 309                       | 13,795                         | 12,795           | 1,000                 |
| USD call purchased   | 178                       | (4,720)                        | (3,260)          | (1,460)               | 23                        | (4,160)                        | (2,800)          | (1,360)               |
| USD call sold  | (2,215)                   | 25,910                         | 19,360           | 6,550                 | (239)                     | 29,859                         | 25,867           | 3,992                 |
| USD put sold   | (45)                      | (9,440)                        | (6,520)          | (2,920)               | (175)                     | (6,520)                        | (3,800)          | (2,720)               |
| EUR put purchased  | -                         | -                              | -                | -                     | 7                         | 300                            | 300              | -                     |
| EUR call sold  | (20)                      | 210                            | 210              | -                     | (4)                       | 600                            | 600              | -                     |
| Accumulators - sell USD <sup>(2)</sup>                     | (27)                      | 1,790                          | 1,790            | -                     | 10                        | 774                            | -                | 774                   |
| Accumulators - buy USD <sup>(2)</sup>                      | 154                       | (4,122)                        | (552)            | (3,570)               | 44                        | (2,580)                        | (2,580)          | -                     |
| Accumulators - buy GBP <sup>(2)</sup>                      | -                         | -                              | -                | -                     | 1                         | (541)                          | (541)            | -                     |
| <b>TOTAL</b>   | <b>(3,793)</b>            |                                |                  |                       | <b>(239)</b>              |                                |                  |                       |

(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.

As mentioned in Note 2 on accounting policies, only premiums paid and received on options are recorded in Safran's balance sheet. The Company does not recognize the fair value of derivative instruments in its balance sheet, except for those set up to hedge the net position of foreign-currency denominated operating receivables and payables of subsidiaries covered by a Safran SA foreign exchange guarantee.

### EUR interest rate risk management

An interest rate swap was taken out to convert the fixed rate payable on the €200 million bond issue carried out in first-half 2014 and maturing in April 2024 to a floating rate.

These swaps had a fair value of €12 million at December 31, 2017.

### USD interest rate risk management

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market (USPP) has also been partially converted to a floating rate. At their inception, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million has been kept at a fixed rate.

These swaps had a fair value of €4 million at December 31, 2017.

Fixed-rate borrower/floating-rate lender swaps for a nominal amount of USD 960 million were contracted in November and December 2017 in connection with a financing transaction. The swaps are for a term of between one and three months and were taken out on behalf of an entity 50%-owned by Safran. Consequently, Safran took out an interest rate swap with the entity for the same nominal amount on the same date to convert the fixed rate to a floating rate. Accordingly, Safran has no exposure to interest rate risk on these swaps, as their fair values, which were not material at December 31, 2017, cancel each other out.

### Liquidity risk management

Since the Group has an unused, confirmed liquidity line at December 31, 2017, it is relatively insensitive to liquidity risk.

This €2,520 million line, which expires in December 2020, was set up in December 2015 and included two successive one-year extension options. At December 31, 2017, the line was confirmed and undrawn. Both these options were exercised, with the line currently set to expire in December 2022. This line is not subject to any financial covenants.

Further to the announcement on January 19, 2017 of the planned acquisition of Zodiac Aerospace, Safran signed a €4 billion bridge loan with a banking syndicate. The bridge facility has a maturity of 12 months, with two six-month extension options. Further to Safran's €1 billion bond issue on June 28, 2017, the total amount available under the bridge facility was reduced by approximately the same amount, to €3 billion. On July 10, 2017, Safran signed an addendum to the bridge facility in order to adapt it to the revised transaction structure for the planned acquisition of Zodiac Aerospace, which was announced on May 24, 2017, and reduced the amount available under the bridge facility to €1 billion.

A number of financial covenants apply to the EIB borrowings set up in 2010.

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.

The terms "net debt", "EBITDA" and "total equity" used in connection with the EIB borrowings and senior unsecured notes issued on the US private placement market and applied in respect of consolidated data relating to Safran and its subsidiaries, are defined as follows:

- > net debt: 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.

## 5.2 Disputes and litigation

Safran is party to regulatory, legal or arbitration proceedings arising in the ordinary course of its operations. Safran is also party to claims, legal action and regulatory proceedings outside the scope of its 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 largely depends on the assessment of the merits of the claims and opposing arguments. However, it should be noted 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.

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 with Safran under the sale agreement in order to protect its rights. Safran paid the €8.5 million fine in 2014. Relying on the European Commission's findings, a number of cable buyers have initiated proceedings for reimbursement of overcharges against the companies fined by the Commission. Safran's joint and several liability with other suppliers has been alleged in one such legal action, and the Group could be at risk of further claims in Europe. At the date of this report, it is not possible to evaluate the potential financial risk and Safran has not recognized a provision.

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

### 5.3 Average headcount

Safran's headcount can be analyzed as follows:

|   | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Engineers and managerial-grade staff                  | 1,299         | 1,356         |
| Technicians, administrative personnel and supervisors | 278           | 268           |
| <b>TOTAL HEADCOUNT</b>                                | <b>1,577</b>  | <b>1,624</b>  |

### 5.4 Management compensation

Management executives comprise members of the Board of Directors and Executive Management, as well as any persons with the power to take management decisions with regard to Safran's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Group.

Management executives comprise the 17 members of the Board of Directors, including the Chairman of the Board and the Chief

Executive Officer, as well as the five officers considered as having the power to take management decisions with regard to Safran's strategy and future development, or with regular access to privileged information concerning Safran.

All compensation and benefits awarded to members of the Board of Directors and to members of Executive Management are shown on a gross basis, including the fixed portion of compensation and the provision for the variable portion to be paid in the subsequent year.

| (in € millions)                         | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---------------|---------------|
| Short-term benefits                     | 8.9           | 10.4          |
| Post-employment benefits <sup>(1)</sup> | 1.8           | 2.0           |
| Termination benefits                    | 0.6           | -             |
| Other long-term benefits                | 1.1           | 2.0           |
| <b>TOTAL</b>                            | <b>12.4</b>   | <b>14.4</b>   |

*(1) Data measured in accordance with CNC Recommendation 2003-R-01 authorizing the application of the corridor method (see Note 2.9.1) which differs from the measurement method used in the IFRS consolidated financial statements subsequent to the mandatory application of the revised IAS 19 from January 1, 2013 (the corridor method is no longer permitted under IFRS).*

The Company's total post-employment commitments in respect of management executives amounted to €12.0 million at December 31, 2017 and €11.4 million at December 31, 2016.

### 5.5 Statutory Auditors' fees

In accordance with the disclosure requirement set out in Decree no. 208-1487 of December 30, 2008, fees billed by the Company's Statutory Auditors for their audit of the 2017 financial statements totaled €1.6 million, while fees billed for other work came to €1.8 million.

### 5.6 Subsequent events

None.

## 3.4 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

### Year ended December 31, 2017

*This is a free translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.*

*This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Safran SA,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Safran SA for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

### Basis for Opinion

#### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

### Emphasis of matter

Without qualifying our opinion, we draw your attention to the matter set out in Note 2.1.2, "Change in accounting policy" to the financial statements, which refers to the mandatory application of ANC Regulation 2015-05 on forward financial instruments and hedging transactions as of January 1, 2017.

### Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in

our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

### Measurement of equity investments

*Note 2.4 to the 2017 parent company financial statements of Safran SA*

At December 31, 2017, equity investments carried in the balance sheet represented a net amount of €10,103 million, the largest balance sheet item.

Equity investments are carried at cost on initial recognition and may be impaired based on their fair value. The fair value of equity investments is calculated:

- > based on their average stock market price for the month preceding the year-end for listed investments;
- > based on their share in net equity, adjusted where appropriate for significant unrealized capital gains net of taxes, for unlisted investments; or
- > based on the intrinsic value of equity, reflecting the present value of the expected future cash flows (enterprise value), less debt where appropriate, for unlisted investments.

We deemed the measurement of equity investments to be a key audit matter, due to the inherent uncertainties and in particular, the likelihood of achieving the forecasts included in the fair value measurement.

#### How our audit addressed this risk

Our work involved reviewing the measurement approach adopted by management along with any quantitative inputs, as well as the appropriateness of the assumptions on which management's estimates were based.

In particular:

- > for approaches based on the share in net equity, adjusted where appropriate for significant unrealized capital gains net of taxes for historical items, we reconciled the net equity used in the calculation with the net equity recorded in the financial statements of the entities concerned, and analyzed whether any adjustments made to equity were appropriate;
- > for approaches based on the intrinsic value of equity, we obtained the cash flow forecasts for the investments concerned and assessed their consistency with the business plans drawn up by management, reviewed the consistency of the growth rate used to calculate forecast cash flows, and analyzed the appropriateness of the discount rate applied to the estimated future cash flows.

We also reviewed the arithmetic consistency of any calculations made to determine the fair value of the equity investments.

## Verification of the Management Report and of the Other Documents Provided to the Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

### *Information given in the management report and in the other documents provided to Shareholders with respect to the financial position and the financial statements*

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

### *Report on corporate governance*

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your company considered likely to have an impact in the event of a takeover or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (*Code de commerce*), we have verified their compliance with the source documents communicated to us. Based on our work, we have no observation to make on this information.

### *Other information*

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the Shareholders and holders of the voting rights has been properly disclosed in the management report.

## Report on Other Legal and Regulatory Requirements

### *Appointment of the Statutory Auditors*

We were appointed as statutory auditors of SAFRAN SA by the Annual General Meeting held on May 28, 2008 for MAZARS and on May 27, 2010 for ERNST & YOUNG et Autres.

As at December 31, 2017, MAZARS and ERNST & YOUNG et Autres were in the 10th year and 8th year of total uninterrupted engagement respectively.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

## Statutory Auditors' Responsibilities for the Audit of the Financial Statements

### *Objectives and audit approach*

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

### *Report to the Audit Committee*

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense and Courbevoie, March 27, 2018

The Statutory Auditors

*French original signed by*

#### **ERNST & YOUNG et Autres**

Jean-Roch Varon

Nicolas Macé

#### **MAZARS**

Gaël Lamant

Christophe Berrard

|              |                        |            |              |                                |            |              |   |            |
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# RISK FACTORS



# IN BRIEF

## RISK MANAGEMENT

The diversity of the Group's businesses and its many sites across the globe expose Safran to a variety of risks that could have a material impact on its earnings, image or share price. These risks are identified as part of an enterprise risk management system.

Safran's internal control system rounds out this approach. It is designed to provide reasonable assurance that our operations comply with the applicable requirements and, by extension, that the risks covered by the internal control framework are adequately managed.

## RISK FACTORS

This chapter presents the main risks identified as material that could impact the Group's businesses and financial position, and the processes used to manage them, as of the date this Registration Document was filed.

### RISKS RELATING TO THE ENVIRONMENT IN WHICH THE GROUP OPERATES



- Risks relating to changes in the **competitive landscape**
- **Financial market** risks
- **Legal and regulatory** risks

### RISKS RELATING TO GROUP BUSINESS SECTORS



- **Operational** risks
- Risks relating to the **Group's evolution**
- **Human resources** risks

Other risks not yet identified or risks whose occurrence the Group believes will not have a material adverse impact could also exist at the date of this Registration Document.

The information set out below is based on assumptions and forecasts that may prove inaccurate owing to their very nature.

## INSURANCE

The key accident risks are covered by worldwide multi-risk policies spanning several years, negotiated with leading insurance companies.

Local insurance programs are subscribed across the globe either to cover specific risks or in response to local regulatory insurance requirements.



## 4.1 RISK MANAGEMENT

### 4.1.1 Methodology

Safran has defined an enterprise risk management (ERM) policy, the principles of which are consistent with the recommendations of the French financial markets authority (*Autorité des marchés financiers – AMF*), the provisions of the AFEP-MEDEF Corporate Governance Code (as revised in November 2016), and professional standards (COSO ERM).

The Group's enterprise risk management system is applied across all of its businesses in accordance with the governance rules applicable to the Group's different entities.

Risk management draws on a methodological approach common to all entities and rolled out through a network of experts.

This system is designed to identify the Group's major risk exposures, quantify their impact on the achievement of objectives, and ensure that adequate measures are implemented to bring the Group's exposure to an acceptable level. The risk management policy falls under the responsibility of each entity and of the central corporate departments, and is embedded in all of Safran's organizational processes.

Each risk factor identified is analyzed and forms the basis for various risk scenarios charted along three axes: impact, probability of occurrence and level of control.

The impact and probability of each risk are assessed in terms of their direct and indirect impact over the selected timeframe, based on a realistic worst-case scenario identified in the risk register. The level of control, essential in characterizing the risk and the way it is to be managed, is then determined.

Risks are managed through action plans that may include steps to be taken, additional controls to be implemented or investigations into financial transfers or transfers of liability, particularly involving insurance policies which are reviewed on a recurring basis.

An owner is designated for each risk identified and is responsible for drafting action plans and ensuring their implementation. The objective is to provide continuous risk oversight to ensure optimum treatment.

The entire risk management approach is periodically reviewed and events that occurred within the Group over a given period are systematically compared with risk mappings for the same period. This back-testing enables Safran to ensure that risks have been identified, assessed and managed in an exhaustive and effective manner and that its risk management system is robust.

### 4.1.2 Organization

The Risk and Insurance Department reports to the Group Chief Financial Officer. It comprises the Risk and Insurance Department director together with the Corporate Risk Managers and is responsible for implementing the Group's risk management policy. The Risk and Insurance Department develops methodological techniques and processes to ensure consistent handling of risks by companies and central corporate departments. All people involved in risk management within the Group have the same risk manual organized by process, level of impact, frequency, probability and control solution. Detailed guidance is also prepared for the analysis of certain risks.

The Risk and Insurance Department ensures that processes are effectively deployed and sets risk management maturity objectives for tier-one entities. Risk management in newly created or newly acquired entities forms part of the action plans that the Risk and Insurance Department requires tier-one entities to set up within the context of the integration plan.

The Risk and Insurance Department also coordinates the entity risk manager network. Each tier-one entity (see sections 1.1.3 and 1.1.4) has a risk manager who prepares a risk mapping that is subsequently reviewed during the two annual Risk Committee meetings also involving the Risk and Insurance Department. Monthly meetings are used to exchange best practices and identify and manage all of the Group's risks, including new and emerging risks. Task forces are set up on the basis of priorities approved by the Group Risk Committee.

Risk managers of tier-one entities liaise constantly with the Risk and Insurance Department to which they submit a series of half-yearly

indicators (major risk mapping with the corresponding level of control, maturity of the risk management process). Once a year, the risk managers also submit a report on the organization and maturity of the risk management process within their respective operational perimeter. The Risk and Insurance Department also periodically meets with the risk manager of each tier-one entity in order to discuss his/her work and risk metrics.

Tier-one entity risk managers are tasked with implementing the risk management process for their entire operational perimeter, i.e., in their company as well as in their subsidiaries and investments. They appoint a network of risk representatives as appropriate to ensure coverage of the entire scope of their operations.

Each of Safran's central corporate departments also prepares a mapping of the main risks in its scope. They all have a risk representative who ensures that the appropriate risk management approach is respected and who verifies the consistency of management's risk mapping and the associated action plans with those of the different corporate departments within tier-one entities falling under his/her responsibility. The Risk and Insurance Department is also directly involved in this work.

Finally, the Risk and Insurance Department prepares a consolidated mapping of the Group's major risks and the associated action plans using these risk mappings, detailed analyses and plans for handling the major risks facing tier-one entities, together with risk mappings, analyses and plans submitted by the risk representatives of the central corporate departments.

## 4 RISK FACTORS

### Internal control system

The Group risk mapping therefore guarantees the overall consistency of risk assessments and the associated action plans.

The risk mapping and associated action plans are updated every six months and validated by the Group Risk Committee. The Risk

and Insurance Department then presents this risk mapping and the associated action plans to the Board of Directors' Audit and Risk Committee.

### 4.1.3 Risk management bodies

The following bodies coordinate the integrated risk management system:

- > the Risk Committees of tier-one entities;
- > the Group Risk Committee;
- > the Board of Directors' Audit and Risk Committee.

Internal procedures require regular meetings of tier-one entity and Group Risk Committees.

#### Risk Committees of tier-one entities

Each tier-one entity has a Risk Committee comprising the entity's legal representative and its main senior managers. This Committee is chaired by the entity's legal representative and led by its risk manager.

Entity Risk Committees are responsible for:

- > rolling out the Group's risk management policy within their operational perimeter;
- > validating the entity's risk mapping and the corresponding control measures;
- > providing reasonable assurance of the risk management process's effectiveness and maturity;
- > validating the crisis prevention, crisis alert and crisis management system.

#### Group Risk Committee

The Group Risk Committee is composed of the Chief Executive Officer and Group corporate officers. It is headed up by the Chief Executive Officer and led by the Risk and Insurance Department director.

The Committee regularly reviews risk identification, assessment and treatment, and therefore the control of major risks.

More specifically, its duties include:

- > approving the risk management policy;
- > validating the Group risk mapping and the corresponding control measures;
- > providing reasonable assurance that the risk management process is effective;
- > validating the crisis prevention, crisis alert and crisis management system.

#### The Board of Directors' Audit and Risk Committee

The composition and duties of this Committee are set out in section 6.3.3 of this Registration Document.

In terms of risk management, the Board of Directors' Audit and Risk Committee reviews the risk mapping and the work related to the main risks faced by the Group, as presented to it twice a year by the Risk and Insurance Department.

The Committee reports to the Board of Directors on its risk management work at the same intervals.

## 4.2 INTERNAL CONTROL SYSTEM

### 4.2.1 Methodology

#### Definition and objectives

Safran implements its internal control system on the basis of general principles advocated by the AMF. Internal control is defined as a process implemented by the Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- > compliance with laws and regulations;
- > application of instructions and strategies set by Executive Management;
- > proper functioning of Safran's internal processes, particularly those contributing to the protection of its assets;
- > reliability of financial information.

Internal control thus contributes to the safeguarding of the Company's assets, the management of its activities, the effectiveness of its

operations, the efficient use of its resources and the prevention of any organizational dysfunctions. Nevertheless, as with all control systems, it can only provide reasonable assurance that the objectives described above will be achieved.

#### Internal control framework

The Audit and Internal Control Department has defined an internal control framework structured around 13 areas termed internal control cycles:

- > one cycle relating to the control environment;
  - > ten operating cycles;
  - > two IT cycles (general IT and IT system security controls);
- plus cycles adapted to Shared Services Centers' risks.

For each cycle, the Audit and Internal Control Department and Group specialists in each of these areas has drawn up a list of control points and tests aimed at measuring for each entity:

- > the conformity of its internal control procedures and control activities with the framework's requirements; and
- > the operational effectiveness of these procedures and activities.

Around 200 control points have been listed, which serve to ensure the integrity and security of financial and accounting information. Every year, internal control tests are performed, based on objectives related to scope, content, and the timeframes for carrying out action plans.

The internal control framework is reviewed every year to reflect risk and any organizational changes identified. This review also factors in recommendations made in the course of internal audits or by the Statutory Auditors together with proposals submitted by the internal control network and central corporate departments.

## Appraisal principle

The Group has upheld the principle whereby each entity appraises its own internal control arrangements in relation to the framework (conformity and effectiveness). A test program (effectiveness) is devised annually; it investigates all of the cycles over two years in tier-one entities and over three years in tier-two entities. A set of rules and guidelines with around 50 control points – formally tested annually – applies for small entities.

Each year the Group's audit plan includes Internal Audits aimed at verifying that the assessments carried out by the subsidiaries comply with the rules and principles it has put in place.

Any disparity relative to the requirements of the internal control framework in the assessment of the conformity and effectiveness of procedures generates an action plan, with a project leader

## 4.2.2 Organization

### Duties of the Audit and Internal Control Department

The Audit and Internal Control Department, which reports to the Corporate Secretary, contributes to the management of the Group's activities, the effectiveness of its operations, the efficient use of its resources and the appropriate consideration of material risks. Its main responsibilities are to:

- > define and implement the annual audit plan;
- > define, organize and coordinate the internal control system.

Taken together, these responsibilities aim at ensuring compliance with applicable laws and regulations, the application of instructions and strategies set by Executive Management, the proper functioning of internal processes, particularly those contributing to the safeguarding of the Group's assets, and the reliability of financial information.

### Internal Audit

The Internal Audit plan takes into account the Group's risk map. It is drawn up on an annual basis and revised whenever necessary. The internal auditors from the Audit and Internal Control Department conduct compliance work and other work aimed at identifying ways to improve the efficiency of the Group and of its entities, programs, projects and processes,

designated and a deadline established. The progress of such action plans is monitored monthly in the reporting system described below.

The internal control system was up and running in 113 companies, representing 99.8% of the Group's consolidated revenue in 2017.

Within a reasonable time of completing a business acquisition, the tier-one entity in which the acquiree is merged for operational purposes must in principle carry out an internal control assessment of the acquiree's business based on Safran's rules and guidelines.

## Internal control quality assurance

Every year, executives of tier-one entities send a representation letter to Safran's Chief Executive Officer on the internal control system put in place in their entity and their subsidiaries, in which they set out the work carried out during the year in the internal control domain and commit to a progress plan for the upcoming year.

Also every year, the Statutory Auditors examine the adequacy of the internal control procedures related to a selection of cycles that contribute to the preparation of financial and accounting information.

As part of the audits they perform, the internal auditors (i) assess the adequacy and appropriateness of the internal control procedures within the audit scope, (ii) verify that the relevant processes have been properly applied, and (iii) check the accuracy and reliability of the related test results.

## Awareness-raising and training

A training course on internal control has been set up within Safran University with a view to raising awareness of internal control issues among both finance and operations staff.

by addressing four types of major risks: strategic, financial, non-compliance and operations.

The Internal Audit function therefore contributes to:

- > identifying, assessing and dealing with risks, via analyses and observations made in relation to the audited entities as well as the ensuing recommendations issued and the follow-up of action plans;
- > continuously improving the internal control system, thanks to internal control compliance audits aimed at ensuring that the organizational structures and procedures in place are adequate and efficient;
- > continuously assessing that compliance rules are respected by carrying out audits on the management, compliance and performance of subsidiaries and other entities included in the yearly audit plan.

The Group's Internal Audit function has been certified compliant with the international standards of the Institute of Internal Auditors.

## Internal Control

The central team that manages the internal control system is assisted by a network of internal control managers in each tier-one entity, with those managers supported by representatives in each of the entities within their operational perimeter.

## 4 RISK FACTORS

### Internal control system

At least once a year, the central team brings together internal control managers to conduct a review of obstacles encountered, suggest enhancements to the framework and define areas in which progress can still be made. These meetings also serve as a forum for sharing best practices about monitoring internal control.

For 2018, the main areas for progress identified by Safran concern both continuously improving the internal control system, which includes ensuring that processes are adequate and part of operational managers' best practices, and rolling out an e-learning module to raise awareness of internal control.

Group companies use the same reporting system for the results and conclusions of their internal control appraisals. Some 400 stakeholders contribute to this system, which allows:

- direct access to the Group framework, methodology and practical operating procedures;
- monitoring of rectifications of disparities identified in relation to the framework.

### Other key players in the internal control system

#### The Group Finance Department

The Group Finance Department centralizes and coordinates financing, treasury, taxation, the budget process, reporting, accounts consolidation and risk management. It ensures compliance with the internal control procedures falling within the scope of its responsibilities.

### 4.2.3 Risk management bodies

The internal control system is overseen by the following bodies:

#### The Board of Directors

The Board of Directors defines the primary features of the internal control system, based on the opinions and recommendations of the Audit and Risk Committee.

The executives of the tier-one entities assume full responsibility for the internal control systems implemented in the entities for which they have operational responsibility; the system implemented must comply with the internal control principles determined by the Group.

#### The Board of Directors' Audit and Risk Committee

The composition and duties of this Committee are set out in section 6.3.3 of this Registration Document.

#### Operational departments

Each operational department is responsible for ensuring that its activities are carried out in compliance with the applicable laws, regulations and procedures. The purpose of the internal control framework is to check compliance with a number of control points using a risk-based approach.

#### The Statutory Auditors

As part of the audit and certification of the parent company and consolidated financial statements, the Statutory Auditors examine the procedures of a certain number of Safran's processes that contribute to the preparation of financial and accounting information. In particular, they base the work they conduct at selected entities on the Group's internal control framework.

They present their findings to the Audit and Risk Committee.

The Statutory Auditors carry out the following as part of their work in this domain:

- review of documentation on controls carried out by companies;
- tests to verify the operational effectiveness of the procedures implemented;
- review of completed action plans;
- review of results of tests performed by the entities.

In terms of internal control, the Committee reviews the following:

- the findings of audits and other work related to internal control procedures presented by the Audit and Internal Control Department;
- the results of the work carried out by the Statutory Auditors, whose independence it also verifies.

The Group's Internal Control Guidelines are approved by the Chair of the Audit and Risk Committee.

#### Internal control committees

Each tier-one entity has an internal control committee for all of the entities within its operational scope, as does each French and international Shared Services Center. These committees track the progress and conclusions of internal control appraisals. The Audit and Internal Control Department systematically participates in all meetings of these committees.

## 4.3 RISK FACTORS

The major risks identified that could impact the Group's businesses and financial position as of the date this Registration Document was filed are outlined below. Safran carries out its business in a fast-changing environment that exposes it to risks and uncertainties beyond those associated with its businesses.

If the risks described below were to materialize, this could have a negative impact on Safran's businesses, financial position, earnings, outlook or share price.

Other risks not yet identified or whose occurrence the Group considers would not have a material adverse impact could also exist at the date of this Registration Document.

The information set out below is based on assumptions and forecasts that may prove inaccurate owing to their very nature.

The environment in which the Group operates generates:

- > risks relating to changes in the competitive landscape;
- > financial market risks;
- > legal and regulatory risks.

As the Group conducts its business, it is exposed to:

- > operational risks;
- > risks relating to the Group's evolution;
- > human resources risks.

### 4.3.1 Risks relating to the environment in which the Group operates

#### 4.3.1.1 Risks relating to changes in the competitive landscape

##### Political uncertainties

In the Aerospace, Security and Defense segments, certain contracts are closed to foreign competition or are awarded based on strategic national security and independence considerations. Moreover, the transfer and/or export of defense equipment is prohibited by law in several countries, including France, and may only take place further to special governmental authorizations which require strict compliance with export regulations.

The development of Safran's activities and sites worldwide exposes the Group to political risks specific to certain countries that could impact its activities and earnings.

In the face of these political uncertainties, Safran has a Group International and Public Affairs Department that coordinates any measures that need to be taken, particularly in the fields of country risk, trade compliance, export and customs controls and ethics (see sections 5.1.1, 5.1.2, 5.1.3 and 5.1.4).

##### Changes in economic conditions

The macroeconomic and aeronautical program assumptions determined by the Group take into consideration the economic conditions observed as of the date of the Registration Document and are taken into account when preparing the budget and the medium-term business development plan.

Action plans are elaborated on the basis of these assumptions and approved by the Group Risk Committee according to the approach set out in section 4.1.

Changes in the global economy have a direct impact on demand for air transport and freight, which in turn directly affects market demand for commercial aircraft. To meet the fluctuations in aircraft demand from airline companies, aircraft manufacturers may adjust their output rates, which would have a direct impact on the original equipment business of suppliers of engines and aircraft parts like Safran. Similarly, the decrease in air traffic as a

result of a deteriorating economic or geopolitical environment could also impact the volume of sales and Group services, including MRO and spare part sales.

Should the economic climate deteriorate, Safran's assumptions and action plans would be adjusted accordingly. In order to deal with this risk, periodic specific Steering Committees have been set up within the Group covering customers, suppliers and the market (see sections 1.2, 1.4, 1.5 and 1.8).

##### Impact of the aviation cycle

Commercial aircraft orders tend to be cyclical in nature, owing mainly to:

- > changes in air traffic;
- > the rate at which aircraft fleets age and are replaced;
- > airline companies' investment decisions and financial capacity.

Exceptional events such as terrorism, pandemics, aviation disasters and adverse meteorological or geophysical conditions could also cause a temporary drop in air traffic and hence impact the civil aircraft engine, aircraft equipment, maintenance and services markets.

Safran is currently enjoying strong cyclical demand, primarily as a result of many airline companies replacing their fleets.

In 2017, civil aviation activities accounted for approximately 75% of the Group's adjusted consolidated revenue. Safran is currently enjoying strong cyclical demand, primarily as a result of many airline companies replacing their fleet. Safran has a large fleet of engines in service, including over 30,000 CFM56 engines and several hundred LEAP engines, which have equipped most of the 100+ seater single-aisle aircraft delivered to airline companies in the last 30 years. The increase in the age of the installed base of engines and associated equipment enables the Group to generate service revenue representing around 49% of Aerospace revenue.

Safran's capacity to ramp up production to fulfill orders will depend on its ability to manage its internal and external supply chain (see section 4.3.2.1 "Supplier and partner risks").

Robust investment programs and action plans have been deployed for this very purpose and in order to limit any malfunctions that could arise. Safran also seeks to ensure that its production resources are adapted to long-term trends in demand.

Continuous improvement initiatives within the framework of Safran's quality performance approach (see section 1.9) and the deployment of the Group's strategy (see section 1.2), aimed particularly at achieving optimal diversity of its portfolio of businesses, round out the measures put in place to limit the impacts of this risk.

### Competition

Safran faces fierce competition in all of its businesses, from both global and international players and from niche players in certain markets. It seeks to maintain and sharpen its technological edge at all times, thanks to sustained R&D spending with a particular focus on segments where the product development cycle is unusually long.

To limit the impact of competition risk, Safran not only deploys its strategy with a view to diversifying the portfolio of businesses (see section 1.2), but also continues to make targeted investments in R&D (see section 1.5) and in selected external growth transactions. It also develops partnerships on a number of programs (see section 1.3). These partnerships may take the form of joint ventures set up in full compliance with the anti-trust laws applicable in all markets and countries in which they operate.

#### 4.3.1.2 Financial market risks

The main risks hedged using the Group's financial instruments are foreign currency risk, interest rate risk, listed commodity price risk, equity risk, counterparty risk and liquidity risk.

### Foreign currency risk

The Group is exposed to foreign currency risk, defined as the impact on its balance sheet and income statement of fluctuations in exchange rates during the conduct of its operating and financial activities.

Most Aerospace Propulsion and Aircraft Equipment revenue is denominated in US dollars, which is virtually the sole currency used in the civil aviation industry. The net excess of revenues over operating expenses for these activities totaled USD 7.3 billion for 2017.

To protect its earnings, the Group implements a hedging policy (see below) with the aim of reducing uncertainty factors affecting profitability and allowing it to adapt its cost structure to a volatile monetary environment.

The Group's earnings are exposed to the risk of fluctuations in the EUR/USD exchange rate as a result of its US dollar-denominated assets and liabilities which are set out in section 3.1 of this Registration Document (Note 26, "Management of market risks and derivatives").

Shareholders' equity is also exposed to the risk of fluctuations in the EUR/USD exchange rate on the Group's investments in US businesses which are disclosed in section 3.1 (Note 33, "List of consolidated companies") of this Registration Document.

### Hedging policy

Two basic principles underscore the foreign currency risk management policy defined by Safran for most of its subsidiaries:

- > to protect the Group's economic performance from random fluctuations in the US dollar;
- > to optimize the quality of hedging whenever possible, without jeopardizing the Group's economic performance (first principle).

Protecting economic performance means setting a minimum USD exchange rate parity over an applicable term. Minimum parity corresponds to a USD exchange rate that allows Safran to meet its operating profit targets. Hedging arrangements have been made accordingly, over a four-year timeframe.

Foreign currency risk on the Group's investments in US businesses is hedged using net investment hedges of some of these entities, as disclosed in section 3.1 (Note 1.v, "Accounting policies") of this Registration Document.

### Management policy

The hedging policy is based on managing the financial instrument portfolio so that the exchange rate parity does not fall below a pre-defined minimum threshold.

In building up its hedging portfolio, the Group primarily uses forward sales, accumulators and a combination of barrier options and other options.

Optimization measures are also used with a view to improving the minimum exchange rate parity, and seek to protect the Group's economic performance at all times. They are based on products that allow the Group to take advantage of any improvement in the underlying exchange rate parities, without calling into question the original minimum threshold.

These products consist chiefly of forward purchases, accumulators and a combination of barrier options and other options.

### Hedging portfolio

The Group's hedging portfolio is described in section 3.1 (Note 26, "Management of market risks and derivatives") of this Registration Document.

The Group has hedged its entire USD exposure for 2018 at a rate of 1.18.

The Group has continued its exposure hedging strategy for 2019. At February 15, 2018, the hedging portfolio for 2019 amounted to USD 6.7 billion. Certain options include knock-out barriers set at various levels between 1.26 and 1.31 with maturities up to 18 months. The estimated target hedging rate for 2019 should be between 1.16 and 1.18.

The Group has also continued its exposure hedging strategy for 2020. At February 15, 2018, the hedging portfolio for 2020 amounted to USD 5.2 billion. Certain options include knock-out barriers set at various levels between 1.26 and 1.32 with maturities through end-2019. The estimated target hedging rate for 2020 should be between 1.16 and 1.18.



The Group has begun to hedge its projected net exposure for 2021. At February 15, 2018, the hedging portfolio for 2021 represented USD 2.5 billion in options with knock-out barriers set at various levels between 1.26 and 1.32. The estimated target hedging rate for 2021 should be between 1.16 and 1.20.

The knock-out barrier option expires if the spot exchange rate climbs above the knock-out rate during the window in which the option is active, and the value of the hedging portfolio is then reduced by the notional value of the disabled option.

For the record, the estimated annual exposure of approximately USD 7.7 billion for 2018 depends on budgeted sales figures, and is regularly reviewed for each year covered by the foreign currency risk hedging policy.

A one-cent change in the EUR/USD exchange rate parity on the hedged rate has an impact of around €55 million on adjusted recurring operating income.

## Sensitivity

The following tables present the sensitivity of the main income statement aggregates to a 5% increase or decrease in the EUR/USD exchange rate (average and closing exchange rates). The first table shows adjusted data, the second consolidated data. The sensitivity analysis takes account of:

- the translation effect, i.e., the impact of changes in the EUR/USD exchange rate on the translation into euros of the results of entities whose functional currency is the US dollar;
- the transaction effect, i.e., the impact of changes in the EUR/USD exchange rate on USD transactions carried out by entities whose functional currency is the euro, and on the value of the EUR/USD hedging portfolio.

The sensitivity of equity to a 5% increase or decrease in the EUR/USD closing exchange rate affecting the net investment hedge of some of its US entities is presented in section 3.1 (Note 26, "Management of market risks and derivatives") of this Registration Document.

| Adjusted data<br>(in € millions)                    | 2016 |       | 2017 |       |
|---|------|-------|------|-------|
| EUR/USD exchange rate change assumptions            | -5%  | +5%   | -5%  | +5%   |
| Average exchange rate                               | 1.11 |       | 1.13 |       |
| Average exchange rate used for sensitivity analysis | 1.05 | 1.16  | 1.07 | 1.19  |
| Closing rate  | 1.05 |       | 1.20 |       |
| Closing exchange rate used for sensitivity analysis | 1.00 | 1.11  | 1.14 | 1.26  |
| Revenue   | 336  | (322) | 381  | (345) |
| Profit (loss) from operations                       | 9    | (8)   | 13   | (11)  |
| Financial income (expense)                          | 4    | (4)   | (8)  | 7     |
| Profit (loss) before tax                            | 13   | (12)  | 5    | (4)   |

| Non-adjusted consolidated data<br>(in € millions)   | 2016    |       | 2017  |       |
|---|---------|-------|-------|-------|
| EUR/USD exchange rate change assumptions            | -5%     | +5%   | -5%   | +5%   |
| Average exchange rate                               | 1.11    |       | 1.13  |       |
| Average exchange rate used for sensitivity analysis | 1.05    | 1.16  | 1.07  | 1.19  |
| Closing rate  | 1.05    |       | 1.20  |       |
| Closing exchange rate used for sensitivity analysis | 1.05    | 1.11  | 1.14  | 1.26  |
| Revenue   | 660     | (597) | 684   | (619) |
| Profit (loss) from operations                       | 314     | (284) | 312   | (283) |
| Financial income (expense)                          | (2,114) | 1,675 | (800) | 220   |
| Profit (loss) before tax                            | (1,800) | 1,391 | (488) | (63)  |

## Interest rate risk

The Group's exposure to fluctuations in interest rates covers two types of risk:

- fair value risk in respect of fixed-rate financial assets and liabilities. Interest rate fluctuations impact the market value of these assets and liabilities;
- cash flow risk in respect of floating-rate financial assets and liabilities. Interest rate fluctuations have a direct impact on the Group's earnings.

Within the framework of its interest rate risk management policy, the Group arbitrates between these two types of risks using financial instruments specific to fixed-income markets (interest rate swaps and options).

## Euro interest rate risk

An interest rate swap was taken out to convert the fixed rate payable on the €200 million bond issue carried out in the first-half of 2014 and maturing in April 2024 to a floating rate.

Exposure to euro interest rate risk is presented in section 3.1 (Note 26, "Management of market risks and derivatives") of this Registration Document.

## 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 has also been partially converted to a floating rate. Floating-rate borrower/fixed-rate lender USD swaps were

## 4 RISK FACTORS

### Risk factors

set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million has been kept at a fixed rate.

Exposure to US dollar interest rate risk is presented in section 3.1 (Note 26, "Management of market risks and derivatives") of this Registration Document.

#### Sensitivity

A 1% (100 basis point) increase in eurozone or US dollar zone interest rates would reduce the Group's cost of net debt by €45 million (the corresponding impact was minimal in 2016).

Since the Group's net debt is a positive €294 million at the year end (to which should be added the €2,000 million in financial assets pledged as part of the tender offer for Zodiac Aerospace), a rate rise of this magnitude would lead to an increase in interest received on financial investments in excess of the interest payable on financial liabilities, and would therefore lead to a €45 million decrease in the cost of net debt (versus a negligible impact in 2016).

#### Commodity risk

Starting in 2009, the Group's policy had been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel, platinum and oil). The policy sought to protect the Group's economic performance from commodity price volatility.

The Group decided to discontinue this hedging strategy at the end of 2016 as the risk was not deemed material for the Group.

#### Equity risk

The Embraer shares that Safran held until 2017 were its only source of exposure to the risk of fluctuations in the stock market. These shares were sold in the second half of 2017 for €41 million.

#### Counterparty risk

The Group is exposed to counterparty risk on the following:

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

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

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

The counterparty risk taken into account in pricing derivatives is not material (section 3.1, Note 1.v, "Derivatives and hedge accounting" of this Registration Document).

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their geographical diversity.

The Group may be exposed to delayed payment risk on civil and military contracts, particularly as regards its government customers, and this may adversely impact its free cash flow targets.

The maturity schedule for trade and other receivables is set out in section 3.1 (Note 15, "Trade receivables") of this Registration Document.

#### Liquidity risk

The Group looks to ensure that it has broad access to liquidity in order to meet its obligations as they fall due. To do this, it borrows from banks and capital markets, thereby exposing it to liquidity risk if all or part of these markets were to dry up.

Safran's business requires it to have access to external sources of financing and the availability of such financing depends on a variety of factors such as market conditions and the macroeconomic environment. A deterioration in the financial markets (capital or bank debt markets) could lead to an increase in borrowing costs or even restricted access to financing for both Safran and for its competitors.

Furthermore, lenders and/or investors could develop a negative view of the Group's short- to medium-term financial prospects, particularly if it were to incur losses, which could also affect its future financing capacity.

Treasury management is centralized within the Group. Where permitted by local legislation, all surplus cash is invested with, and the 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.

Surplus cash is managed with two principles in mind:

- > safeguarding the amounts invested at all times;
- > optimizing investment yields whenever possible, without jeopardizing the investments themselves.

Since the Group has an undrawn, confirmed liquidity line at December 31, 2017, 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.

Further to the announcement on January 19, 2017 of the planned acquisition of Zodiac Aerospace, Safran signed a €4 billion bridge loan with a banking syndicate. The bridge facility has a maturity of 12 months, with two six-month extension options. Further to Safran's €1 billion bond issue on June 28, 2017, the total amount available under the bridge facility was reduced by approximately the same amount, to €3 billion. On July 10, 2017, Safran signed an addendum to the bridge facility in order to adapt it to the revised transaction structure for the planned acquisition of Zodiac Aerospace, which was announced on May 24, 2017, and reduced the amount available under the bridge facility to €1 billion.

During the tender offer for Zodiac Aerospace, Safran pledged €2 billion in money market funds. As a result, these could not be recognized under cash and cash equivalents for the offer period (see Note 16, "Cash and cash equivalents" to the consolidated financial statements).

A number of financial covenants apply to the EIB borrowings set up in 2010. 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.

The terms "net debt", "EBITDA" and "total equity" used in connection with the EIB borrowings and the US private placement (USPP) are defined as follows:

- > net debt: borrowings (excluding borrowings subject to specific conditions) less marketable securities and cash and cash equivalents;
- > EBITDA: the sum of profit (loss) from operations and the net charge to depreciation, amortization and provisions for impairment of assets (calculated based on adjusted data);
- > total equity: equity attributable to owners of the parent and non-controlling interests.

The maturity schedule for financial liabilities (excluding derivatives with a negative fair value) is set out in section 3.1 (Note 22, "Interest-bearing financial liabilities") of this Registration Document.

### 4.3.1.3 Legal and regulatory risks

From a legal standpoint, Safran is exposed to the risk of claims resulting from alleged non-compliance with certain contractual obligations in its relations with third parties. If any such claims are made, they are examined by the Legal Department so that it can best defend the Group's interests.

## 4.3.2 Risks relating to Group business sectors

In 2018, the activities of Zodiac Aerospace will have to be included in risks relating to Group business sectors (see section 2.5).

### 4.3.2.1 Operational risks

#### Aircraft accidents

Safran products are integrated in high-tech equipment with a high unit price, especially civil and military aircraft, helicopters and space launch vehicles. Safran may be held liable, for example, for the malfunction, loss or accident of an aircraft, the death of passengers, or the loss of operating capability by an airline or helicopter operator.

As part of its risk management policy, Safran adopts a variety of measures to limit risks relating to aircraft accidents. A description of the focuses identified by the Group Quality Department is provided in section 1.9 of this Registration Document. Safran has huge obligations in terms of air safety and is required to have a highly effective, demanding quality-focused management system. The effectiveness of this system along with the related action plans have led to Safran obtaining airworthiness agreements (or having such agreements renewed) and 9100-certification for tier-one entities. In addition, dedicated progress plans, which include rollout of the QRQC method, allow quality issues to be dealt with close to source and remedied as quickly as possible. Program oversight and development has been stepped up as part of the "One Safran" quality management system, resulting in more detailed risk analysis (product and process risk analyses).

Aside from the main legal risks identified and disclosed in the "Contingent liabilities arising on ordinary activities" section of the note on off-balance sheet commitments (see section 3.1, Note 30) and in the note on disputes and litigation (see section 3.1, Note 31) of this Registration Document, based on an analysis of the legal risks to which the Group is exposed, no other probable or material risks were identified.

The Group is also exposed to the risk that it fails to comply with applicable regulations. Regarding export controls for example, the Group is bound by legislation and regulations issued by French and international authorities, particularly the European Union and the United States. The same applies for anti-trust law, anti-corruption regulations, and any embargoes and sanctions taken against countries in which it does business.

To ensure that it complies with French and international regulations, Safran has put in place action plans outlined in section 5.2, "Perpetuating the integrity culture" of this Registration Document. These action plans are designed to ensure that Group companies report all claims or any potential cases of non-compliance with applicable regulations, inform the authorities concerned of any such cases identified, and take all the necessary precautions to prevent similar cases arising in the future. To date, the few instances of non-compliance with export rules voluntarily brought to the attention of the authorities have either been closed after investigation without damages or are currently being addressed. Concerning embargoes and sanctions, particularly in the United States, the Group ensures that it takes all adequate and necessary measures to comply with all such regimes affecting its operations.

### Delays, program development and industrialization

Aircraft manufacturers may encounter difficulties in meeting their program schedules or even keeping programs going. To take an example, when Airbus published its revenue figures in January 2018, it also announced publicly that the X6 twin-engine heavy lift helicopter had been postponed indefinitely (see chapter 2, section 2.1.3.1). Delays in production schedules for new aircraft may lead to the postponement of deliveries, including Safran equipment deliveries, and impact the timing of the Group's revenue. In certain cases, delays specific to developments under Safran's responsibility can lead it to pay damages to the stakeholders concerned. The Group may be held liable for these delays. Delays can also lead to Safran collecting cash later than forecast, thereby impacting the Group's cash and potentially its profitability. This may lead it to write off assets recognized in respect of those programs.

For example, the Silvercrest engine selected initially by Dassault Aviation to power its Falcon 5X jet incorporates leading-edge technologies to offer unrivaled performance, with very high targets in terms of fuel consumption, reliability and respect for the environment. During test flights last September, Safran pinpointed the need to optimize performance of the high-pressure compressor, leading to additional development lead-times which Dassault Aviation deemed incompatible with its own aircraft development schedule. Consequently, in late 2017, Dassault Aviation initiated proceedings to terminate the Silvercrest contract for the Falcon 5X program and announced that it would be launching the Falcon 6X, a new aircraft with a bigger engine than Silvercrest. For this program, the Group recorded

all necessary provisions to cover its contractual commitments as they currently stand, including the penalties payable to Dassault Aviation in connection with the development phase. These analyses led the Group to write down property, plant and equipment and intangible assets it had specifically committed to this program for an amount of €23 million. As a reminder, the intangible assets relating specifically to the development of the Silvercrest engine and certain other specific assets relating to this program were written down in full for an amount of €654 million in 2015 (see section 3.1, Note 19).

Safran continued to deploy its program management initiatives, primarily through its “One Safran” quality management system (see section 1.9). This system provides project teams with a framework (known as “PROMPT (see chapter 1) as well as methods and applications for enhancing program management processes. PROMPT is based on five “golden rules”: keeping the Program Management Plan (PMP) up to date, meeting expectations of all stakeholders, planning and meeting technical objectives, steering performance and managing risks. It has been rounded out with a Program Management guide of best practices and rules to be respected, charted on a maturity grid that enables each program manager to conduct an annual self-assessment of the risks faced and actions and progress initiatives taken.

### Products and services

The Group applies very strict quality and safety standards in the design and manufacture of its high-tech products and associated services.

Thanks to robust processes and high-level oversight of certain key aspects (such as ramp-up), program management enables the Group to ensure a smooth transition between the different programs (see section 4.2.2.1 “Delays, program development and industrialization”). Details of the CFM56/LEAP transition plan are set out in chapter 1 (see section 1.3.1.1, “Mid-thrust engines for civil aircraft”) and chapter 2 (see section 2.1.3.1, “Mid-thrust engines for civil aircraft (short-to medium-haul)”). The CFM56/LEAP transition plan is subject to this high level oversight and shareholders and analysts are kept informed of its progress via press releases.

Quality failures or shortcomings in Safran’s equipment, systems or technology could result in costly claims for damages from customers, partners or third parties (product recalls, upgrade campaigns or retrofits), lost revenue and/or a loss of its commercial standing. Safran’s image may also be affected.

In order to best manage the impact of this risk, Safran has deployed a range of quality-focused initiatives such as systematic targeted audits and a Group quality audit tool, as described in section 1.9 of this Registration Document.

### Supplier and partner risks

Generally speaking, Safran works in cooperation with partners and suppliers in the majority of its businesses. Events likely to affect its partners and suppliers could have an impact on Safran’s business activities.

### Supplier risks

Supplier difficulties or default, even when robustness and business contingency planning was one of the key criteria for Safran’s selection, could impact the supply chain, resulting in additional costs or production delays that would affect the Group.

To address this risk, the Group Purchasing Department conducts a monthly review of potentially problematic suppliers with a designated manager and associated action plans. For sensitive suppliers, it also tracks their own in-house risk analyses. For non-production purchases, Safran has put in place a central purchasing strategy (see section 1.8) in the form of pooled facilities at a Shared Services Center in line with the Group’s objectives of excellence, competitiveness and sustainable development.

The Group is also exposed to commodity availability and price volatility risks, notably in respect of titanium, nickel alloys, composite fibers, ammonium perchlorate and oil. To limit the impact of these risks, the Group negotiates medium-term procurement contracts with its suppliers, setting up dual-source supply streams or building up appropriate inventories wherever possible.

The volume of commitments undertaken by Group entities corresponds to the planned increase in production over the coming years. To protect its LEAP program in particular, Safran has set up a dual-source supply approach, enabling it to secure the supply chain.

### Partner risks

Safran is involved in several major strategic partnerships. If any of these partnerships were not renewed, Safran’s businesses could be affected.

A substantial proportion of Safran’s revenue is derived from certain civil aircraft engine programs developed and manufactured in cooperation with the joint venture CFM International, in which Safran Aircraft Engines and GE both have a 50% stake. This civil aerospace propulsion agreement has been extended through 2040 and now includes operational maintenance services. Safran and GE have also entered into an agreement for the development, production and support of engine nacelles for future short- and medium-haul aircraft.

To secure the supply chain, Safran and Albany (United States) have two plants, one in Rochester (New Hampshire, United States) and one in Commercy (Meuse, France), which manufacture composite parts for new-generation aircraft engines. A third plant in Querétaro (Mexico) will begin production in 2018.

Safran is also involved in other partnerships, namely with Airbus Group for space launchers (ArianeGroup joint venture), UEC Saturn (PowerJet joint venture), Avic, MTU, Thales (Sofradir and Optrolead), Rolls-Royce (Aero Gearbox International for power transmission systems for all future Rolls-Royce civil aircraft engines), Air France KLM (engine component repairs) and China Eastern (landing gear maintenance).

These partnerships are set up in full compliance with the anti-trust laws applicable in all markets and countries in which they operate (see section 1.4).

### Health, safety and environmental risks

All industrial activities generate risks, particularly health, safety and environmental (HSE) risks. In each country where the Group has operations, its activities are subject to environmental

legislation and regulations, particularly with respect to waste and air, water and soil pollution. Legal and regulatory requirements for environmental protection have become increasingly stringent and the Group may have to incur significant costs to comply with them. Safran's HSE policy is implemented within the framework of a continuous improvement drive which aims to bolster its strategy of anticipating and preventing potential risks in all of its activities. It is also underpinned by HSE guidelines that cover all sites (see chapter 5, section 5.3.5), reflecting the investments needed to safeguard the health, safety and environment of all stakeholders.

### Personal safety risks

The Group's international scope may generate certain safety risks. The Safety Department has set up a specific oversight organization for each country to address these risks. The Group is constantly assessing the risks of terrorism, armed conflict and confrontation with criminal organizations. Its regions are classified according to risk, each of which is associated with a series of specific prevention and protection measures. The Group is assisted in this initiative by the French government as well as specialist service providers. An emergency operations center may be set up in response to a specific situation and provide exceptional resources to operating staff, for example resources to carry out an emergency repatriation.

### Data confidentiality risks

Safran is exposed to the risk of breaches of security in relation to its industrial premises or data processing systems.

Data owned by the Group are critical in terms of technological innovation, as well as strategy and key assets. Safran therefore needs to have reasonable assurance that its intangible assets (data, knowledge and expertise in particular) are adequately protected.

Faced with risks of unlawful attempts to gain access to confidential information and threats to the security of installations, cyber threat prevention is essential to ensure that the Group can continue in operation.

These cyber risks could lead to disruptions in IT services, causing for example the loss of connection on internal and external network exchange platforms and the unavailability of messaging services, or even breaches in the confidentiality or integrity of data hosted by or transiting through the Group's information systems (loss, destruction, theft, corruption).

In order to limit the impact of this risk, Safran has defined an information system security policy which sets down a series of organizational, technical and governance guiding principles. This policy notably meets requirements set out in French regulations on the protection of intangible assets contained in information systems. Under the policy, awareness-raising initiatives for all Group employees are organized on a regular basis. Lastly, to respond to emerging threats, Safran continually invests as needed in information system protection, incident detection and event response, and security warnings and alerts, and in regular reviews of their effectiveness.

## 4.3.2.2 Risks relating to the Group's evolution

### Technological risks

The Group's markets typically undergo far-reaching technological changes. Safran designs, develops and manufactures products and services renowned for their advanced innovative and technological content. The Group is exposed to the risk of competitors developing products that offer a better technical performance, are more competitive or are marketed earlier than those it develops. This could affect Safran's activities or financial position.

The actions taken by the Group to limit the impact of such risks are outlined in section 1.5, "Research and development".

The Group draws on the complementary scientific and technical expertise provided by its partners (see section 1.5.2).

Safran has set up a pooled research unit focusing on upstream, cross-functional technologies within Safran Tech, the Group's research and technology center. Safran Tech is home to over 400 scientists and technologists and comprises several new research sites and hubs, including the facilities at Safran Composites (comprising around 100 specialists in composite materials and organic chemistry) and Paris-Saclay.

The Group has also created Safran Corporate Ventures (see section 1.5.4), an investment vehicle for start-ups aimed at supporting the upstream development of innovative, high-potential technologies and capturing benefits for the applications used by the Group.

For Safran, intellectual/industrial property ("IP") is an intangible asset of increasing importance in a context of globalized markets and ever-fiercer competition.

Safran may be exposed to a risk of breaches in its intellectual/industrial property, regardless of whether or not it is legally protected (unlawful use by a third party of products, services or software). Safran may be unable to enforce its rights (or to enforce its rights at a reasonable cost) and may therefore be exposed to a variety of risks such as the loss of market share and even damage to its reputation, particularly in the event of technical problems arising as a result of the use of counterfeit products.

Safran's efforts to protect its know-how and other confidential information may prove inadequate and any unlawful access to such information damaging for the Group.

The patents filed by Safran may also fail to dissuade competitors from developing and marketing similar products and services.

To protect itself against this risk, Safran has set up a program to raise awareness regarding IP protection and compliance, designed particularly for technical personnel in teams participating in international cooperation programs. An IP protection strategy has been rolled out for each geographical region and country, based on the classification of critical technologies and on an analysis of the cost of protection with regard to the added value of the particular IP for Safran.

Like other high-tech companies, Safran may be the subject of claims for unintentional use of the intellectual/industrial property of third parties without their prior consent.

## 4 RISK FACTORS

### Risk factors

Safran does its utmost to avoid such unintentional use, particularly when the third party concerned is a customer, partner, subcontractor or supplier. This risk could expose Safran to substantial financial costs (disputes, fines, royalty payments, etc.).

To reduce the impact of this risk, Safran has put in place measures to source and consider existing IP under legal protection when it is developing its products, systems and services. Safran has also brought in IP experts and specialists to help it review its product design and technology readiness level (TRL). Measures are also rolled out providing active oversight of competitor IP and objection procedures are applied where necessary. Team training sessions are also held.

These investments incurred to respond to the above actions are designed to support Safran's technological excellence in the above fields that are crucial to its competitive edge.

### Uncertainty regarding returns on investments

Safran's businesses, and particularly aerospace research, require investments that only produce returns in the long term. The market and profitability assumptions determined by the Group may not prove accurate, and the products resulting from these investments may not enjoy sufficient commercial success to ensure a return on the initial investment (drop in demand, shut-down of a program). Capitalized R&D assets (excluding goodwill and programs) recognized in the balance sheet at December 31, 2017 totaled approximately €2.8 billion (see section 3.1, Note 11), and property, plant and equipment (mainly industrial investments) amounted to approximately €3.5 billion (see section 3.1, Note 12). These amounts are net of accumulated depreciation, amortization and impairment loss provisions.

Investment decisions are coordinated at Group level, based on tried and tested guidelines and numerous evaluation criteria. In addition, the Safran Innovation Department (see sections 1.5 and 1.6) is tasked to oversee the phase between technological demonstrations and marketing.

### Dependence on public procurement contracts

Safran conducts part of its business with governments, especially in Defense markets in Europe, North America, Asia and the Middle East. Government spending in these markets is subject to trade-offs that are contingent on the geopolitical environment and strict budgetary constraints. Budget cuts affecting many of the Group's public customers can not only lead to delays in orders placed or curtailments, postponements or cancellations in the fulfillment of such orders and the related financing, but also to a deterioration in advance payment plans. This could affect Safran's businesses or financial position.

Safran's strategy is based on a balanced portfolio of Civil Aviation and Defense businesses. In 2017, approximately 20% of the Group's adjusted consolidated revenue was derived from government contracts. The broad geographical diversity of the Group's businesses, particularly through its international sites, reflects its customer diversification strategy which helps create a robust business portfolio. This global strategy is also a means of reducing the risk of dependency on government business.

### Acquisition and restructuring risks

As part of its growth strategy, Safran may acquire, merge and/or set up companies, enter into joint-venture-type strategic arrangements, or divest select non-core businesses. The Group has devised procedures and controls to limit the risks inherent

in such transactions. Processes have been put in place to ensure that these transactions meet the Group's strict financial criteria (debt, return on capital employed, etc.). These may have a negative impact on the Group's business, expected earnings or image should Safran fail to integrate the businesses and employees of the acquired entities, unlock the expected synergies and cost savings, or maintain good trade or labor relations within the acquired entities following changes in management or control. The Performance and Competitiveness Department has put in place strict oversight processes for these transactions to ensure that the synergies and earnings obtained are in line with those forecast.

Safran has applied these processes to the acquisition of Zodiac Aerospace. The main risk factors identified to date (see section 2.5) in connection with this operation are described below:

➤ Risks regarding arrangements for accessing information concerning Zodiac Aerospace

Safran's assessment of Zodiac Aerospace was based notably on information publicly disclosed by this company, whose shares are listed on the Euronext Paris regulated stock market.

Negotiations between Safran and Zodiac Aerospace were conducted based on limited information concerning Zodiac Aerospace, notably with respect to additional financial analyses conducted prior to the Business Combination Agreement of May 24, 2017.

On the basis of this information, Safran's knowledge of Zodiac Aerospace's business and the associated upfront risks is not exhaustive. Accordingly, liabilities relating to Zodiac Aerospace and not identified by Safran may come to light after the Offer is settled and following detailed work on the combination that may take several months to complete. These unidentified liabilities could have a negative impact on the profitability, results of operations, financial position and market value of Safran on completion of the transaction and therefore on the value of the Safran Preferred Shares received by Zodiac Aerospace shareholders tendering their shares to the Subsidiary Exchange Offer and of the ordinary shares held by Safran shareholders. It should be noted that in this type of transaction, the Offeror is not covered by vendor warranties.

Given the restricted access to information during negotiations through to the actual Offer, important information – that may impact the achievement of the business plan announced at the time of the transaction – may not have been disclosed to Safran.

➤ Risks regarding integration and unlocking of synergies

The aim of the operation is to generate some €200 million in annual pre-tax cost synergies resulting primarily from savings in procurement for the new group. Ninety percent of the synergies would be unlocked within three years of the takeover while the rest, resulting from optimizing the new group's international footprint, would materialize within a period of five years. The cost of unlocking these one-time synergies would be around €215 million over five years.

As the turnaround of Zodiac Aerospace was slower than forecast, Safran should achieve its return on capital employed objective in three to four years (by 2020 or 2021). The transaction should have an accretive effect on earnings per share of almost 10% in the first year and of over 15% from the second year.

The extent to which the expected benefits materialize will partly depend on the seamless combination of Safran and Zodiac Aerospace's businesses. The transaction involves the combination of two large and complex groups with a wide range of businesses.

The expected synergies from the transaction will therefore depend on the degree to which the combination is successful.

In combining their businesses, Safran and Zodiac Aerospace aim to increase the value created by the combined group. These gains will result from optimizing operations as well as cost synergies stemming primarily from savings in procurement and overhead costs for the new group. Besides the cost synergies specified above, Safran's acquisition of Zodiac Aerospace is also expected support the turnaround of Zodiac Aerospace's seating and cabin interiors business. Nevertheless, Safran may encounter difficulties when putting measures in place to unlock these synergies and/or may not achieve the operational benefits or synergies expected to result from the transaction. Furthermore, the costs incurred to unlock these synergies may be higher than expected or additional unforeseen costs may arise which exceed the expected amount of synergies, thereby decreasing value for shareholders.

The following events may make the integration of Zodiac Aerospace more difficult, limit or prevent synergies from being achieved and/or increase costs:

- > key employees, particularly senior management, may leave the group following the transaction owing to uncertainties and difficulties regarding the combination or more generally because they do not wish to remain within the new combined group;
- > differences between the two groups in terms of standards, controls, rules and procedures, corporate culture and organizational structure, and the need to set up, integrate and align each group's operating procedures (financial, accounting and other IT systems);
- > customers of each group may solicit other suppliers due to a negative perception of the transaction, particularly as a result of the departure of certain senior managers and employees, or because they consider customer care and service to be inadequate.

The synergies expected to result from the transaction are also based on numerous assumptions, which are dependent on

factors outside of Safran's control, such as risks that may arise in connection with the business activities of Safran, Zodiac Aerospace, and subsequently of the combined group, as described in chapter 4 and in the Risk Management section of Zodiac Aerospace's 2016-2017 annual report. Business levels and/or synergies may be lower than expected if any of the aforementioned factors occurs.

Failure of the combination between the two groups, the inability to achieve the expected synergies and additional costs that may arise in connection with the combination could have a material adverse impact on the combined group's businesses, operating income, financial position and outlook.

#### 4.3.2.3 Human resources risks

The Group's different activities harness a wide range of employee expertise and skills across many different sectors. As a result, Safran is exposed to the risk of failing to find the appropriate skills at the right time and in the right place that it needs to deploy its strategy and complete its programs effectively.

In order to limit this risk, the Group continually strives to acquire, retain, redeploy, bolster and renew the skills that it will need in the future, notably to replace the portion of employees expected to retire over the coming years. It has developed a partnership strategy with top graduate schools and scientific universities to recruit employees for its core businesses and has also worked on promoting the Safran employer brand. In addition, professional and geographical mobility programs, talent identification systems, training, monitoring and career development are all used to boost the Group's attractiveness as an employer. In this respect, Safran University is essential in preparing the Group to meet the challenges of tomorrow. Safran has also introduced employee profit-sharing and equity and savings incentive schemes that foster employee buy-in and loyalty. This policy is outlined in section 5.4 of this Registration Document.

## 4.4 INSURANCE

The Risk and Insurance Department identifies the accident risks to which Group entities and businesses are exposed and puts in place the appropriate insurance policies. This does not include personal risk insurance or credit insurance.

The key accident risks are covered by worldwide multi-risk policies spanning several years, negotiated with leading insurance companies. They include:

- > a "property damage and business interruption" policy providing coverage for damage to industrial installations (buildings, machines, inventories, etc.). The maximum payout under the policy is €300 million, or up to €1.3 billion for certain individual sites, excluding market-imposed sub-limits for certain risks such as flooding, earthquakes and natural disasters;
- > "product third-party liability" policies covering the Group in the event it is held liable for damages to third parties as a result of an accident attributable to a delivered product no longer owned or controlled by a Group entity;

- aviation products:
  - the policies provide coverage totaling USD 2 billion per annum that can be used during the year for aviation products. Coverage for helicopter products is capped at USD 1 billion, while coverage for terrorism totals USD 1 billion,
- "land" products (excluding aviation businesses):
  - the policies provide coverage of €350 million per annum that can be used during the year.

A captive reinsurance company owned by the Group participates in the risk coverage scheme within the framework of "civil aviation liability" and "property damage and business interruption" insurance policies.

Local insurance programs are subscribed across the globe either to cover specific risks or in response to local legal or regulatory insurance requirements.

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# CORPORATE SOCIAL RESPONSIBILITY

# 5



## 2017 KEY INDICATORS



### COMPLIANCE PROGRAMS

Employees trained  
in compliance worldwide

More than **7,700** people



### PURCHASING

Supplier development  
projects

**120**



### OCCUPATIONAL SAFETY

TRIFR: number of  
recordable incidents  
per million hours worked

**21**



### HR

Percentage of employees  
having attended at least  
one training session during the year

**81%**

## INTRODUCTION: CSR POLICIES AND CORPORATE STRATEGY

### Corporate social responsibility is an integral part of Safran's strategic vision

As an international high-technology group operating in the aircraft propulsion and equipment, space and defense markets, Safran is dedicated to:

- > boosting air transport performance;
- > enhancing protection for citizens;
- > facilitating access to space.

To fulfill these corporate missions, the Group is pursuing a strategy based on four main pillars (see section 1.2): i) technological innovation; ii) tier-one ranking in its businesses; iii) strong positions in fast-growing markets with recurring revenue; and iv) a consistently stable balance sheet. In executing this strategy while maintaining a constant focus on product safety, Safran's businesses are underpinned by extensive research and development capabilities, an ambitious product and service quality commitment, highly skilled, highly engaged employees and sustainable, long-term supplier relationships. As an international organization, business ethics is also a major issue. Respect for human rights, fundamental freedoms, the environment, and the health and safety of people are all addressed through the application of the Group's Ethical Guidelines and its pledge to uphold the United Nations Global Compact.

In addition, a holistic, dedicated action plan has been prepared with stakeholder input to identify risks, prevent serious infringements of these rights and comply with France's Duty of Care Act of March 27, 2017.

The plan covers, internally, Safran companies and controlled entities and, externally, suppliers and subcontractors with whom an established business relationship is maintained (see section 5.1.4).

It builds on existing systems and procedures, as described in this chapter, and on measures that have been strengthened and streamlined based on an expanded risk analysis. It also includes the deployment of:

- > regular assessment procedures;
- > appropriate programs to mitigate risks or prevent serious harm or damage;
- > an alert mechanism devised in consultation with the representative unions:
  - covering all types of risk (including quality/counterfeiting risks),
  - accessible both internally and externally,
  - comprising the alert response procedure;
- > a system for tracking the measures taken and assessing their effectiveness.

In demonstrating its CSR commitment, Safran must take into account its industry's specific features and characteristics. One of the main risks is product safety (see section 4.3.2.1). The same quality policies (see section 1.9) are applied across the Group, in every member company, including the obtainment and renewal of airworthiness agreements and EN 9100 certification for tier-one companies. Quality/safety systems have been certified by independent certification organizations and by national and international civil aviation authorities.

Technological innovation is securing the Group's sustainable growth (see section 1.5), supported by intellectual property policies designed to maintain its competitive leadership. The Group invests heavily in R&T, with a budget amounting to 8% of revenue in 2017.

### Managing CSR issues and stakeholder dialogue

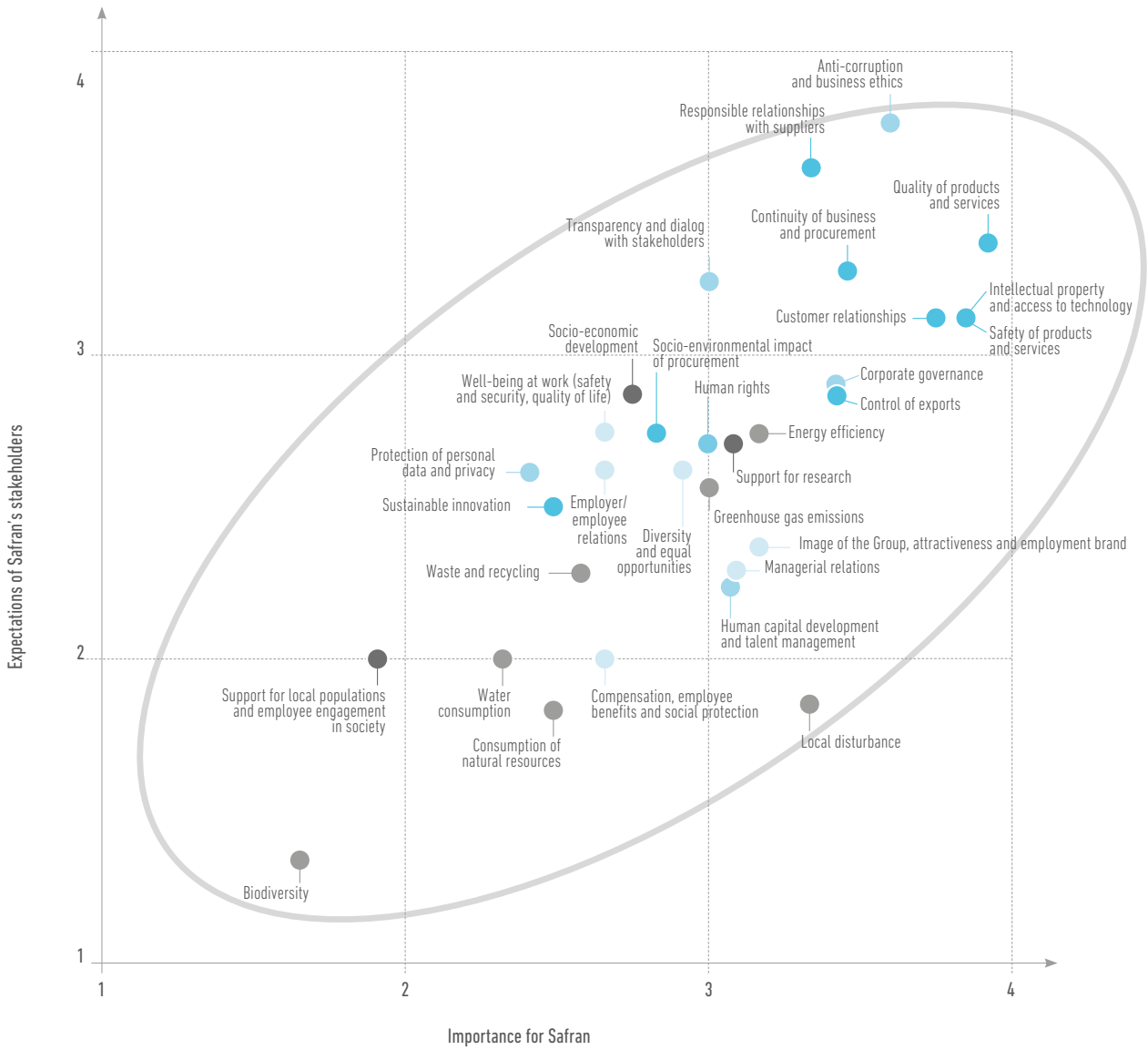
The social and environmental responsibility issues inherent in the Group's operations are aligned with the risk management process (see section 4) overseen by executive management. As part of this process, Safran's CSR issues were mapped into a materiality matrix in 2015<sup>(1)</sup>.

(1) Source: Safran.

# 5 CORPORATE SOCIAL RESPONSIBILITY

## Introduction: CSR policies and corporate strategy

### SAFRAN'S CSR MATERIALITY MATRIX



- PRODUCTS AND SERVICES
- GOVERNANCE
- EMPLOYEES AND MANAGEMENT
- ENVIRONMENT
- SOCIETY

## CSR governance

The Group's responsibilities have been clearly expressed by the Chief Executive Officer:

“ *As a manufacturer with operations on every continent and a leader in the aerospace and defense markets, Safran is fully aware of its social and environmental responsibilities, which for me, as well as for every Group employee, are a non-negotiable priority.* ”

A review of the CSR actions underway and their outcomes was presented to the Board of Directors in 2017, based in particular on the ESG rating awarded by non-financial rating agency Vigeo Eiris.

In terms of organization, CSR policies are managed by the Group Human Resources Department with the support of a CSR Officer, who is responsible for leading and deploying the policies in coordination with a steering committee comprised of representatives from the different departments involved.

## Commitments undertaken

By renewing the Group's support for the United Nations Global Compact, Safran's Chief Executive Officer has assumed responsibility for CSR performance at the highest level of the organization and engaged the entire Group in upholding and promoting, in all its practices, the Compact's ten principles in the areas of human rights, labor standards, the environment and the fight against corruption. As part of its commitment, Safran discloses an annual Communication On Progress (COP) which is then posted on the United Nations Global Compact website. Safran's COP, which qualifies for "Advanced" (level 3 of 4), is based to a great extent on the annual Registration

Document and particularly the CSR chapter, approved by the Board of Directors. Safran intends to highlight its commitments and contributions in the aforementioned areas, underscore the consistency of its initiatives and embed the social responsibility process as a strategic driver of the Group's future and growth.

In light of this, on October 18, 2017, a global CSR framework agreement was signed with the IndustriALL Global Union and representatives of the French metalworking federations of the CFE-CGC, CFDT, CGT and CGT-FO unions.

The agreement is designed to:

- provide a formal framework for the Group's social responsibility process, notably in compliance with international labor conventions.

It confirms Safran's pledge to prohibit any form of forced or child labor. The Group also recognizes the legitimate role of employee representatives and trade unions in a dialogue aimed at maximizing the company's social value. The deployment of Safran's culture of prevention is built around the Health, Safety, and Environment (HSE) standard, which comprises 800 performance criteria for safety and working conditions, ergonomics and environmental protection. It also complies with international standards, such as those published by the International Organization for Standardization (ISO) and the International Labour Organization (ILO);

- continue to deploy the Group's human resources policies, which nurture talent and skills, support quality of worklife and well-being, promote diversity and ensure equal opportunity. The agreement bans any form of discrimination, with a particular emphasis on fostering gender equality in the workplace. In this way, all employees are offered the same career opportunities, supported as needed by training. The right of all employees to respect and recognition has been reaffirmed;

- enhance recognition of Safran by both customers and suppliers for its outstanding compliance with business ethics. Safran is committed to fighting against corruption in all its forms and regularly sharpens employee awareness through appropriate communication resources and/or training;

- guarantee fundamental union rights, including freedom of association, collective bargaining and social dialogue.

The agreement affirms a commitment to promoting "open and constructive social dialogue on a global scale, in order to continuously improve and develop best practices at all Safran facilities." It specifies that any change in working hours must be prepared and planned with employee representatives.

Addressing stakeholder relations, the agreement provides that fundamental rights will be upheld both in Group subsidiaries (in which the Group holds at least a 50% stake) and in the selection and assessment of suppliers, subcontractors and service providers. It also takes into account the Group's impact on the local environment, so that in each host country it focuses on hiring locally to fill available positions.

An international monitoring committee will be set up in first-half 2018 to measure how well the agreements and commitments are being implemented in practice.

## 5.1 SOCIAL INFORMATION

### 5.1.1 Preventing the risk of corruption

#### 5.1.1.1 Ethical and social engagement

Safran has a set of values and ethical standards that are embraced by all of its employees. Duty of care has been integrated into all of the Group's business processes and growth is carefully managed in accordance with the highest international standards of business ethics, integrity and professionalism. These values and ethical behavior are of critical importance to Safran, in that they play a vital role in enabling it to earn and retain the trust of all of its stakeholders.

Safran diligently conducts its business in accordance with the highest standards of honesty, integrity and professional behavior, as reflected in the seven values that form the bedrock of its corporate identity, embraced by every employee and demonstrated in every subsidiary and facility:

- > focus on customers;
- > meeting the commitments set out in the Ethical Guidelines;
- > innovation;
- > responsiveness;
- > teamwork;
- > people development and recognition;
- > good corporate citizenship.

"Anti-corruption and business ethics" is a major social responsibility issue that appears every year on the Group's CSR materiality matrix. To address it, Safran has developed and deployed a robust trade compliance program based on the Ethical Guidelines<sup>(1)</sup>, which specify the shared principles and standards that every employee is expected to apply in all circumstances. The Guidelines are not intended to replace or revise the laws and regulations in force, but to provide employees with points of reference and guidance in conducting their business activities. Demonstrating these values and ethics enables the Group to deserve and retain the trust of all its stakeholders.

#### 5.1.1.2 Anti-fraud policies

Employees who suspect that a practice or incident may be illegal or in violation of the Group's rules of business conduct have the right to notify or request guidance from their managers, Head of Internal Control, Head of IT Security, Security Officer, Human Resources Manager, the Legal Department, the Finance Department, the Quality Department, the Audit and Internal Control Department or the Compliance, Ethics and Anti-Fraud Committee, etc.

#### 5.1.1.3 The Compliance, Ethics and Anti-Fraud Committee

The permanent members of the Compliance, Ethics and Anti-Fraud Committee are the Corporate Secretary, the Chief Financial Officer, the Senior Executive Vice President, International and

Public Affairs, the Executive Vice President, Human Resources, the Chief Legal Advisor, the Senior Vice President Group Compliance Officer, the Chief Security and Fraud Officer, the Head of Audit and Internal Control and the Head of Group Internal Control.

The Committee is responsible for supervising compliance with the rules defined in the Ethical Guidelines (upholding the law, engaging in proper business practices, protecting people and assets, etc.), as well as for managing any updates and revisions to the process. This approach is sponsored by the Corporate Secretary, and the responsibilities are handled by the departments concerned (for example, the Group Department of International and Public Affairs manages trade compliance and export control). The Group's resources namely include the Ethical Guidelines, anti-fraud policies, internal control procedures, processes and standards, and a fraud prevention, awareness, detection and assessment program. In particular, a system is in place to report cases of fraud or attempted fraud identified in Group companies. In response, appropriate remedial action is taken by the companies, the concerned operating departments and, as necessary, by the Group Audit and Internal Control Department and the Group Security Department. A fraud officer has been appointed and tasked with, among other things, defining internal investigative procedures and, when applicable, conducting the investigations. He reports to the Compliance, Ethics and Anti-Fraud Committee.

#### 5.1.1.4 Zero tolerance of corruption

The importance of ethical values in shaping Safran's policies and operations has been clearly and continuously articulated by senior management. Chief Executive Officer Philippe Petitcolin has expressed this commitment in his introductory message to the trade compliance courses held since 2017:

“ *Our business enables us to play a vital role in ensuring the security and safety of people, companies and countries. This entails vast responsibilities that we must never lose sight of. This is primarily a question of ethics, which we feel is a cardinal virtue. But it's also about our competitiveness and the sustainability of our businesses, at a time when governments are paying more and more attention to trade compliance and due diligence.*

*In 2012, Safran was the first French listed company to be certified to international corruption risk prevention standards, attesting to our own high ethical standards and the effectiveness of our trade compliance program.*

*Our strength, our pride, is to show zero tolerance for any violation of our business integrity. By practicing impeccable business ethics, we will remain faithful to our values and drive continued success for our Group. I firmly believe that we must lead by example in this area.*

(1) Source: Safran.

### 5.1.1.5 A robust program designed to the highest standards

Based on its uncompromising commitment to zero tolerance for any form of unethical behavior, particularly bribery or corruption, Safran has defined and implemented a disciplined program to prevent and detect risks of corruption, influence peddling, embezzlement, undue advantage, misuse of public funds and favoritism. In the following text, the generic term of “corruption” refers to these dishonest and immoral violations of the Group’s standards.

The program, which is continuously updated and improved, covers all of the related guidelines specified in international conventions and national legislation that are applicable to Safran’s business operations.

Its goal is to instill a culture of honesty across the organization that encourages every employee to embrace the imperative of demonstrating outstanding behavior in this regard.

It complies with the French Act of December 9, 2016 (Sapin II Act) relating to transparency, anti-corruption measures and modernization of the economy.

It is designed both to empower employees and to safeguard corporate assets with a disciplined risk management process based on eight pillars:

- > setting the example at the highest level: “Tone at the Top”;
- > dedicated corruption risk mapping;
- > a Code of Conduct;
- > a dedicated organization;
- > appropriate procedures;
- > an information and training program;
- > a procedure control and monitoring system;
- > an internal alert system.

The corruption risk prevention program comprises a series of standard operating procedures applied by each subsidiary in accordance with local legislation applicable to its organization, products and markets. It is also proposed to the Group’s minority-owned joint ventures.

As an integral part of the Group’s corporate social responsibility process, the corruption risk prevention program is run by a dedicated organization, the Trade Compliance, Export Control and Customs Department, which is led by the Group Compliance Officer, who reports to the Senior Executive Vice President, International and Public Affairs (DG2I), who in turn reports to the Chief Executive Officer.

As a member of the Compliance, Ethics and Anti-Fraud Committee, the Group Compliance Officer coordinates the entire corruption risk prevention process, leads discussions and promotes best practices with companies, national and international authorities and civil society.

In addition, Safran is deeply involved in a wide range of collective, industry or thematic initiatives dedicated to strengthening and sharing best business integrity practices<sup>(1)</sup>.

As such, the Group has established an international reputation as a responsible company whose anti-corruption program not only meets legal requirements but also complies with best practices as defined in the applicable legislation<sup>(1)</sup>.

### Setting the example at the highest level: “Tone at the Top”

The Board of Directors, the Chairman, the Chief Executive Officer and all Safran subsidiary chief executives have emphasized the need to lead by example, both for themselves and for every employee. Maintaining business integrity and refusing all forms of corruption are non-negotiable, even if it means losing contracts and revenue. This is the only way for the Group to secure its sound, sustainable growth and retain the trust of its stakeholders. This commitment is reflected in a representation letter signed every year by all of the chief executives of the Group’s tier-one companies. The executives sign for their own companies and ensure that this letter is also signed by their subsidiaries.

Twice a year, the Group Compliance Officer reviews trade compliance issues in a presentation to the Executive Committee. Trade compliance in the tier-one companies is also periodically reviewed with their chairmen.

### A dedicated corruption risk mapping

Safran’s compliance program is informed by a dedicated risk mapping, integrated into the Group’s risk map (see section 4.1.1), that tracks all of the companies’ specific corruption-related issues and risks (see section 4.3.1.3), with a focus on:

- > market trends in the Group’s host countries;
- > applicable changes in legislation and standards;
- > each company’s situation, based on the maturity of its corruption risk prevention program, the results of internal and external audits performed during the year, and the completed or ongoing improvements in its procedures and organization.

All of the tier-one subsidiaries have prepared dedicated corruption risk mapping, which the companies and Group management use as their primary tool for mutually defining pathways to improvement, resource requirements and the training plan.

### A Code of Conduct

The Code of Conduct expresses the commitment of senior management to engaging the Group in a corruption prevention and detection process. It defines and illustrates the types of behavior that are prohibited because they could be construed as corruption, based on the risks identified in the risk mapping exercise.

The Code of Conduct was finalized on January 22, 2018, following the issuance of recommendations by the Agence Française Anticorruption (AFA) on December 21, 2017. The Code of Conduct will be integrated into each facility’s operating procedures manual, after consultation with employee representatives, and will be applicable to all Group employees.

(1) Source: Safran.

## A dedicated organization

The Group Compliance Officer is assisted by a network of 19 Trade Compliance Officers (TCOs) appointed in all the companies that do business independently. Delegated by their Chairman or Chief Executive Officer, the TCOs are responsible for guaranteeing that their company's business transactions fully comply with Group anti-corruption procedures. They report to the Group Compliance Officer, who provides them with all of the support and useful information they need to perform their duties.

TCOs work with a network of 117 Trade Compliance Managers or Correspondents (TCMs or TCCs) who ensure that the measures taken by the TCOs are applied in each of their company's subsidiaries or divisions. They also lead training courses, after being accredited as trainers by the Group Compliance Officer.

The disposal of Safran Identity & Security caused a slight decline in the number of TCOs during the year, to 19 from 21 in 2016, and in the number of TCCs/TCMs, to 117 from 128 in 2016.

TCOs and TCMs/TCCs are expected to ensure that people at risk in their sales, marketing, legal, financial, human resources or purchasing organizations regularly receive information and appropriate training. They also meet regularly to share their knowledge, discuss best practices and help to improve the trade compliance program and its procedures.

In addition, they are empowered to conduct trade compliance reviews in their unit to ensure compliance with the procedures. Lastly, TCOs and TCMs/TCCs must notify the Group Compliance Officer of any failure to follow procedures as soon as it is detected.

## Appropriate procedures: selecting and validating business partners – gifts, hospitality and travel

These procedures clearly and precisely describe the roles of employees and the rules that they are expected to apply in performing their duties. They are regularly updated and improved, and are widely distributed among managers and employees. The Group's external partners are also informed about these procedures:

- the "international trade compliance" procedure specifies strict rules for the centralized, independent control and management of contractual relations with business partners, as well as partners involved in offset agreements or in acquisitions, disposals or the creation of joint ventures by Group companies (such as consultants, service providers, distributors or other partners in investment transactions). It was amended in 2016 and will be updated in 2018 to reflect the latest changes in legislation (particularly the Sapin II Act) and best practices. It describes the tight controls governing the selection and approval of business partners, the assessment of their ethical performance, their monitoring and their compensation. Internal and external due diligence is systematically performed for every business partner. The procedure also covers the approval, management and monitoring of lobbyists, who must also comply with Safran's responsible lobbying guidelines, which were updated in 2017;
- the procedures for "gifts and hospitality" given to or received from customers, suppliers and other stakeholders, as well as the corporate patronage directive, are designed to avoid any violation of current legislation and any potential conflict of interest.

As concerns purchasing:

- an ethical standards clause, updated in 2017, is included in Safran's general purchasing conditions, which must be signed by every supplier;
- the Group's Responsible Purchasing Charter, also updated in 2017, incorporates the terms of the Supplier Model Code of Conduct of the International Forum on Business Ethical Conduct for the Aerospace and Defense Industry (IFBEC).

## An information and training program

Members of the Executive Committee, company senior executives and Group employees who are either directly and indirectly concerned with preventing the risk of corruption are regularly provided with appropriate information, in the form of such documents as a bimonthly anti-corruption review, a weekly business ethics newsletter, country legislation reviews and analysis and dedicated intranet web pages. In all, 93 information memos were issued in 2017.

An on-site trade compliance training course was developed for Group companies worldwide. The issue of preventing and detecting corruption was cross-functionally incorporated into a wide range of Safran University training programs, particularly the courses for employees working in sales, marketing, purchasing and programs. The interactive MOOC on preventing the risk of corruption or the infringement of export control legislation that was deployed in late 2014 is being revamped for a scheduled relaunch in 2018. More than 15,000 people concerned by these issues have attended dedicated training courses since 2009, including more than 3,300 in 2017. Subsidiary executive committees are also briefed at least once a year. These courses are designed to give every employee concerned adequate knowledge of regulations applicable to his or her activities and a full understanding of Group procedures and how to apply them in performing his or her duties. The program is led by the Group's trade compliance team, as well as by the companies' Trade Compliance Officers, who have been accredited as trainers.

A communication campaign on integrity in business transactions rolled out in late 2015 with the slogan "Adopt the Compliance Attitude" continued apace in 2017, helping to raise employee awareness of how to respond appropriately in different situations at risk.

## A procedure control and monitoring system

The program to monitor proper application of Safran's trade compliance procedures is helping to enhance risk mapping and drive continuous improvement in risk prevention performance. It is being implemented at three levels:

- trade compliance reviews led by the Group Compliance Officer. In 2017, 25 such reviews were performed, covering all of the tier-one companies and their subsidiaries. They verified that the companies had implemented and were complying with the applicable procedures and, when necessary, recommended avenues to improvement;
- the Audit and Internal Control department also performs audits addressing trade compliance, based on specific control points;



➤ in late 2012, Safran was the first CAC 40 company to be “anti-corruption” certified by the French Agency for the Diffusion of Technological Information (ADIT). The underlying ADIT/Mazars certification system incorporates current best practices and the full range of national and international laws and regulations (French legislation, the US Foreign Corrupt Practices Act, the UK Bribery Act, the OECD Anti-Bribery Convention, the tenth principle of the United Nations Global Compact and France’s Sapin II Act). Certification was renewed in May 2017, underscoring the Group’s major drive in recent years to build a robust anti-corruption program aligned with the highest international standards.

Also certified were Safran Electronics & Defense and Safran Identity & Security in 2014, Safran Aircraft Engines and Safran Helicopter Engines in 2015, Safran Landing Systems and Safran Aero Boosters in 2016 and Safran Nacelles in 2017.

Safran Transmission Systems is currently being certified, and the process for Safran Electrical & Power will get underway in early 2018.

### Internal alert system

In 2017, the Group initiated a project to expand its internal alert and whistle-blowing systems, which will be deployed in 2018.

## 5.1.2 Complying with export control laws

Group companies buy and sell components, equipment and technologies that can be used for civil, military or so-called dual-use (civil and military) applications. Safran therefore complies, without exception, with all applicable regulations governing its military or dual-use export and import operations, with procedures in place to ensure strict compliance with export control legislation.

### Export control compliance standard

Safran has implemented an export control compliance standard structured around nine compliance issues:

- implementation of an export control organization;
- identification of product export restrictions;
- management of applications for export licenses and agreements;
- compliance with the terms and conditions of approved licenses;
- identification and protection of controlled technologies;
- employee training and awareness building;
- monitoring and audit of the export control program;
- management of cases of non-compliance;
- application of the compliance standard by each company.

The compliance standard has been especially useful for companies seeking certification from the French Directorate General of Weapons Procurement (DGA) following application of the French law transposing the European Directive on transfers of defense-related products within the EU. In 2017, this certification was held by Safran Power Units, Safran Aircraft Engines and Safran Electronics & Defense.

To date, the compliance standard is available in all of the tier-one companies, with a special version adapted to subsidiaries in the United States.

### Export control organization

Senior management’s commitment to complying with all applicable legislation has led to the introduction of a dedicated organization.

Overseen by the Senior Executive Vice President, International and Public Affairs, the Group Export Control Department is supported by a global network of 370 Export Control Officers.

Their job is to ensure that the compliance standard is consistently applied across the Group’s global business base, which is subject to more than 22 regulatory frameworks.

The Group Export Control Department:

- defines the compliance standard;
- verifies that every company or corporate department (Purchasing, HR, Programs, Supply Chain, etc.) is applying the standard;
- contributes its expertise to support operations led by the companies or corporate departments;
- provides an application to assess export sales to countries, companies or individuals subject to sanctions or embargoes and gain a better understanding of applicable legislation;
- verifies the compliance of all business conducted by Group companies with countries or companies subject to sanctions or embargoes, in association with the Group Finance Department;
- participates in due diligence performed by the Strategy Department during mergers and acquisitions, to ensure that compliance issues are addressed and a proper policy has been applied;
- participates in a variety of working groups with public authorities and trade associations such as the French Aeronautical and Space Industries Group (GIFAS), the AeroSpace and Defence Industries Association of Europe (ASD), French employer federation MEDEF and Business Europe.

Export control teams in companies include:

- Empowered Officials, who are management committee members appointed in each Group company involved in import/export transactions. They are personally responsible for ensuring that their company’s exports comply with all of its commitments;
- Export Control Officers (ECOs) appointed by a company chief executive to assist the Empowered Official. They are supported as needed by dedicated teams of Export Control Managers (ECMs) and a network of Export Control Correspondents (ECCs) in the main operating departments concerned.

A Group Export Control Committee is responsible for i) recommending to senior management any actions, organizations and directives capable of ensuring the Group’s compliance with applicable national and international laws and regulations; and ii) keeping senior management informed of the latest improvements, difficulties and risks. It met three times in 2017.

## Export control training and awareness building

The Group Department of International and Public Affairs notifies any Group company employee involved in export sales of the latest regulatory developments and any violations of export control legislation (70 information memos issued in 2017).

Safran University organizes targeted training courses, taught by the Group Export Control Department, for program managers, buyers and sales people. Group companies also provide dedicated export control training for employees concerned, as well as awareness training for new hires. More than 3,900 people were trained in 2017, which brings the total to more than 27,000 since 2010.

Safran has developed a dedicated export control intranet site and a MOOC online course, which will be updated in 2018. These programs are raising awareness and encouraging the sharing of best practices among Safran employees all over the world. The intranet site offers daily updates on the countries, companies and individuals subject to sanctions or embargoes, as well as a directory of correspondents in the export control network and the various applicable procedures.

## Monitoring and auditing the export control program

Every two years, the Group Export Control Department works with an outside service provider to review the maturity of the compliance programs deployed by the tier-one companies and corporate departments. The Department and the reviewed organizations then track the implementation of the recommended action plan. The reviews also identify potential difficulties and risks, so as to provide operational support as needed. Based on their findings, the Department updates the risk map twice a year and prepares improvement plans.

All of the tier-one companies and corporate departments have been reviewed since 2016, including five – Safran Ceramics, Safran Transmission Systems, the Safran Research and Technology Department, the Safran Information Systems Department and Safran Purchasing – in 2017.

In addition, each tier-one company is responsible for ensuring that the control program is effectively up and running in its own subsidiaries.

Safran also ensures that its companies detect, assess and report any cases of non-compliance. The companies inform the relevant authorities of each identified case and take every precaution to prevent similar cases from recurring in the future. To date, none of the cases closed by authorities have been subject to penalties.

### 5.1.3 Complying with customs regulations

Safran complies with all applicable customs legislation by deploying suitable, effective systems to ensure seamless compliance in all of its international business transactions.

Specifically for France, the Group Customs Department is actively partnering with the French customs administration, so that the subsidiaries now report to the Customs Directorate's new Key Accounts Office, which provides dedicated expertise and ensures that the Group's customs transactions are consistently and quickly expedited.

In 2017, the Group Customs Department and the subsidiaries' customs officers focused on updating their procedures and authorizations so as to comply with the new standards in the latest directives and thereby benefit as soon as possible from easier administrative procedures and lower customs duties. Examples include the shift from "economic procedure" to "special procedure" authorizations, inward processing authorizations, waiving guarantees for certified operators, filing authorizations for temporary storage facilities, etc.

#### Customs compliance standard

Prescribed Group-wide customs practices are defined in a compliance standard structured around 11 areas:

- > a customs organization;
- > operating procedures (e.g., customs authorizations, tariff classification, customs procedures, origin, value, guarantees, proof of export, etc.);
- > recording, storage and archiving;
- > outsourcing customs declarations;
- > monitoring and auditing the compliance program;
- > information, awareness-raising and training;
- > subsidiary reporting procedure to the Group Customs Department;
- > managing cases of non-compliance;
- > certification as an Authorized Economic Operator (AEO) or equivalent;
- > relations with customs authorities;
- > application of the internal compliance program in the subsidiaries.

The compliance standard is especially useful for companies seeking customs certifications, such as the European Authorized Economic Operator (AEO) status, which are issued by customs authorities and recognized worldwide. All of the tier-one companies have been AEO certified with the exception of i) Safran Landing Systems, which submitted its application in mid-2017, was audited by French Customs in November and is awaiting the findings; and ii) Safran Electrical & Power, which plans to launch the certification process in 2018.

## A customs organization

The Group Customs Department, created in 2016 as part of the Group Department of International and Public Affairs, is supported by a worldwide network of internal experts with:

- Empowered Officials, who are management committee members appointed in each Group company involved in import/export transactions. They are personally responsible for ensuring the compliance of their company's imports and exports;
- a Customs Officer in each company, tasked by the chief executive with assisting the Empowered Officials. His or her main role is to transpose the Group's customs compliance standard into an internal compliance program with a company-specific organization, procedures, guidelines, training and control process. The Customs Officer is assisted when necessary by a network of Customs Correspondents in the main operating departments and facilities concerned;
- a Group Customs Committee, primarily comprising the Group Compliance Officer, the Group Customs Officer and the tier-one company customs officers. Meeting quarterly, the Committee is responsible for i) enhancing the maturity of the Group's compliance with national and international laws and regulations, with appropriate, actionable practices; and ii) implementing continuous improvement plans.

The main responsibilities of the Group Customs Department are to:

- define the Group compliance standard and monitor its application in each company;
- lead and coordinate the Customs Officer network;
- provide expertise in line with companies' needs;
- develop any necessary actions to be taken and deploy communication and awareness-building tools to help companies improve their capabilities (intranet, meetings, seminars, publications, regulatory intelligence);
- contribute to cross-functional projects led by the Strategy, Tax Services, Manufacturing and Purchasing departments.

The Group Customs Department participates in a large number of working groups with French authorities and in all of its import/export countries. These discussions are led as part of the customs commissions of the French Aerospace Industries Association (GIFAS), the French Federation of Electrical, Electronic and Communication Industries (FIEEC), French employer federation

MEDEF and the Aerospace and Defence Industries Association of Europe (ASD). Their primary focus is the pan-European application of the Union Customs Code and its new regulations impacting dematerialization of trade, customs clearance and self-assessment by 2020.

## Training and awareness-raising

The Group Customs Department regularly informs all of the employees concerned of the latest changes in legislation and standards. In 2017, for example, 52 regulatory intelligence reports or procedure updates were issued.

Company Customs Officers organize customs training courses by business line, which are led either by in-house instructors or by outside trainers. The 527 people trained in 2017 represented a significant decline from the prior year, due to the disposal of Safran Identity & Security.

In 2018, the deployment of MOOC modules is being considered in order to expand on the existing system, particularly the nine Safran University courses.

## Assessing the effectiveness of the customs process

In 2017, the Group Customs Department reviewed the maturity of the customs process with tier-one companies, to gauge the progress made in defining and deploying each of the internal compliance programs. These reviews are performed by an outside provider every two years.

To support them, the Group Customs Department designed an application to measure the maturity of a company's customs compliance process. Integrated into the compliance standard, the application will eventually be deployed across the Group.

The assessments also help to identify potential difficulties and risks, so as to provide operational support as needed. Based on their findings, the Group Customs Department updates the risk map twice a year and prepares improvement plans.

In 2017, the first subsidiary, Safran Helicopter Engines, was reviewed and in 2018, five tier-one subsidiaries will be assessed.

Moreover, each tier-one company is responsible for making sure that a control program has been deployed in its subsidiaries, so as to regularly confirm that its customs quality and compliance system is being implemented.

Safran also ensures that all of its companies detect and assess any cases of non-compliance and report them to the proper authorities, and that they take all necessary precautions to prevent similar cases from arising in the future.

## 5.1.4 Measurable indicators: trade compliance, export control, customs

| Indicators (other indicators tracking the Group's business partners are confidential)  | 2015               | 2016              | 2017                           |
|--|--------------------|-------------------|--------------------------------|
| <b>Trade compliance</b>  |                    |                   |                                |
| Number of representation letters signed in the tier-one companies  | 100%               | 100%              | 100%                           |
| Tier-one subsidiaries having prepared a dedicated anti-corruption risk map and submitted it to the GCO   | 90%                | 100%              | 100%                           |
| Number of Trade Compliance Correspondents in Group companies   | 133                | 149               | 136                            |
| Number of on-site compliance training courses for employees concerned  | 52                 | 132               | 144                            |
| Number of people trained   | >1,200             | >1,850            | >3,300 <sup>(1)</sup>          |
| Number of information memos issued to employees concerned  | 40                 | 64                | 93                             |
| Number of trade compliance reviews   | 13                 | 23                | 25                             |
| Number of tier-one companies certified   | 5                  | 7                 | 9                              |
| <b>Export control</b>  |                    |                   |                                |
| Number of Export Control Correspondents in Group companies   | 490                | 471               | 370 <sup>(2)</sup>             |
| Number of people trained   | More than 4,700    | More than 3,400   | More than 3,900 <sup>(3)</sup> |
| Number of information memos issued to employees concerned  | 34                 | 48                | 70                             |
| <b>Customs</b>   |                    |                   |                                |
| Number of information memos issued to employees concerned  | N/A <sup>(4)</sup> | 10 <sup>(4)</sup> | 52                             |
| In-house training courses <sup>(2)</sup>   | N/A <sup>(4)</sup> | 1,157             | 527                            |
| Number of tier-one companies certified as Authorized Economic Operators by the French customs administration (Safran Identity & Security excluded in 2017) | N/A                | 5                 | 4                              |

(1) More than 15,000 in total since 2009.

(2) The decline reflects the disposal of Safran Identity & Security.

(3) More than 27,000 total since 2010.

(4) Group Customs Department created in 2016.

## 5.1.5 Nurturing responsible supplier relationships and supporting sustainable procurement

Safran is deploying a formally defined purchasing policy by instilling best practices across the organization and striving to foster responsible relationships with its suppliers by demonstrating the values of the Safran Ethical Guidelines, in support of sustainable procurement.

This bedrock process will be further strengthened in 2018 in response to new legislation and regulatory standards (namely, France's Duty of Care Act of March 27, 2017, the anti-corruption provisions of the Sapin II Act and the European directive on the disclosure of non-financial information).

### 5.1.5.1 Purchasing policy

Safran's purchasing policy is designed to meet its objectives of excellence and competitive performance, in seamless alignment with both its manufacturing strategy and its CSR commitment.

The policy awards business to suppliers that are capable of meeting the Group's standards, its competitiveness criteria and the demands of the aerospace and defense markets, and that are prepared to work with Safran over the long term in a fair, mutually beneficial relationship.

It is being implemented in accordance with Safran's commitments to:

- > uphold the United Nations Global Compact, which Safran has pledged to support;
- > comply with the Supplier Code of Conduct issued by the International Forum on Business Ethical Conduct (IFBEC);
- > support the hiring and retention of employees with disabilities. A Group agreement is in place to expand collaboration with sheltered workshops and disabled-staffed companies, with initiatives now being jointly led by managerial-grade staff from the Purchasing and Human Resources departments;

- identify, in its products, any tin, tantalum, tungsten, gold or other minerals sourced from conflict zones, in particular the Democratic Republic of the Congo and its border countries, in response to US customers subject to the Dodd-Frank Act. This identification process also complies with the upcoming European regulation aimed at extending this disclosure to all of the conflict zones identified by the European Union;
- ensure continuous cooperation among the companies, seamless coordination among everyone in contact with suppliers and the involvement of purchasing teams across the product life cycle.

### 5.1.5.2 Deployment

Given the Group's purchasing volumes, which represent around 60% of revenue, deployment of the purchasing policy is being driven by:

- a shared Group-wide procurement process, supported by maturity assessment applications used to devise and deploy continuous improvement plans designed to enhance proficiency in best practices;
- a procurement manual identifying these best operating practices, issued to every purchasing process stakeholder, as part of the One Safran initiative;
- a purchasing organization comprising two sections:
  - a corporate purchasing department in charge of non-product related (NPR) purchases and materials purchases on behalf of Group companies, as part of the Safran Performance and Competitiveness department;
  - purchasing departments in each company, in charge of bill of materials (BOM) procurement;
- a process to map, prioritize and manage risks, with periodic reviews of both the map and the related action plans;
- an internal control system for purchasing organizations and practices based on some 30 control points audited every year;
- improvement plans reflecting feedback from the various French organizations to which Safran has made commitments:
  - Responsible Supplier Relations and Sustainable Procurement label: every year, the certifying organization and the label award committee issue comments and opinions,
  - Defense SME Pact: the Ministry of Defense issues recommendations during the annual review,
  - SME Pact: the monitoring committee (with equal representation of SMEs and large accounts) issues an opinion based on the results of the SME Pact survey (to date, Safran has always received a favorable opinion). The 48-question survey covering key issues, which is sent to 410 French suppliers, offers Safran an effective yardstick for measuring supplier perceptions of its supplier relationships;
- a training organization accessible to every buyer and designed to instill professional, sustainable purchasing practices across the Group. It comprises e-learning and classroom training programs dedicated to integrating CSR issues into the purchasing process;
- a contractual guide for suppliers that incorporates CSR principles and contains:
  - the Responsible Purchasing Charter, which shares the Group's expectations with suppliers and subcontractors, who play a key role in its success, and encourages their engagement and involvement by having them sign the commitments. It demonstrates Safran's determination to permanently embed CSR criteria into the selection process, with the same importance as cost, quality, service, innovation and risk management,

- the general purchasing terms and conditions, which are especially used for one-off or smaller, shorter contracts to provide suppliers with a fair contractual framework, open to negotiation to reflect the specific features of each situation. The general purchasing terms and conditions also provide a basis for the framework agreements negotiated with suppliers that have a more long-standing relationship with Safran;
- verification of supplier compliance with international sanctions and embargoes using a dedicated Visual Compliance screening solution.

### 5.1.5.3 Responsible supplier relationships and sustainable procurement

Safran's supplier relationships are built upon the steadfast application of the Group's Ethical Guidelines by all of the relationship stakeholders and their embrace of the best practices specified in the Responsible Supplier Relations Charter issued by Médiation des Entreprises and the Conseil National des Achats. In particular, the Charter provides for the appointment of an SME correspondent to act as an in-house mediator whom suppliers can contact to help settle a dispute amicably with Safran.

To support these responsible relations, Safran is deploying:

- purchasing practices recognized in 2017 by the award of the Responsible Supplier Relations label for all of its operations in France;
- relations with small and medium-sized enterprises (SMEs) backed by major commitments:
  - Safran is a member of the SME Pact association and sits on its Board, in a commitment to strengthening ties between SMEs and large accounts, and to supporting the development of French SMEs, and particularly to helping innovative companies get off the ground and grow. Note that in 2017, around 50% of the Group's purchasing volume was sourced from French-based suppliers, with French small, medium and intermediate-sized companies accounting for slightly more than 60% of those purchases,
  - as part of the Defense SME Pact, Safran signed a bilateral convention with the French Ministry of Defense in 2013,
  - Safran has invested in the Aerofund III fund, following on from the investment initiatives underway since 2004 by the Aerofund I and Aerofund II funds. The Group actively participates in the restructuring and consolidation of the industrial fabric of the French aerospace sector and contributes to the financing of SMEs. By strengthening its suppliers' financial structures, the Group is also securing its supply chain while promoting the emergence of more robust intermediate sized companies that can expand in the global marketplace;
- a collaborative, innovative approach with suppliers that is enhancing Safran's role as a responsible driver of this dynamic by:
  - nurturing a culture of open innovation within the organization,
  - regularly sharing its technological vision with suppliers engaged in the process,
  - examining every submitted innovative proposal,
  - providing the resources needed to successfully complete the selected collaborative projects,
  - strengthening its relations with start-ups, in particular via Safran Corporate Ventures;

- a competitiveness gains program, based on fostering long-term relationships with suppliers, who present cost-cutting proposals in exchange for a consolidated market position over the mid- to long-term;
- a special relationship with around ten suppliers that enables them to participate in a variety of strategic projects from the research and technology (R&T) phase to production. As of end-2017, around 80 projects were active, helping to double the value created every year for both Safran and the participating suppliers;
- close, supportive collaboration with suppliers as they implement their improvement plans:
  - some hundred “supplier development” projects instigated by Group companies,
  - extensive Group involvement in the GIFAS Industrial Performance program. In Phase 1 (2014-2017), Safran led deployment in Eastern France, the Greater Paris region and Normandy and directly oversaw 56 suppliers, helping to drive a 40% reduction in non-performance events flagged for quality and the supply chain in the participating companies.

In 2018, Safran will introduce a duty of care plan to strengthen its supplier relationship management system in response to new legislation and standards.

This plan, presented in the introduction above, is designed to meet the following objectives:

- make the purchasing process more robust by more thoroughly embedding CSR criteria into each phase:
  - defining purchasing strategies by family,
  - selecting suppliers,
  - approving suppliers (including requiring them to sign the Safran responsible purchasing charter),
  - monitoring suppliers,
  - measuring supplier performance,
  - signing and managing contracts;
- identify the purchase families and/or suppliers requiring priority application of the enhanced management procedures for the given risk (e.g., targeted self-assessments, closer monitoring), based on a risk map covering the following typologies:
  - the impact on labor of Group purchases, for example on employee health and safety,
  - the impact of Group purchases on the environment,
  - the impact of Group purchases as regards respect for human rights and fundamental freedoms,
  - the impact of Group purchases as regards the fight against corruption.

### 5.1.5.4 Measurable indicators

| Indicators  | 2016 | 2017 |
|---|------|------|
| % of BOM purchasing volume covered by a formally defined purchase family strategy | N/A* | 75%  |
| % of NPR purchasing volume covered by a formally defined purchase family strategy | N/A* | 65%  |
| Hours of training per buyer per year  | 27   | 23   |
| CSR-trained buyers  | 152  | 69   |
| Supplier development projects   | 104  | 120  |

(\*) Indicator not in place.

### 5.1.6 Building relations with local communities, engaging with foundations and patronage

#### Community outreach

The global CSR framework agreement signed in 2017 stipulates that “in each country where it operates, Safran favours local human resources to fill available jobs and whenever possible, develops local integration. In the event of evolution of its activity, Safran undertakes to inform the local and national authorities beforehand and to cooperate with them in order to better account for local interests.”

The Group's policy on training and access to local employment pools is illustrated in the following examples.

In Morocco, Safran has forged partnerships with engineering schools and universities such as the Moroccan Foundation for Advanced Science, Innovation and Research and Al Akhawayn University in Ifrane. It also supported the creation of the IMA aeronautics institute in Casablanca.

In Mexico, Safran is involved in the Mexprotec bilateral university cooperation program, which enables Mexican senior technicians to earn a professional degree in a French institute of technology. The Group is partnering several universities, including the National Autonomous University of Mexico (UNAM) and the Technological University of Querétaro (UTEQ). It has collaborated with the Lycée Franco-Mexicain in Mexico City to set up a work-study program delivering a professional degree from the University of Créteil in France.

In Brazil, Safran promotes excellence and international mobility for young Brazilian engineers and researchers by providing grants to science and technology students at UNB University in Brasilia. Several Safran companies have also signed collaborative research agreements with Brazilian universities. Since 2013, the Group has been involved in a partnership with Brazil's National Training Service (SENA).

In China, Safran is leading a number of cooperative programs with local universities:

- École Centrale de Pékin, the leading French-language engineering school in China, has maintained preferred partnerships with Safran, ten other French companies and Chinese aircraft manufacturer COMAC since it first opened its doors in 2005. The first class of students graduated in January 2012, with new classes recruited every year;
- The Civil Aviation University of China (CAUC) is a national university, managed by the Civil Aviation Administration of China, that provides civil aviation education and training. Safran University and CAUC offer jointly taught courses of study under an agreement signed in 2011. Safran specialists also teach courses or give lectures at the Sino-European Institute of Aviation Engineering (SIAE);
- Safran is a founding member of the SJTU ParisTech Elite Institute of Technology (SPEIT) created by Shanghai Jiao Tong University (SJTU) and collegiate science and technology university ParisTech. The Group is also working with Jiao Tong University on joint research projects.

In India, Safran is involved in French engineering school ICAM's Franco-Indian educational program, which prepares students at the Loyola ICAM College of Engineering and Technology in Chennai to earn two degrees: a Bachelor of Engineering in India and an ICAM Master of Engineering degree in France. Safran also offers program participants engineering internships.

## Foundations and patronage

### Foundations

The Safran Corporate Foundation for Integration addresses all forms of exclusion and facilitates the social and professional integration of young adults with motor, sensory, cognitive and/or social disorders.

Since it was created in March 2005, the Foundation has supported 217 large-scale projects, primarily in France but also internationally, for a total amount of more than €4.7 million. Most of its initiatives are put forward by non-profit organizations.

The Foundation supports organizations with projects in four key areas: degree training, professional integration, social integration and sports.

Projects are selected by the Board of Directors primarily based on their ability to deliver sustainable outcomes for their beneficiaries.

To illustrate this, in 2017, in the context of a fund-raising among major economic stakeholders, the Safran Corporate Foundation for Integration committed to financially supporting the actions of the Alpha Omega Foundation in its mission to:

- help prevent failure in schools;
- raise awareness of entrepreneurship among young persons;
- provide personalized support to young persons living in hardship;
- assist young persons without qualifications in finding work.

This commitment was materialized by a one-off investment in the Alpha Diamant II professional investment fund aimed at supporting French not-for-profit organizations. At the end of the five-year investment period, the Foundation, along with the other co-investees, will receive a return on the capital invested.

Created in November 2004, the Safran Corporate Foundation for Music supports talented young musicians in their education and career development as performing artists. It also supports venues for young musicians.

Personalized support for artists can take the form of scholarships in France or abroad, assistance in buying an instrument, financing music recording projects, etc. Since its creation, Safran's Corporate Foundation for Music has provided more than €2.5 million in direct support for 146 young talented musicians in partnership with 109 structures participating in the promotion of young talent.

The Foundation also works in partnership with the French Army Museum. On October 20, 2017, at the Hôtel National des Invalides in Paris, the 2017 Safran Corporate Foundation for Music Prize was awarded to harpsichordist Nora Dargazanli, in a high-level competition between five young performers.

### Patronage

As part of its corporate patronage policy, Safran provides financial support to public and private partners, independently of its own business interests. A rigorous selection process is in place to ensure that all project applications are treated equally. This process is based on:

- a defined scope of action: Safran's support is sharply focused on educational, social and cultural initiatives, such as combating illiteracy and student dropout rates, social skills, education through sports, music, etc.;
- a geographic scope that spans France and other host countries worldwide;
- clear eligibility criteria for successful projects. Projects may be submitted by anyone, whether employed by the Group or not, and may be long-term and/or suitable for multi-year funding.

The Safran Corporate Patronage Committee meets once or twice a year to review applications and select projects. The Group Compliance Officer checks all of the submitted applications for compliance. All decisions are made collectively.

## 5.2 HUMAN RESOURCES INFORMATION

### 5.2.1 Maintaining the skills and capabilities required by Safran's businesses

#### Human resources policy

One of the major challenges of Safran's human resources policy is to develop the Group's human capital, so as to constantly foresee and respond to its skills and capabilities needs. Moreover, it is expected to play an important role in supporting the Group's transformation and internationalization. Safran leverages its corporate culture and leadership guidelines to get every employee engaged in this process.

#### Deploying the HR component of the medium-term plan

Every step in the industrial and financial management planning process is supported by fully aligned HR programs. Today, one of the primary drivers of the Group's success is its ability to manage its industrial, financial and HR planning as part of a highly proactive, seamlessly aligned process. The medium-term plan offers a four-year vision of the quantitative and qualitative skills that each Group department, unit and company will have to acquire in each business line, in France and abroad. A job description repository divided into four sections, 33 business lines and a little more than 170 benchmark jobs serves as an interpretive and analytical framework.

The Group's strategic vision and business outlook are carefully translated into qualitative and quantitative HR plans that, once consolidated at Group level, help to identify the skill sets requiring action plans from the business line committees.

In this way, every manager at every level in the organization has a clear vision of his or her team members and their development.

There is also a management unit dedicated to tracking certain specific groups, such as high potentials, Experts, Master Black Belts and, as from 2018, project leaders.

Every year, the measures emerging from this analysis and review process are focused on three main pillars:

- > the hiring and induction process;
- > job mobility and career management;
- > the strategic training vision.

#### The hiring and induction process

The Safran employer brand is well expressed and recognized, as seen in the Group's regular ranking at the top of the lists of companies where French engineering students would like to work. It ranked fourth in the Universum list of the most attractive employers (up 15 places in six years) and fifth in the Trendence ranking of the top engineering/IT employers in France (up nine places in six years). Safran was the seventh best place to work in France in 2017, according to business magazine *Capital's* annual ranking of the top 500 companies voted best employers by French employees. Advertising campaigns are regularly conducted to recruit new employees and raise awareness of Safran's future-proof jobs, particularly in high-demand skills (for example, managing the "did you know" banners in the skill-set videos). Rolled out in early 2017, the Career Inspiration forum allows job applicants to chat directly with Safran employees about their career paths and jobs (302 questions and 492 messages/replies as of 31 December 2017). Safran is expanding its presence on social media, with an emphasis on LinkedIn and Twitter (10,000 Safran Talent followers on LinkedIn at year-end 2017, up 8% over the year). In this context, Safran brought in 6,673 new hires in 2017 (see table in section 5.2.7).

The young graduate hiring program remains as ambitious as ever, led by the assertive management of the 18 partnerships formed with engineering schools and universities in France. It is being supported by an active network of 245 Safran employee ambassadors to these schools (as of December 31, 2017). During the year, the Group set the goal of filling 40% of new management positions with young graduates, including a significant proportion of former interns and work-study trainees. After several years of focusing recruitment partnerships on engineers and managerial-grade staff, Safran is now deploying partnerships for vocational curricula preparing people for line worker and technician jobs. In particular, it has been highly engaged in creating the machinist training center in Bondoufle.

#### Mobility and career management

The ability of employees to move seamlessly among jobs and locations, to develop existing skills and acquire new ones, and to embrace change is not only key to maintaining their employability within the Group, it is also a core driver of the Group's transformation and agility. In France, there is a steadily growing trend towards transfers among Group companies and among different facilities operated by the same company.

| Mobility in France  | 2015         | 2016         | 2017         |
|---|--------------|--------------|--------------|
| Inter-company transfers   | 594          | 642          | 687          |
| Inter-facility transfers  | 666          | 710          | 697          |
| <b>TOTAL</b>  | <b>1,260</b> | <b>1,352</b> | <b>1,384</b> |
| <b>TRANSFERS/NUMBER OF JOBS FILLED (EXCLUDING YOUNG GRADUATE POSITIONS)</b> | <b>38%</b>   | <b>44%</b>   | <b>43%</b>   |

Employees seeking a transfer are identified during the annual performance and career development review process, which has been deployed around the world.



|   | 2015 | 2016 | 2017 |
|---|------|------|------|
| Percentage of employees (all categories) having an annual performance and career development review | 83%  | 87%  | 92%  |

Safran plans to highlight typical career paths – for example at a dedicated business-line booth in the Safran University lobby or in a tour of the Group’s business lines on the intranet site – to steer employees towards realistic career moves, aligned with their acquired skills and the Group’s needs in their business line.

The French job mobility units are deployed in the main host zones to increase the Group’s appeal, attract the finest local talent, and enhance the loyalty of international employees, thereby reducing the occasionally high turnover rates, for example, in Mexico or China.

## Our strategic training vision

Safran University acts as a powerful vector for onboarding new hires, transforming the organization and instilling leadership across the Group by:

- > enhancing skills and capabilities;
- > inducting new hires and bringing together Group employees from different companies, countries and generations, in a place that inspires pride and a sense of shared destiny in the Safran community;
- > creating interactive, mutually supportive networks of executives who hone their transformative capabilities and acquire and transmit the Group’s values and culture.

Safran University networks with other educational or corporate training organizations and is helping to enhance Safran’s reputation by participating in national and international conferences and symposia.

Safran University guarantees that all the training provided in the Group supports and advances its strategic vision.

Safran University is active in three areas:

- > education, through the strategic management of Group training curricula and programs;
- > induction, with the Safran Discovery Days, involvement in the One Safran program, deployment of the leadership guidelines, the organization of events and the sharing of best practices;
- > transformation, particularly the strengthening of the Group’s digital capabilities and the integration of new skill-sets and business lines.

Safran University’s activities are helping to support the Group’s transformation and internationalization, which are an important part of the Group’s HR policy.

In France, Safran invests an average 4.3% of payroll costs in training.

Some 81% of employees worldwide receive training at least once a year.

In 2017, more than 1,445,000 hours of training were offered across the global organization (more than 1,600,000 hours on a like-for-like basis<sup>(2)</sup>), including more than 870,000 hours in France and 300,000 hours provided directly by Safran University.

Safran University leads the Group’s training initiative by defining a strategic training vision and setting measurable targets for the companies in each of the 21 curricula covering all of the Group’s business lines.

In this way, Safran University is ensuring the quality and efficiency of all the training and education delivered within the Group. In addition, Safran University designs and teaches world-class courses in the Group’s key performance drivers, thereby encouraging interaction among Group employees. These strategic courses represented more than 330,000 hours of training in 2017, or 23% of total training hours.

Business line-specific curricula are enabling employees to enhance their skills throughout their careers. They are available for all Group companies, in a commitment to encouraging the cross-enterprise sharing of ideas and best practices.

In many courses, Group expertise is transmitted by in-house experts or trainers, more than 100 of whom teach courses at Safran University.

Digital-based training, using videos, virtual communities and online course materials, is also being developed to expand access to Group skills and bring courses to a wider audience at no extra cost.

The “Leadership” training programs are designed for Safran managers, executives and future executives. In addition to building skills, these programs are helping to forge networks of interactive, mutually supportive managerial-grade staff, who are acquiring and passing on the Group’s values and culture, encouraging the embrace of shared management practices and developing the capabilities specified in the Safran leadership guidelines.

To improve the employability of every category, aligned training programs and dedicated procedures, such as skills assessments and acquired skills certification programs, are in place to accompany these career changes and developments and to equip employees with the skills needed for the jobs of tomorrow.

To support the Group’s international expansion, Safran University teams have been deployed in countries where Safran has the strongest local footprint, such as the United States, the United Kingdom, China and Morocco. Training programs are available in around ten countries, in French, English or the local language.

As part of this process, to spur the acquisition of shared core competencies and facilitate onboarding, 32 Safran University programs representing Safran’s corporate DNA have been selected for priority deployment in these countries. The programs cover a variety of business lines and cross-functional skill sets, some of which – like “White Belt”, “Leadership Model” and “One Safran Awareness” – must be attended by employees on every site while others are mandatory only for employees in a given business line. Their content is designed by Safran University, which selects and approves the training organizations authorized to teach them. In addition, an English language learning platform came online in early 2018, to enable any employee to practice his or her English anywhere and any time, 24/7, from a workstation, tablet or phone. Employees can sign up for the platform themselves, or it can be prescribed by their line or training manager.

(1) Source: Safran.

(2) Compared to 2016.

### Safran Campus

Based in Massy, near Paris, since 2014, the Safran Campus hosts employee training programs and seminars all year long. It is also the venue for major Safran events, such as orientation days, seminars and conferences, and meetings with customers and Group partners.

Each Executive Committee member regularly spends a day on the Campus meeting trainees and discussing Group-related topics and news with them, as do Company HR Directors.

The Safran Campus welcomes around 20,000 employees a year, of whom nearly half come for training and the other half for events.

### Preparation for the Factory of the Future

This project, initiated by manufacturers in the greater Paris area (Safran, Fives and a number of SMEs), aims to build a new training center in Bondoufle, south of the capital, to prepare for the Factory of the Future. Scheduled to open in 2018, the new center for tomorrow's production jobs will serve both work-study students (250 to 300 over the three-year program) and employees on training leave (300 per year). They will learn

about new production methods based on networked machines, connected objects, additive manufacturing, augmented reality, collaborative robots, tablets on the shop floor, etc.

### TWIST Training

Deployed in France in 2017 and in the United States, Mexico and Canada in first-quarter 2018, the new TWIST training management system is designed to meet four objectives:

- > get managerial-grade staff and employees more engaged in implementing the training process, with an easily accessible online course catalogue and online enrollment with choice of dates;
- > bring onstream by end-2019 a training-related HR information system covering 95% of all employees around the world, to support, among other things, more efficient management of training activities outside France;
- > provide the ability to smoothly integrate new learning methods, such as MOOCs, e-learning, blended learning and role play;
- > integrate HR information system training applications that are directly tied to annual performance reviews into other HR processes.

The system also features a course catalogue shared by all of the companies, to optimize purchases of each program.

## 5.2.2 Constructive social dialogue

Since Safran was created, the Human Resources Department and employee representatives have worked closely together on issues of mutual interest at a number of levels.

### Worldwide

Signed in 2017, a global CSR framework agreement, applicable to all employees around the world, attests to the Group's commitment to recognizing, in every host country, the powerful role played by social dialogue in maximizing social value creation. In addition, the agreement extends, to every host country, the principle of equal opportunity and treatment by combatting all forms of discrimination. To ensure compliance, the agreement set up a global monitoring review board that will meet twice a year.

As well, the subsidiaries are continuing to roll out employee representation arrangements and sign collective agreements, in line with prevailing local legislation.

### Europe

At the European level, social dialogue mainly revolves around the European Works Council (EWC) and the application of two pan-European agreements.

#### The European Works Council

Given the changes in the Group's scope of consolidation and the many European labor issues on the table, the European Works Council was again the scene of intense discussions in 2017, with a large number of plenary meetings, as well as meetings between the Human Resources Department and the EWC Board, held during the year.

Negotiations concerning the EWC are now underway with the aim of integrating improvements in its operating procedures, particularly in regard to the resources available to Council members.

### European collective agreements

Two agreements, one relating to school-to-work transition programs signed in 2013 and the other to developing skills and securing career paths signed in 2015, provide a common framework for all of the Group's employees in Europe. Deployed through local action plans in each host country, the two agreements are helping to drive Safran's performance by underpinning its ability to grow and renew itself, in particular by bringing young people into the workforce and encouraging mobility as an opportunity for skills development. Every year, the agreements are reviewed by the monitoring review board to measure the progress made towards their objectives and to identify priorities for the coming year.

In 2017, the agreement on helping young people transition from school to work was enhanced and renewed for another five years.

### France

#### Group-wide

As a shared foundation for labor policy, collective agreements attest to the Group's commitment to its employees and attest in particular to the success of the entire organization.

In all, nearly 15 Group-wide agreements are now in effect, on such issues as employee savings plans, death and disability insurance, intergenerational relations, disabilities, training, human resources planning and development and the prevention of workplace stress.

The Group continued to implement social dialogue in 2017, in the regular meetings held with union coordinators to discuss issues such as the annual pay round, the growing use of digital technology and the agreement monitoring review boards.

Lastly, the Group Works Council frequently holds ordinary and extraordinary meetings. It acts as a forum for information, discussion and dialogue between employee representatives and senior management, with a special focus on sharing viewpoints on major strategic objectives and labor relations issues.

## 5.2.3 Giving employees a stake in the Group's performance

### Annual pay rounds

In 2017, average annual compensation was increased by between 1.7% and 2.25% of payroll, depending on the company. The 2017 pay rounds included across-the-board and individual raises for line workers, office workers and technicians, and individual raises for managerial-grade staff. In France, the average annual pay increase for employees present in the Group at December 31, 2016 and 2017 was 2.5%.

In addition, the Group companies located in France set aside a special budget in their annual rounds to be used primarily to narrow the gender wage gap.

### Compensation based on Group performance

#### Statutory employee profit sharing

In France, statutory profit sharing is paid under the terms of the Group agreement signed on June 30, 2005, whereby every employee, regardless of his or her company's earnings for the year, is paid an identical percentage of his or her annual salary out of the aggregate non-discretionary profit-sharing reserves set aside by Group companies in France.

The statutory employee profit sharing paid by companies included in the scope of consolidation (as defined in section 3.1, Note 33) for the past three years and recorded in the consolidated financial statements (see section 3.1, Note 5) were as follows:

| (in € millions)        | Statutory profit sharing |
|------------------------|--------------------------|
| 2015 <sup>(1)(2)</sup> | 136                      |
| 2016                   | 142                      |
| <b>2017</b>            | <b>144</b>               |

(1) The 2015 profit sharing figure includes the additional amount payable in respect of that year.

(2) The 2015 data have been adjusted to reflect the impact of applying IFRS 5 (see section 3.1, Notes 3 and 28 in the 2016 Registration Document).

NB: The salary used in the calculation is at least 1.2 times the annual French social security ceiling (i.e., €47,073.60 for a full-time employee working for the full year in 2017).

#### Optional employee profit sharing

All French entities have optional employee profit-sharing plans based primarily on economic performance, but also on other operating performance indicators.

### In the subsidiaries

The active Group-level social dialogue process also leaves space for each subsidiary to pursue its own robust negotiations, in line with its economic and business environment. In 2017, in addition to wage agreements, the main issues negotiated concerned optional employee profit-sharing, the development of telecommuting, gender equality in the workplace and quality of work life. As an example, in a commitment to providing an attractive working environment, five Group companies have introduced telecommuting options via a collective agreement. Other subsidiaries are also discussing these arrangements.

The optional employee profit sharing paid by companies included in the scope of consolidation (as defined in section 3.1, Note 33) for the past three years and recorded in the consolidated financial statements (see section 3.1, Note 5) were as follows:

| (in € millions)     | Optional employee profit sharing |
|---------------------|----------------------------------|
| 2015 <sup>(1)</sup> | 155                              |
| 2016                | 165                              |
| <b>2017</b>         | <b>161</b>                       |

(1) The 2015 data have been adjusted to reflect the impact of applying IFRS 5 (see section 3.1, Notes 3 and 28, in the 2016 Registration Document).

NB: The amount of optional employee profit sharing may total up to 7% of payroll, depending on the agreement and the company's performance.

#### Employee savings plans

Group employees in France benefit from a comprehensive employee savings plan system that allows them to save money with the help of their company:

- the Safran Group employee savings plan (PEG), introduced by a Group agreement in 2006, offers a medium-term savings solution via a range of five corporate mutual funds with different management strategies. In particular, it motivates employees to become Group shareholders by contributing matching funds of up to €2,000 per year per employee for amounts invested in the corporate mutual fund holding Safran shares;
- the Safran collective retirement savings plan (PERCO), set up by a Group agreement signed in 2012, lets employees save for retirement by investing in six corporate mutual funds with different management strategies. In 2017, a matching employer contribution of up to €800 per employee per year was offered, while a bonus contribution of up to €1,700 is planned for employees in their last two years of service ahead of retirement.

When the Group was created, employee share ownership was broadened to the global Safran community with a Group-wide agreement signed in 2006 that set up an international Group employee savings plan (PEGI), which enables employees of foreign subsidiaries to invest in Safran shares with financial support from their company.

More than 20,600 employees in Group companies in Belgium, Canada, Germany, Mexico, Morocco, the United Kingdom and the United States had access to this plan in 2017. Including employees in France, 92% of the consolidated workforce can invest in a Group employee savings plan.

## 5 CORPORATE SOCIAL RESPONSIBILITY

### Human resources information

The total amount of employer contributions paid into the PERCO, PEG and PEGI savings plans for all Group employees over the past three years was as follows.

| (in € millions) | Matching employer contributions |
|-----------------|---------------------------------|
| 2015            | 59                              |
| 2016            | 60                              |
| <b>2017</b>     | <b>65</b>                       |

### Total paid into employee savings plans

Total funds paid out over the past three years in the form of optional employee profit sharing, statutory profit sharing and related employer contributions (including the corporate social contribution) show a steady increase every year.

| (in € millions) | Total employee savings payments |
|-----------------|---------------------------------|
| 2015            | 398                             |
| 2016            | 404                             |
| <b>2017</b>     | <b>433<sup>(1)</sup></b>        |

(1) Excluding amounts paid directly by ArianeGroup.

### Employee share ownership

Current and former Safran employees owned an unusually high 7.4% of their company's outstanding shares at year-end 2017.

## Employee insurance and retirement plans

### Life and healthcare benefits plan

In France, since 2009, Group employees have been enrolled in a single mandatory life and healthcare benefits plan covering short and long-term disability, death and supplementary healthcare costs, with generous benefits for employees and their dependents. More than 95,000 people were covered by the plan in 2016. Since 2016, it has been in compliance with the "responsible contracts" decree of November 18, 2014, designed to bring healthcare costs under control, and has been more than 50% funded by Safran.

Since 2015, all Group employees have been enrolled in a single insurance plan covering accidental death and disability on the job, which is fully funded by Safran.

## 5.2.4 Promoting diversity and equal opportunity

Designed to ensure that no talent goes undeveloped, Safran's diversity programs are informed by its commitment to supporting equal opportunity and preventing all forms of discrimination. This principle was reaffirmed in the global CSR framework agreement, which insists on the need to achieve gender equality in the Safran workplace.

Outside France, special attention is paid to health, death and disability cover by offering the same comprehensive plans for all Safran companies in a given country, such as the United States, Canada and, since January 1, 2017, Morocco.

### Retirement plans

In 2017, the supplementary pension plans set up in Safran companies in France were revamped and harmonized.

The supplementary defined benefit pension plan for executive managers was closed effective December 31, 2017, with a freeze on conditional rights since December 31, 2016.

At the same time, two collective, fully employer-funded supplementary defined contribution pension plans, one mandatory and the other voluntary, were introduced, with eligibility linked to compensation:

- > the first, which is open to engineers and managerial-grade staff whose compensation exceeds four times the annual social security ceiling, is designed to supplement the defined contribution plan already in effect in Safran companies, in order to reach an overall rate of 8%;
- > the second, which is open to senior executives whose compensation exceeds seven times the annual social security ceiling, is funded by contributions that vary by the amount of compensation.

Lastly, a Group agreement, signed on November 6, 2017 with effect from January 1, 2018, harmonizes the supplementary defined contribution pension plans for engineers and managerial-grade staff, which are fully funded by Safran.

All Safran employees can also invest in the PERCO collective retirement savings plan, as described above in the "employee savings plans" section.

### Employee information on total compensation and benefits

In 2017, each employee in France was sent a review statement of all the compensation he or she had received in respect of 2016, as well as a personal retirement plan statement, presenting the cumulative benefits earned under the compulsory government retirement plans and the special pension plans set up by Safran (supplementary pension plan, ARRCO pension fund and PERCO collective retirement savings plan). Employees are also provided with brochures and interactive documents on the corporate intranet that present the Group's insurance and social protection benefits, as well as the PEG, PERCO and PEGI employee savings plans in France and abroad.

## Promoting gender equality in the workplace

In December 2017, Safran was awarded the Gender Equality European & International Standards (GEEIS) label for its operations in Europe, following an audit of Safran SA and three of its operating companies, Safran Aircraft Engines, Safran Electrical & Power and Safran Transmission Systems. The label will support deployment of the Group's gender equality policies.

In addition, 250 Safran employees are involved in the French women's mentoring association "*Elles Bougent*" (Women on the Move), which promotes careers in science for female high school and university students. These in-house mentors helped the association take their commitment to the European level in 2017, with events organized in Germany and the United Kingdom during the year.

## Hiring and retaining employees with disabilities

The percentage of disabled people in the workforce rose from nearly 4.6% in 2015 to 5% in 2017. Under the current Group agreement on disability, 81 people and 93 work-study graduates have been hired under permanent or fixed-term contracts since 2015. Four Group facilities were certified at end-2017 by French standards association AFNOR as a "disability-friendly workplace", and eight others are engaged in the certification process. In 2017, most Group facilities held events during the European Disability Employment Week, while an in-house information campaign

reviewed the main measures taken in 2017, to emphasize that Safran pays attention to disability all year long.

On December 18, 2017, the third Group Disability Agreement was signed, reaffirming Safran's commitment.

## Social inclusion policy

On September 19, 2017, Safran renewed its European framework agreement to support young people in transitioning from school to work, reaffirming its commitment that students in Europe would account for 5% of the apprentices and 5% of the interns taken on each year.

Every year, this will enable a large number of employees to mentor a young trainee in their company. In particular, the agreement maintains the programs in place to hire young people who have fallen out of the job market, in line with Safran's ongoing commitments in France in support of the Neighborhood Business "Entreprises & Quartiers" charter.

## 5.2.5 Protecting personal data and privacy

Safran has pledged to protect the personal data of its employees and stakeholders, in particular by officially appointing a Data Protection Officer (DPO) in 2008 to liaise with the French data protection authority. In 2010, the Group then adopted Binding Corporate Rules governing the transfer of personal data, particularly among subsidiaries outside the European Union for human resources or information systems applications. In 2015, it obtained an in-house training program certified by the competent French authority.

In response to the European Union's General Data Protection Regulation (GDPR) no. 2016/679, which will come into force on

May 25, 2018, Safran is strengthening its data protection policies based on the GDPR's five key principles: purpose, proportionality of data, retention periods, security and confidentiality, and rights of data subjects. At the same time, the Group is implementing a broad range of compliance initiatives, including the creation of an e-learning course, the organization of a large number of sensitivity training sessions and the development of tools aligned with the new standards. Several departments are now working together to ensure that Safran and its subsidiaries comply with rules requiring them to protect personal data and privacy in all their operations. Respect for this fundamental right is built on the foundation of everyone's commitment.

## 5.2.6 Striving for excellence in health and safety

### Health and safety policies

Every day, Safran strives to achieve excellence in its workplace health and safety practices. It is committed to nurturing a culture of proactive prevention in managing occupational health and safety risks, for the greater benefit of its employees, partners, suppliers and customers, as well as all of the host communities impacted by its operations. It also engages in sincere, open dialogue with all its stakeholders.

### Organization and deployment

The Group's Sustainable Development Department is responsible for deploying health and safety policies and instilling prevention fundamentals in every aspect of the business, in line with the Group's strategic CSR policy and global framework agreement. In deploying these policies, the Sustainable Development Department relies on company HSE specialists, site prevention officers, occupational health services and a network of decentralized experts, while division coordinators work to develop local synergies.

Deployment of the workplace health and safety policies is based on the guidelines described in section 5.3.5 "HSE Guidelines and engaged managerial staff to support Safran's health, safety and environmental policies."

In particular, the guidelines underpin the consistent deployment across the Group of standards addressing the following issues: work at height, lockout-tagout, confined spaces, explosive atmospheres, off-site work, chemical risks, physical risks, health/work conditions, asbestos, legionella prevention and ergonomics.

### Primary outcomes

#### Safety: accident analysis and prevention

In 2008, Safran began setting targets to substantially improve its performance, so that the target of keeping the lost-time incident frequency rate (LTIFR) at under 2.5 was met in 2016 and maintained in 2017.

This target has been adapted to each company in line with its operations and past performance. Delivering these outcomes is one of the criteria in determining bonuses for executives and senior managerial-grade staff. Each manager's performance review takes into account an HSE target, especially in the

operations with greater exposure to workplace safety issues, such as production, testing, laboratories, customer support on remote sites and business travel.

In 2017, there were 260 incidents resulting in lost time, for a LTIFR of 2.5, with a severity rate of 0.07.

A total of 2,243 incidents of all types were reported Group-wide during the year, for a total recordable incident frequency rate (TRIFR) of 21.

|                                      | 2015 | 2016 | 2017 |
|--------------------------------------|------|------|------|
| Frequency rate: LTIFR <sup>(1)</sup> | 2.7  | 2.3  | 2.5  |
| Severity rate: LTISR <sup>(2)</sup>  | 0.09 | 0.08 | 0.07 |
| Frequency rate: TRIFR <sup>(3)</sup> | 23   | 20   | 21   |

(1) LTIFR: number of incidents resulting in more than one day's lost time per million hours worked.

(2) LTISR: number of working days lost to accidents per thousand hours worked.

(3) TRIFR: number of recordable incidents per million hours worked.

## Occupational health

### Occupational illnesses

A total of 76 cases of occupational illness were reported in 2017, or two for every 1,000 employees in France.

Of the reported total, 63% were attributed to musculoskeletal disorders (MSS), in line with the nationwide statistics for France.

Cases of occupational illness are also tracked in the rest of the global organization.

### Improving working conditions: the ergonomics program

Embedded in the human-system interface, the ergonomics program is helping to sustain a healthy workplace. International roll-out of the Group ergonomics standard continued apace in 2017, when 636 employees were trained in ergonomics.

In addition, designing ergonomics into the Group's future production facilities has become one of the core issues in its Factory of the Future, in order to improve working conditions and performance. This can be seen in the numerous innovations being incorporated into the 120 Factory of the Future projects currently underway, such as the design of cobotic systems that use virtual reality technology to train operators. Moreover, thanks to the hiring of three new people a year over the past three years, there are now 15 full-time ergonomists working full time on analyzing and upgrading workstations. In-house courses have also trained more than 160 ergonomics correspondents and 400 designers.

### Psychosocial risks

Since 2006, Safran has diligently worked to prevent psychosocial risks in general and workplace stress in particular by deploying a stress prevention program in a large number of facilities, based on a diagnostic review followed by an action plan.

The agreement on workplace stress prevention, signed on January 19, 2011 with all of the Group's representative trade unions in France, calls for:

- > deploying the workplace stress prevention program in every Group facility;
- > expanding and enhancing the program with dedicated initiatives;
- > building awareness and/or training managerial-grade staff and everyone involved in the stress prevention process;
- > detecting and caring for employees suffering from stress.

The agreement also calls for existing measures to protect employee health to be extended and for a change enablement program to be deployed to assist employees in responding to changes in the organization. Since 2015, agreement outcomes are regularly reviewed with employee representatives during meetings of the monitoring review board, which enables participants to track progress, share best practices and recommend changes in risk evaluation methods.

As a result of the French agreement, programs and tools have been rolled out in every facility through the health/work conditions standard, which has been audited.

The standard integrates issues addressed by the psychosocial risk program, which comprises initiatives to prevent stress on three levels: primary, secondary and tertiary.

Primary prevention:

- > consists of a psychosocial risk assessment program described in the agreements;
- > is supported by standards set in the Safran HSE Guidelines.

Secondary prevention is based on regularly providing employees with information and publications on psychosocial risks, with an emphasis on preventing workplace stress, preventing harassment and violence in the workplace, and avoiding addiction and other at-risk behavior. A selection of training courses is also available in the Safran University catalogue.

Tertiary prevention is provided by company health services or trained service providers. External support is readily available whenever needed.

A Group agreement on preventing harassment and violence in the workplace was also signed in 2013.

### The EVREST occupational health observatory

Wherever possible, company health services have introduced the EVREST occupational health research program. Widely deployed in French-speaking European countries and Morocco, EVREST compiles employee health data over time, which can be used to identify areas for improvement. The data are also used to prepare regularly published indicators that track quality of worklife (workload, recognition and mental health).

## 5.2.7 Measurable indicators

| Group  | 2015            | 2016            | 2017            |
|--|-----------------|-----------------|-----------------|
| <b>Total workforce</b>   | <b>70,087</b> ✓ | <b>66,490</b> ✓ | <b>58,324</b> ✓ |
| Europe   | 48,980 ✓        | 45,527 ✓        | 43,320 ✓        |
| of which France  | 41,588 ✓        | 38,157 ✓        | 36,910 ✓        |
| Africa and the Middle East   | 2,916 ✓         | 3,208 ✓         | 2,664 ✓         |
| Americas   | 14,246 ✓        | 13,813 ✓        | 9,890 ✓         |
| Asia and Oceania   | 3,945 ✓         | 3,942 ✓         | 2,450 ✓         |
| % of male employees  | 74% ✓           | 73.6% ✓         | 74.3% ✓         |
| % of female employees  | 26% ✓           | 26.4% ✓         | 25.7% ✓         |
| % of engineers or managerial-grade staff                             | 41% ✓           | 40.3% ✓         | 39.6% ✓         |
| % of female engineers and managerial-grade staff                     | 22% ✓           | 22.1% ✓         | 23.3% ✓         |
| Employees under 30   | 19% ✓           | 18% ✓           | 19% ✓           |
| Employees over 50  | 29% ✓           | 28% ✓           | 29% ✓           |
| % of full-time employees in France                                   | 93%             | 94%             | 93%             |
| Average percentage of fixed-term contracts per year in France        | 0.73%           | 0.56%           | 0.5%            |
| Average percentage of temp workers per year in France                | 6%              | 6.6%            | 6.5%            |
| <b>Hirings and separations</b>                                       |                 |                 |                 |
| Total new hires – world  | 7,732 ✓         | 7,054 ✓         | 6,673 ✓         |
| % men new hires – world  | 66% ✓           | 64% ✓           | 70.2% ✓         |
| % women new hires – world  | 34% ✓           | 36% ✓           | 29.8% ✓         |
| Number of separations as of Dec. 31                                  | 6,731 ✓         | 7,238 ✓         | 6,086 ✓         |
| of which dismissals  | 1,457 ✓         | 1,938 ✓         | 987 ✓           |
| Separations replacement rate at Dec. 31                              | 1.1 ✓           | 0.97 ✓          | 1.1 ✓           |
| <b>School-to-work program participants – Europe</b>                  |                 |                 |                 |
| Number of interns – Europe   | 2,754           | 2,607           | 2,367           |
| Number of work-study participants – Europe                           | 3,232           | 2,603           | 2,524           |
| Number of student researchers – Europe                               | 271             | 180             | 155             |
| <b>Diversity and equal opportunity – France</b>                      |                 |                 |                 |
| Number of disabled employees on payroll – France                     | 1,569 ✓         | 1,781 ✓         | 1,861 ✓         |
| Percentage of disabled employees in France                           | 4.6% ✓          | 4.7% ✓          | 5% ✓            |
| <b>Absenteeism – France</b>  |                 |                 |                 |
| Absenteeism rate – France  | 3.9% ✓          | 4% ✓            | 4% ✓            |
| <b>Mobility – France</b>   |                 |                 |                 |
| Total  | 1,260           | 1,352           | 1,384           |
| Transfers/number of jobs filled (excluding young graduate positions) | 38%             | 44%             | 43%             |
| <b>Training</b>  |                 |                 |                 |
| Average number of hours per employee                                 | 24              | 24              | 25              |

## 5.3 ENVIRONMENTAL INFORMATION

### 5.3.1 Environmental policies

Deeply aware of the issues raised by climate change, Safran is deploying a broad range of environmental protection policies in both its production and service operations and in its product design and engineering processes.

The Group is committed to nurturing a culture of proactive prevention in managing the impact of its operations on the

### 5.3.2 Organization and deployment

The Group's Sustainable Development Department is responsible for deploying the environmental policies and instilling risk prevention fundamentals in every aspect of the business, in line with the Group's strategic CSR policy and its CSR materiality matrix. In deploying these policies, the Sustainable Development Department relies on company HSE specialists, site prevention officers and a network of decentralized experts, while division coordinators work to develop local synergies.

Deployment of environmental policies is based on the guidelines described in section 5.3.5 "HSE Guidelines and engaged managerial staff to support Safran's health, safety and environmental policies."

In particular, the guidelines underpin the consistent deployment across the Group of standards addressing the following issues: soil environment and legacy pollution, environmental aspects, crisis management, fire protection and prevention, safety management system (SMS) and eco-design.

#### Developing innovative products and processes with smaller environmental footprints

In response to environmental challenges such as climate change, dwindling resources and the use of chemicals, Safran is committed to promoting sustainable development in the aerospace and defense industries. As an example, a significant portion of its R&D budget is allocated to reducing the environmental impact of air transport. To develop more environmentally friendly products, the Group has partnered with customers to participate in large-scale French and European programs, such as the Civil Aviation Research Council (CORAC), which was created under France's Grenelle II environmental regulations to coordinate research initiatives in France or participate in the Clean Sky research program financed by the European Commission and manufacturers.

Safran is also continuing to engage with outside stakeholders by participating in:

- > the International Aerospace Environmental Group (IAEG), whose prime objectives include issuing common environmental standards for the international aerospace industry and increasing the reliability of the supply chain. Safran is one of the group's founding members;
- > the Air Transport Action Group (ATAG) and the Aerospace and Defence Industries Association of Europe (ASD);
- > several European programs (Clean Sky, SESAR and PAMELA) that are developing solutions that will substantially improve the environmental performance of air transport across the aircraft life cycle;

environment, for the greater benefit of its employees, partners, suppliers and customers, as well as all of the host communities impacted by its operations. It also engages in sincere, open dialogue with all its stakeholders.

- > a number of strategic organizations such as the Civil Aviation Research Council (CORAC) and the Advisory Council for Aviation Research and Innovation in Europe (ACARE).

#### Products-processes-eco-design

As part of its HSE continuous improvement process, Safran holistically manages all of the environmental and health risks arising from the production and after-sale use of its products and equipment. These issues are addressed at every stage of the product life cycle, from design to system decommissioning and/or dismantling. Safran is leading a continuous improvement process to preserve the natural environment and manage environmental risks.

The chemical use policy, which specifies rules for choosing the right chemicals for each stage in the product life cycle, has been incorporated into the eco-design process through a standard in the Group's HSE Guidelines.

Designing HSE performance into every product is one of Safran's strategic goals. Now, after establishing a guide that combines eco-design and life cycle analysis, the Group can evolve towards products with a significantly lower environmental impact.

Deploying eco-design programs is part of Safran's commitment to driving continuous improvement in its ability to:

- > limit impacts on the environment and human health;
- > stimulate technological innovation;
- > proactively address changing legislation and customer/stakeholder expectations;
- > plan for obsolescence;
- > foster synergies within the Group;
- > stand out from the competition;
- > strengthen the Group's brand image.

Safran focuses primarily on five eco-design criteria with demonstrated relevance for its businesses:

- > chemical risks;
- > the depletion of non-renewable natural resources;
- > energy consumption;
- > noise;
- > airborne emissions.

The reduction and elimination of hazardous substances in the products and processes used in Group companies is a key area for progress in the Group's HSE policy. A dedicated



organization and resources are in place to ensure compliance with new legislation.

In addition to the programs underway, Safran is also focusing on:

- > designing and deploying guidelines on the use of dangerous chemicals that reflect the various regulatory and technical standards in its aerospace and defense operations;
- > preparing the list of the Group's most business-critical substances using an innovative, robust methodology;
- > consolidating the REACH database of all the chemicals used by the Group;
- > requesting information from suppliers on the chemical content of products they deliver to Safran;
- > developing and leading plans to replace business-critical chemicals in liaison with the Materials and Procedures, Purchasing, Quality and Progress, Technical and other concerned departments.

### 5.3.3 Main outcomes

Safran enforces a continuous improvement policy to protect the environment. In combating climate change, this means gaining a better understanding of the carbon footprint resulting from its businesses (see section below) and developing innovative products and processes with a lower environmental impact (see section 5.3.2). These measures applied to the different segments of the Group's business (processes and product design) are in keeping with the principles of its low-carbon strategy.

The environmental indicators presented in the following tables measure the environmental impact of Safran's activities as regards energy consumption, carbon emissions, water consumption and waste generation. All of these indicators evolved broadly in line with the growth in production volumes between 2016 and 2017.

#### Combating climate change/airborne emissions: Scope 1 and Scope 2 greenhouse gas emissions

In line with its commitment to helping to combat climate change, Safran measures the carbon footprint of its operations and its energy consumption in Scope 1 and Scope 2<sup>(1)</sup>.

Each company has initiated three-year action plans for Scopes 1 and 2 that focus on optimizing heating, lighting, office

| Energy<br>(metric tons of oil equivalent/employee) | 2015 | 2016 | 2017 |
|--|------|------|------|
| Electricity <sup>(1)</sup>                         | 1.38 | 1.4  | 1.55 |
| Gas <sup>(1)</sup> for energy                      | 0.85 | 0.63 | 0.68 |
| Gas <sup>(1)</sup> used in industrial processes    | 0.10 | 0.35 | 0.38 |
| Fuel <sup>(1)(2)</sup> (kerosene)                  | 0.23 | 0.33 | 0.32 |

(1) Reporting scope: manufacturing operations excluding offices (see section 5.4, "HSE Indicators").

(2) Not including transportation.

Safran has developed an "Energy" standard inspired mainly by ISO 50001 in order to optimize energy consumption. The Group will spend 2018 getting to grips with this new energy management system before it comes fully into effect in 2019.

This initiative will also help Safran mitigate the risk identified for its production processes of rising energy costs, especially as regards electricity and gas.

Every year, Safran consolidates all of the initiatives undertaken to reflect any changes in the Registration, Evaluation and Authorization of Chemicals (REACH) Regulation.

The REACH Group operating project team draws on the network of REACH Correspondents appointed in each company to coordinate all the Group's initiatives in this area.

One innovative achievement has been the LEAP engine manufactured by CFM International, the Safran/GE joint venture, which entered commercial service in 2016. It reduces CO<sub>2</sub> emissions by 15% compared with the previous generation of equivalent engines.

In addition to enhanced performance, the new Arrano and Aneto helicopter engines have a smaller environmental footprint – delivering 10% to 15% better fuel economy – generate less noise (Acare 2020 compliant) and use materials and manufacturing processes that are respectful of health, safety and the environment.

systems and processes and on improving the energy efficiency of buildings. The action plans are assessed during the annual company management review.

The Scopes 1 and 2 results take into account the increase in output, which impacts the use of electricity and gas.

|                                    | Scope 1<br>(t CO <sub>2</sub> /eq<br>employee) | Scope 2<br>(t CO <sub>2</sub> /eq<br>employee) |
|------------------------------------|--|--|
| Safran 2015 (World) <sup>(1)</sup> | 3.5  | 4.6  |
| Safran 2016 (World) <sup>(1)</sup> | 3.1  | 4.1  |
| Safran 2017 (World) <sup>(1)</sup> | 3.3  | 4.9  |

(1) Reporting scope since 2016: manufacturing operations excluding offices (see section 5.4, "HSE Indicators").

#### Improving facility energy efficiency: energy consumption

Electricity is the prime energy source, representing more than half of total energy consumption, followed by natural gas. Electricity in France is a very low-carbon energy, with around 20% coming from renewable sources.

(1) Scope 1 and 2 refer to direct emissions (Scope 1) and indirect emissions (Scope 2) from energy consumption.

## Combating climate change/airborne emissions: Scope 3 greenhouse gas emissions

Safran did not report Scope 3 emissions in 2017, primarily because their largest source, the indirect emissions from aircraft and helicopter engines in use, are accurately reported by their operators in their own Scope 1 measurements.

### 5.3.4 Additional information

#### Environment: accident analysis and prevention

There were no environmental accidents with an impact on health or the environment in 2017.

#### Fire protection and prevention

To maintain an up-to-date fire risk map, Safran works with an international fire protection and prevention firm under a regularly renewed, multi-year contract.

For all of the facilities mapped using this methodology, the protection against fire risks was rated "Good", with a score of 6.5.

The Group measures greenhouse gas emissions in its sphere of influence by calculating the portion of its Scope 3 emissions from business air travel. In the scope specified in the methodological note (see section 5.4.1), these emissions amounted to 41,566 metric tons of CO<sub>2</sub> equivalent in 2017.

A fire protection and prevention standard was added to the Safran HSE guidelines in 2016.

#### Reducing the amount of waste and its impact

Waste resulting from office or manufacturing activities is classified into two main categories: ordinary or non-hazardous process waste and hazardous process waste. As much of this waste as possible is recycled, with a significant improvement in the proportion since 2013.

| Waste<br>(metric tons/employee)                                | 2015        | 2016        | 2017        |
|--|-------------|-------------|-------------|
| Ordinary waste <sup>(1)</sup>                                  | 0.46        | 0.55        | 0.56        |
| Hazardous industrial waste <sup>(1)</sup>                      | 0.44        | 0.41        | 0.47        |
| <b>Total waste generated (ordinary + hazardous industrial)</b> | <b>0.90</b> | <b>0.96</b> | <b>1.03</b> |
| Ordinary waste recycled  | 0.33        | 0.43        | 0.42        |
| Hazardous industrial waste recycled                            | 0.16        | 0.20        | 0.22        |
| <b>Total waste generated (ordinary + hazardous industrial)</b> | <b>0.49</b> | <b>0.63</b> | <b>0.64</b> |

#### Condition of soil and groundwater

The Group has commissioned independent experts to perform studies and analyses to assess any potential risk of soil and groundwater contamination at its industrial facilities. Preventive or remediation measures have been implemented wherever necessary.

The Sustainable Development Department supervises environmental conditions for each facility's site, buildings, activities, soil and groundwater and participates in the due diligence process for asset disposals and acquisitions.

#### Seveso facilities

Since July 1, 2016, the Group has operated two Safran Landing Systems facilities, in Molsheim and Bidos, that are classified as upper tier Seveso sites. Both facilities comply with prevailing legislation, with safety management systems, an internal operations plan and technological risk prevention plans in place.

#### Facilities classified for environmental protection (ICPE)

Some units operate facilities that are subject to permits, reporting or registration depending on national legislation. All of the facilities requiring an operating permit have been reported by the Group to the proper authorities.

In line with French legislation, in late 2015 financial warranties were offered to local authorities to ensure that the facilities classified as Seveso or ICPE sites are secured and decontaminated in the event of decommissioning. The facilities concerned are subject to additional local regulations relating to the financial warranties.

#### Adapting to climate change and preventing risks of natural hazards

Given the nature of its business activities and the location of its operations, the Group does not believe it is materially exposed to the effects of climate change and has not yet deemed it necessary to define a specific strategy for adapting to them. However, climate change is addressed in one of the standards in the Safran HSE Guidelines (see section 5.3.5).

In addition, the prevention of natural hazards is managed by the environment/permits/community standard. Facilities that are rated Maturity Level 2 must assess the impact of these hazards on their operations (see section 5.3.2).

## Biodiversity

The Group is committed to ensuring that all of its projects comply with prevailing environmental legislation. In applying for operating permits, studies are performed as needed to determine the impact of its activities on local biodiversity.

## Land use

Although it seeks to optimize their use, Safran is not directly involved in extracting natural resources.

Moreover, the Group's development takes into account the issue of land take as part of its efforts to protect the natural environment and biodiversity.

## Conserving natural resources: water consumption, improvement measures and effluent

Process effluent that could represent a risk is discharged into surface water after treatment in constantly monitored facilities or treated off-site by a service provider. Several French facilities are subject to national legislation and additional local regulations concerning the discharge of hazardous substances into water.

Cooling water, which is not physically or chemically treated before being released into the natural environment, is no longer included in surface water consumption.

| Water <sup>(1)</sup><br>(cu.m/employee) | 2015              | 2016             | 2017      |
|---|-------------------|------------------|-----------|
| Water supply network                    | 24                | 26               | 29        |
| Surface water                           | 14 <sup>(2)</sup> | 5 <sup>(2)</sup> | 7         |
| Groundwater                             | 15                | 14               | 14        |
| <b>TOTAL SAFRAN</b>                     | <b>53</b>         | <b>45</b>        | <b>50</b> |

(1) Reporting scope: manufacturing operations excluding offices (see section 5.4, "HSE Indicators").

(2) Excluding cooling water.

## Food waste

The Group is not directly concerned by the issue of food waste in carrying out its business activities.

## 5.3.5 HSE Guidelines and engaged managerial staff to support Safran's health, safety and environmental policies

### HSE Guidelines and operating performance

The Group-wide deployment of the health and safety commitment (see section 5.2.6) and the environmental protection process (see section 5.3.1) is being driven by holistic health, safety and environmental policies and guidelines that enable Safran to effectively manage risks and continuously improve HSE operating performance.

- > the guidelines include the HSE manual covering ISO 14001 and OHSAS 18001 standards and Safran-specific HSE standards. A maturity matrix is used to assess the performance (maturity level) of each standard and to set measurable improvement targets;
- > the Safran HSE Guidelines have been validated by a third party, which confirmed their equivalence to the ISO 14001 and OHSAS 18001 standards.

Standards in the Guidelines clearly state, in real-world terms, the HSE practices applicable to each aspect. They are divided into four categories, excluding the prerequisites:

- > three prerequisite standards:
  - regulatory management, documentation management, environment/permits;

- > five leadership standards:
  - commitment and leadership, risk and impact analysis, planned general inspections, surveys and studies, change management;
- > three engagement standards applicable to all stakeholders:
  - employment engagement, training and awareness, on-site service providers;
- > sixteen best practice standards concerning health and safety at work (see section 5.2.6) and the environment (see section 5.3);
- > two standards dedicated to suppliers and eco-design.

### Certification audits

Every year, compliance with the Guideline standards is audited to measure and strengthen operating performance, as indicated by the level of maturity demonstrated by the facilities.

Internal HSE auditors, whose qualifications are verified by the Sustainable Development Department and a third party, conduct reviews of the Group's facilities in accordance with the schedule presented at the beginning of the year.

Audit reports are reviewed by the Group Certification Committee chaired by the head of sustainable development with the participation of a third-party representative.

The certificate delivered by the Committee indicates the standards (ISO 14001 and/or OHSAS 18001) met by the facility and the overall maturity level demonstrated for each of the Safran HSE standards.

Based on maturity, the certification may be bronze (level 1 compliance for all standards), silver (level 2 compliance for all standards) or gold (level 3 compliance for all standards).

Applicable on every site around the world, the Safran HSE Guidelines enable the deployment of shared HSE objectives to support all of the facilities in preventing risks and strengthening their operating management practices, in line with the global CSR framework agreement signed in 2017.

## Facility HSE operating performance

In 2017, Guideline compliance audits were performed at more than 100 facilities, with the result that:

- 11 facilities were awarded gold certification;
- 57 facilities were awarded silver certification;
- 23 facilities were awarded bronze certification.

Safran's objective is for every facility to earn gold certification.

In addition, audits to verify compliance with the eco-design standard were performed in all of the tier-one companies, resulting in the award of three bronze certificates and two silver certificates.

## Managerial engagement in the HSE process

The engagement of managers and executives is one of the building blocks of Safran's HSE commitment.

Each chairman is personally accountable for communicating the Group's HSE policy and is involved in its implementation. Each manager at every level initiates prevention programs aligned with his or her business and capable of meeting the improvement objectives, while ensuring the active engagement of every team member.

As part of this process, a large number of general and/or technical training courses on a full range of HSE topics are offered to every category of employee. In 2017, nearly 193,017 hours of HSE training was offered worldwide, representing nearly 13.4% of the consolidated number of training hours. During the year, more than 100 Group-wide HSE training programs were also available through Safran University.

Moreover, since 2014, nearly 3,000 senior executives and their team managers have been trained in the HSE continuous improvement process.

## 5.4 CSR REPORTING METHODOLOGY AND INDEPENDENT THIRD-PARTY REPORT

### 5.4.1 Methodology note on labor and HSE indicators

The labor and HSE indicators in this chapter have been defined by experts from the Group's support functions and businesses. As part of its continuous improvement process, Safran is gradually introducing a set of labor and HSE indicators aligned with legal obligations that have proven effective in tracking changes in the Group and its operations.

The indicators and reporting period presented herein cover the 2017 calendar year, from January 1 to December 31, unless otherwise indicated in the text or below.

Safran has elected to have the entire report reviewed by one of its Statutory Auditors, Mazars, in accordance with prevailing legislation.

The nature and scope of the work of the Statutory Auditors, and their conclusions, are presented in the Statutory Auditors' report in section 5.4.2.

#### 5.4.1.1 Reporting scope

##### Labor indicators

The scope of labor reporting covers Safran and all of its more than 50% directly or indirectly controlled subsidiaries, excluding joint ventures, unless otherwise indicated below.

The labor indicators at December 31, 2017 cover all of the subsidiaries in the scope of reporting, regardless of their business activities.

Indicators on mobility, employees with disabilities, absenteeism and the percentage of full-time employees pertain only to France. Indicators on work-study programs and internships pertain to Europe.

The Group is working to expand the reporting scope of these indicators, particularly concerning absenteeism rates by region with an appropriate definition.

##### HSE indicators

The HSE scope of reporting encompasses Safran and some of its more than 50% directly or indirectly controlled subsidiaries in which the HSE prevention policies and process have been deployed. Adjustments may be made to the scope of each indicator in line with its relevance for the facility and the facility's ability to report data.

HSE reporting covers all facilities with more than 100 employees. Facilities with fewer than 100 employees and high-risk manufacturing operations are encouraged to report HSE information. Facilities with fewer than 100 employees and no significant risks can contribute to HSE reporting if they wish.

Companies and facilities newly consolidated during the year must report their HSE data through the Score system within 24 months, according to a schedule set with Safran's Sustainable Development Department.

Safran Identity & Security and Structil have been sold and are no longer included in the HSE scope of reporting.

In the case of environmental indicators, the Group has shifted its priority focus to manufacturing operations, given that the office facilities have little impact on the overall environmental issues. The prevention program for office sites has been adjusted to their issues and will eventually enable all of the manufacturing and office facilities to be included in the same scope of environmental reporting.

### Changes in scope of reporting

The scope of reporting may change due to acquisitions, the creation of new businesses, disposals, liquidations or changes in the ownership stake in subsidiaries. The following rules were defined for the labor and HSE indicators:

- acquisitions/increases in the ownership stake in subsidiaries: data from the acquired or newly consolidated entity are included in the scope of reporting at the date on which control is acquired;
- disposals/liquidations/decreases in the ownership stake in subsidiaries: data from the sold, liquidated or deconsolidated entity are excluded from the scope of reporting at the date of disposal, liquidation or loss of control.

The time it takes to introduce reporting systems in start-ups and acquisitions may cause a delay in their contribution to consolidated reporting.

#### 5.4.1.2 Data collection

Labor and HSE indicators are based on several data collection systems, each of which is managed by a specific department.

#### Labor indicators

Global labor indicators are reported on a quarterly basis, while reporting for France is monthly.

Employee data are collected in each of the tier-one companies, which in turn are responsible for collecting the employee data from their more than 50%-controlled subsidiaries. Data reported for France are derived from the shared Cognos RH reporting software and subsequently validated by the Group companies. The software, which is managed according to its own specific rules, gets its data from the shared payroll management system used by most subsidiaries. International employee data are collected using a standard template. After checking for consistency, the corporate Human Resources Department consolidates employee data for the French and international companies based on the information reported by the tier-one companies.

#### HSE indicators

Safety indicators are reported on a monthly basis, while health and environmental indicators are reported on a quarterly or annual basis. In 2017, health and safety data correspond to the data available at year-end, while environmental data were calculated on a rolling 12-month basis from October 1, 2016 to September 30, 2017.

At every facility, data are entered by appointed representatives into a dedicated Group data collection application, then validated and checked under the supervision of the facility's chief executive.

Lastly, they are consolidated by the corporate Sustainable Development Department. The indicators are defined in the Group's reporting system first deployed in 2005.

#### 5.4.1.3 Details concerning certain indicators

The definitions of the labor indicators, presented below, are specified in the template used worldwide by representatives and in its instructions for use.

The definitions and calculation methods of HSE indicators are provided in the reporting system used by representatives. The main assumptions are presented below by category of indicator.

#### Workforce

Workforce information is as of December 31, 2017. The workforce includes all employees of companies included in the labor scope of reporting who hold permanent or fixed-term employment contracts. It excludes other types of contracts such as work-study contracts, CIFRE and DRT research internships or seasonal employment contracts. Employees are counted in terms of individuals.

The data on the employee age pyramid cover close to 99% of Safran's workforce, as some subsidiaries qualify this information as confidential and/or discriminatory.

#### Managerial-grade staff and engineers/employees

Employees are identified as managerial-grade staff or engineers if they:

- coordinate an assigned set of physical, human or financial resources with the degree of independence and responsibility required to meet targets. Managerial-grade staff may oversee a team, projects, a process, a technique or a customer or supplier portfolio; and/or
- hold an engineering degree from a university or specialized higher-education establishment. Engineers are primarily responsible for resolving technological issues related to the design, manufacture or application of products, systems or services, mainly in R&D and production.

All other employees who are not identified as managerial-grade staff or engineers fall into the "employees" category.

#### New hires

New hires refer to new employees hired from outside the Group on fixed-term or permanent employment contracts. It does not include employees from acquisitions or under other types of contracts (work-study contracts, CIFRE or DRT research internships or seasonal employment contracts).

#### Replacement of separations rate

The replacement of separations rate is determined by dividing the number of new hires by the number of separations.

#### Absenteeism in France

As defined in the social performance assessment, absenteeism corresponds to the total number of paid or unpaid hours absent (through illness, occupational accidents, work-related travel accidents, maternity and paternity leave, standard annual leave, etc.) divided by the theoretical number of hours worked and multiplied by 100. The rate is based on all employees on payroll, excluding people on long-term leave. Long-term leave is defined

by the reasons for suspending the employment contract or taking leave: long-term illness due to occupational accidents, business creation leave, paid leave for retraining, end-of-career leave, paid or unpaid long-term training leave, individual training leave, parental/adoption leave, parental presence leave, sabbatical leave, unpaid leave, family leave, secondment within the Group, secondment outside the Group, academic secondment, end-of-career leave for seniors, disability, long-term illness, unserved notice periods, professional/solidarity project leave, assisted leave, pre-retirement leave or early retirement for arduous work contracts.

### Employees with disabilities

In France, this indicator includes employees on payroll in 2017 who were certified as disabled as defined by Article L.5212-13 of the French Labor Code and Articles 394 and 395 of the French Code of Military Pensions. It does not cover persons working under work-study contracts, CIFRE and DRT research internships or seasonal employment contracts.

### Work-study contracts, internships, CIFRE and DRT research internships

This indicator includes people working in the Group in 2017 in Europe under work-study contracts (apprenticeships and vocational training contracts), internships of at least one month, or CIFRE and DRT research internships.

### Training

The indicator on training hours covers all types of training worldwide. Training courses of fewer than four hours and on-the-job training have been included since 2014. In most cases training hours are counted based on attendance sheets. Other supporting documents may also be used outside France, such as invoices, evaluation sheets, quality certificates, etc.

The indicator for the number of employees trained in the year corresponds to the number of active employees trained as a proportion of the number of employees on payroll, excluding people on long-term leave. The number of employees on long-term leave worldwide is determined by extrapolating the number of employees on long-term leave in France.

### Accident analysis and prevention

The frequency rate of occupational accidents equals the number of incidents resulting in more than one day's lost time per million hours worked.

The severity rate corresponds to the number of working days lost to accidents per thousand hours worked.

The hours worked used for the calculation correspond to the hours worked reported by the facilities, i.e., theoretical hours for the facilities using the HR Department's Cognos RH management software and theoretical or actual hours for other facilities.

### CO<sub>2</sub> emissions

Emissions are classified as Scope 1 or 2 using the methodologies defined in Article 75 of the Grenelle II Act. Emissions from refrigerants are reported for the calendar year (2016), while other emissions are calculated on a rolling 12-month basis from October 1, 2016 to September 30, 2017. To make data easier to compare over several years, the emissions factors used are the carbon-based factors for 2012.

### Emissions factors

Scope 2 electricity: the emissions factor recommended and used for France to calculate greenhouse gas emissions is 0.06 kg of CO<sub>2</sub> eq./kWh.

For steam/heat/cold, the average value for France in 2012 was taken into account.

Emissions factors for upstream emissions from energy extraction and transport are not taken into account.

### Calculating CO<sub>2</sub> emissions

Scope 1: inclusion of emissions from LPG (butane and propane) and diesel fuel for mobile sources.

Scope 2: inclusion of emissions from purchased steam, heat and cold.

Scope 3: inclusion of emissions from all Group business air travel, as recorded by the business travel management application.

### Waste

Categories of waste are defined according to local regulations. In order to harmonize reporting practices across the Group, non-contaminated metallic chips are reported separately.

### Water

Reported water consumption includes three types of sources:

- > the water supply network refers to water supplied through a public or private operator;
- > surface water refers to water pumped directly from the surface of the natural environment (river, lake, etc.);
- > groundwater refers to water pumped directly from the water table.

Cooling water is not reported because it is not directly used in the industrial processes and is not physically or chemically treated before being released into the natural environment

### Energy

The conversion factor used for energy consumption is 1 MWh = 0.0857 metric tons of oil equivalent.

Due to the lack of precision on invoices, data are recorded on the basis of lower heating values (LHV), which increases certain figures, such as CO<sub>2</sub> emissions by around 10%.

## 5.4.2 Report by the independent third party, on the consolidated labor, environmental and social information included in the management report

*This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders,

In our capacity as an independent third party, certified by COFRAC Inspection under number 3-1058 (posted on [www.cofrac.fr](http://www.cofrac.fr)) and a member of the Mazars network, Safran SA's Statutory Auditor, we hereby report to you on the consolidated labor, environmental and social information for the year ended December 31, 2017, included in the management report (hereinafter "CSR Information"), pursuant to Article L.225-102-1 of the French Commercial Code (*Code de Commerce*).

### Company's responsibility

The Board of Directors is responsible for preparing a management report including the CSR Information required by Article R.225-105-1 of the French Commercial Code in accordance with the protocols used by the Company (hereinafter the "Guidelines"), summarized in the management report and available on request from the Company's head office.


### Independence and quality control

Our independence is defined by regulatory texts, the French Code of Ethics (*Code de déontologie*) of our profession and the requirements of Article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality control, including documented policies and procedures regarding compliance with ethical requirements and applicable laws and regulations.

### Responsibility of the independent third party

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure, that an explanation is provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information);

- provide, at the request of the Company and outside the scope of our certification, reasonable assurance as to whether the information selected by the Company and identified by the symbol  in chapter 5 of the management report was prepared, in all material respects, in accordance with the adopted guidelines.

It is not our responsibility, however, to comment on the compliance with any other laws and regulations that may apply, in particular those specified in Article L. 225-102-4 of the French Commercial Code (Duty of Care Plan) and in the Act 2016-1691 of December 9, 2016, also known as the Sapin II Act (fight against corruption).

Our work involved eight persons and was conducted between October 2017 and February 2018 during a 15-week period.

We performed the work described below in accordance with the professional guidance issued by the French national auditing body (*Compagnie nationale des commissaires aux comptes*) for this type of engagement, with the order dated May 13, 2013 defining the conditions under which the independent third party performs its engagement, and with ISAE 3000<sup>(1)</sup>, as concerns our conclusion on the fairness of CSR information and the reasonable assurance report.

### I – Attestation regarding the completeness of CSR Information

On the basis of interviews with the individuals in charge of relevant departments, we obtained an understanding of the Company's sustainable development strategy regarding the social and environmental impacts of its activities and social commitments and where applicable, the resulting actions or programs.

We compared the CSR Information presented in the management report with the list provided in Article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with Article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by Article L.233-1 and the controlled entities as defined by Article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the "CSR reporting methodology" section 5.7 of the management report.

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

## II – Conclusion on the fairness of CSR Information

### Nature and scope of our work

We conducted about 20 interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- > assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- > verify the implementation of data collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and extent of our tests and controls based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the social and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important<sup>(1)</sup>:

- > at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organization, policies and actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- > at the level of a representative sample of entities selected by us<sup>(2)</sup> on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample covered 63% of the workforce, regarded as large enough to represent the labor aspects, and between 22% and 31% of the environmental data, regarded as large enough to represent<sup>(3)</sup> the environmental aspects.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR Information cannot be totally eliminated.

### Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR information, taken as a whole, is not presented fairly in accordance with the Guidelines.

## III – Reasonable assurance report on selected CSR Information

### Nature and scope of our work

Regarding information selected by the Company and identified by the symbol ☑, we conducted similar work as described in paragraph 2 above for CSR Information that we consider to be most significant but of greater depth, especially regarding the number of tests.

The selected facilities' contribution to Group data equals 63% of headcount.

We deem this work allows us to express a reasonable assurance on the information selected by the Company and identified by the symbol ☑.

### Conclusion

In our opinion, the Information selected by the Company and identified by the ☑ symbol was prepared, in all material respects, in accordance with the Guidelines.

Paris La Défense, March 27, 2018

Independent Third Party

Mazars SAS

Christophe Berrard

Partner

Edwige Rey

CSR & Sustainable Development Partner

(1) **Labor information:** Total workforce and employees by gender, country, age and category; Number of new hires as of Dec. 31; Number of separations as of Dec. 31, including dismissals; Replacement rate of separations as of Dec. 31; Absenteeism rate; Number and percentage of women hired; Number and percentage of disabled people; Percentage of employees having a performance review; Number of training hours per curriculum.

**Environmental and safety information:** Total ordinary and hazardous industrial waste generated; Total ordinary and hazardous industrial waste recycled, Total water consumption and breakdown by source (piped/surface/ground), Electricity consumption; Natural gas and LPG consumption; Scope 1, 2 and 3 (business travel) CO<sub>2</sub> emissions, Lost-time incident frequency rate; Lost-time incident severity rate; Number of occupational illnesses reported during the year.

**Qualitative information:** Scale of outsourcing and integration of social and environmental responsibility factors in supplier and subcontractor relationships, Integration of social and environmental issues in the purchasing process; Ethical and compliance policies implemented; Training policies implemented; Career management policies implemented; Occupational health policies (psychosocial risks, ergonomics).

(2) **Legal entities for the verification of labor information:** Safran Landing Systems (France); Safran Helicopter Engines (France); Safran Landing Systems Walton (United States); SAFIRH and Ophimum shared services centers (France) for the number of training hours.

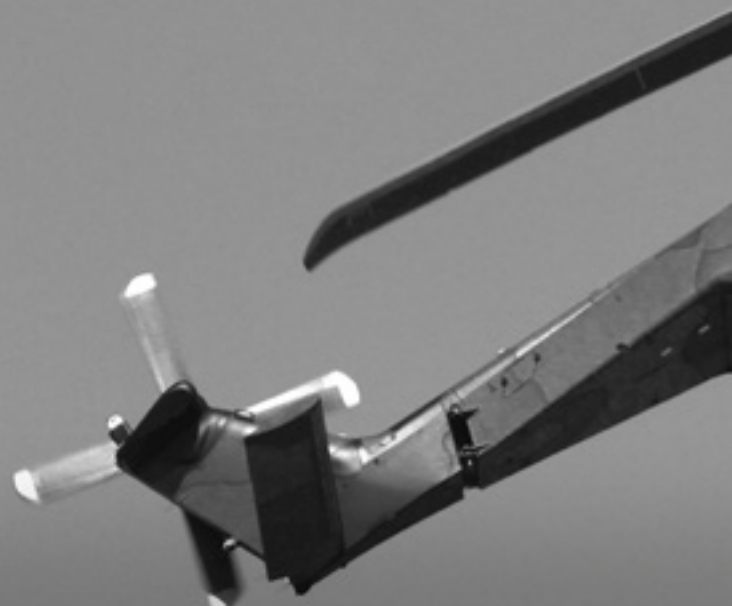
**Legal entities for the verification of health, safety and environmental information:** Safran Electronics Defense Massy (France); Safran Helicopter Engines Bordes (France); Safran Landing Systems Vélizy (France); Safran Landing Systems Molsheim (France); Safran Aircraft Engines Gennevilliers (France); Safran Transmission Systems Sedziszow Malopolski (Poland); Safran Landing Systems Walton (United States).

(3) Ordinary and hazardous industrial waste generated; electricity consumption; CO<sub>2</sub> emissions; natural gas and LPG consumption.





|              |  |            |              |   |            |              |   |            |
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# CORPORATE GOVERNANCE

# 6



## IN BRIEF

Safran uses the AFEP-MEDEF Corporate Governance Code as its corporate governance framework

### BOARD OF DIRECTORS

The Company is governed by a Board of Directors comprising:

  
**17 members**

**INCLUDING:**

- > 7 independent Directors\*
- > 1 representative of the French State and 2 Directors put forward by the French State
- > 2 Directors representing employee shareholders
- > 2 Directors elected by employees

**53.8%**

independent Directors\*

**7**

women

**13**

meetings  
in 2017

**92%**

attendance rate  
at meetings in 2017

### 3 SPECIALIZED STANDING COMMITTEES

The Board is assisted in its work by three standing committees:



**THE AUDIT AND RISK  
COMMITTEE**

**5 members**  
of which 75% independent\*



**THE APPOINTMENTS AND  
COMPENSATION COMMITTEE**

**7 members**  
of which 83.33% independent\*



**THE INNOVATION AND  
TECHNOLOGY COMMITTEE\*\***

**5 members**  
of which 80% independent

### SEPARATION OF THE ROLES OF CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

The Board has decided to separate the roles of Chairman of the Board of Directors and Chief Executive Officer



**Ross McInnes**  
Chairman of the  
Board of Directors



**Philippe Petitcolin**  
Chief Executive Officer

(\*) In accordance with Article 14.1 of the AFEP-MEDEF Corporate Governance Code, Directors representing employee shareholders and Directors representing employees are not taken into account when calculating the percentage of independent Directors.

(\*\*) New Board committee set up on October 26, 2017.

This chapter constitutes the main body of the report of the Chairman of the Board of Directors on corporate governance<sup>(1)</sup>. It provides information on the membership structure of the Board of Directors, the Company's application of the AFEP-MEDEF Corporate Governance Code which it uses as its corporate governance framework, the conditions for preparing and organizing the work of the Board of Directors and the Board Committees, the powers of the Chairman of the Board of Directors and the Chief Executive Officer, and the principles and rules used to determine the compensation and benefits of the corporate officers (i.e., the Chairman and the Chief Executive Officer, who are both members of Safran's Board of Directors).

## 6.1 SAFRAN'S CORPORATE GOVERNANCE STRUCTURE

### CORPORATE GOVERNANCE REFERENCE FRAMEWORK

Safran uses as its corporate governance framework the "Corporate Governance Code of Listed Corporations" (revised version dated November 24, 2016), drawn up jointly by the French employers' associations, AFEP<sup>(2)</sup> and MEDEF<sup>(3)</sup>, as well as the related application guidelines (revised version of December 2016). These documents are available on the AFEP and MEDEF websites at [www.afep.com](http://www.afep.com) and [www.medef.com](http://www.medef.com).

Where certain recommendations included in this Code or in its application guidelines are not implemented, the reasons are explained in section 6.4 below, "Application of the AFEP-MEDEF Corporate Governance Code".

#### 6.1.1 Board of Directors – Separation of the roles of Chairman of the Board of Directors and Chief Executive Officer

Shareholders at the Annual General Meeting of April 21, 2011 approved the adoption of a corporate governance structure with a Board of Directors.

Following the Annual General Meeting of April 23, 2015 when the shareholders appointed Ross McInnes and Philippe Petitcolin as Directors for a four-year term, the Board of Directors chose to separate the roles of Chairman of the Board of Directors and Chief Executive Officer and appointed:

- Ross McInnes as Chairman of the Board of Directors for the duration of his term as a Director, i.e., until the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2018; and
- Philippe Petitcolin as Chief Executive Officer, initially for a three-year term, i.e., until the close of the Annual General Meeting held to approve the financial statements for the year ended December 31, 2017.

Acting on the recommendation of the Appointments and Compensation Committee, on February 26, 2018 the Board of Directors renewed Philippe Petitcolin's term of office as Chief Executive Officer until the close of the Annual General Meeting

to be held in 2020 to approve the 2019 financial statements. In so doing, the Board renewed its trust in him to achieve the goals of (i) successfully integrating Zodiac Aerospace and leveraging the synergies of this business combination which will create a new global leader in the aerospace industry and marks the start of a new phase in the Group's history, and (ii) continuing to rise to the industrial and commercial challenges stemming from the successful ramp-up of the LEAP engine.

The decision to separate the roles of Chairman of the Board of Directors and Chief Executive Officer means the Company can benefit from the Chief Executive Officer's managerial expertise, deep-seated experience in industry and strong reputation in the aeronautics and defense sectors as well as the Chairman's international standing and experience in corporate governance. The strong strategic fit of their profiles enables the Group to be governed harmoniously, based on transparent relations between the Board of Directors and Executive Management and a balanced and respectful distribution of roles between the Chairman of the Board and the Chief Executive Officer.

See section 6.2.2 below for the profiles of the Chairman of the Board of Directors and the Chief Executive Officer.

#### 6.1.2 Powers and responsibilities of the Chairman of the Board of Directors

The Board of Directors assigned the following specific responsibilities to Ross McInnes in his role as Chairman of the Board of Directors:

- representing the Group (with the support of and in concertation with Executive Management) in France and abroad in dealings with government authorities, major customers, partners and institutional shareholders;

- organizing the Board's strategic work;
- working with the Board on the preparation and implementation of succession plans for the Group's key operations managers and support function managers.

In addition, Ross McInnes represents the Board of Directors and is responsible for organizing and managing the work of the

(1) Report drawn up in accordance with Article L.225-37, paragraph 6, of the French Commercial Code.

(2) AFEP: Association française des entreprises privées.

(3) MEDEF: Mouvement des entreprises de France.

Board, on which he reports to shareholders at the Annual General Meeting. He coordinates the work of the Board and the Board Committees, as well as ensuring that the Company's corporate governance structures function effectively and particularly that Directors are in a position to properly perform their duties. To that end, in accordance with the applicable legislation and Article 15.2 of the Company's bylaws, he is responsible for:

- > calling Board meetings based on an annual schedule and on other occasions, where necessary, drawing up the agenda

and ensuring that the Directors are given the appropriate information;

- > ensuring that the Board Committees discuss certain matters in preparation for Board meetings and that the Directors respect the Internal Rules of the Board of Directors and the Board Committees;
- > monitoring the implementation of the Board's decisions.

### 6.1.3 Powers and responsibilities of the Chief Executive Officer

The Chief Executive Officer represents the Company in its dealings with third parties and has the broadest powers to act in all circumstances in the Company's name.

He exercises these powers within the scope of the Company's corporate purpose and subject to the powers expressly vested by the applicable laws and regulations in Shareholders' Meetings and the Board of Directors.

The Company is bound by the actions of the Chief Executive Officer with respect to third parties even when they fall outside the scope of the corporate purpose, unless it can be proven

that the third party knew, or under the circumstances could not have failed to know, that such actions exceeded the remit of the corporate purpose. Publication of the Company's bylaws does not in itself constitute such proof.

Any restrictions placed on the powers of the Chief Executive Officer by the bylaws or a decision of the Board of Directors are not binding on third parties. The restrictions placed on the powers of the Chief Executive Officer decided by the Board of Directors are set out in the Board of Directors' Internal Rules (see sections 6.3.1 and 6.1.4.2), and particularly relate to investments and divestments and certain strategic operations.

### 6.1.4 Powers and responsibilities of the Board of Directors

#### 6.1.4.1 Roles and responsibilities of the Board of Directors

The Board of Directors is responsible for defining the Company's business objectives, including its strategic objectives, and overseeing their implementation. Subject to the powers directly vested in Shareholders' Meetings, the Board is responsible for dealing with all matters concerning the efficient running of the Company and for making all related decisions, within the scope of the Company's corporate purpose.

In accordance with the applicable laws and regulations and the terms and conditions set out in the Board of Directors' Internal Rules, the roles and responsibilities of the Board of Directors include, but are not limited to:

- > calling the Annual General Meeting and setting its agenda;
- > approving the Group's annual budget presented by the Chief Executive Officer as well as any amendments thereto;
- > approving the Group's medium-term business plan;
- > approving the financial statements of the Company and the Group and drawing up the annual corporate governance report;
- > authorizing related-party agreements and commitments governed by Article L.225-38 *et seq.* of the French Commercial Code (*Code de commerce*);
- > selecting the Company's management structure in accordance with Articles 21.1 and 21.4 of the bylaws;
- > appointing or removing from office:
  - the Chairman of the Board of Directors,
  - the Chief Executive Officer,
  - and, on the recommendation of the Chief Executive Officer, the Deputy Chief Executive Officer(s) (if any);
- > determining the powers of the Chief Executive Officer and, in agreement with the Chief Executive Officer, of the Deputy Chief Executive Officer(s) (if any);
- > appointing Directors prior to ratification by shareholders;

- > setting the compensation payable to the Chairman of the Board of Directors, the Chief Executive Officer and the Deputy Chief Executive Officer(s) (if any);
- > appointing the members of the Board Committees set up in accordance with the applicable laws, the Company's bylaws and the Board of Directors' Internal Rules;
- > allocating attendance fees in accordance with the Board of Directors' Internal Rules;
- > deciding on issues of debt securities not carrying rights to shares;
- > deciding whether to allocate compensation to any Board Advisors (*censeurs*);
- > giving the Chief Executive Officer authorization (which may be delegated) to grant guarantees, endorsements and sureties, including:
  - setting for each fiscal year:
    - a blanket ceiling, and
    - where appropriate, a maximum amount per transaction, and
  - authorizing in advance any transactions that would result in exceeding the above-mentioned blanket ceiling or the maximum amount per transaction.

In addition, the Board of Directors performs any checks and controls that it deems appropriate.

#### 6.1.4.2 Internal rules relating to transactions requiring prior approval of the Board of Directors

In accordance with Article 19.3 of the Company's bylaws and Article 4 of the Board of Directors' Internal Rules:

- > the following operations have to be approved by the Board before they can be carried out by the Chief Executive Officer or a subsidiary:
  - decisions related to putting in place significant business activities in France or abroad,

- decisions to withdraw from such business activities in France or abroad,
- material operations likely to affect the Group's strategy or modify its financial structure or the scope of its activity;
- the Board's prior approval is systematically required for the following:
  - any capital expenditure or self-financed development expenditure related to any project, program or industrial or commercial development that represents an amount equal to or more than €100 million for the Company or any Group entity,
  - any investment, divestment, expenditure, commitment or warranty related to the following operations or decisions and which represents an amount equal to or more than €50 million for the Company or any Group entity:
    - any acquisition or disposal of real estate,
    - any acquisition or disposal of interests in any existing or future company, involvement in the creation of any company, group or organization, subscription to any issues of shares or bonds, excluding ordinary treasury management transactions,
    - any exchange, with or without balancing cash adjustments, relating to assets or securities, excluding ordinary treasury management transactions,
    - in the event of a dispute or litigation, the signature of any agreement or the acceptance of any settlement,
    - collateral pledged over the Company's assets.

The prior approval referred to above is not required for operations and decisions that result in the signature of agreements exclusively involving Group entities (between these entities or with the Company);

- the Board of Directors' prior approval is systematically required for each of the following operations or decisions if they represent an amount equal to or more than €400 million for the Company or any Group entity:
  - granting or contracting any loan, credit or advance,
  - setting up or changing any program involving issues by the Company of negotiable debt securities (formerly

the commercial paper program), apart from renewals or changes that do not result in an increase in the maximum size or maturity of the debt securities concerned (once such programs are approved, the Company's Finance Department is responsible for their implementation),

- acquiring or disposing of any receivables due beyond one year.

The prior approval referred to above is not required for operations and decisions that result in the signature of agreements exclusively involving Group entities (between these entities or with the Company);

- the Board of Directors' prior approval is also systematically required for any offer or industrial or commercial project entered into by the Company or a Group entity that:
  - results in a guarantee commitment representing €300 million or more, or
  - is deemed material, with the notion of "material" decided by the Chief Executive Officer or any other person duly authorized to implement said offer or project;
- furthermore, the following operations and decisions require prior authorization from the Board of Directors, with at least one Director representing the French State voting in favor if the French State owns more than 10% of Safran's capital:
  - any disposal by the Group of strategic military assets which concern prime contractor, design, manufacture, integration and operational maintenance capacities with regard to the propulsion and guidance of French cruise and tactical ballistic missiles,
  - any sale by Safran of shares in Safran Ceramics, Safran Power Units, Safran Electronics & Defense and ArianeGroup Holding,
  - any decision to grant to a third party specific management rights or rights to information related to the Group's strategic military assets which concern prime contractor, design, manufacture, integration and operational maintenance capacities with regard to the propulsion and guidance of French cruise and tactical ballistic missiles,
  - any decision to grant to a third party rights to be represented on the administrative or management bodies of Safran Ceramics, Safran Power Units, Safran Electronics & Defense and ArianeGroup Holding.

## 6.2 MEMBERSHIP STRUCTURE OF THE BOARD OF DIRECTORS

Safran's Board of Directors comprises 17 members, including one representative of the French State, two Directors put forward by the French State, two Directors representing employee shareholders and two Directors representing employees.

The diverse experience and expertise of the Directors and the international profile of a number of them (see profiles below) provide the Board with a wide range of complementary skills.

## 6.2.1 Summary table of information about Directors

| Director   | First appointed at/by | Re-appointed at/by   | Departure date <sup>(1)</sup> | Nationality           | Age <sup>(1)</sup> | Gender | Date first appointed                  | Date last re-appointed        | Number of years on the Board <sup>(1)</sup> |
|--|-----------------------|----------------------|-------------------------------|-----------------------|--------------------|--------|---------------------------------------|-------------------------------|---|
| <b>Directors currently in office</b>                                 |                       |                      |                               |                       |                    |        |                                       |                               |   |
| Ross McInnes<br>Chairman of the Board of Directors                   |                       |                      |                               | French and Australian | 64                 | M      | April 23, 2015                        |                               | 2 years and 11 months                       |
| Philippe Petitcolin<br>Chief Executive Officer                       |                       |                      |                               | French                | 65                 | M      | April 23, 2015                        |                               | 2 years and 11 months                       |
| Christian Streiff<br>Vice-Chairman of the Board of Directors         |                       |                      |                               | French                | 63                 | M      | May 28, 2013                          |                               | 4 years and 10 months                       |
| Hélène Auriol Potier   | AGM of June 15, 2017  |                      |                               | French                | 55                 | F      | June 15, 2017                         |                               | 9 months                                    |
| Éliane Carré-Copin   |                       |                      |                               | French                | 65                 | F      | May 19, 2016                          |                               | 1 year and 10 months                        |
| Jean-Lou Chameau   |                       |                      |                               | French and American   | 64                 | M      | April 21, 2011                        | April 23, 2015                | 6 years and 11 months                       |
| Monique Cohen  |                       |                      |                               | French                | 62                 | F      | May 28, 2013                          |                               | 4 years and 10 months                       |
| Odile Desforges  |                       | AGM of June 15, 2017 |                               | French                | 68                 | F      | April 21, 2011                        | June 15, 2017                 | 6 years and 11 months                       |
| Jean-Marc Forneri  |                       |                      |                               | French                | 58                 | M      | March 17, 2005<br>(Supervisory Board) | May 28, 2013                  | 13 years                                    |
| Patrick Gandil   |                       |                      |                               | French                | 62                 | M      | May 28, 2013                          | April 23, 2015 <sup>(5)</sup> | 4 years and 10 months <sup>(6)</sup>        |
| Vincent Imbert   |                       |                      |                               | French                | 62                 | M      | March 28, 2014                        | April 23, 2015 <sup>(5)</sup> | 4 years <sup>(7)</sup>                      |
| Brigitte Lesschaeve <sup>(8)</sup>                                   | February 26, 2018     |                      |                               | French                | 60                 | F      | February 26, 2018                     |                               | 1 month                                     |
| Gérard Mardiné   |                       |                      |                               | French                | 58                 | M      | May 19, 2016                          |                               | 1 year and 10 months                        |
| Daniel Mazaltarim  |                       |                      |                               | French                | 58                 | M      | November 20, 2014                     |                               | 3 years and 4 months                        |
| Lucie Muniesa<br>Representative of the French State                  |                       |                      |                               | French                | 43                 | F      | February 8, 2016                      |                               | 2 years and 1 month                         |
| Patrick Pélata   | AGM of June 15, 2017  |                      |                               | French                | 62                 | M      | June 15, 2017                         |                               | 9 months                                    |
| Sophie Zurquiyah   | AGM of June 15, 2017  |                      |                               | French and American   | 51                 | F      | June 15, 2017                         |                               | 9 months                                    |
| <b>Directors whose terms of office expired in 2017<sup>(1)</sup></b> |                       |                      |                               |                       |                    |        |                                       |                               |   |
| Giovanni Bisignani   |                       |                      | AGM of June 15, 2017          | Italian               | 70                 | M      | April 21, 2011                        |                               | 6 years                                     |
| Xavier Lagarde   |                       |                      | AGM of June 15, 2017          | French                | 69                 | M      | April 21, 2011                        |                               | 6 years                                     |
| Élisabeth Lulin  |                       |                      | AGM of June 15, 2017          | French                | 50                 | F      | April 21, 2011                        |                               | 6 years                                     |
| Frédéric Bourges   |                       |                      | February 26, 2018             | French                | 59                 | M      | November 20, 2014                     |                               | 3 years and 3 months                        |

(1) At the filing date of this Registration Document.

(2) See section 6.2.4.1 "Independence of the members of the Board of Directors".

(3) At December 31, 2017.

(4) Including directorship with Safran, in compliance with the recommendations of the AFEP-MEDEF Code.

(5) Director put forward by the French State.

(6) From May 28, 2013 to April 23, 2015, as a Director representing the French State.

(7) From March 28, 2014 to April 23, 2015, as a Director representing the French State.

(8) Replacing Frédéric Bourges (see section 6.2.3).



| Expiration of term of office                             | Independent Director <sup>(2)</sup> | Director representing employees or employee shareholders | Attendance rate (Board meetings) <sup>(3)</sup> | Membership of Board Committees <sup>(1)</sup>  | Number of directorships in listed companies <sup>(1)(4)</sup> | Main experience and expertise brought to the Company  |
|--|-------------------------------------|--|---|--|---|---|
| 2019 (AGM held to approve the 2018 financial statements) | No                                  | No   | 100%  | -  | 3   | Chairman of the Board of Directors  |
| 2019 (AGM held to approve the 2018 financial statements) | No                                  | No   | 92%   | -  | 1   | Chief Executive Officer   |
| 2018 (AGM held to approve the 2017 financial statements) | Yes                                 | No   | 92%   | Chairman of the Innovation and Technology Committee<br>Appointments and Compensation Committee | 2   | Vice-Chairman of the Board of Directors<br>Organization and management of corporations/<br>Industry/International/Strategy/<br>Mergers & Acquisitions |
| 2021 (AGM held to approve the 2020 financial statements) | Yes                                 | No   | 83%   | Appointments and Compensation Committee<br>Innovation and Technology Committee                 | 2   | Organization and management of corporations/<br>International business/Digital transformation   |
| 2020 (AGM held to approve the 2019 financial statements) | No                                  | Yes  | 100%  | -  | 1   | Perspective of an employee/<br>Knowledge of the Group and its markets   |
| 2019 (AGM held to approve the 2018 financial statements) | Yes                                 | No   | 92%   | Appointments and Compensation Committee<br>Innovation and Technology Committee                 | 1   | RTDI/International business   |
| 2018 (AGM held to approve the 2017 financial statements) | Yes                                 | No   | 85%   | Chairman of the Appointments and Compensation Committee<br>Audit and Risk Committee            | 3   | Financial and banking markets/Private equity/<br>Shareholding strategy  |
| 2021 (AGM held to approve the 2020 financial statements) | Yes                                 | No   | 92%   | Audit and Risk Committee (Chair)   | 5   | Organization and management of corporations/<br>Industry/RTDI/Performance<br>and management control   |
| 2018 (AGM held to approve the 2017 financial statements) | No                                  | No   | 62%   | -  | 2   | Governance and compensation/Strategy/<br>Mergers & Acquisitions   |
| 2019 (AGM held to approve the 2018 financial statements) | No                                  | No   | 92%   | Innovation and Technology Committee  | 1   | Knowledge of the Group's markets/Knowledge<br>of the civil aviation industry/Competitive<br>environment/Strategy                                      |
| 2019 (AGM held to approve the 2018 financial statements) | No                                  | No   | 85%   | -  | 1   | Industry/Strategy/Defense industry/<br>Competitive environment  |
| November 19, 2019  | No                                  | Yes  | N/A   | -  | 1   | Perspective of an employee/<br>Knowledge of the Group and its markets   |
| 2020 (AGM held to approve the 2019 financial statements) | No                                  | Yes  | 92%   | Audit and Risk Committee   | 1   | Perspective of an employee/<br>Knowledge of the Group and its markets   |
| November 19, 2019  | No                                  | Yes  | 100%  | Appointments<br>and Compensation Committee   | 1   | Perspective of an employee/<br>Knowledge of the Group and its markets   |
| April 22, 2019   | No                                  | No   | 100%  | Audit and Risk Committee<br>Appointments and Compensation Committee                            | 4   | Finance/Strategy/Organization and management<br>of corporations/Industry  |
| 2021 (AGM held to approve the 2020 financial statements) | Yes                                 | No   | 83%   | Appointments and Compensation Committee<br>Innovation and Technology Committee                 | 1   | Organization and management of corporations/<br>International business/Strategy/Industry/<br>New technologies   |
| 2021 (AGM held to approve the 2020 financial statements) | Yes                                 | No   | 100%  | Audit and Risk Committee   | 1   | Organization and management of corporations/<br>International business/Industry   |
| 2017 (AGM held to approve the 2016 financial statements) | Yes                                 | No   | 100%  | Appointments and Compensation Committee  | 2   | Giovanni Bisignani's directorship<br>ended on June 15, 2017   |
| 2017 (AGM held to approve the 2016 financial statements) | No                                  | No   | 100%  | Appointments and Compensation Committee  | 1   | Xavier Lagarde's directorship<br>ended on June 15, 2017   |
| 2017 (AGM held to approve the 2016 financial statements) | Yes                                 | No   | 100%  | Audit and Risk Committee   | 1   | Élisabeth Lulin's directorship<br>ended on June 15, 2017  |
| November 19, 2019  | No                                  | Yes  | 100%  | Appointments and Compensation Committee  | 1   | Frédéric Bourges' directorship<br>ended on February 26, 2018  |

## 6.2.2 Directors' profiles



➤ Ross McInnes

**Chairman of the Board of Directors**

Safran - 2, bd du Général Martial-Valin - 75015 Paris, France

Number of Safran shares held: 7,420<sup>(1)</sup>

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1954, Ross McInnes has dual French and Australian nationality and is a graduate of Oxford University. He started his career in 1977 with Kleinwort Benson bank, first in London and then in Rio de Janeiro. In 1980, he joined Continental Bank (now Bank of America) in which he held several positions in the corporate finance arm, in Chicago and then in Paris.

In 1989, Ross McInnes chose to move to large multinational corporations and became Chief Financial Officer of Ferruzzi Corporation of America. He was appointed Chief Financial Officer of Eridania Beghin-Say in 1991, then a member of the Board of Directors in 1999. The following year, he joined Thomson-CSF (now Thales) as Executive Vice President and Chief Financial Officer and assisted in the group's transformation, until 2005. He then moved to PPR (Pinault-Printemps-La Redoute, now Kering) as Senior Vice-President for Finance and Strategy, before joining the Supervisory Board of Générale de Santé in 2006. At the request of the Supervisory Board, he served as acting Chairman of the Management Board of Générale de Santé from March to June 2007. He subsequently held the position of Vice-Chairman of Macquarie Capital Europe where he primarily specialized in infrastructure investments.

In March 2009, Ross McInnes joined Safran as Special Advisor to the Chairman of the Executive Board, before becoming Executive Vice-President, Economic and Financial Affairs in June of that year. He was a member of the Executive Board of Safran between July 2009 and April 2011.

He served as Deputy Chief Executive Officer, Finance between April 21, 2011 and April 23, 2015, when he was appointed Chairman of Safran's Board of Directors.

In February 2015, the French Minister of Foreign Affairs and International Development appointed Ross McInnes as Special Representative for economic relations with Australia.

In November 2016, he was appointed by the French Prime Minister as the Ambassador of the "Choose Paris Region" program created to attract foreign business to the Greater Paris Area and France in general.

In November 2016, based on the recommendation of the AFEP and MEDEF associations, he was appointed a member of the High Committee for Corporate Governance set up by the AFEP and MEDEF to monitor the application of the AFEP-MEDEF Corporate Governance Code for Listed Companies in France.

In February 2017, he joined SICOM, the general partner of Vivescia Industries, as a "qualified person".

In October 2017, Ross McInnes was appointed as Co-Chairman of the Committee set up by the French Prime Minister to oversee the transformation program of the French administration "Action Publique 2022".

In January 2018, he joined the IFRS Foundation - the entity that oversees the work of the International Accounting Standards Board (IASB), as a Trustee and a Director.

Ross McInnes has also been a Director and Chairman of the Audit Committee of Eutelsat since February 2013 and a Director of Lectra since January 1, 2018.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

➤ Chairman of the Board of Directors of Safran

##### NON-GROUP

- Director and Chairman of the Audit Committee of Eutelsat Communications (listed company)
- Director of Lectra (listed company) since January 2018
- Trustee and Director of the IFRS Foundation (United Kingdom) since January 2018

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

- Deputy Chief Executive Officer of Safran until April 2015
- Director of:

- Safran USA, Inc. (United States) until June 2015
- Safran Nacelles until December 2014
- Safran Helicopter Engines until December 2014
- Safran Landing Systems until December 2014
- Safran Identity & Security until December 2014
- Safran Aircraft Engines until December 2014
- Safran Electronics & Defense until July 2013
- Vallaroché Conseil until April 2013

- Permanent representative of Safran on the Board of Directors of Établissements Vallaroché, until April 2013
- Permanent representative of Établissements Vallaroché on the Board of Directors of Soreval (Luxembourg) until May 2015

##### NON-GROUP

- Director and Chairman of the Audit Committee of Faurecia (listed company) until May 2017
- Non-executive Director and Chairman of the Audit Committee of IMI PLC (listed company) (United Kingdom) until October 2017
- Director of:
  - Financière du Planier until June 2015
  - Globe Motors, Inc. (United States) until October 2013
  - Limoni SpA (Italy) until February 2013
- Permanent representative of Santé Europe Investissements Sarl on the Board of Directors of Santé SA (Luxembourg) until October 2014
- Permanent representative of Santé Europe Investissements Sarl on the Board of Directors, and a member of the Audit Committee, of Générale de Santé SA (listed company) until March 2014

(1) Including 7,410 shares via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



> Philippe Petitcolin

**Chief Executive Officer and Director**

Safran - 2, bd du Général Martial-Valin - 75015 Paris, France

Number of Safran shares held: 18,186<sup>(1)</sup>

**PROFILE – EXPERTISE AND EXPERIENCE**

Born in 1952, Philippe Petitcolin holds a degree in mathematics and is a graduate of the Centre de Perfectionnement aux Affaires (CPA) business school.

Philippe Petitcolin began his career in 1978 as an export manager for Europrim before becoming an export area manager for Filotex, a subsidiary of Alcatel-Alstom. In 1982 he was appointed Aviation Sales Director for Chester Cable in the United States before returning to Filotex in 1984 as Export Director.

In 1988, he joined Labinal as Deputy Sales Director before being appointed Sales and Marketing Director of the company's Aeronautical Systems Division and subsequently its Managing Director in 1995.

Between 1999 and 2001, he was General Manager of Labinal's Filtrauto Division, also serving as General Manager of the friction materials business after the division was bought by Valeo. In May 2001, he was named Chief Executive Officer of Labinal (now Safran Electrical & Power), before being appointed Chairman and Chief Executive Officer in November 2004. He was then appointed Chairman and Chief Executive Officer of Snecma (now Safran Aircraft Engines) in 2006.

Between 2011 and 2013, he served as President of Safran's Defense and Security businesses and then Chairman and Chief Executive Officer of Safran Electronics & Defense.

From July 2013 to December 2014, he was Chairman and Chief Executive Officer of Safran Identity & Security and Chairman of the Board of Directors of Safran Electronics & Defense.

He subsequently served as Chairman of Safran Identity & Security from December 2014 to July 2015.

On April 23, 2015, Philippe Petitcolin was appointed as a Director of Safran at the Company's Annual General Meeting and then Chief Executive Officer by the Board of Directors on the same day.

Also on April 23, 2015, he became a Board member of the Aerospace and Defence Industries Association of Europe (ASD).

In July 2015, Philippe Petitcolin was appointed Vice-Chairman of GIFAS (*Groupement des Industries Françaises Aéronautiques et Spatiales*) and in September 2015, he was appointed as a Director of Belcan Corporation, an engineering services company.

**OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES**

**CURRENT OFFICES AND POSITIONS**

**SAFRAN GROUP**

- > Chief Executive Officer of Safran
- > Director of Safran

**NON-GROUP**

- > Vice-Chairman of GIFAS
- > Director of Belcan Corporation (United States)
- > Board member of the Aerospace and Defence Industries Association of Europe (ASD) (Belgium)

**OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS**

**SAFRAN GROUP**

- > Chairman of Safran Identity & Security until July 2015
- > Chairman and Chief Executive Officer of:
  - Safran Identity & Security until December 2014
  - Safran Electronics & Defense until July 2013
- > Chairman of the Board of Directors of:
  - Safran Identity & Security North America (formerly Morpho Track, LLC) (United States) until July 2015
  - Morpho Detection International, LLC (United States) until July 2015
  - Safran Electronics & Defense until December 2014
- > Chairman and President of Morpho USA, Inc. (United States) until July 2015
- > Director of Safran Identity & Security USA (formerly Morpho Detection, LLC) (United States) until July 2015
- > Member of the Supervisory Board of Safran Identity & Security GmbH (formerly Morpho Cards GmbH) (Germany) until July 2015

**NON-GROUP**

- > Member of the Supervisory Board of Institut Aspen France until March 2015

(1) Via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



Christian Streiff

**Independent Director**

**Vice-Chairman of the Board of Directors**

**Member and Chairman of the Innovation and Technology Committee**

**Member of the Appointments and Compensation Committee**

Safran - 2, bd du Général Martial-Valin - 75015 Paris, France

Number of Safran shares held: 500

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1954, Christian Streiff is a graduate of École Nationale Supérieure des Mines de Paris and began his career with the Saint-Gobain group, serving as Department Engineer of the Pipe Division in Halbergerhütte (Germany) from 1979 to 1982. He then held the posts of Vice President of Planning and Strategy of the Fiber Reinforcements Division from 1982 to 1985, Manager of the Herzogenrath plant (Germany) from 1985 to 1988, General Manager of Vetrotex Deutschland (formerly Gevetex) (Germany) from 1989 to 1991, General Manager of Vetri (Italy) from 1992 to 1994, General Manager of Saint-Gobain Emballages from 1994 to 1997, Vice President, Pipe Division and Chairman and Chief Executive Officer of Pont-à-Mousson SA from 1997 to 2001, President and Chief Executive Officer of the High Performance Materials Sector (Paris and Boston - US), Group Chief Operating Officer from 2001 to 2004 and Deputy Chief Executive Officer from 2004 to 2005.

In 2006, Christian Streiff was appointed Chief Executive Officer of Airbus and a member of the Managing Board of EADS (European Aeronautic Defense and Space Company).

From 2007 to 2009, he was Chairman of the Executive Board of PSA Peugeot-Citroën.

He is also the author of a novel, *Kriegspiel* (Éditions La Nuée Bleue, 2000), and of *J'étais un homme pressé* (Éditions du Cherche Midi, 2014).

Christian Streiff brings to the Board his experience as an executive and Director of international industrial groups, an in-depth knowledge of the Group's businesses and competitive environment, and his expertise in business strategy and mergers & acquisitions.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Vice-Chairman of the Board of Directors of Safran

##### NON-GROUP

- > Chairman of CS Conseil
- > Director and a member of the Appointments Committee, the Risk Committee and the Strategy & CSR Committee of Crédit Agricole SA (listed company)
- > Member of the Executive Committee of the *Fondation pour la Recherche sur l'AVC*
- > Member of the Board and Operations Committee of Expliseat
- > Chairman of Optiréno

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Chairman of Astra Management Suisse SA (Switzerland) until 2017
- > Member of the European Advisory Board of Bridgepoint (United Kingdom) until 2015
- > Director of:
  - TI-Automotive (United Kingdom) until December 2014
  - Finmeccanica SpA (listed company) (Italy) until July 2013
- > Member of the Supervisory Board of Thyssen Krupp AG (listed company) (Germany) until January 2015



> Hélène Auriol Potier

**Independent Director**

**Member of the Appointments and Compensation Committee**

**Member of the Innovation and Technology Committee**

Microsoft EMEA - 39, quai du Président Roosevelt, 92130 Issy-les-Moulineaux, France

Number of Safran shares held: 500

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1962, Hélène Auriol Potier, a French national, graduated as an engineer from the École nationale supérieure des télécommunications de Paris and completed an Executive Program MBA at INSEAD.

Hélène Auriol-Potier built her career in the digital technologies and telecommunications industry in the United States, Europe, Africa and Asia.

She started her career in New York at France Télécom in 1986.

In 1990, she joined the Canadian mobile technology company Nortel, where she spent 16 years and successively held several management positions including Vice President Mobile Pre-Sale Division and Vice President EMEA, Services & Operations.

In 2006, she joined Dell as Managing Director, in charge of the Africa and Mediterranean region and as a member of the Executive Committee of Dell Emerging Markets.

She joined Microsoft in 2009 as General Manager - Enterprises, Public Sector and Partners - and a member of the Executive Committee of Microsoft France. She was then appointed General Manager of Microsoft Singapore and a member of the Executive Committee of Microsoft Asia-Pacific. In 2013, she was appointed General Manager of Microsoft Dynamics, Western Europe.

Hélène Auriol Potier has been General Manager of Microsoft Western Europe Public Sector since 2016.

Hélène Auriol Potier brings to the Board her experience of leading international corporations, an international outlook, expertise and vision in digital technologies and transformation, as well as her experience as a Director.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran, since June 2017

##### NON-GROUP

- > Director, Chair of the Ethics Committee and member of the Compensation Committee of Ipsen (listed company)
- > Member of the Supervisory Board of Oddo BHF SCA

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Director of Faiveley Transport (listed company) until November 2016



> Éliane Carré-Copin

**Director representing employee shareholders**

Safran - 2, bd du Général Martial-Valin - 75015 Paris, France

Number of Safran shares held: 378<sup>(1)</sup>

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1952, Éliane Carré-Copin holds a degree in English from the University of Lille and is also a graduate of the Institut d'études politiques de Paris and Advancia.

Éliane Carré-Copin has been with the Group for 26 years.

After working as PA to the Chairmen of Snecma between 1992 and 1997, she was then appointed as a project manager for the Group International Affairs Department, where she deepened her knowledge of the Group's various entities and their international markets.

Éliane Carré-Copin is currently Group Assistant Compliance Director, specializing in commercial compliance and anti-corruption measures. In this role, she covers compliance matters concerning the international partners of the Group's entities and helps train employees with regards to Safran's compliance program.

Éliane Carré-Copin brings to the Board her view of Safran from an employee shareholder's perspective as well as an in-depth knowledge of the Group and its markets.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Director of Safran representing employee shareholders
- > Employee Representative at Safran (Martial Valin)

##### NON-GROUP

None

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

- > Member of the Supervisory Board of the Safran Investissement corporate mutual fund until December 2017
- > Director of the Safran Music Foundation until November 2017
- > CFE-CGC trade union representative on the Group Works Council until June 2017
- > Member of Safran's Central Works Council until April 2016
- > Member of the Works Council at Safran (Martial Valin) until April 2016

##### NON-GROUP

None

(1) Via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



Jean-Lou Chameau

**Independent Director**

**Member of the Appointments and Compensation Committee**

**Member of the Innovation and Technology Committee**

44, avenue de la Bourdonnais – 75007 Paris, France

Number of Safran shares held: 1,000

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1953, Jean-Lou Chameau has dual French and American nationality. He obtained an engineering degree at École Nationale Supérieure d'Arts et Métiers in 1976, and then continued his studies at Stanford University, where he graduated with a Master's in civil engineering in 1977, followed by a PhD in seismic engineering in 1980.

Jean-Lou Chameau started his academic career at Purdue University (United States), where he taught from 1980 to 1991, before joining Georgia Tech as professor and head of the School of Civil and Environmental Engineering. He left this position in 1994 to become Chairman of the international geotechnical engineering company, Golder Associates Inc. He returned to teach at Georgia Tech two years later, where he became dean of its College of Engineering in the United States. In 2001, he was promoted to the position of provost, which he occupied until 2006.

From 2006 to June 2013, Jean-Lou Chameau was the President of the California Institute of Technology (Caltech).

In June 2009, he was awarded the honorary "Doctor honoris causa" degree from Polytechnique Montreal in Canada.

Jean-Lou Chameau is a member of the National Academy of Engineering in the United States and the Académie des Technologies in France.

He was President of King Abdullah University of Science and Technology (KAUST) (Saudi Arabia) between July 2013 and August 2017.

On May 27, 2016, he was appointed as a member of the international jury for the 2017 Queen Elizabeth Prize for Engineering.

Since February 1, 2018, he has been tasked by the French ministries of the Armed Forces, Economy and Finance, and Higher Education, Research and Innovation, with coordinating the group of educational facilities at the Paris-Saclay business cluster, with the ultimate aim of establishing a best-in-class science and technology institute.

Jean-Lou Chameau brings to the Board his experience as a Director of an international corporation as well as his expertise in research, technological development and innovation and his in-depth knowledge of North America, the Middle East and Asia.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Director of Safran

##### NON-GROUP

- > President Emeritus of the California Institute of Technology (Caltech) (United States)
- > Chairman of the Advisory Board of Georgia Tech Lorraine
- > Member of the Scientific Advisory Board of the National Research Foundation of Singapore (Republic of Singapore)
- > Member of the Advisory Board of King Fahd University of Petroleum and Minerals (Saudi Arabia)
- > Member of the Academic Research Council of Singapore (Republic of Singapore)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > President of King Abdullah University of Science and Technology (KAUST) (Saudi Arabia) until August 2017
- > President and a Director of Caltech (United States) until June 2013
- > Director of Ma'aden (listed company) (Saudi Arabia) until October 2017
- > Director and a member of the Governance and Nominating Committee of MTS Systems Corporation (listed company) (United States) until February 2015
- > Director and a member of the Audit Committee of John Wiley & Sons (listed company) (United States) until September 2013
- > Member of the Council on Competitiveness (United States) until June 2013
- > Member of the Advisory Committee of Interwest (United States) until March 2013



> Monique Cohen

**Independent Director**

**Member and Chair of the Appointments and Compensation Committee**

**Member of the Audit and Risk Committee**

Apax Partners – Midmarket SAS – 45, avenue Kléber – 75784 Paris Cedex 16, France

Number of Safran shares held: 500

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1956, Monique Cohen is a graduate of École Polytechnique (1976) and has a Master's degree in mathematics. She started her career at Paribas, where she worked as Assistant Finance Manager from 1980 to 1987.

At Paribas, which later became BNP Paribas, Monique Cohen successively held the positions of Administrative Officer of CourcouxBouvet – a brokerage firm and subsidiary of Paribas – between 1987 and 1990, Head of Equity Syndication and Brokerage Activities from 1990 to 1999, and Global Head of Equity Business from 1999 to 2000.

Since 2000, Monique Cohen has been an Executive Partner at Apax Partners in Paris, which specializes in investments in the business and financial services sector.

Between June 2011 and September 2014, she was a member of the Board of Directors of the French financial markets authority (*Autorité des marchés financiers* – AMF).

Monique Cohen brings to the Board her experience as an executive and Director of international groups, as well as in-depth knowledge of the financial and banking markets, expertise in private equity and a financial view of shareholding structures.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran

##### NON-GROUP

- > Chair of the Board of Directors of Proxima Investissement (Luxembourg)
- > Vice-Chair and member of the Supervisory Board and Chair of the Audit Committee of Hermès International (listed company)
- > Director of:
  - BNP Paribas (listed company)
  - Financière MidMarket SAS
  - Apax Partners MidMarket SAS
- > Managing Partner of Société Civile Fabadari

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Chair of Trocadéro Participations II SAS until October 2016
- > Chair and member of the Supervisory Board of Texavenir II SAS
- > Deputy Chief Executive Officer of Altamir Amboise Gérance SA until May 2015
- > Member of the Supervisory Board and the Audit Committee of JC Decaux (listed company) until May 2017
- > Director of:
  - SEP Altitude until June 2014
  - Société de financement local (SFIL) until June 2014
  - BuyWay Personal Finance Belgium SA (Belgium) until April 2014
  - BuyWay Tech SA (Belgium) until April 2014
  - B\*Capital SA until 2013
- > Director and a member of the Investment and Acquisitions Committee of Altran Technologies SA (listed company) until March 2014
- > Member of the Supervisory Board of:
  - Global Project SAS until June 2017
  - Trocadéro Participations SAS until October 2016
- > Chair of the Board of Directors of:
  - Wallet SA (Belgium) until April 2014
  - Wallet Investissement 1 SA (Belgium) until April 2014
  - Wallet Investissement 2 SA (Belgium) until April 2014





Odile Desforges

**Independent Director**

**Member and Chair of the Audit and Risk Committee**

3, rue Henri Heine – 75016 Paris, France

Number of Safran shares held: 500

**PROFILE – EXPERTISE AND EXPERIENCE**

Born in 1950, Odile Desforges is a graduate of the École Centrale Paris engineering school.

She began her career as a Research Analyst at the French Transport Research Institute (Institut de Recherche des Transports). In 1981, she joined the Renault group as planning officer for the Automobile Planning Department before becoming a product engineer on the R19 and then for the M1 range (1984-1986). In 1986, she moved to the Purchasing Department as Head of the Exterior Equipment Unit. She was later appointed Director of Body Hardware Purchasing for the joint Renault Volvo Car Purchasing Organization in 1992, and for Renault alone in 1994. In March 1999, she became Executive Vice-President of the Renault VI-Mack group, in charge of 3P (Product Planning, Product Development, Purchasing Project). In 2001, she was appointed President of AB Volvo's 3P Business Unit.

In 2003, Odile Desforges became Senior Vice President, Renault Purchasing, Chair and CEO of the Renault Nissan Purchasing Organization (RNPO) and a member of the Renault Management Committee.

From 2009 to July 2012, she was Director of Engineering and Quality, and a member of Renault's Executive Committee.

She retired on August 1, 2012.

Odile Desforges brings to the Board her experience as a Director and former senior executive of international industrial groups, as well as performance and management control expertise and acknowledged experience in purchasing, R&D projects and innovation.

**OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES**

**CURRENT OFFICES AND POSITIONS**

**SAFRAN GROUP**

> Director of Safran

**NON-GROUP**

- > Director and Chair of the Audit Committee of Faurecia (listed company)
- > Director and a member of the Audit Committee of Dassault Systèmes (listed company)
- > Director and a member of the Audit Committee, the Nomination Committee and the Management Development and Remuneration Committee of Johnson Matthey PLC (listed company) (United Kingdom)
- > Director and a member of the Strategy Committee of Imerys (listed company)

**OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS**

**SAFRAN GROUP**

None

**NON-GROUP**

- > Director and a member of the Nomination and Compensation Committee of Sequana (listed company) until May 2016
- > Director of the Regienov inter-company partnership until January 2013



Jean-Marc Forneri

**Director**

Bucéphale Finance – 17, avenue George V – 75008 Paris, France

Number of Safran shares held: 1,152

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1959, Jean-Marc Forneri graduated from École Nationale d'Administration (ENA) and Institut d'Études Politiques de Paris, and holds a Master's in Business Law and the French bar certificate (CAPA).

He began his career at the French General Finance Inspectorate in 1984. Then in 1987, he became an Advisor to the French Minister of Finance and reporting counselor (*conseiller rapporteur*) for the Commission on Estate Taxes (French Ministry of Finance).

Between 1988 and 1994, he was a Director and CEO of Skis Rossignol.

He was then appointed Managing Partner of Worms et Cie in 1994, where he was responsible for the investment bank.

In 1996, he was appointed Chairman of Credit Suisse First Boston France and Vice-Chairman of Credit Suisse First Boston Europe, where he was an Advisor on major merger and acquisition projects.

In 2004, he founded Bucéphale Finance, a corporate finance advisory services firm, of which he became Chairman.

Jean-Marc Forneri brings to the Board his vision as an entrepreneur and business developer and his experience as an executive and Director of international industrial and banking groups, as well as expertise in the areas of finance, strategy and governance (appointments and compensation).

He also brings to the Board an in-depth knowledge of the Group, given that he has been a member since 2005.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Director of Safran

##### NON-GROUP

- > Chairman of Bucéphale Finance SAS
- > Chairman of the Supervisory Board of Grand Port Maritime de Marseille (GPMM)
- > Chairman of Adelphos
- > Member of the Supervisory Board of Société Casino Municipal d'Aix Thermal
- > Director and a member of the Nominating and Governance Committee and the Risk Committee of Intercontinental Exchange, Inc. (listed company) (United States)
- > Legal Manager of Perseus Participations
- > Joint Legal Manager of:
  - Bucéphale Finance Conseil
  - Bucéphale Finance Investissements

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Director of Balmain until July 2016
- > Member of the Supervisory Board of Euronext NV (Netherlands) until July 2014



> Patrick Gandil

**Director**

**Member of the Innovation and Technology Committee**

Directorate General for Civil Aviation (DGAC) - 50, rue Henry Farman - 75015 Paris, France

Number of Safran shares held: None

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1956, Patrick Gandil holds an engineering degree from École Nationale des Ponts et Chaussées and is a graduate of École polytechnique.

He started his career in 1979 at the French Ministry for Public Works, where he worked for 15 years in several different posts.

From 1995 to 1997, he served as Deputy Director of the Office for the French Minister of Civil Service, State Reform and Decentralization.

From 1997 to 1999, he was the Head of the Department responsible for airbases at the Directorate General for Civil Aviation (DGAC).

Subsequently, from 1999 to 2003, he worked at the French Ministry for Public Works, Housing, Transportation and Tourism as Director of Road Services.

In 2003, he became the Director of the Office of the Minister for Public Works, Housing, Transportation, Tourism and the Sea, then Secretary-General of this Ministry in 2005, as well as Advisor to the Minister.

He has been Director General of Civil Aviation at the French Ministry for Ecology, Energy, Sustainable Development and Land-Use Planning since 2007.

Patrick Gandil brings to the Board his experience and expertise in the aerospace industry (particularly civil aviation), as well as an in-depth knowledge of the Group and its products and markets.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran

##### NON-GROUP

> Government commissioner for Aéroports de Paris (listed company)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

> Representative of the French State on the Board of Directors of the Paris Air and Space Museum (*Musée de l'air et l'espace*) until October 2015

> Representative of the French State on the Board of Directors of Safran until April 2015

> Representative of the French State on the Board of Directors of Société de gestion de participations aéronautiques (Sogepa) until April 2014

> Representative of the French State on the Board of Directors of Office national d'études et de recherches aérospatiales (ONERA) until October 2013

> Acting Chairman of the Board of Eurocontrol (Belgium) until December 2013



> Vincent Imbert

**Director**

Direction générale pour l'armement – 60, bd du Général Martial-Valin – 75015 Paris, France

Number of Safran shares held: None

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1956, Vincent Imbert, senior defense engineer, is a graduate of École Polytechnique and École Nationale Supérieure de l'Aéronautique et de l'Espace. He is a former auditor of the Center for Advanced Defense Studies (*Centre des Hautes Études de l'Armement*).

He started his career at the French Directorate General of Weapons Procurement (DGA) in 1981 managing programs. He was Director of the PR4G (radios for the army) program and the RITA and RITA enhancement programs and then Director of the Leclerc tank program for France and the United Arab Emirates.

In 1998, he became Director of the French military test center at Bourges, responsible for the assessment and testing of pyrotechnic, artillery and ground missile systems.

In 2000, he was appointed Force System Architect, responsible for directing and managing prospective studies to prepare the French army's future defense and weapons systems.

In 2003, he was appointed technical Advisor to the Deputy Head of the DGA, and became Director of its Ground Weaponry Programs Department (SPART) in 2004.

In 2006, he also became Director of the DGA's Observation, Telecommunication and Information Programs Department (SPOTI).

In 2009, he was responsible for setting up the technical department at the DGA, which he subsequently managed.

In June 2013, he was appointed Executive Vice President of the DGA and on September 1, 2017 became Inspector General of the Weaponry Division of the French Armed Forces.

Vincent Imbert brings to the Board an in-depth knowledge of the Group's products and markets and particularly his expertise in the areas of defense and strategy.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran

##### NON-GROUP

None

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

> Representative of the French State on the Board of Directors of Safran until April 2015

##### NON-GROUP

> Representative of the French State on the Board of Directors of Giat Industries until December 2015



Brigitte Lesschaeve

**Director representing employees**

Safran Landing Systems – 7 rue du Général Valérie André – 78140 Vélizy-Villacoublay, France

Number of Safran shares held: 154<sup>(1)</sup>

**PROFILE – EXPERTISE AND EXPERIENCE**

Born in 1957, Brigitte Lesschaeve is a graduate of Polytech Lille and holds a postgraduate degree in robotics.

She began her career at Dassault Aviation in 1982 as a simulation engineer and in 1994 she joined GIAT Industries as procurement project manager for Leclerc tanks.

After holding various posts at GIAT Industries, Brigitte Lesschaeve joined Safran Landing Systems in 2005 as part of the quality program team in charge of the A400M. She currently works in the legal affairs department while also carrying out trade union functions within the CGT union. Her trade union specialization areas are personal protection insurance, retirement and disability.

Brigitte Lesschaeve brings to the Board her view of Safran from an employee's perspective as well as an in-depth knowledge of the Group and its markets.

**OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES**

**CURRENT OFFICES AND POSITIONS**

**SAFRAN GROUP**

- > Director representing employees since February 2018
- > Member of the Safran social commission
- > Trade union specialist in negotiations concerning personal protection insurance, retirement and disability

**NON-GROUP**

- > Director of Mutuelle familiale des travailleurs du Groupe Safran
- > Director, Bureau member and Chair of the Financial Commission of Humanis Retraite Agiric
- > Member of the commission responsible for approving the financial statements of the AGIRC supplementary pension regime
- > Advisor to the Versailles employment tribunal, managerial section

**OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS**

**SAFRAN GROUP**

- > Member of the works councils of Safran Landing Systems until 2015

**NON-GROUP**

None

(1) Via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



Gérard Mardiné

Director representing employee shareholders

Member of the Audit and Risk Committee

Safran Electronics & Defense – 18-20, quai du Point-du-Jour – 92659 Boulogne-Billancourt, France

Number of Safran shares held: 7,569<sup>(1)</sup>

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1959, Gérard Mardiné holds a degree from ENSAM engineering school in Paris and is also a graduate of the École Supérieure des Techniques Aérospatiales.

Gérard Mardiné joined Snecma in 1982 as an engineer specialized in regulating turbojet engines and subsequently became head of development of navigation equipment and drone systems at Sagem. For the past ten years he has specialized in drones and aviation and he is a member of EUROCAE, a European standard-setting body for the aviation industry.

Gérard Mardiné brings to the Board his view of Safran from an employee shareholder's perspective as well as an in-depth knowledge of the Group and its markets.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Director of Safran representing employee shareholders
- > Chairman of the Supervisory Board of the Avenir Sagem corporate mutual fund
- > Member of the Supervisory Board of the Safran Investissement corporate mutual fund
- > Member of the Works Council, Employee Representative and Trade Union Representative at Safran Electronics & Defense (Boulogne)
- > Coordinator for the CFE-CGC trade union within the Group

##### NON-GROUP

- > Director of ARRCO (French national association for employee pensions)
- > Director of Humanis Retraite ARRCO (pension fund)
- > Member of the Management Committee of Club Sagem
- > Chairman of the Steering Committee of IPSA (an aerospace engineering school)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

- > Chairman of the Supervisory Board of the Safran Mixte Solidaire corporate mutual fund
- > Chairman of the Supervisory Board of the Safran Investissement corporate mutual fund until January 2018

##### NON-GROUP

None

(1) Including 1,279 shares via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



Daniel Mazaltarim

**Director representing employees**

**Member of the Appointments and Compensation Committee**

Safran Aircraft Engines – Division des moteurs militaires Établissement d'Évry-Corbeil – Rue Henri-Auguste Desbrières – B.P. 81 – 91003 Évry Cedex, France

Number of Safran shares held: 2,193<sup>(1)</sup>

**PROFILE – EXPERTISE AND EXPERIENCE**

Born in 1960, Daniel Mazaltarim holds a PhD in geology from Strasbourg University, post-graduate diplomas (DESS) in management and human resources management from Institut d'Administration des Entreprises de Paris and a Business Certificate from the American University of Paris.

Daniel Mazaltarim has been with the Group for 17 years.

He started his career as a quality assurance manager at Safran Transmission Systems (formerly Hispano-Suiza), before joining Safran Consulting in 2004, first as a consultant and subsequently a manager.

In June 2014, he became a member of the Progress Initiative Department of Safran Aircraft Engines' Military Engines Division as a Black Belt, then as a Master Black Belt.

Daniel Mazaltarim brings to the Board his view of Safran from an employee's perspective, as well as an in-depth knowledge of the Group and its markets.

**OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES**

**CURRENT OFFICES AND POSITIONS**

**SAFRAN GROUP**

> Director of Safran representing employees

**NON-GROUP**

> Chairman of COSAF 13

**OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS**

**SAFRAN GROUP**

None

**NON-GROUP**

None

(1) Via corporate mutual fund units (conversion based on the Safran share price at December 31, 2017).



Lucie Muniesa

**Representative of the French State**

**Member of the Audit and Risk Committee**

**Member of the Appointments and Compensation Committee**

Agence des participations de l'État (APE) - 139, rue de Bercy - 75012 Paris, France

Number of Safran shares held: None

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1975, Lucie Muniesa is a graduate of École Nationale de la Statistique et de l'Administration Économique (ENSAE). She began her career at France's National Institute of Statistics and Economic Studies (INSEE), before being appointed as deputy head of the Market Concentrations and State Subsidies Department at the Directorate General for Competition Policy, Consumer Affairs and Fraud Control in 2002.

In 2004, she joined the French State Investment Agency (APE) as deputy to the heads of the "Energy, Chemicals and Other Investments" and "La Poste - France Telecom" Divisions, before being appointed Secretary General of the APE in 2007.

In 2010, Lucie Muniesa joined Radio France as Chief Financial Officer then Deputy Chief Executive Officer in charge of Finance, Purchasing, Legal Affairs and Own Resources Development. In 2014, she was appointed as Director and Deputy Secretary General at the French Ministry of Culture and Communication.

Since February 2016, she has held the position of Deputy Director General of the APE.

Lucie Muniesa brings to the Board her experience as a Director of international groups, as well as expertise in the areas of finance and strategy.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

- > Representative of the French State on the Board of Directors of Safran

##### NON-GROUP

- > Representative of the French State on the Board of Directors of:
  - Engie (listed company)
  - Orange (listed company)
  - Consortium de réalisation (CDR)
  - Palais de Tokyo since November 2017
- > Non-executive Director and a member of the Risk Committee and the Remuneration Committee of Dexia (listed company) (Belgium)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Representative of the French State on the Board of Directors of:
  - La Française des jeux until February 2017
  - Palais de Tokyo until March 2016
  - Établissement public du parc et de la grande halle de la Villette until March 2016
- > Representative of the French Ministry of Culture on the Board of Directors of:
  - École nationale Supérieure des Beaux-Arts until February 2016
  - Centre national de la chanson, des variétés et du jazz until March 2016
- > Representative of the French Ministry of Culture as an alternate member of the Board of Directors of:
  - Opéra national de Paris until March 2016
  - Établissement public de la cité de la Musique - Philharmonie de Paris until February 2016
- > Member, appointed by the French State, on the Board of Directors of:
  - Établissement public la Monnaie de Paris until April 2015
  - TSA until December 2014





Patrick Pélata

**Independent Director**

**Member of the Appointments and Compensation Committee**

**Member of the Innovation and Technology Committee**

34, rue Guynemer – 75006 Paris, France

Number of Safran shares held: 500

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1955, Patrick Pélata is a graduate of the École Polytechnique and of the École Nationale des Ponts et Chaussées engineering school, and holds a PhD in socioeconomics from the École des Hautes Études en Sciences Sociales.

He joined Renault in 1984 as a shop foreman at the Flins plant and from 1988 he contributed to the creation of the Renault Twingo and served in several engineering positions at Vehicle Engineering, where he became Senior Vice President in 1998 and joined the Renault Management Committee. Following the signature of the Alliance between Renault and Nissan in 1999, he joined Nissan in Tokyo as Executive Vice President in charge of Corporate and Product Planning, Design and Programs, sitting on the Executive Committee of Nissan and the Executive Board of the Alliance. In 2005, he returned to Renault as Executive Vice President in charge of Corporate and Product Planning, Design and Programs, and joined the Executive Committee. Patrick Pélata served as Chief Operating Officer of the Renault group from October 2008 to April 2011, before his departure in August 2012.

From September 2012 to July 2015, he was Chief Automotive Officer and Executive Vice-President of Salesforce.com with responsibility for strategy execution and promoting social media, mobility and cloud computing technologies to the automotive industry.

In July 2015, he created Meta Consulting LLC, of which he is the President.

Patrick Pélata brings to the Board his experience of leading innovative, high-tech industrial groups on an international scale, as well as his experience in strategy, consulting and industrialization in the digital age.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran since June 2017

##### NON-GROUP

> Director of Orano since February 2018

> President of Meta Consulting LLC (United States)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

> Chairman of the École Nationale des Ponts et Chaussées until July 2013



> Sophie Zurquiyah

**Independent Director**

**Member of the Audit and Risk Committee**

CGG - 33, avenue du Maine - 75015 Paris, France

Number of Safran shares held: 500

### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1966, Sophie Zurquiyah has dual French and American nationality. She is a graduate of the École centrale de Paris and holds a Master of Science in numerical analysis from the Pierre and Marie Curie University (Paris VI), as well as a Master of Science in aerospace engineering from the University of Colorado.

Having started her career with Schlumberger in 1991 as a geophysics engineer, she held a variety of positions in research, development and manufacturing in France and the United States, before becoming General Manager for Schlumberger's South Latin America Region, based in Rio de Janeiro in 2003. Between 2005 and 2007, she served as Human Resources Director for Oilfield Services at Schlumberger, and then as Chief Information Officer for the Schlumberger group at its headquarters in Paris until 2009. In the same year she was appointed President of Schlumberger Data & Consulting Services in Houston, where she remained until 2012.

Sophie Zurquiyah joined CGG on February 4, 2013 as Senior Executive Vice-President of the Geology, Geophysics & Reservoir (GGR) business. On September 1, 2015, she was appointed Chief Operating Officer in charge of Technology and Global Operational Excellence, in addition to her operating responsibilities for product lines in the GGR segment. She is currently a member of the Executive Committee of the CGG group.

On November 18, 2017, Sophie Zurquiyah was appointed as a member of the French Industry Council by way of a ministerial decree.

Sophie Zurquiyah brings to the Board her experience of heading up innovative global corporations specialized in high-tech industrial equipment and services, as well as an international outlook, expertise in various operational and corporate positions, and her extensive knowledge of North America and Latin America.

### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

#### CURRENT OFFICES AND POSITIONS

##### SAFRAN GROUP

> Director of Safran, since June 2017

##### NON-GROUP

- > Corporate officer of CGG Services, Inc. (United States)
- > Director of PetroEdge Energy IV, LLC (United States)

#### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

##### SAFRAN GROUP

None

##### NON-GROUP

- > Chief Operating Officer of CCG SA until January 2017
- > Director of Magnitude Microseismic, LLC (United States) until 2015
- > Corporate officer of Schlumberger Technology Corporation (United States) until 2013

## 6.2.3 Other information about the Board of Directors' membership structure

### Representative of the French State and Directors put forward by the French State

The membership structure of Safran's Board of Directors is subject to the provisions of French law applicable to *sociétés anonymes* (joint stock corporations). However, as the French State owns at least 10% of the Company's capital, as provided for in Article 14.1 of the Company's bylaws, a certain number of seats on the Board must be assigned to representatives of the French State in accordance with Articles 4 and 6 of *ordonnance* 2014-948 dated August 20, 2014, which sets out the terms and conditions for State representation on the Boards of Directors of companies in which it holds an ownership interest.

In connection with Safran's implementation of the August 20, 2014 *ordonnance*:

- by way of a ministerial decree dated February 8, 2016, and in accordance with Article 4 of the *ordonnance*, the French State appointed Lucie Muniesa as its representative on the Board of Directors of Safran to replace Astrid Milsan for the remainder of Ms. Milsan's term of office. Astrid Milsan had been appointed by way of a ministerial decree dated April 23, 2015, for the same four-year term as the other Board members, in accordance with Article 2 of governmental decree 2014-949 dated August 20, 2014 implementing the *ordonnance* (i.e., expiring in April 2019);
- Patrick Gandil and Vincent Imbert were appointed as Directors at the Annual General Meeting of April 23, 2015, having been put forward by the French State (in accordance with Article 6 of the *ordonnance*).

### Directors representing employee shareholders

Safran's Board of Directors includes two members representing employee shareholders, who were appointed at the Annual General Meeting of May 19, 2016 for four-year terms.

In accordance with the applicable law and Article 14.8 of Safran's bylaws, if the shares held by employees of the Company – or of companies related to it within the meaning of Article L.225-180 of the French Commercial Code – represent more than 3% of the share capital, then one or more Directors representing employee shareholders must be appointed at an Ordinary General Meeting.

As the terms of office of the Directors representing employee shareholders were due to expire at the close of the May 19, 2016 Annual General Meeting, in accordance with Article 14.8 of the Company's bylaws, a procedure was launched during the year with a view to nominating candidates to be put forward for appointment to replace these representatives. Following a call for applications, the Supervisory Boards of the corporate mutual funds set up as part of the Group's employee share ownership program – whose investments mainly comprise shares in the Company – nominated four candidates to be put forward for appointment as Directors. Of these candidates, at the May 19, 2016 Annual General Meeting, Éliane Carré-Copin and Gérard Mardiné were appointed as Directors representing employee shareholders.

Directors representing employee shareholders have the same voting rights at Board meetings as the other Directors and must act in the corporate interest of the Company at all times. Subject to the legal provisions applying to them, they have the same rights and responsibilities and are bound by the same duties – in particular with regard to confidentiality – as the other members of the Board.

### Directors representing employees

In accordance with Article 14.9 of the Company's bylaws – which was adopted pursuant to the French Employment Security Act of June 14, 2013 – the Board of Directors must include one or two Directors representing employees, depending on the total number of Board members, as follows: (i) one such Director if the Board has twelve or less members, or (ii) two such Directors if the Board has more than twelve members. The total number of Board members is assessed on the date that the Director(s) representing employees are appointed, and does not take into account any existing Directors representing employees or employee shareholders.

On November 20, 2014, Frédéric Bourges and Daniel Mazaltarim were elected for five-year terms as the Company's employee representative Directors, based on the lists of candidates put forward by the four trade unions represented within the Group (CFDT, CFE-CGC, CGT and CGT-FO). Eligible voters in this election corresponded to all of the employees of Safran and its direct and indirect subsidiaries whose registered offices are located in France.

As Frédéric Bourges intends to retire shortly, he stepped down from his position as an employee representative Director on February 26, 2018. In accordance with Article 14.9.5 of the Company's bylaws and Article L.225-34 of the French Commercial Code, Frédéric Bourges will be replaced by Brigitte Lesschaeve, who was the candidate whose name featured directly below his on the same list in the elections for the employee representative Directors in 2014. Brigitte Lesschaeve's directorship will run for the remainder of Frédéric Bourges' term of office, expiring on November 19, 2019 (the same as for the Company's other employee representative Director).

Directors representing employees have the same voting rights at Board meetings as the other Directors and must act in the corporate interest of the Company at all times. Subject to the legal provisions applying to them, they have the same rights and responsibilities and are bound by the same duties – in particular with regard to confidentiality – as the other members of the Board.

### Vice-Chairman of the Board of Directors

The Vice-Chairman of the Board of Directors is Christian Streiff, who was appointed to this role by the Board at its meeting on May 28, 2013, for the duration of his directorship, i.e., until the close of the Annual General Meeting to be held on May 25, 2018.

Article 15.3 of the bylaws states that the Board may appoint from among its members a Vice-Chairman who must be an individual. If the Board decides to appoint a Vice-Chairman, his term of office must not exceed his term as a Director. He may be re-elected and may be removed from office at any time by the Board.

The age limit for acting as Vice-Chairman of the Board is 75.

The Vice-Chairman replaces the Chairman if he is unable to perform his duties, in the event of either:

- temporary absence, in which case the Vice-Chairman stands in for the Chairman until he is once again able to perform his duties; or
- death, in which case the Vice-Chairman acts as Chairman until a new Chairman is appointed.

## 6 CORPORATE GOVERNANCE

### Membership structure of the Board of Directors

A Vice-Chairman must be appointed if the positions of Chairman and Chief Executive Officer are held by one person.

### Other persons attending Board of Directors' meetings

The following people attend Board of Directors' meetings in an advisory capacity: a Government Commissioner appointed by decision of the Ministry of Defense in accordance with the regulations applicable to Safran's activities, and a representative of the Central Works Council in accordance with the French Labor Code (*Code du travail*).

#### Government commissioner

Éric Méresse, Controller-General of the French Armed Forces, was appointed as Government Commissioner to Safran and its subsidiaries by way of a decision of the Ministry of Defense on September 15, 2014 in accordance with the laws and regulations applicable to companies supplying military equipment under public contracts or more generally engaged in the manufacturing or trading of such equipment.

#### Representative of the central works council

Ould Bouamama (Quality & Reporting Manager in the Group's HR shared services centers) was appointed on July 4, 2016 by the Central Works Council as its representative on the Board of Directors, pursuant to the terms of Article L.2323-65 of the French Labor Code.

#### Statutory Auditors

The Statutory Auditors are invited to attend the Board meetings during which the annual and interim financial statements are reviewed. They may also be invited to any other Board meeting and also take part in meetings of the Audit and Risk Committee.

#### Other persons

In accordance with the Board of Directors' Internal Rules, depending on the matters discussed, the Chairman of the Board of Directors may invite any person to attend Board of Directors' meetings whom he considers may be able to provide Board members with information on an agenda item.

## 6.2.4 Independence and diversity of the Board of Directors

Based on the independence criteria described below, seven of Safran's Directors qualify as independent.

#### Directors qualifying as independent<sup>(1)</sup>

Hélène Auriol Potier  
Jean-Lou Chameau  
Monique Cohen  
Odile Desforges  
Patrick Pélatà  
Christian Streiff  
Sophie Zurquiyah

**Percentage of independent Directors: 53.8%**

*(1) In accordance with the AFEP-MEDEF Code, Directors representing employee shareholders and Directors representing employees are not taken into account when calculating the percentage of independent Directors.*

Based on the independence criteria described below, excluding Directors representing employee shareholders and Directors representing employees, six Directors do not qualify as independent.

#### Directors not qualifying as independent

Reason

|                     |   |
|---------------------|---|
| Ross McInnes        | Chairman of the Board of Directors of Safran and previously Deputy Chief Executive Officer of Safran        |
| Philippe Petitcolin | Chief Executive Officer of Safran   |
| Jean-Marc Forneri   | Director for more than 12 years   |
| Patrick Gandil      | Put forward by the French State (shareholder owning more than 10% of Safran's capital and voting rights)    |
| Vincent Imbert      | Put forward by the French State (shareholder owning more than 10% of Safran's capital and voting rights)    |
| Lucie Muniesa       | Representative of the French State (shareholder owning more than 10% of Safran's capital and voting rights) |

### 6.2.4.1 Independence of the members of the Board of Directors

#### Independence criteria

Independent Directors are those who do not have any relationship whatsoever with Safran, the Group or its Management that may compromise their freedom of opinion.

A Director is deemed independent when he or she meets all of the following conditions (Article 2.4 of the Board of Directors' Internal Rules and Article 8.5 of the AFEP-MEDEF Code). An independent Director cannot:

- be, or have been during the five years preceding his/her first appointment as a Director of Safran:
  - an employee or executive corporate officer of Safran,
  - an employee, executive corporate officer or Director of a Group company, the parent company of the Company or a company consolidated by the parent company;
- be an executive corporate officer of a company in which Safran holds, directly or indirectly, a directorship or serves as a member of the Supervisory Board;
- be a corporate officer of a company in which an employee appointed as such or an executive corporate officer of Safran (currently or within the last five years) holds a directorship or serves as a member of the Supervisory Board;
- be a client, supplier, investment bank, or financing bank that is material to Safran or the Group, or for which Safran or the Group represents a significant portion of its business;
- participate, for Directors who have duties in one or more banks, in (i) preparing or soliciting offers for services from one or more of these banks with Safran or any other Group company, (ii) the work of any of these banks in the event of the performance of a mandate entrusted to said bank by Safran or any other Group company or (iii) the vote on any resolution concerning a project in which the bank concerned is or could be involved in an advisory capacity;
- have any close family ties with a corporate officer of Safran or any other Group company;
- have been a Statutory Auditor of Safran in the past five years;
- be a member of the Board of Directors or have been a member of Safran's Supervisory Board for over 12 years, it being specified that members lose their status as independent Directors once the 12-year threshold is reached;
- be a major shareholder of Safran.

At each appointment of a Director, the Board of Directors examines the issue of independence with regard to the criteria set out in the Internal Rules and checks whether the applicant has significant business relations with the Group. An independence review is then carried out on an annual basis.

#### Independence review

At its meeting on March 22, 2018, on the recommendation of the Appointments and Compensation Committee, the Board undertook a review of the independence status of its members.

The findings of the review were that none of the Directors considered as independent have any direct or indirect business

relations with Safran or any Group company that could jeopardize their independence. Following the review, the Board of Directors was able to confirm the independence of the Directors.

The Board of Directors relies on the following key procedures, reviewed by the Appointments and Compensation Committee, to determine independence:

- a separate annual questionnaire and a permanent obligation to inform the Board of any conflict of interest:
  - every year, a questionnaire is sent to each independent Director in particular, pursuant to which, any conflict of interest between their duties as a Director, their private interests and any other of their roles or responsibilities, must be declared, as well as any existing service contracts they benefit from with the Group,
  - strict provisions on permanent disclosure obligations and managing conflicts of interest are included in the Board of Directors' Internal Rules and are detailed in section 6.2.5;
- identification and a materiality test in respect of Safran's relationships with other companies and institutions for which Directors of Safran are corporate officers - A specific materiality test in respect of Safran's relationships with bank partners.

These tests mainly consist of:

- a qualitative analysis, intended to ensure that any existing business relationships are free of conflicts of interest and do not bring into question the independence of the Director, mainly through a review of the history, scale and organization of the relationship (the position of the Director concerned in the contracting company) (for Directors who have duties in one or more banks, not to have been involved in (i) preparing or soliciting service offerings of one of these banks with respect to Safran or any other Group company, (ii) the work of any of these banks in the event of the performance of a mandate entrusted to said bank by Safran or any other Group company or (iii) the vote on any resolution concerning a project in which the bank concerned is or could be involved in an advisory capacity),
- a quantitative analysis, intended to evaluate the significance of any existing business relationships to ensure that they do not result in any form of financial dependence and that they are neither exclusive nor predominant among the relationships taken as a whole (in respect to relationships with bank partners, the main flows, commitments, transactions and existing terms of office are expressed in amounts and percentages and analyzed to determine their relative weighting).

During this review, both the Board and the Appointments and Compensation Committee examined any business relations that may exist between Safran and (i) BNP Paribas (of which Monique Cohen is a Director), (ii) Crédit Agricole SA (of which Christian Streiff is a Director) and (iii) Oddo BHF SCA (of which Hélène Auriol Potier is a member of the Supervisory Board). The Board once again concluded that Monique Cohen, Christian Streiff and Hélène Auriol Potier have total independence of judgment in their roles as Directors of Safran. In addition, their directorships at BNP Paribas and Crédit Agricole SA and membership of Oddo BHF SCA's Supervisory Board respectively are non-executive positions. Any business relations that may exist between Safran and BNP Paribas, Crédit Agricole SA or Oddo BHF SCA do not in any way jeopardize the independent Director status of Monique Cohen, Christian Streiff or Hélène Auriol Potier.

### 6.2.4.2 Diversity, expertise and proportion of women on the Board of Directors

Safran strives to achieve a balanced composition for the Board and its Committees, particularly with regard to the expertise of their members.

The non-executive Directors contribute a diverse range of expertise, covering air transport, civil and aerospace engineering and technical matters, industry, management, administration, finance, consulting, research, information technology, innovation, environmental matters, new technologies, digital transformation, and international experience (see section 6.2.1).

The Board of Directors has seven women members, which means that the proportion of women on the Board is 40% (i.e., six out of 15 members, as employee representative Directors are not taken into account in calculating this percentage).

If the resolutions presented by the Board of Directors at the Annual General Meeting on May 25, 2018 are approved by the shareholders, this percentage will be maintained (see section 6.2.6.3 below and section 8.2.1).

#### Training

Directors' training takes the following different forms:

- > each new Director is given a welcome pack containing the initial information they need for performing their directorship duties. This pack includes the schedule of Board meetings, the Code of Ethics, the Company's bylaws, the Board's Internal Rules, the Ethical Guidelines, and other documents describing the Group and its businesses, such as the most recent Registration Document. Directors are also provided with press reviews and regular reports about the Group's financial communications;
- > they are offered specific training sessions and in-house presentations about the Group, its businesses and industry, as well as about accounting, financial and operational issues that are specific to Safran.

The Directors are also regularly given presentations during Board meetings about the Group's operations (historical information, positioning, results, competitive environment, challenges and risks);

- > the Directors representing employees and employee shareholders are offered additional training, particularly in the field of finance and accounting. These training sessions can also cover broader issues such as (i) the roles and responsibilities, operating procedures and rights and obligations of Boards of Directors, Board Committees and Directors in general, (ii) the Group's businesses and organizational structure, and (iii) any other topic that may enhance the skills and effectiveness of the Directors concerned in performing their Board duties;
- > visits to the Group's sites both in and outside France are regularly organized so that Board members can learn about or hone their knowledge of Safran's various sites and businesses.
- > regular updates are given at Board meetings about the Group's operations and strategy;
- > specific meetings of the Board or the Board Committees may also be regularly called to discuss particular issues.

As an example, sites visited by the Board of Directors in 2017 included:

- > the Safran Aéro Composite plant in Commercy (Safran Aéro Composite is a Safran Aircraft Engines subsidiary specializing in the industrialization and production of 3D woven composite fan blades and casings using RTM for the LEAP engine);
- > Safran Helicopter Engines' head office and plant in Bordes.

Prior to the Board's strategy seminar held at the Safran University campus, presentations and training were offered to the Directors on the Group's business model, the new IFRS 15 standard and its impacts for Safran, the Group's adjusted financial statements and foreign currency hedging.

### 6.2.5 Additional disclosures about Directors

#### Duration of the terms of office of the members of the Board of Directors

Following the resolution adopted at the Annual General Meeting of April 23, 2015 to reduce Directors' terms of office from five to four years, Directors are now appointed for four-year terms as recommended in the AFEP-MEDEF Code.

Consequently, all of the Directors who have been appointed or re-appointed since that date have four-year terms.

This amendment to the Company's bylaws did not affect the duration of the terms of office of the other Directors, which will continue to run until the expiration date set when they were appointed (or elected in the case of Directors representing employees).

#### Information on service contracts between the members of the Board of Directors or Executive Management and the Company or any of its subsidiaries

There are no service contracts between the members of the Board of Directors or Executive Management and Safran or any of its subsidiaries providing for the award of benefits.

## Disclosure of family ties and the absence of convictions involving members of the Board of Directors or Executive Management

To the best of Safran's knowledge:

- > there are no family ties between members of the Board of Directors or Executive Management;
- > no member of the Board of Directors or Executive Management:
  - has been convicted of fraud,
  - has been a manager of a company that has filed for bankruptcy or been placed in receivership or liquidation,
  - has been subject to an official public incrimination and/or sanctions by any statutory or regulatory authorities, or
  - has been disqualified by a court of law from acting as a member of an administrative, management or supervisory body, or from participating in the conduct of a company's business.

## Managing conflicts of interest of members of the Board of Directors and Executive Management

Safran has not been notified of any:

- > potential conflicts of interest between the duties, with respect to Safran, of any of the members of the Board of Directors or Executive Management and their private interests and/or other duties;
- > arrangements or agreements with major shareholders, customers, suppliers or other parties pursuant to which any members of the Board of Directors or Executive Management were selected.

The management of conflicts of interest within the Board of Directors is organized as follows (Articles 7.2 to 7.5 of the Board of Directors' Internal Rules):

- > all members of the Board of Directors must inform the Board of Directors of any actual or potential conflicts of interest between themselves (or any other individual or corporation with which they have a business relationship) and Safran, or any of the companies in which Safran holds an interest, or any of the companies with which Safran is planning to enter into an agreement of any sort;
- > in the event that a member of the Board of Directors suspects the existence of a conflict of interests, or a potential conflict of interests, he/she must immediately inform the Chairman of the Board of Directors (or failing this, the Vice-Chairman), whose responsibility it is to decide whether or not a conflict of interests exists and if so to inform the Board of Directors and thus instigate the conflicts of interest management process;
- > in the event that the member of the Board of Directors concerned is the Chairman of the Board of Directors him/herself, then he/she must inform the Vice-Chairman of the Board of Directors or, failing that, the Board of Directors itself;
- > any member of the Board of Directors involved in an actual or potential conflict of interests related to an agreement that the Company is planning to enter into must abstain from voting on decisions relating to said agreement and from taking part in any discussions preceding the vote;
- > in addition, the Chairman of the Board of Directors, the members of the Board of Directors, the Chief Executive Officer and, where appropriate, the Deputy Chief Executive Officer(s) will not be obliged to transmit, to any member(s) of the Board of Directors whom they have serious reason to suspect may be subject to conflicts of interest, any information or documents relating to the agreement or operation causing the conflict of interest in question, and they will inform the Board of Directors of the non-transmission.

## 6.2.6 Changes in the membership structure of the Board of Directors

### 6.2.6.1 Changes in the membership structure of the Board of Directors in 2017 and since January 1, 2018

At the Annual General Meeting of June 15, 2017 the shareholders renewed Odile Desforges' directorship and appointed Hélène Auriol Potier, Patrick Pélata and Sophie Zurquiyah as Directors to replace Giovanni Bisignani, Xavier Lagarde and Elisabeth Lulin, whose terms of office expired at the close of the same Meeting.

Brigitte Lesschaeve replaced Frédéric Bourges as an employee representative Director, following Mr. Bourges' resignation from his directorship with effect from the close of the Board meeting held on February 26, 2018 (see section 6.2.3 above). Brigitte Lesschaeve's profile is set out in sections 6.2.1 and 6.2.2.

See sections 6.2.1 and 6.2.2 of the 2016 Registration Document for the profiles of the Directors whose terms of office have ended.

### 6.2.6.2 Expiration dates of Directors' terms of office

The terms of office of Christian Streiff, Monique Cohen and Jean-Marc Forneri are due to expire at the close of the Annual General Meeting to be held on May 25, 2018.

At this Meeting, the shareholders will be asked to renew the directorship of Monique Cohen (Chair of the Appointments and Compensation Committee).

The table below sets out the expiration dates of the terms of office of Safran's Directors.

| Director             | 2018             | 2019             | 2020             | 2021             |
|----------------------|------------------|------------------|------------------|------------------|
| Ross McInnes         |                  | ✓ <sup>(2)</sup> |                  |                  |
| Philippe Petitcolin  |                  | ✓ <sup>(2)</sup> |                  |                  |
| Christian Streiff    | ✓ <sup>(1)</sup> |                  |                  |                  |
| Hélène Auriol Potier |                  |                  |                  | ✓ <sup>(5)</sup> |
| Éliane Carré-Copin   |                  |                  | ✓ <sup>(4)</sup> |                  |
| Jean-Lou Chameau     |                  | ✓ <sup>(2)</sup> |                  |                  |
| Monique Cohen        | ✓ <sup>(1)</sup> |                  |                  |                  |
| Odile Desforges      |                  |                  |                  | ✓ <sup>(5)</sup> |
| Jean-Marc Forneri    | ✓ <sup>(1)</sup> |                  |                  |                  |
| Patrick Gandil       |                  | ✓ <sup>(2)</sup> |                  |                  |
| Vincent Imbert       |                  | ✓ <sup>(2)</sup> |                  |                  |
| Brigitte Lesschaeve  |                  | ✓ <sup>(3)</sup> |                  |                  |
| Gérard Mardiné       |                  |                  | ✓ <sup>(4)</sup> |                  |
| Daniel Mazaltarim    |                  | ✓ <sup>(3)</sup> |                  |                  |
| Lucie Muniesa        |                  | ✓ <sup>(6)</sup> |                  |                  |
| Patrick Péлата       |                  |                  |                  | ✓ <sup>(5)</sup> |
| Sophie Zurquiyah     |                  |                  |                  | ✓ <sup>(5)</sup> |

(1) At the close of the Annual General Meeting to be held in 2018 to approve the 2017 financial statements.

(2) At the close of the Annual General Meeting to be held in 2019 to approve the 2018 financial statements.

(3) November 19, 2019.

(4) At the close of the Annual General Meeting to be held in 2020 to approve the 2019 financial statements.

(5) At the close of the Annual General Meeting to be held in 2021 to approve the 2020 financial statements.

(6) April 22, 2019 (see section 6.2.3 of this Registration Document).

### 6.2.6.3 Changes in the membership structure of the Board of Directors to be put forward at the Annual General Meeting of May 25, 2018

In accordance with the commitments given in connection with Safran's business combination with Zodiac Aerospace<sup>(1)</sup>, at the Annual General Meeting of May 25, 2018 the shareholders will be asked to appoint the following Directors: (i) Didier Domange, and

(ii) F&P<sup>(2)</sup> (independent Director), a company whose permanent representative will be its Chairman, Robert Peugeot (see sections 2.5 and 8.2.1 of this Registration Document).

(1) Safran elected to put forward a Director representing Zodiac Aerospace's family shareholders and an independent Director representing Zodiac's major institutional shareholders for appointment to the Board.

(2) F&P is a company that is jointly held by FFP Invest and Fonds Stratégique de Participations (FSP).



## 6.3 OPERATING PROCEDURES AND WORK OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES

### 6.3.1 Board of Directors' Internal Rules

In addition to the provisions of the law and the Company's bylaws that govern its operating procedures, on April 21, 2011 the Board of Directors approved a set of Internal Rules that provide a number of specific terms and conditions relating to Board meetings, list the operations that require the Board's prior approval, define the duties and operating procedures of the Board Committees and set out the rules for allocating attendance fees between Board members based on the maximum amount set by shareholders at the Annual General Meeting.

These Internal Rules are available on the Company's website ([www.safran-group.com](http://www.safran-group.com), in the Group/Governance/Board of Directors section, in French only).

The Internal Rules have been regularly updated since they were first adopted in order to take into account changes in regulations,

the AFEP-MEDEF Corporate Governance Code and Safran's internal organizational structure and operating procedures.

During 2017, the Internal Rules were updated on a number of occasions in order to:

- > take into account the French audit reform regulations (mainly as a result of *ordonnance* 2016-315 dated March 17, 2016); and
- > set up a new standing committee of the Board of Directors - the Innovation and Technology Committee.

The Internal Rules were further updated on February 26, 2018 in order to take into account the new rules adopted by the Board on that same date for allocating attendance fees (see section 6.6.3.2 below).

### 6.3.2 Operating procedures and work of the Board of Directors

#### Indicators

|  | 2016                | 2017                |
|--|---------------------|---------------------|
| Number of meetings                                 | 11                  | 13                  |
| Average attendance rate                            | 94%                 | 92%                 |
| Number of Directors                                | 17                  | 17                  |
| Percentage of independent Directors <sup>(1)</sup> | 53.8% (7 out of 13) | 53.8% (7 out of 13) |

(1) Excluding Directors representing employee shareholders and Directors representing employees.

#### Duty of confidentiality

Members of the Board of Directors and all individuals who attend meetings of the Board and its Committees are subject to strict duties of confidentiality and discretion, with respect to the information provided to them in this context. The Directors must take all necessary measures to ensure that the files and documents communicated to them remain confidential.

In addition to this duty of confidentiality, Board members undertake not to make any public disclosures of information, in their capacity as Board members, relating to any issues concerning the Company and/or the Group (irrespective of whether or not such information concerns matters discussed in Board meetings), without obtaining the Chairman's prior approval. The Chairman of the Board is the only Board member who has the powers to communicate information on behalf of the Board of Directors.

#### Board of Directors' meetings

The Board of Directors meets at least once every quarter and meetings may be called by any means.

The agenda for Board meetings is put forward by the Board Secretary to the Chairman and reflects the work of the Board Committees and proposals made by members of the Board of Directors.

Before each meeting, the Board members receive the agenda as well as documents providing them with the information they need on the matters to be discussed during the meeting.

They may request any additional documents they consider useful.

Meetings can be called by any means whatsoever. The Board of Directors' Internal Rules state that Directors may participate in meetings by video-conference or any other means of telecommunications.

The presence of at least half of the Board's members is necessary for a meeting to be validly constituted. Decisions are made by way of a majority vote of the members present or represented and the Chairman has a casting vote in the event of a split decision.

If a Director is unable to attend a meeting, he or she may give proxy to another Board member, it being specified that each Director may only hold one proxy.

Minutes are drawn up for each Board meeting and forwarded to all members of the Board in order that they may be approved at the following meeting.

In addition, the Chairman keeps the Board of Directors informed, by any means, of all significant events concerning the Group and its financial position. The Directors receive a copy of Safran's press releases, a press review and stock market reports on Safran's share performance.

## Work of the Board of Directors in 2017

The Board of Directors met 13 times in 2017, with an average attendance rate of 92%.

In accordance with the provisions of the Internal Rules, certain deliberations of the Board of Directors were prepared based on recommendations and proposals put forward by the Board Committees in their area of specialization. These Committees reported on their findings and submitted their opinions and proposals to the Board.

The main work conducted by the Board of Directors in 2017 was as follows:

### Corporate governance

In 2017, the Board of Directors reviewed the membership structure of the Board and its Committees, examined the independence status of Directors, prepared the Annual General Meeting, set the compensation for the corporate officers and Directors' attendance fees, examined related-party agreements and took decisions concerning the general running of the Group. The Board's work during the year also covered:

- > the Group's policies regarding compensation, gender equality and equal pay;
- > the allocation of performance shares to over 400 Group senior managers (see section 6.6.4.2), including the Chief Executive Officer (see section 6.6.2.2);
- > the membership structure of the Board, particularly the expiration of the terms of office of certain Directors and the terms and conditions applicable for re-appointing or replacing them;
- > the self-assessment of the operating procedures of the Board and its Committees;
- > setting up a new standing committee.

The Board also decided that to put forward a proposal at the Annual General Meeting to amend the Company's bylaws in order to increase the age limit for the Chief Executive Officer to 68.

One meeting took place without any executive or in-house Directors present, primarily to reflect on the operating procedures of the Board and its Committees, assess the performance of the corporate officers and discuss the succession plan.

### Industrial and commercial matters

At each Board meeting, an update is provided on the Group's industrial and commercial situation, and a progress report is given on programs under development.

Throughout the year, the Board was briefed by the Chief Executive Officer on the Group's significant events as well as on the general operating context for the aerospace industry, business developments, divestments, market trends, and the competitive environment.

Additionally, targeted presentations were given on all Tier 1 entities' businesses and products together with their outlook, performance and cost efficiency, as well as on the Group's CSR work, R&D activities and technological capabilities.

## Strategy

The Board's work on strategic issues is organized by the Chairman of the Board in conjunction with Executive Management, and where necessary, with the assistance on an *ad hoc* basis of special committees specifically set up to analyze strategic operations or monitor preliminary studies on strategic matters (such as strategic partnerships and agreements or transactions affecting the Group's scope of consolidation). For the purpose of preparing and monitoring the planned business combination with Zodiac Aerospace, the Board of Directors set up a special temporary committee which met regularly throughout 2017 (see section 6.3.3). A temporary committee was also set up to prepare and monitor the disposal of Safran's identity and security businesses as from 2016.

At Board meetings, the Chairman and the Chief Executive Officer regularly provide a status report on external growth projects, negotiations in progress and any difficulties encountered. The Board is given detailed presentations on strategic and M&A projects at the various stages of their development. These are followed by discussions among the Board's members and, where appropriate, give rise to decisions. Certain Board meetings may be dedicated to a particular strategic or M&A project. The Chief Executive Officer regularly gives an update on launches of new projects and structural programs.

In addition, Board meetings that take the form of strategy seminars are organized yearly. During the 2017 strategy seminar, held at Safran University, the Group's main strategic goals and action plans were reviewed.

Lastly, the Board examines on an annual basis the results of the consultation with the Central Works Council on the strategic goals set for the Company and the Group.

### Economic and financial matters

As well as approving the annual and interim financial statements, preparing the Annual General Meeting and the Registration Document (including the Annual Financial Report) and taking other routine management decisions, in 2017 the Board monitored the Group's financing and liquidity position, oversaw the implementation of the share buyback program (as authorized by the shareholders), and validated financial communications.

In accordance with the applicable laws, the Board's prior authorization is required for guarantees, endorsements and sureties granted in Safran's name. Each year, the Board sets a blanket ceiling up to which guarantees, endorsements and sureties may be granted by the Chief Executive Officer and any commitments exceeding this ceiling must be specifically authorized by the Board. At one of its meetings in 2017, the Board once again set this blanket ceiling at €500 million for 2018 (with no ceiling on guarantees, endorsements and sureties given to tax and customs authorities).

Throughout the year, the Board was briefed by the Chief Executive Officer and Chief Financial Officer, notably at the quarterly business report presentations, about the Group's financial position, currency hedging strategy, financial guarantees granted to customers, and any disputes and litigation in process.

In 2017, the Board also reviewed the Group's quality improvement program and the areas pinpointed for progress, the status of the main indicators as compared with the 2017 budget, the assumptions used for the 2018 budget and the detailed analysis of this budget, as well as the medium-term business plan and the audit plans.

The Statutory Auditors attended the Board of Directors' meeting of February 23, 2017, when they reported on their audit work on the parent company and consolidated financial statements for 2016 and presented their audit findings. They certified the 2016 parent company and consolidated financial statements without qualification. They also attended the Board meeting of July 27, 2017 to present their work on the consolidated financial statements for the first half of 2017.

## Specific work of the Chairman of the Board of Directors in 2017

In addition to the duties assigned to him by law, the Chairman represented the Group in France and on the international stage within the scope of specific assignments entrusted to him (see section 6.1.2), dealing namely with public authorities and institutional shareholders, and participating in various meetings with some of these parties. At these meetings, public authorities and institutional shareholders discussed their views and the Group presented its situation and positions on both governance and strategic issues. The Chairman played an active role in organizing the Board's work on strategic issues and in preparing, negotiating and putting in place the planned acquisition of Zodiac Aerospace. He also chaired the special temporary committee set up to prepare and monitor implementation of the acquisition project (see section 6.3.3).

### 6.3.3 Committees of the Board of Directors

The Board of Directors' Internal Rules provide for the Board's decisions regarding certain issues to be prepared by specialized committees that review matters within their remit and submit their opinions, proposals and recommendations to the Board.

The Board is assisted in its work by three standing committees:

- > the Audit and Risk Committee;
- > the Appointments and Compensation Committee;
- > the Innovation and Technology Committee.

The role, organization and operating procedures of each of these standing committees are set out in the Board of Directors' Internal Rules.

In its area of expertise, each Committee carries out in-depth work and analysis prior to the Board of Directors' discussions and contributes to the preparation of the Board's decisions. It makes proposals and recommendations to the Board, and gives its opinion on the matters under review.

As such, each Committee may offer its services to the Board for the purpose of conducting internal or external studies that may provide the Board with helpful information for its decisions.

At each Board meeting, the Chair of each Committee – or any other Committee member designated if the Chair is unable to do so – reports to the Board on the Committee's work, proposals and recommendations.

The Board of Directors may set up further standing Committees at any time, at its sole discretion, and may amend the Board's Internal Rules for the purpose of specifying the roles and responsibilities, resources, membership structure and operating procedures of such new Committees. It may also set up temporary special committees, on an ad hoc basis, to analyze, deal with or monitor specific issues or projects.

## The Audit and Risk Committee

### Indicators

|  | 2016             | 2017             |
|--|------------------|------------------|
| Number of meetings                               | 6                | 5                |
| Average attendance rate                          | 95%              | 97%              |
| Number of members                                | 6                | 6                |
| Percentage of independent members <sup>(1)</sup> | 75% (3 out of 4) | 75% (3 out of 4) |

(1) Excluding Directors representing employee shareholders and Directors representing employees.

| <p><b>Membership structure</b></p>                          | <p>The Audit and Risk Committee has at least three members, including its Chair. These members are selected from among the Directors, other than the Chairman of the Board of Directors, who do not have management duties within Safran. Two-thirds of the members on this Committee, including its Chair, must be independent Directors. In addition, in accordance with the law, at least one of the Committee's independent members must have specific skills in finance, accounting or certified public accounting.</p> <p>The Audit and Risk Committee meets at least four times a year, and the Statutory Auditors are always invited to its meetings, except where a joint meeting is held with another Committee.</p> <p>Further to a decision of the Board of Directors, Sophie Zurquiyah joined the Audit and Risk Committee on June 15, 2017. Daniel Mazaltarim (an employee representative Director) was a member of the Audit and Risk Committee during 2017 and until February 26, 2018, when the number of members on this committee was reduced to five, three quarters of whom are independent (without counting the Director representing employee shareholders in accordance with the recommendations of the AFEP-MEDEF Code and Article 28.2 of the Board's Internal Rules).</p> <table border="1" data-bbox="336 555 1430 779"> <thead> <tr> <th></th> <th style="text-align: right;">Independent</th> </tr> </thead> <tbody> <tr> <td>Odile Desforges (Chair)</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Monique Cohen</td> <td style="text-align: right;">X</td> </tr> <tr> <td>G rard Mardin , Director representing employee shareholders</td> <td></td> </tr> <tr> <td>Lucie Muniesa, representing the French State</td> <td></td> </tr> <tr> <td>Sophie Zurquiyah</td> <td style="text-align: right;">X</td> </tr> </tbody> </table>  |  | Independent | Odile Desforges (Chair) | X | Monique Cohen | X | G rard Mardin , Director representing employee shareholders |  | Lucie Muniesa, representing the French State |  | Sophie Zurquiyah | X |
|---|--|--|-------------|-------------------------|---|---------------|---|---|--|--|--|------------------|---|
|   | Independent  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| Odile Desforges (Chair)                                     | X  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| Monique Cohen   | X  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| G rard Mardin , Director representing employee shareholders |  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| Lucie Muniesa, representing the French State                |  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| Sophie Zurquiyah  | X  |  |             |                         |   |               |   |   |  |  |  |                  |   |
| <p><b>Roles and responsibilities</b></p>                    | <p>The main roles of the Audit and Risk Committee - which acts under the responsibility of the Board of Directors - are to examine the financial statements and address issues related to the preparation and auditing of accounting and financial information. It monitors the financial reporting process and issues any recommendations required to guarantee the integrity of the information concerned.</p> <p>In this regard it is responsible for:</p> <ul style="list-style-type: none"> <li>➤ reviewing the draft interim and annual parent company and consolidated financial statements before they are submitted to the Board of Directors, and in particular: <ul style="list-style-type: none"> <li>• ensuring that the accounting policies adopted to prepare the parent company and consolidated financial statements are relevant and are applied consistently, and</li> <li>• examining any problems encountered related to applying accounting policies.</li> </ul> </li> </ul> <p>In this respect, it also monitors the plans and measures put in place for applying the main planned changes in accounting policies; including the application of new international financial reporting standards;</p> <ul style="list-style-type: none"> <li>➤ reviewing the financial documents issued by Safran in connection with the end of the annual and interim reporting periods;</li> <li>➤ reviewing draft financial statements prepared for the requirements of specific transactions, such as asset contributions, mergers, spin-offs, or payments of interim dividends;</li> <li>➤ reviewing the financial aspects of certain operations proposed by Executive Management and submitted to the Board of Directors (some of which for prior authorization), such as: <ul style="list-style-type: none"> <li>• capital increases,</li> <li>• equity investments, and</li> <li>• acquisitions or divestments;</li> </ul> </li> <li>➤ assessing the reliability of the systems and procedures used to prepare the financial statements and the validity of the accounting treatment applied for major transactions;</li> <li>➤ ensuring that the parent company and consolidated financial statements are audited by the Statutory Auditors;</li> <li>➤ reviewing the methods and procedures used for reporting purposes and for adjusting accounting information from the Group's foreign companies.</li> </ul> <p>The Audit and Risk Committee is also tasked with verifying the effectiveness of Safran's internal control and risk management systems.</p> <p>In this regard it is responsible for:</p> <ul style="list-style-type: none"> <li>➤ assessing, with the people responsible for such activities, the Group's internal control systems;</li> <li>➤ reviewing, with the people responsible for such activities at Group level and with the assistance of Internal Audit: <ul style="list-style-type: none"> <li>• internal control objectives and contingency and action plans,</li> <li>• the findings of audits and actions carried out by the relevant managers within the Group, and</li> <li>• the recommendations made and follow-up of such audits and actions, by the relevant managers;</li> </ul> </li> <li>➤ reviewing Internal Audit methods and results;</li> <li>➤ checking that the procedures used by Internal Audit lead to the preparation of financial statements that: <ul style="list-style-type: none"> <li>• present a fair view of the Company, and</li> <li>• comply with accounting rules;</li> </ul> </li> <li>➤ reviewing the relevance of risk analysis and monitoring procedures, ensuring the implementation of a procedure for identifying, quantifying and preventing the main risks arising in the Group's businesses; and</li> <li>➤ reviewing and managing the rules and procedures applicable to conflicts of interest.</li> </ul> |  |             |                         |   |               |   |   |  |  |  |                  |   |

## Operating procedures and work of the Board of Directors and the Board Committees

|                                      |   |
|--------------------------------------|---|
|                                      | <p>Lastly, the Audit and Risk Committee is tasked with ensuring the effectiveness of Safran's external audits and monitoring the work of the Statutory Auditors.</p> <p>In this regard it is responsible for:</p> <ul style="list-style-type: none"> <li>&gt; overseeing the Statutory Auditor selection procedure and issuing a recommendation on the Statutory Auditors to be put forward for appointment or re-appointment by shareholders at the Annual General Meeting;</li> <li>&gt; ensuring that the independence criteria for the Statutory Auditors are respected, drawing on information exchanges and substantiations provided by the Auditors for this purpose;</li> <li>&gt; reviewing the fees paid to the Statutory Auditors, which should not call into question their independence or objectivity;</li> <li>&gt; regularly reviewing with the Statutory Auditors: <ul style="list-style-type: none"> <li>• the audit plans and their findings, and</li> <li>• their recommendations and the follow-up thereof;</li> </ul> </li> <li>&gt; factoring in the observations and findings issued following any audits performed by the French Accounting Oversight Board (<i>Haut Conseil du Commissariat aux Comptes</i>);</li> <li>&gt; without prejudice to the powers of the Board of Directors, approving the provision of non-audit services as authorized under the applicable regulations, including examining and validating the related methods and procedures and ensuring they are respected;</li> <li>&gt; hearing the presentation of the Statutory Auditors on their audit engagement and reporting to the Board of Directors on (i) the findings of their audit of the financial statements, (ii) how their audit contributed to the integrity of the Company's financial information, and (iii) the role that the Committee played in overseeing this process, notably based on the additional report that is prepared by the Statutory Auditors on an annual basis.</li> </ul> <p>The Audit and Risk Committee reports to the Board of Directors on a regular basis on its work and immediately informs the Board of any difficulties that it may encounter. These reports are added to the minutes of the relevant Board of Directors' meetings or are included in an appendix to these minutes.</p>   |
| <p>Main work carried out in 2017</p> | <p>The Audit and Risk Committee met five times in 2017 in order to address the above topics, with an average attendance rate of 97%.</p> <p>The Statutory Auditors and the Government Commissioner attended all of these meetings.</p> <p>During the meetings the Committee:</p> <ul style="list-style-type: none"> <li>&gt; reviewed the interim and annual parent company and consolidated financial statements and was briefed by the Chief Financial Officer on the Group's off-balance sheet commitments, with the attendance of the Group Management and Accounts Director and the Group Chief Accounting Officer. The review enabled the Committee to have discussions with the Statutory Auditors without any members of Executive Management being present;</li> <li>&gt; carried out a preliminary review of the 2017 results;</li> <li>&gt; reviewed the 2018 budget;</li> <li>&gt; prepared for the Annual General Meeting of June 15, 2017 (reviewing the appropriation of profit, draft resolutions, the Board of Directors' report on the draft resolutions, related-party agreements, the management report, the Chairman's report on internal control and risk management procedures, and the draft Registration Document including the financial report);</li> <li>&gt; examined the Group's risks (with the attendance of the Risk Management and Insurance Director) and its internal control and internal audit procedures (with the attendance of the Head of Audit and Internal Control); examined the draft 2018 audit plan; and conducted a preliminary review of the findings of the 2017 internal control audit;</li> <li>&gt; monitored the Statutory Auditors' independence, reviewed their audit fees, and examined their audit methods;</li> <li>&gt; tracked and verified the EUR/USD exchange rate and the currency hedges in place (with the attendance of the Group Treasurer);</li> <li>&gt; monitored changes in the Group's liquidity;</li> <li>&gt; reviewed the Group's financial communications, particularly related to the annual and interim financial statements;</li> <li>&gt; examined management forecasts;</li> <li>&gt; reviewed the ceiling applicable to guarantees, endorsements and sureties;</li> <li>&gt; monitored the work undertaken to prepare for the application of IFRS 15;</li> <li>&gt; reviewed the new IFRS 9 standard prescribing the rules for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.</li> </ul> <p>With regard to the planned business combination with Zodiac Aerospace, the Board of Directors decided to set up a special temporary committee tasked with monitoring and reviewing the transaction (see below).</p> <p>The Statutory Auditors gave the Committee presentations on their work concerning the annual and interim financial statements and internal control.</p> <p>In principle, a period of 48 hours is provided for between the Committee's examination of the annual and interim financial statements and the Board of Directors' meetings at which they are approved.</p> |

### The Appointments and Compensation Committee

#### Indicators

|  | 2016                | 2017                |
|--|---------------------|---------------------|
| Number of meetings                               | 5                   | 7                   |
| Average attendance rate                          | 94%                 | 92%                 |
| Number of members                                | 7                   | 7                   |
| Percentage of independent members <sup>(1)</sup> | 66.66% (4 out of 6) | 83.33% (5 out of 6) |

(1) Excluding the Director representing employees.

| <b>Membership structure</b>                        | <p>The Appointments and Compensation Committee has at least three members, including its Chair. The majority of the members must be independent Directors.</p> <p>As from June 15, 2017, further to a decision of the Board of Directors, Monique Cohen was appointed Chair and member of the Appointments and Compensation Committee, replacing Jean-Marc Forneri. H el ene Auriol Potier and Patrick P elata were also appointed to this Committee on the same date.</p> <p>On February 26, 2018, Daniel Mazaltarim replaced Fr ed eric Bourges as a member of the Appointments and Compensation Committee. At that date, the Appointments and Compensation Committee had seven members, of whom five were independent (i.e., 83.33% of the Committee, not including the Director representing employees).</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%; text-align: center;">Independent</th> </tr> </thead> <tbody> <tr> <td>Monique Cohen (Chair)</td> <td style="text-align: center;">X</td> </tr> <tr> <td>H el ene Auriol Potier</td> <td style="text-align: center;">X</td> </tr> <tr> <td>Jean-Lou Chameau</td> <td style="text-align: center;">X</td> </tr> <tr> <td>Daniel Mazaltarim, Director representing employees</td> <td></td> </tr> <tr> <td>Lucie Muniesa, representing the French State</td> <td></td> </tr> <tr> <td>Patrick P elata</td> <td style="text-align: center;">X</td> </tr> <tr> <td>Christian Streiff</td> <td style="text-align: center;">X</td> </tr> </tbody> </table> <p>Daniel Mazaltarim only attends the "compensation" part of Appointments and Compensation Committee meetings, as was the case for his predecessor, Fr ed eric Bourges.</p> <p>The Chairman of the Board of Directors is not a member of this Committee but is involved in the work it carries out in relation to nominating candidates and determining compensation. The Chief Executive Officer is also involved in the Committee's work in relation to nominating candidates.</p> |  | Independent | Monique Cohen (Chair) | X | H el ene Auriol Potier | X | Jean-Lou Chameau | X | Daniel Mazaltarim, Director representing employees |  | Lucie Muniesa, representing the French State |  | Patrick P elata | X | Christian Streiff | X |
|--|--|--|-------------|-----------------------|---|------------------------|---|------------------|---|--|--|--|--|-----------------|---|-------------------|---|
|  | Independent  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Monique Cohen (Chair)                              | X  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| H el ene Auriol Potier                             | X  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Jean-Lou Chameau                                   | X  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Daniel Mazaltarim, Director representing employees |  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Lucie Muniesa, representing the French State       |  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Patrick P elata                                    | X  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| Christian Streiff                                  | X  |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |
| <b>Roles and responsibilities</b>                  | <p><b>Appointments</b></p> <p>The Appointments and Compensation Committee has the following roles and responsibilities with respect to appointments:</p> <ul style="list-style-type: none"> <li>&gt; assisting the Board of Directors in its choice of: <ul style="list-style-type: none"> <li>• members of the Board of Directors,</li> <li>• members of the Committees of the Board of Directors, and</li> <li>• the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officer(s);</li> </ul> </li> <li>&gt; selecting potential members of the Board of Directors who meet the applicable independence criteria and submitting the list of nominees to the Board of Directors;</li> <li>&gt; preparing succession plans for the positions of Chairman, Chief Executive Officer, and, where applicable, any Deputy Chief Executive Officer(s);</li> <li>&gt; helping the Board prepare succession plans for the Group's key operations managers and support function managers.</li> </ul> <p><b>Compensation</b></p> <p>The Appointments and Compensation Committee is also responsible for making recommendations and proposals to the Board of Directors about compensation for which Directors may be eligible, such as:</p> <ul style="list-style-type: none"> <li>&gt; attendance fees;</li> <li>&gt; any other components of compensation, including the terms and conditions of any benefits payable at the end of their term of office, particularly conditions based on appropriate benchmarks;</li> <li>&gt; any compensation payable to any Board Advisors (<i>censeurs</i>);</li> <li>&gt; any amendments to pension and personal risk insurance plans;</li> <li>&gt; benefits-in-kind and various financial benefits; and</li> <li>&gt; where appropriate: <ul style="list-style-type: none"> <li>• stock option grants, and</li> <li>• free share grants.</li> </ul> </li> </ul>   |  |             |                       |   |                        |   |                  |   |  |  |  |  |                 |   |                   |   |

|                                      |  |
|--------------------------------------|--|
|                                      | <p>More generally, the Appointments and Compensation Committee is also responsible for making recommendations to the Board of Directors relating to:</p> <ul style="list-style-type: none"> <li>&gt; the compensation policy for corporate officers;</li> <li>&gt; the compensation policy for senior managers; and</li> <li>&gt; profit-sharing systems set up for the employees of Safran and other Group entities, including: <ul style="list-style-type: none"> <li>• employee savings plans,</li> <li>• supplementary pension plans,</li> <li>• employee rights issues, and</li> <li>• stock option and/or free share grants and any other employee share ownership arrangements.</li> </ul> </li> </ul> <p>The Appointments and Compensation Committee also makes recommendations to the Board of Directors on any performance criteria to be applied for stock option and/or free share plans, particularly based on appropriate benchmarks. In general, the Appointments and Compensation Committee is involved in preparing any resolutions submitted for shareholder approval at the Annual General Meeting that relate to the above topics.</p>   |
| <b>Main work carried out in 2017</b> | <p>In 2017, the Appointments and Compensation Committee met seven times, with an average attendance rate of 92%. The Committee's main work carried out in 2017 concerned the following:</p> <ul style="list-style-type: none"> <li>&gt; the compensation policy for corporate officers;</li> <li>&gt; the compensation and benefits of the corporate officers;</li> <li>&gt; the Group's compensation policy;</li> <li>&gt; the launch of a performance share plan for over 400 Group senior managers and the Chief Executive Officer;</li> <li>&gt; setting the amount of attendance fees payable to Directors for 2016;</li> <li>&gt; the preparation of the Annual General Meeting and the annual Registration Document;</li> <li>&gt; amendments to the Board of Directors' Internal Rules;</li> <li>&gt; a review of the Directors' independence status;</li> <li>&gt; the membership structure of the Board of Directors and the Board Committees;</li> <li>&gt; the succession plan for corporate officers and other senior managers. In February 2017, the Appointments and Compensation Committee recommended that the Board of Directors propose a change to the bylaws in order to increase the age limit for the Chief Executive Officer to 68 years and submit it for the approval of the Annual General Meeting. It also reviewed the succession plan for Executive Committee members<sup>(1)</sup> over different time-frames, particularly in the event of an unforeseen vacancy.</li> </ul> |

(1) The Executive Committee comprises 15 members, including the Chief Executive Officer, other Safran executives and the heads of the Group's main operating companies. This membership structure provides for a balanced representation across the Group's business activities and cross-business support functions and ensures that Safran's strategy is implemented consistently in all of its entities across the world. The Executive Committee is responsible for running Safran's business operations in line with the strategy defined upstream by the Board of Directors.

## The Innovation and Technology Committee

This Committee was set up on October 26, 2017 and met for the first time during the first quarter of 2018, after having established its operating procedures at the end of 2017.

| <b>Membership structure</b>       | <p>The Innovation and Technology Committee has at least three members, including its Chair. It currently comprises five members, of whom four (i.e., 80%) are independent Directors.</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">Independent</th> </tr> </thead> <tbody> <tr> <td>Christian Streiff (Chairman)</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Hélène Auriol Potier</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Jean-Lou Chameau</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Patrick Gandil</td> <td></td> </tr> <tr> <td>Patrick Péлата</td> <td style="text-align: right;">X</td> </tr> </tbody> </table>  |  | Independent | Christian Streiff (Chairman) | X | Hélène Auriol Potier | X | Jean-Lou Chameau | X | Patrick Gandil |  | Patrick Péлата | X |
|-----------------------------------|---|--|-------------|------------------------------|---|----------------------|---|------------------|---|----------------|--|----------------|---|
|                                   | Independent   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| Christian Streiff (Chairman)      | X   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| Hélène Auriol Potier              | X   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| Jean-Lou Chameau                  | X   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| Patrick Gandil                    |   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| Patrick Péлата                    | X   |  |             |                              |   |                      |   |                  |   |                |  |                |   |
| <b>Roles and responsibilities</b> | <p>The Innovation and Technology Committee is responsible for analyzing, examining and giving its opinion on the following matters:</p> <ul style="list-style-type: none"> <li>&gt; the Group's medium- and long-term strategic goals and choices concerning: <ul style="list-style-type: none"> <li>• innovation, research and technology, and</li> <li>• developments of new products and services;</li> </ul> </li> <li>&gt; technological trends and developments that could affect the Group's strategic and industrial goals and choices, as well as other players' technological positioning and the associated risks and opportunities;</li> <li>&gt; progress made by the Group in its main innovation and technology roadmaps;</li> <li>&gt; ensuring that the Group has suitable organization structures and resources in place to meet the roadmaps' objectives over time.</li> </ul> |  |             |                              |   |                      |   |                  |   |                |  |                |   |

### Special temporary committee

|                                   |   |                  |
|-----------------------------------|---|------------------|
| <b>Membership structure</b>       | For the purpose of preparing and monitoring the planned business combination with Zodiac Aerospace, the Board of Directors set up a special temporary committee, chaired by Ross McInnes, which met eight times throughout 2017. The Chief Executive Officer is not a member of this Committee but was involved in the work it carried out.   |                  |
|                                   | <b>Independent</b>  |                  |
|                                   | Ross McInnes (Chairman)   |                  |
|                                   | Frédéric Bourges  |                  |
|                                   | Monique Cohen   | X                |
|                                   | Odile Desforges   | X                |
|                                   | Jean-Marc Forneri   | X <sup>(1)</sup> |
|                                   | Lucie Muniesa   |                  |
| Christian Streiff                 | X   |                  |
| <b>Roles and responsibilities</b> | <p>The main roles of this special temporary committee were to:</p> <ul style="list-style-type: none"> <li>&gt; prepare the work and decisions of the Board regarding the business combination with Zodiac Aerospace;</li> <li>&gt; monitor the due diligences carried out, the structure of the offer and the negotiation process;</li> <li>&gt; report to the Board as a whole on its work.</li> </ul> |                  |

(1) Independent Director until the General Meeting of June 15, 2017.

### 6.3.4 Summary table of attendance at meetings of the Board of Directors and the Board Committees in 2017

The following table shows the number of meetings of the Board and its standing committees that took place in 2017 as well as the attendance rates of each Director.

| Director                            | Board of Directors | Attendance rate (%) | Audit and Risk Committee | Attendance rate (%) | Appointments and Compensation Committee | Attendance rate (%) |
|-------------------------------------|--------------------|---------------------|--------------------------|---------------------|---|---------------------|
| Number of meetings in 2017          | 13                 | 92                  | 5                        | 97                  | 7                                       | 92                  |
| Ross McInnes                        | 13                 | 100                 | -                        | -                   | -                                       | -                   |
| Philippe Petitcolin                 | 12                 | 92                  | -                        | -                   | -                                       | -                   |
| Christian Streiff                   | 12                 | 92                  | -                        | -                   | 7                                       | 100                 |
| Hélène Auriol Potier <sup>(1)</sup> | 5/6                | 83                  | -                        | -                   | 2/3                                     | 67                  |
| Giovanni Bisignani <sup>(2)</sup>   | 8/8                | 100                 | -                        | -                   | 3/4                                     | 75                  |
| Frédéric Bourges                    | 13                 | 100                 | -                        | -                   | 5 <sup>(3)</sup>                        | 83                  |
| Éliane Carré-Copin                  | 13                 | 100                 | -                        | -                   | -                                       | -                   |
| Jean-Lou Chameau                    | 12                 | 92                  | -                        | -                   | 7                                       | 100                 |
| Monique Cohen <sup>(4)</sup>        | 11                 | 85                  | 4                        | 80                  | 3/3                                     | 100                 |
| Odile Desforges                     | 12                 | 92                  | 5                        | 100                 | -                                       | -                   |
| Jean-Marc Forneri <sup>(5)</sup>    | 8                  | 62                  | -                        | -                   | 4/4                                     | 100                 |
| Patrick Gandil                      | 12                 | 92                  | -                        | -                   | -                                       | -                   |
| Vincent Imbert                      | 11                 | 85                  | -                        | -                   | -                                       | -                   |
| Xavier Lagarde <sup>(2)</sup>       | 8/8                | 100                 | -                        | -                   | 4/4                                     | 100                 |
| Élisabeth Lulin <sup>(6)</sup>      | 8/8                | 100                 | 2/2                      | 100                 | -                                       | -                   |
| Gérard Mardiné                      | 12                 | 92                  | 5                        | 100                 | -                                       | -                   |
| Daniel Mazaltarim                   | 13                 | 100                 | 5                        | 100                 | -                                       | -                   |
| Lucie Muniesa                       | 13                 | 100                 | 5                        | 100                 | 6                                       | 86                  |
| Patrick Pélata <sup>(1)</sup>       | 5/6                | 83                  | -                        | -                   | 3/3                                     | 100                 |
| Sophie Zurquiyah <sup>(7)</sup>     | 6/6                | 100                 | 3/3                      | 100                 | -                                       | -                   |

(1) Director and a member of the Appointments and Compensation Committee since June 15, 2017.

(2) Director and a member of the Appointments and Compensation Committee until June 15, 2017.

(3) Frédéric Bourges only attended the "compensation" part of Appointments and Compensation Committee meetings.

(4) Chair of the Appointments and Compensation Committee since June 15, 2017.

(5) Chairman of the Appointments and Compensation Committee until June 15, 2017.

(6) Director and a member of the Audit and Risk Committee until June 15, 2017.

(7) Director and a member of the Audit and Risk Committee since June 15, 2017.



### 6.3.5 Self-assessment by the Board of Directors of its operating procedures

As recommended in the AFEP-MEDEF Code of Corporate Governance for Listed Corporations in France, which Safran uses as its framework Corporate Governance Code, the Board of Directors must carry out a formal self-assessment at least every three years, in order to review its operating procedures, verify that key issues are properly prepared and discussed, and measure the actual contribution of each Director to the Board's work. The self-assessment can be carried out with the help of an external consultant, overseen by the Appointments and Compensation Committee or an independent Director.

#### 2015-2016 formal self-assessment

At its December 17, 2015 meeting, the Board launched a formal self-assessment process of both its own operating procedures and those of its Committees. This self-assessment took the form of a questionnaire sent to the Directors and:

- included an assessment of each Director's contribution to the work of the Board; and
- encouraged Directors to suggest areas for improvement.

This questionnaire was followed up with one-on-one meetings where requested by the Directors or the Chairman.

The Board completed the assessment process at its meeting on February 24, 2016 when it discussed the main points raised and the areas for improvement that were pinpointed by the Directors.

The main findings of the process were as follows:

- Overall, the Directors felt that the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer had been successful and that in general the Board's operating procedures are very satisfactory. They particularly noted that:
  - there is a good balance between the allocation of the respective duties of the Chairman and the Chief Executive Officer, and a strong working relationship and communication between them, and
  - there is a real sense of working together among Board members, with open, high-quality discussions between the Directors and with participants who are invited to attend Board meetings, and significant efforts from executives to be as transparent and clear as possible;
- the Directors also felt that the strategy seminars are extremely beneficial as the in-depth discussions that they promote and the strategic goals decided on during these seminars are used as a basis for dealing with and continuously monitoring the strategic issues addressed at each Board meeting (via Board agenda items). In addition, they noted that the seminars are a very effective way of organizing the Board's work related to strategy as they encourage a higher degree of involvement from all of the Directors and therefore result in deeper discussions in subsequent Board meetings. The Directors also appreciated the possibility they have of setting up special committees on an ad hoc basis to monitor particular projects in view of the fact that the Strategy and Major Projects Committee was dissolved when the Company's governance structure was changed in 2015;
- concerning the membership structure of the Board of Directors, although some Directors felt the number of Board members was too high (compared with the average for Safran's peers) – which could affect the Board's efficiency, the speaking time available for each Director, each Director's

full and equal involvement in the Board's discussions, and the collegiate nature of Board decisions – it was also noted that, in view of the requirements for representation of all of the Company's stakeholders on the Board, it would be difficult to reduce the number of Directors.

The Directors noted that the Board has a diverse range of experience and a balanced membership structure but identified the following areas for improvement: to have more representatives from large industrial groups who have an international vision, and for the Board to have a more international profile overall which would enrich the discussions among its members;

- other suggested areas for improvement were:
  - devoting more time to presenting and deepening Directors' knowledge about the Group's main technical and industrial challenges and the future technological and strategic developments in its industry, as well as about the Group's various businesses and their key projects, programs, products and executives, and
  - further optimizing the coordination of the work carried out by the Committees and the Board, notably in terms of the time given to the Committee Chairs for presenting their reports at Board meetings;
- lastly, as part of the self-assessment process, each Director was asked to identify the expertise and experience that they bring to the Board and what their individual contribution has been (or could be in the future) to specific topics that could enrich the work of the Board and its Committees.

#### 2016-2017 formal self-assessment

Feedback on the main conclusions (findings and areas for improvement) of the formal self-assessment on the operating procedures of the Board of Directors and its committees in 2016, was included on the agenda of the Board of Directors' meeting of March 23, 2017. This feedback centered on:

- a summary of the responses and comments in the questionnaire, completed and returned anonymously by the members of the Board of Directors. The questionnaire included:
  - a quantifiable section, with closed questions answered using ratings. These questions mainly dealt with the separation of the roles between the Chairman and Executive Management, the operating procedures of the Board of Directors and the duties and performance of the committees,
  - a qualitative section, encouraging Directors to make comments and suggest areas for improvement; and
- an update on action plans and progress made in respect to the main areas of improvement identified during the previous self-assessment.

Overall, the Directors rated the Board of Directors' operating procedures as very positive, and particularly expressed satisfaction with:

- the balance and allocation of the respective duties of the Chairman and the Chief Executive Officer;
- the direction and conduct of the Board of Directors;
- the operating procedures, organization and agenda of the Board of Directors' meetings; and
- the work of the Board of Directors' committees and the related reports addressed to the Board.

The Directors also noted in the self-assessment the high standard of the Board of Directors' preparation for strategic issues and decisions, the strategy seminars, and the quality of the related files and information, as well as the work and the reports of temporary special committees set up to analyze, deal with or monitor specific issues or projects.

The update on areas of improvement identified during the previous self-assessment highlighted the related action plans in place and progress made.

The areas for improvement suggested during the most recent self-assessment included continuing to:

- > encourage attendance and regular presentations on both operational and functional matters from Executive Committee members and Group management executives to the Board of Directors and its committees; and
- > prioritize and optimize the time devoted to strategic considerations and discussions and critical issues.

In addition, the work conducted in 2017 in relation to changes in the membership structure of the Board and its committees incorporated a self-assessment process and took into account the expected contribution of the Directors concerned (both incoming and outgoing).

### 2018 formal self-assessment

As the last formal assessment of the Board with input from an external consultancy firm was in 2014, the Board decided to use the services of an external consultancy firm again in 2018 in order to give it an outside view of the practices and operating procedures of other boards and to guarantee that Board members could express themselves freely, particularly when assessing the contribution of Directors.

This self-assessment procedure will be launched in the second half of 2018, thereby allowing:

- > the three new Directors appointed on June 15, 2017 to have completed a full year in office; and
- > the new Directors who are being put forward for appointment at the Annual General Meeting on May 25, 2018 (see section 8.2.1 of this Registration Document) in connection with the business combination with Zodiac Aerospace to participate after taking up office.

At its March 22, 2018 meeting, the Board devoted an agenda item to the operating procedures of the Board and its Committees. This agenda item resulted from a meeting held without any executive or in-house directors present.

## 6.4 APPLICATION OF THE AFEP-MEDEF CORPORATE GOVERNANCE CODE

Safran uses the AFEP-MEDEF Corporate Governance Code as its corporate governance framework (see section 6.1 above).

Certain recommendations of the Code, or guidelines adopted subsequently for its application, have not been implemented, the reasons for which are given in the following table.

| AFEP-MEDEF Code recommendations  | Safran practices – Reasons  |
|--|---|
| <p><b>Article 21. Termination of employment contract in the event of appointment as a corporate officer</b><br/>When an employee is appointed as a corporate officer, it is recommended that his or her employment contract with the Company or any other Group company should be terminated.<br/>This recommendation applies to the Chairman of the Board of Directors and the Chief Executive Officer of companies that have a Board of Directors.</p> | <p>Philippe Petitcolin's employment contract was suspended on April 23, 2015, when he was appointed Chief Executive Officer.<br/>Ross McInnes' employment contract was suspended for the duration of his term as Deputy Chief Executive Officer (i.e., from April 21, 2011 to April 23, 2015). This suspension has been extended for the duration of his term as Chairman of the Board of Directors.<br/>The Group has chosen to suspend, rather than terminate, employment contracts due to the fact that terminating an employment contract could deter Group employees from moving into top executive positions on account of the rights they could lose upon such termination (depending on their age and length of service with the Group).<br/>This is in line with the Group's policy of favoring internal promotion of talent wherever possible, which enables it to propose corporate officers' positions to its senior managers who have the highest-level of savoir-faire, share and relay the Group's culture and values and have an in-depth knowledge of its markets.</p>   |
| <p><b>Article 22. Requirement to hold shares</b><br/>The Board of Directors should set a minimum number of shares that corporate officers are required to hold as registered shares until the end of their term of office.</p>   | <p>In accordance with Article 11.1 of the Board's Internal Rules, this minimum shareholding requirement is considered satisfied when the corporate officer concerned holds units in corporate mutual funds that are invested in Safran shares, provided the number of units held in such funds represents at least 500 shares. Article 11.2 of the Internal Rules states that if stock options or performance shares are granted to corporate officers, they must keep a significant proportion of the vested shares in registered form until their duties as a corporate officer cease. The applicable proportion is set by the Board of Directors.<br/>The Chairman of the Board of Directors and the Chief Executive Officer were previously employees of the Group. Consequently, in their capacity as employees they acquired units – and/or invested their profit-sharing bonuses – in corporate mutual funds invested in Safran shares. In addition, some of them supplemented these investments by participating in the Safran Sharing 2014 offer (see sections 5.3.4 and 7.3.7.2 of the 2014 Registration Document).</p> |

## 6.5 DIRECTORS' INTERESTS IN THE COMPANY'S SHARE CAPITAL

### 6.5.1 Compulsory shareholdings

In accordance with Article 14.5 of the Company's bylaws, each Director – other than the representative of the French State and the Directors put forward by the French State in accordance with Articles 4 and 6 of *ordonnance* 2014-948 dated August 20, 2014, Directors representing employee shareholders and Directors representing employees – is required to own a certain number of Safran shares, in accordance with the terms and conditions set down in the Board of Directors' Internal Rules. Article 11.1 of the Board's Internal Rules states that this minimum number of shares corresponds to 500 and that the minimum shareholding

obligation can be met through units held in Group corporate mutual funds (FCPE) invested in Safran shares, provided that the number of units held is equivalent to at least 500 shares.

Article 14.8 of the bylaws and Article 11.1 of the Board's Internal Rules specify that each Director representing employee shareholders is required to hold – either individually or through a corporate mutual fund set up as part of the Group's employee share ownership plan – at least one share or a number of units in the fund equivalent to at least one share.

### 6.5.2 Code of Ethics

Safran has a Code of Ethics relating to share transactions and the prevention of insider trading, which was drawn up in compliance with the recommendations published by the French Financial Markets Authority (*Autorité des marchés financiers* – AMF) and was initially adopted by the Board of Directors on July 27, 2011. The Code – which is in question-and-answer form – sets out the obligations of Group employees and corporate officers and Directors, the specific measures taken by Safran to prevent insider trading, and the penalties for any failure to fulfill the stated obligations.

The Code also specifies the “blackout periods” (preceding the publication of annual and interim results and quarterly revenue figures) during which corporate officers and Directors and other insiders must refrain from carrying out transactions in Safran shares.

As well as respecting the obligations in the Code of Ethics, corporate officers and Directors and other senior managers are also required to comply with the additional rules set out in an addendum to the Code, which among other things prohibit

speculative trading in Safran shares and state the applicable disclosure requirements in the event that such officers or managers carry out any transactions in Safran shares.

The Code of Ethics and its addendum are regularly updated by the Board in order to take into account regulatory changes, with the latest update carried out on October 27, 2016 in order to factor in the new market abuse regulations that came into effect in 2016.

Each of Safran's corporate officers and Directors and other Group insiders individually receive a copy of the Code of Ethics and its addendum and are informed of the blackout periods that are determined in line with the annual financial calendar.

In order to provide information on the Code of Ethics and its addendum to all employees, an internal procedure based on these documents has been drawn up and posted on the Group's intranet, which is accessible to all employees in France and in most of the other countries where Safran operates. The blackout periods are appended to this procedure as they are set.

### 6.5.3 Transactions in the Company's shares carried out by Directors, corporate officers and other senior managers

In accordance with the applicable regulations, when the aggregate amount of transactions carried out by any Director, corporate officer or other senior manager exceeded €20,000 in 2017, the person concerned disclosed the corresponding transaction(s).

The transactions carried out in 2017 in Safran shares and related financial instruments by the Company's Directors, corporate officers and other senior managers and persons having close personal links with them, as defined in paragraphs a) to c) of Article L.621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), and of which the Company is aware, are as follows:

| Name            | Purchase of shares<br>(number of shares) | Sale of shares<br>(number of shares) | Purchase of units in Group corporate mutual funds invested in Safran shares <sup>(1)</sup><br>(number of shares corresponding to mutual fund units purchased) | Buybacks of units in Group corporate mutual funds invested in Safran shares<br>(number of shares corresponding to mutual fund units sold) |
|-----------------|--|--------------------------------------|---|---|
| Olivier Andries |  |                                      |   | 266   |
| Eric Dalbiès    |  |                                      |   | 22  |
| Bernard Delpit  |  |                                      |   | 145   |

(1) Investment of discretionary and statutory profit-share in the Group employee savings plan – Company top-up contributions – Automatic reinvestment in the plan of dividends attached to shares invested in the plan.

## **6.6 COMPENSATION POLICY FOR CORPORATE OFFICERS AND DIRECTORS AND COMPENSATION AND BENEFITS AWARDED**

### **6.6.1 Compensation policy for corporate officers**

This section constitutes the report on the principles and criteria used to determine, allocate and award the fixed, variable and exceptional components of the total compensation and benefits packages of corporate officers, as required under Article L.225-37-2 of the French Commercial Code.

In accordance with Article L.225-37-2 of the French Commercial Code (introduced by French Act no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and modernization of business practice, each year the shareholders are asked to give a forward-looking (*ex-ante*) vote on the principles and criteria used to determine, allocate and award the fixed, variable and exceptional components of the total compensation and benefits packages of corporate officers, which together constitute the compensation policy(ies) adopted by the Board of Directors (also hereinafter referred to as the "Policy(ies)").

Shareholder approval is required for any changes that may be made to the components of the Policy and each time a corporate officer's term of office is renewed.

At the Annual General Meeting of June 15, 2017, the Company held its first say-on-pay vote, when the shareholders were asked to vote on the Policy adopted by the Board of Directors. Accordingly, in the 13<sup>th</sup> and 14<sup>th</sup> resolutions of that Meeting the shareholders approved the Policy for the Chairman of the Board of Directors and the Chief Executive Officer, respectively.

The following are described in this report:

- the principles and rules for determining the compensation and benefits packages of corporate officers;
- the main changes to the Policies for the Chairman and the Chief Executive Officer as of 2018 compared with those previously presented to and approved by the Company's shareholders at the Annual General Meeting;
- the Policy concerning the Chairman of the Board of Directors; and
- the Policy concerning the Chief Executive Officer, which may be adapted and applied to any Deputy Chief Executive Officer(s);

as amended by the Board of Directors (see section 6.6.1.2) and which will be submitted to a shareholder vote at the Annual General Meeting of May 25, 2018.

#### **6.6.1.1 Principles and rules for determining the compensation and benefits of corporate officers**

In the interests of the Company as well as its shareholders, employees and other stakeholders, the Policies must be competitive in order to attract, motivate and retain the best profiles and talent (which may come from within or outside the Group) for key positions.

The Policies are determined by the Board of Directors and are reviewed annually based on recommendations issued by

the Appointments and Compensation Committee. The main principles applied are detailed below.

#### **Compliance**

The Policies are drawn up with reference to the AFEP-MEDEF Code, which recommends applying the principles of comprehensiveness, balance, comparability, consistency, transparency and proportionality.

#### **Comprehensiveness – Balance**

All components of compensation and benefits should be exhaustively analyzed on a component-by-component basis and an overall consistency analysis should then be performed to achieve the best balance between these components.

#### **Alignment of interests – Transparency**

Compensation and benefits packages need to take into account the necessity for companies to attract, motivate and retain talent but also the interests of shareholders and other stakeholders, particularly in relation to transparency and performance criteria.

#### **Proportionality, comparability and competitiveness**

Compensation levels should be set in line with the duties and responsibilities assigned to the officer concerned as well as the work performed and the results achieved.

Market practices should also be taken into account.

Safran regularly carries out benchmark surveys, assisted by consulting firms, in order to measure the levels and structures of its compensation packages compared with panels of peer companies selected for their size and international scope. The surveys are performed both for the French market, in which case the peer companies comprise large industrial groups, and for the international market (the Aerospace, Technology and Defense sectors). The composition of these panels is regularly reviewed by the Committee responsible for compensation and may change to factor in changes in the structure or operations of the Group or of the peer companies concerned.

The benchmark surveys are used as the basis for analyzing, and making any changes to, the components of the compensation and benefits of each corporate officer.

#### **Governance**

The Appointments and Compensation Committee verifies that all of the principles described above are properly applied, both for the purpose of the Committee's work in general and for the recommendations it makes to the Board in relation to drawing up the Policies and implementing them for setting the amounts or values of compensation and benefits packages.

### 6.6.1.2 Main changes to the policies for the Chairman and the Chief Executive Officer as of 2018 compared with those approved by the Company's shareholders at the June 15, 2017 Annual General Meeting

The changes made by the Board of Directors as of 2018 to the Policies approved by the Company's shareholders at the Annual General Meeting of June 15, 2017 are as follows:

#### > Changes concerning the Policy applicable to the Chairman

- Attendance fees:

The Chairman is no longer entitled to be allocated or receive attendance fees.

Irrespective of whether the role of Chairman is separate from that of Chief Executive Officer, the Chairman is not awarded attendance fees nor is he included in the allocation of such fees as carried out in accordance with the rules set by the Board of Directors and described in the Board's Internal Rules.

This change was decided concomitantly with the change in the Chairman's fixed compensation (see section 6.6.2.1 below).

#### > Changes concerning the Policy applicable to the Chief Executive Officer

- Annual variable compensation:

The Chief Executive Officer's target variable compensation - i.e., the amount payable if the actual achievement rate for all of his financial and individual performance objectives amounts to 100% - now corresponds to 100% of his annual fixed compensation (versus 117% previously).

If the Chief Executive Officer outperforms his objectives, his maximum variable compensation (the "cap") - i.e., the amount payable if the achievement rate for all of the financial and individual objectives is 130% - will now represent 150% of his annual fixed compensation (versus 152% previously).

- Long-term incentive plan (performance share grants) - Cap:

The performance shares granted to the Chief Executive Officer may not represent more than the equivalent of 120% (versus 140% previously) of his annual fixed compensation, based on the accounting value, in accordance with IFRS 2, estimated prior to the grant. Additional information has been included on performance conditions and the associated parameters, in particular for grants made in 2018.

- Attendance fees:

If he is a Director, the Chief Executive Officer will no longer be entitled to be allocated or receive attendance fees.

He will therefore no longer be awarded attendance fees nor will he be included in the allocation of such fees as carried out in accordance with the rules set by the Board of Directors and described in the Board's Internal Rules.

These changes were decided concomitantly with the change in the Chief Executive Officer's fixed compensation (see section 6.6.2.2 below).

#### > Changes concerning exceptional compensation

The Board of Directors has decided against including an exceptional component in the compensation policies of the Chairman of the Board of Directors and the Chief Executive Officer which will be submitted to the shareholders' vote at the Annual General Meeting of May 25, 2018.

### 6.6.1.3 Compensation policy for the Chairman of the Board of Directors

At the date of this Registration Document, this policy solely concerns Ross McInnes in his role as Chairman of the Board of Directors.

#### Compensation package structure

The structure of the compensation package of the Chairman of the Board of Directors (who is a non-executive Director) comprises, on a recurring basis, annual fixed compensation which is paid in cash. He is not entitled to any attendance fees.

The Chairman of the Board of Directors does not receive any annual or multi-annual variable compensation and he is not a beneficiary of any long-term compensation plans (performance share plans).

The compensation and benefits awarded, or awardable, to the Chairman of the Board of Directors are described below.

#### Annual fixed compensation

The Chairman of the Board's annual fixed compensation takes into account the responsibilities required for this type of corporate office as well as the individual qualities of the holder of the position and the benchmark surveys carried out by the Company.

Consequently it is set based on the following:

- > the Chairman of the Board's roles and responsibilities, which are provided for by law, Safran's bylaws and the Board of Directors' Internal Rules, and are aimed at ensuring that the Company is governed effectively and that its various governing bodies (Board of Directors and the Board Committees and Shareholders' Meetings) operate properly;
- > any specific assignments allocated by the Board of Directors and which the Chairman of the Board carries out in cooperation with Executive Management;
- > the Chairman's individual skills, experience, expertise and background;
- > benchmark surveys related to compensation payable for comparable duties and companies.

The Board of Directors has decided that, as a general rule, the Chairman of the Board's annual fixed compensation may only be revised on the expiration of his term of office.

However, as an exception to this rule, his compensation may be revised during his term and before his re-appointment if the scope of his duties as Chairman of the Board changes significantly - which could be related to changes within the Company itself - or if a major difference is identified compared with market practices. Any adjustments made to his annual fixed compensation as a result of any specific circumstances would be publicly disclosed.

Information on the current Chairman of the Board of Directors' fixed compensation for 2017 and the changes to this compensation for 2018 is set out in section 6.6.2.1 below.

#### Attendance fees

Irrespective of whether the role of Chairman is separate from that of Chief Executive Officer, the Chairman is not awarded attendance fees nor is he included in the allocation of such fees as carried out in accordance with the rules set by the Board of Directors and described in the Board's Internal Rules (see section 6.6.3.2).

### **No annual variable compensation, multi-year variable compensation or long-term incentive plan**

In line with his position as a non-executive Director, the Chairman of the Board of Directors does not receive any annual short-term variable compensation (cash-settled) or any multi-year variable compensation, and neither is he a beneficiary of any long-term compensation plans (performance share plans).

### **Exceptional compensation**

The Board of Directors has decided against including an exceptional component in the compensation policy that will be submitted to the shareholders' vote at the 2018 Annual General Meeting.

### **Benefits-in-kind**

The Chairman of the Board of Directors has the use of a company car.

He is also entitled to be reimbursed for expenses incurred in connection with his role as Chairman and he is provided with the material resources required for performing his duties.

### **Other benefits subject to the procedure for related-party commitments**

In accordance with the applicable law, the benefits described below for which the Chairman of the Board of Directors is currently eligible – and for which he was also eligible prior to his appointment as Chairman – were approved by shareholders in an Annual General Meeting by way of the special vote required for related-party commitments.

For information purposes, Ross McInnes' employment contract with Safran has been suspended since April 21, 2011 rather than being terminated (see section 6.4). The Board opted for this solution as it enables in-house executives who have extensive experience (often associated with their length of service with the Group) to move into corporate officer positions without losing their existing benefit entitlements that they have accrued over time.

### **Supplementary pension system**

Safran's policy is to align the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff so that when in-house executives are promoted to corporate officer positions they do not lose their existing benefit entitlements that they have accrued over time.

No specific supplementary pension system has been put in place for the Chairman of the Board of Directors.

However, the Chairman may be a beneficiary of the supplementary pension plans set up in France for all Group managerial-grade staff, subject to the same terms and conditions as the other plan members, if the Board of Directors:

- > authorizes the Chairman to join the plans; or
- > authorizes him to continue to be a beneficiary if he was already a beneficiary prior to his appointment as Chairman.

Any such authorization must be submitted to a shareholder vote at an Annual General Meeting in accordance with the procedure applicable for related-party commitments (Article L.225-42-1 of the French Commercial Code).

Information on the supplementary pension plans of which the Chairman was a beneficiary in 2017 and the changes to these plans for 2018 are set out in section 6.6.2.1 below.

### **Personal risk insurance plan**

The Chairman of the Board of Directors is a beneficiary of the personal risk insurance plan set up in France for all Group managerial-grade staff, subject to the same terms and conditions as the other plan members.

Information on the personal risk insurance plan of which the Chairman was a member in 2017 is set out in section 6.6.2.1 of this Registration Document.

### **Indemnities or benefits payable for termination of office, change in duties, or non-compete agreements**

The Chairman of the Board of Directors is not eligible for any indemnities or benefits if his office is terminated or if there is a change in his duties. Similarly, he is not entitled to any non-compete indemnity.

### **6.6.1.4 Compensation policy for the Chief Executive Officer**

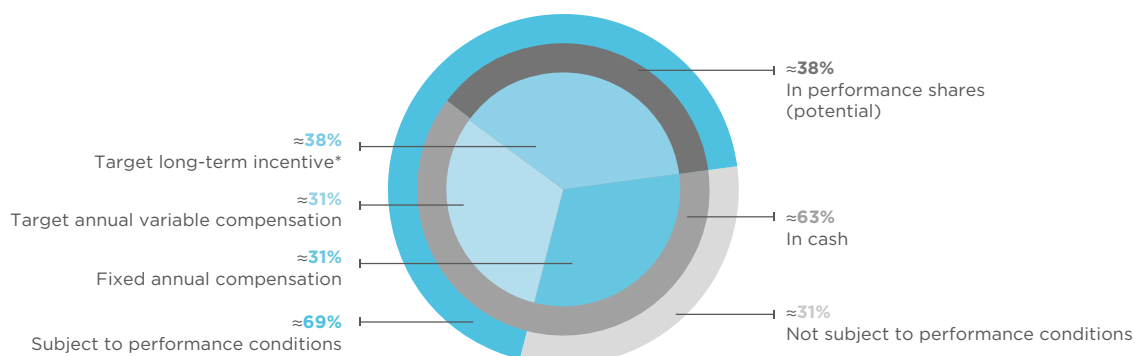
At the date of this Registration Document, this policy solely concerns Philippe Petitcolin in his role as Safran's Chief Executive Officer.

#### **Compensation package structure**

The structure of the Chief Executive Officer's compensation package comprises, on a recurring basis, annual fixed compensation (cash-settled), as well as annual variable compensation and performance shares awarded under a long-term incentive plan. This structure reflects the policy implemented in 2017, which is applied to all of the Company's senior managers as adapted to each individual.

The underlying aim is to closely align the Company's interests with those of its shareholders by achieving a balance between short-term and long-term performance, as assessed by the Board of Directors. Compensation subject to performance conditions accounts for the largest proportion of the Chief Executive Officer's overall compensation package.

## Presentation of the Chief Executive Officer's recurring compensation structure



\* Value at grant date measured in accordance with IFRS

The compensation and benefits awarded to the Chief Executive Officer or for which he is eligible are detailed below.

### Annual fixed compensation

The Chief Executive Officer's annual fixed compensation takes into account the responsibilities required for this type of corporate office as well as the individual qualities of the holder of the position and the benchmark surveys carried out by the Company.

Consequently it is set based on the following:

- the level and complexity of the assignments and responsibilities related to the position, in view of the fact that the Chief Executive Officer has the broadest powers to act in all circumstances in the Company's name and to represent the Company in its dealings with third parties;
- the Chief Executive Officer's individual skills, experience, expertise and background;
- benchmark surveys related to compensation payable for comparable duties and companies.

The Board of Directors has decided that, as a general rule, the Chief Executive Officer's annual fixed compensation may only be revised on the expiration of his term of office.

However, as an exception to this rule, his compensation may be revised during his term and before his re-appointment if the scope of his duties as Chief Executive Officer changes significantly – which could be related to changes within the Company itself – or if a major difference is identified compared with market practices. Any adjustments made to his annual fixed compensation as a result of any specific circumstances would be publicly disclosed.

The Chief Executive Officer's annual fixed compensation is used as a reference for determining the target and maximum percentages of his annual variable compensation and the valuation of his compensation under the long-term incentive plan.

Information on the current Chief Executive Officer's fixed compensation for 2017 and the changes to this compensation for 2018 is set out in section 6.6.2.2 of this Registration Document.

### Annual variable compensation

#### Objectives of and principles used to determine the Chief Executive Officer's annual variable compensation

The principle of annual variable compensation is used to incentivize the Chief Executive Officer to achieve the annual performance targets that are set for him by the Board of Directors in line with Safran's overall business strategy.

The potential amount of this variable compensation is determined taking into account market practices and corresponds to a percentage of his fixed compensation, as recommended in the AFEP-MEDEF Code.

It is contingent on achieving pre-defined performance levels based on a number of objectives which are collective and individual, financial and non-financial and quantitative and qualitative. The objectives relate to key indicators that reflect the Group's overall performance as well as the contribution expected from the Chief Executive Officer, in line with Safran's overall business strategy.

During the first quarter of each year, acting on the recommendations of the Committee responsible for compensation, the Board of Directors either confirms or sets these objectives as well as their weighting and the applicable performance levels, i.e.:

- the lowest performance level, under which no variable compensation is paid;
- the target level, corresponding to when an objective is reached; and
- the maximum level applicable if an objective is exceeded.

The quantitative financial performance objectives – which are based on financial indicators – are set precisely, by reference to the budget approved in advance by the Board of Directors, and are subject to the performance thresholds set out above.

The achievement rates for these objectives are disclosed once the related performance levels have been assessed.

#### Detailed description of the Chief Executive Officer's annual variable compensation

The Board of Directors has decided that the Chief Executive Officer's variable compensation will be based on the following:

##### Target annual variable compensation and maximum amount ("Cap")

The Chief Executive Officer's "target" variable compensation – i.e., the amount payable if the achievement rate is 100% for all of the financial and individual performance objectives set out below – corresponds to 100% of his annual fixed compensation (the "Target"), compared to 117% in the policy approved by the shareholders at the Annual General Meeting of June 15, 2017.

If the Chief Executive Officer outperforms his objectives, his "maximum" variable compensation (the "Cap") – i.e., the amount payable if the achievement rate is 130% for all of the financial and individual performance objectives set out below – will now represent a maximum of 150% of his annual fixed compensation versus 152% under the policy approved by shareholders at the Annual General Meeting of June 15, 2017.

### Structure

The Chief Executive Officer's annual variable compensation is determined as follows:

- two-thirds is contingent on quantitative financial performance objectives based on recurring operating income (ROI)<sup>(1)(2)</sup>, free cash flow (FCF)<sup>(3)</sup> and working capital, calculated by reference to operating assets (Inventories)<sup>(4)</sup> and unpaid receivables (Unpaid Receivables)<sup>(5)</sup>;
- one-third will be contingent on quantitative and qualitative individual objectives.

This annual variable compensation structure is also used for the Group's senior managers, adapted to each individual.

### Quantitative financial performance objectives

The following parameters apply:

- Weightings:
  - ROI: 60%,
  - FCF: 30%, and
  - working capital: 10%, with 5% based on Inventories and 5% based on Doubtful Debts;
- Triggering thresholds (Thresholds) based on the objectives in the annual budget (Objective(s)):
  - 80% of the ROI Objective,
  - 65% of the FCF Objective,
  - 135% of each of the working capital Objectives, i.e., Inventories and Doubtful Debts (if the level is higher than 135% for either of these Objectives, no variable compensation will be due as anything over 135% for these two metrics corresponds to underperformance);
- Calculation methods for the Thresholds and Caps:
  - the Threshold for each performance metric triggers the entitlement to variable compensation (starting at 0 from the Threshold to 100% if the budget Objective is achieved),
  - if an Objective is exceeded, the variable compensation allocated in respect of that Objective will be increased beyond 100% in proportion to the extent to which the Objective is exceeded (but capped at a maximum of 130% irrespective of the extent to which the Objective is exceeded). Consequently:
    - if 130% (or more) of the ROI Objective is achieved, the Cap for this metric will be payable,
    - if 130% (or more) of the FCF Objective is achieved, the Cap for this metric will be payable,
    - if 70% (or less) of each of the working capital Objectives is achieved (Inventories and Doubtful Debts), the Cap for each of these metrics will be payable.

Based on these indicators, an overall percentage achievement level of the financial objectives is obtained which is then applied for determining the amount due.

The applicable indicators are set by the Board of Directors in the first quarter of the year concerned and they may be changed from one year to the next.

### Individual objectives (qualitative and quantitative)

These objectives are set by the Board of Directors and relate to strategic, business and managerial areas specific to the coming year. For example, they can be based on the implementation of strategic decisions validated by the Board of Directors, major industrial and commercial developments and programs, organizational and management measures or initiatives that factor in the Group's CSR and sustainable development policy.

These objectives are not related to routine tasks but to specific actions for which the Board of Directors expects a particular level of performance.

When setting these individual objectives, the Board is careful to factor in the Group's CSR and sustainable development targets and to ensure that some of the objectives are quantifiable, bearing in mind that two-thirds of the Chief Executive Officer's annual variable compensation is based on the achievement of quantitative objectives relating to financial performance.

The Chief Executive Officer's individual objectives for 2018 are set out in section 6.6.2.2 of this Registration Document.

### Payment condition

In accordance with the law, as from the amount due for 2017 and payable in 2018, the payment of the Chief Executive Officer's annual variable compensation is subject to approval by the shareholders in an Ordinary General Meeting.

### Appointment or termination of duties

If the Chief Executive Officer is appointed or his duties are terminated during the course of a year, the above principles will apply on a proportionate basis for the period during which he performs his duties. However, if an appointment takes place during the second half of the year, the assessment of the Chief Executive Officer's performance will be carried out by the Board of Directors on a discretionary basis, on the recommendation of the Committee responsible for compensation.

### Long-term incentive plan (performance share grants)

#### Objective

The Board of Directors considers that the long-term incentive system – which also applies to other key positions within the Company – is particularly suited to the position of Chief Executive Officer in view of the direct contribution expected from him to the Group's long-term performance. In addition, the system is based on performance share grants which strengthen the motivation and teamwork of beneficiaries and foster their loyalty, while at the same time aligning their interests with those of the Company and its shareholders. These share grants are also in line with the Board's strategy of linking the incentives of senior managers to Safran's share performance – with the inherent risks and rewards that this involves – in order to encourage long-term reasoning in their actions.

The Board of Directors may only grant performance shares if it has been given the necessary authorizations by way of a two-thirds majority vote of shareholders in an Extraordinary General Meeting.

(1) Adjusted recurring operating income (see section 2.1.2 of this Registration Document).

(2) Operating income before capital gains or losses on disposals/impact of changes in control, impairment charges, transaction and integration costs and other items.

(3) Free cash flow (see section 2.2.3 of this Registration Document) is equal to cash flow from operating activities less changes in working capital and acquisitions of property, plant and equipment and intangible assets.

(4) Inventories and work in progress, as described in section 3.1, Note 1.n of this Registration Document and broken down in section 3.1, Note 14.

(5) Receivables unpaid at their due date, as measured at the end of the reference period.



## Detailed description of performance share grants

Performance share grants made to the Chief Executive Officer are subject to the following principles and criteria:

### Cap

The number of performance shares granted to the Chief Executive Officer may not:

- > represent more than the equivalent of 120% of his annual fixed compensation, based on the accounting value, in accordance with IFRS 2<sup>(1)</sup>, estimated prior to the grant, compared to 140% in the policy approved by the shareholders at the General Meeting of June 15, 2017;
- > exceed 5% of the total performance shares making up each grant. In addition, the resolutions submitted to shareholders in an Extraordinary General Meeting for the purpose of authorizing such grants will set a maximum percentage of the Company's capital that the performance shares may represent.

### Performance conditions

Performance shares granted to the Chief Executive Officer will only vest if the relevant internal and external performance conditions are met. The achievement of these conditions will be assessed over three full consecutive fiscal years, including the year in which the performance shares are granted.

### Standard conditions

The **two "standard" internal performance conditions** count for 70% of the total vested shares and are based on:

- > ROI, for 50%;
- > FCF, for 50%;
- > the achievement levels for these conditions are measured by reference to the average of the targets for ROI and FCF set for the fiscal year in which the grant takes place and for the following two fiscal years, as contained in the most recent medium-term plan (MTP) approved by the Board of Directors before the grant date. The following achievement levels have been set for these conditions:

- lowest achievement level: if 80% of the MTP target is achieved, 40% of the shares contingent on that target will vest,
- target achievement level: if 100% of the MTP target is achieved, 80% of the shares contingent on that target will vest,
- highest achievement level (cap): if 125% of the MTP target is achieved, 100% of the shares contingent on that target will vest,
- between the lowest achievement level and the target level, and between the target level and the highest achievement level, the number of shares that will vest will vary in linear fashion. Below the lowest achievement level, none of the shares contingent on the internal performance condition concerned will vest.

The **external performance condition** counts for 30% of the total vested shares and is based on Safran's total shareholder return (TSR) performance as measured relative to a panel of companies or reference indices. The composition of this panel may change in order to factor in changes in the structure or operations of the Group or of the companies and indices concerned.

The following achievement levels have been set for this condition:

- > lowest achievement level: if Safran's TSR is equal to that of the peer companies, 40% of the shares contingent on the external performance condition will vest;

- > target achievement level: if Safran's TSR is 8 points higher than that of the peer companies, 80% of the shares contingent on the external performance condition will vest;
- > highest achievement level: if Safran's TSR is 12 points higher than that of the peer companies, 100% of the shares contingent on the external performance condition will vest;
- > between the lowest achievement level and the target level, and between the target level and the highest achievement level, the number of shares that will vest will vary in linear fashion. Below the lowest achievement level, none of the shares contingent on the external performance condition will vest.

### Specific internal conditions applicable to 2018 grants in addition to the "standard" performance conditions set out above

For grants made in 2018, the reference medium-term plan does not yet include the Zodiac Aerospace scope. To incorporate performance targets related to the new scope for beneficiaries including the Chief Executive Officer directly or specifically involved in its integration in the Group, additional internal conditions are specified (see below).

"Standard" internal performance conditions now count for 45% of the vested shares (versus 70% previously), while these additional conditions count for 25%.

The two additional internal performance conditions are based on:

- > adjusted recurring operating income for the Zodiac Aerospace scope (adjusted for currency effects and based on Safran's definition of adjusted recurring operating income), which would count for 10%;
- > the amount of synergies unlocked as a result of Zodiac Aerospace's integration at end-2020, which would count for 15%.

The achievement levels for these conditions will be measured by reference to the business plan used by Safran for the Zodiac Aerospace acquisition (data for 2018 to 2020, reconstituted on a calendar year basis and adjusted for currency effects), as indicated at the Annual General Meeting held on June 15, 2017. The levels will be as follows:

- > lowest achievement level: if 80% of the business plan target were achieved, 40% of the shares contingent on that target would vest;
- > target achievement level: if 100% of the business plan target is achieved, 100% of the shares contingent on that target would vest;
- > between the lowest achievement level and the target level, the shares would vest on a linear basis. Below the lowest achievement level, none of the shares contingent on the internal performance condition concerned would vest.

These additional performance conditions do not affect the cap on the value of grants to be made as defined above.

After the 2018 grant, in addition to the portion attributed to the "standard" performance conditions, the Board of Directors may, at its discretion, maintain or add demanding, quantifiable additional performance conditions for which it would define the parameters, to take into account the Group's medium-term priorities and challenges. In such a case, the additional performance conditions and their parameters would be disclosed.

Under the rules of the performance share plan, the shares will only vest if the beneficiary still forms part of the Group on the vesting date, apart from in a limited number of cases (death, disability, retirement of the beneficiary or a specific decision by the Board of Directors).

(1) See section 3.1, Note 1.q of this Registration Document.

## 6 CORPORATE GOVERNANCE

### Compensation policy for corporate officers and Directors and compensation and benefits awarded

#### Vesting and lock-up periods

The shares granted to the Chief Executive Officer are subject to a vesting period set by the Board of Directors, which may not be less than three years.

In addition, any shares granted to the Chief Executive Officer will be subject to a lock-up period of at least one year following their vesting date.

#### Other conditions

The Chief Executive Officer,

➤ is required to hold in registered form a proportion of his vested shares, as set by the Board of Directors, until his term of office as Chief Executive Officer ends.

The Board has decided that following the lock-up period and until his term of office ends, the Chief Executive Officer will be required to hold in registered form 40% of the vested performance shares granted to him under performance share plans, until the number of shares he holds represents the equivalent of one year of his most recent annual fixed compensation.

➤ must give a formal undertaking to refrain from using instruments to hedge the risks related to these shares until after the end of the lock-up period.

For information purposes, information on performance share grants made to the Chief Executive Officer during the year is provided in section 6.6.2.2.

#### Multi-year variable compensation

The Board of Directors has decided not to put in place a multi-year variable compensation plan as it considers that share-based payments such as performance share grants are more in line with shareholders' interests (see the long-term incentive plan above).

#### Exceptional compensation

The Board of Directors has decided against including an exceptional component in the compensation policy that will be submitted to the shareholders' vote at the 2018 Annual General Meeting.

#### Attendance fees

If he is a Director, the Chief Executive Officer will not be awarded any attendance fees nor will he be included in the allocation of such fees as carried out in accordance with the rules set by the Board of Directors and described in the Board's internal rules (see section 6.6.3.2).

#### Benefits-in-kind

The Chief Executive Officer has the use of a company car.

He is also entitled to be reimbursed for expenses incurred in connection with his role as Chief Executive Officer and he is provided with the material resources required for performing his duties.

#### Other benefits subject to the procedure for related-party commitments

In accordance with the applicable law, the benefits described below for which the Chief Executive Officer is currently eligible – and for which he was eligible prior to his appointment as Chief Executive Officer – were approved by shareholders in a General Meeting by way of the special vote required for related-party commitments.

For information purposes, Philippe Petitcolin's employment contract with Safran has been suspended since April 23, 2015 rather than being terminated (see section 6.4). The Board opted for this solution as it enables in-house executives who have extensive experience (often associated with their length of service with the Group) to move into corporate officer positions without losing their existing benefit entitlements that they have accrued over time.

#### Supplementary pension system

Safran's policy is to align the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff so that when in-house executives are promoted to corporate officer positions they do not lose their existing benefit entitlements that they have accrued over time.

No specific supplementary pension system has been put in place for the Chief Executive Officer.

However, the Chief Executive Officer may be a beneficiary of the supplementary pension plans set up in France for all Group managerial-grade staff, subject to the same terms and conditions as the other plan members, if the Board of Directors:

- authorizes the Chief Executive Officer to join the plans; or
- authorizes him to continue to be a beneficiary if he was already a beneficiary prior to his appointment as Chief Executive Officer.

Any such authorization must be submitted to a shareholder vote at an Annual General Meeting for approval in accordance with the procedure applicable for related-party commitments (Article L.225-42-1 of the French Commercial Code).

Information on the supplementary pension plans of which the Chief Executive Officer was a beneficiary in 2017 and the changes to these plans for 2018 are set out in section 6.6.2.2 of this Registration Document.

#### Personal risk insurance plan

The Chief Executive Officer is a beneficiary of the personal risk insurance plan set up in France for all Group managerial-grade staff, subject to the same terms and conditions as the other plan members.

Information on the personal risk insurance plan of which the Chief Executive Officer was a beneficiary in 2017 is set out in section 6.6.2.2 of this Registration Document.

#### Indemnities or benefits payable for termination of office, change in duties, or non-compete agreements

The Chief Executive Officer is not eligible for any indemnities or benefits if his office is terminated or if there is a change in his duties. Similarly, he is not entitled to any non-compete indemnity.

#### Adaptation of the policy for Deputy Chief Executive Officers

If the Company appoints any Deputy Chief Executive Officers, the compensation structure, principles and criteria set out in the "compensation and benefits" policy for the Chief Executive Officer would apply to them. The Board of Directors would then adapt this policy in line with the specific situation of the Deputy Chief Executive Officer concerned in order to set the objectives, performance levels, indicators, and structure of their compensation packages and the maximum that their variable compensation may represent as a proportion of their annual fixed compensation (it being specified that this proportion and the amount of their fixed annual compensation may not be higher than those set for the Chief Executive Officer).

## 6.6.2 Compensation and benefits of corporate officers for 2017 (and components of compensation and benefits for 2018 that have already been set)

The following section sets out the compensation and benefits of the Chairman of the Board of Directors and the Chief Executive Officer for 2017, as well as the components of their compensation and benefits for 2018 that had already been set by the Board of Directors at the date of this Registration Document.

Payment of the variable and exceptional components of the corporate officers' compensation for 2017 is subject to shareholder approval at the Annual General Meeting of May 25, 2018.

### 6.6.2.1 Compensation and benefits of the Chairman of the Board of Directors for 2017 (and components of compensation and benefits for 2018 that have already been set)

In his role as Chairman of the Board of Directors, in 2017 Ross McInnes received a fixed amount of annual compensation and attendance fees. He does not receive any variable compensation. Ross McInnes continued to be a beneficiary of the Group's personal risk insurance plan and supplementary pension plan, subject to the same terms and conditions as the other plan members. In addition, he had the use of a company car as a benefit-in-kind.

The structure of Ross McInnes' compensation package for 2017 is the same as for 2016. It is described in section 6.6.1.1 of the 2016 Registration Document and was approved by the shareholders at the Annual General Meeting of June 15, 2017.

The compensation and benefits of the Chairman of the Board of Directors are summarized in the tables in section 6.6.2.3 below.

#### Fixed compensation for 2017 and 2018

At its meeting on February 23, 2017, the Board decided to keep the Chairman of the Board's gross annual fixed compensation at €350,000 for 2017, unchanged since 2015.

At its meeting on February 26, 2018, acting on the recommendation of the Appointments and Compensation Committee, the Board decided to raise Ross McInnes' fixed annual compensation to €450,000 for 2018, which is the first increase since he became Chairman in 2015.

This decision to increase the Chairman's fixed compensation was taken concomitantly with the Board's decision to change the compensation policy applicable to the Chairman by removing his entitlement to attendance fees (see sections 6.6.1.2 and 6.6.1.3).

In reaching its decision to increase the Chairman's fixed compensation, the Board of Directors first and foremost took into account his commitment to implementing an exacting and high-quality governance system within the scope of a separation of the roles of Chairman and Chief Executive Officer, as well as the additional tasks and responsibilities assigned to him by the Board of Directors (see section 6.1.2) and those resulting from the Zodiac Aerospace business combination. The Board also drew on a peer group analysis to assess the competitiveness of his compensation package compared with that of corporate officers in comparable companies, which revealed that Ross McInnes' package was significantly lower than the median for these other companies.

#### 2017 attendance fees

Until December 31, 2017 the Chairman received attendance fees based on the allocation rules defined in the Board of Directors' Internal Rules (see section 6.6.3.1). These allocation rules provided for a higher amount of variable fees per meeting for the Chairman than for the other Board members.

Ross McInnes' attendance fees for 2017, as approved by the Board on February 26, 2018, amounted to €73,513.88 (gross).

#### Personal risk insurance plan

When Ross McInnes was appointed as Chairman of the Board of Directors on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran's personal risk insurance plan set up in France for all Group managerial-grade staff (subject to the same terms and conditions as the other plan members). Mr. McInnes was previously a beneficiary of this plan in his former capacity as a Company employee, then as Deputy Chief Executive Officer following a decision by the Board of Directors.

This commitment was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.

The contributions to the plan are based on the compensation that Ross McInnes receives for his role as Chairman of the Board of Directors. The corresponding expense recorded in the 2017 financial statements amounted to €6,015.

#### Supplementary pension system in 2017

No specific supplementary pension plan was in place for the Chairman of the Board of Directors in 2017.

##### "Article 83" defined contribution plan (Article 83 Core Plan)

When Ross McInnes was appointed as Chairman of the Board of Directors on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran's defined contribution supplementary pension plan set up in France pursuant to Article 83 of the French General Tax Code for all Group managerial-grade staff (the "Article 83 Core Plan"), subject to the same terms and conditions as the other plan members. Mr. McInnes was previously a beneficiary of this plan in his former capacity as a Company employee, then as Deputy Chief Executive Officer following a decision by the Board of Directors.

The commitment given by the Company to enable Mr. McInnes to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.

The contributions to the plan are based on the compensation that Ross McInnes receives for his role as Chairman of the Board of Directors. The expense recorded in the 2017 financial statements relating to the contributions paid under the Article 83 Core Plan for Ross McInnes amounted to €10,671.

At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annuity that could be paid to Ross McInnes under this plan was €6,062.

(1) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

New supplementary pension system set up in 2017

In 2017, the Board decided to change the Company's supplementary pension system for the reasons explained in section 6.6.1.1 of the 2016 Registration Document, and on March 23, 2017 it authorized the Chairman of the Board of Directors to become a beneficiary under this new system.

This new system - which is described in section 6.6.2.1 of the 2016 Registration Document and took effect on January 1, 2017 - comprised three stages:

**1. Closing the defined benefit plan (Article 39) to new entrants and freezing existing beneficiaries' entitlements as from January 1, 2017**

When Ross McInnes was appointed as Chairman of the Board of Directors on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran's defined benefit supplementary pension plan set up in France pursuant to Article 39<sup>(1)</sup> of the French General Tax Code for all Group managerial-grade staff (the "Article 39 Plan"), subject to the same terms and conditions as the other plan members. Mr. McInnes was previously a beneficiary of the plan in his former capacity as Deputy Chief Executive Officer. The commitment given by the Company to enable Mr. McInnes to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016.

This plan is now closed to new entrants and the benefit entitlements have been frozen, including for the Chairman. However he could still be eligible for the pension entitlement he had accrued at December 31, 2016 provided the applicable terms and conditions are met, it being specified that:

- the reference compensation used to calculate the conditional entitlements will be calculated based on the average of beneficiaries' gross fixed and variable compensation for the years 2014 to 2016 (revalued annually using the actuarial assumptions applied to calculate retirement benefit provisions);
- the seniority taken into account for the plan - which represents an additional 1.8% of the reference compensation per year of service, capped at 18% - will have a cut-off date of December 31, 2016 and no additional conditional entitlements will be accrued under the plan for any service after that date. Consequently the Chairman's seniority taken into account will correspond to 14%;
- the overall replacement rate may not exceed 35% of the reference compensation;
- the supplementary pension annuity is capped at three times the annual social security ceiling (PASS) in force at the date that the general social security retirement pension is paid (i.e., an annuity capped at €119,196, based on the 2018 value of the PASS, i.e., €39,732);
- the payment of this supplementary pension annuity is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

During the phase when the pension benefits accrue, the taxes and social security contributions payable by Safran correspond to 24% of the premiums paid to the insurer in respect of the Chairman under this closed defined benefit plan.

At December 31, 2017, the estimated theoretical amount<sup>(2)</sup> of the annuity that could be paid to the Chairman corresponded to the cap set in the plan, i.e., €119,196 (corresponding to three times the annual social security ceiling (PASS), based on the 2018 value of the PASS).

To compensate for the closure of this defined benefit plan, new plans were set up for senior managers in France, effective from January 1, 2017:

**2. Mandatory collective defined contribution plan (Article 83 Additional Plan)**

This plan was set up for all managerial-grade staff whose gross annual compensation for the calendar year preceding the assessment date (Y-1) was equal to or higher than four times the social security ceiling (PASS) for Y-1. The contributions were based on Tranches A, B and C of compensation as defined for the calculation of statutory top-up pensions (ARRCO-AGIRC plans).

Entitlements under the plan accrued in return for the payment of monthly contributions representing 6% of Tranche A, 6% of Tranche B and 6% of Tranche C. All of these monthly payments were borne in full by the Company (in addition to the 2% contribution already paid by the Company under the existing Article 83 Core Plan).

The taxes and social security contributions on the monthly payments were also borne in full by the Company.

For the Chairman, the contributions to the plan are based on the compensation that he receives for his role as Chairman of the Board of Directors. The corresponding expense recorded in the 2017 financial statements for Ross McInnes amounted to €18,829.

**3. Voluntary collective defined contribution plan (Article 82 Plan)**

Unlike for the Company's defined benefit plan (Article 39), this plan does not provide a guaranteed level of retirement benefits. It is a voluntary plan which eligible beneficiaries can decide whether or not to sign up to.

Eligible beneficiaries correspond to top executives (*hors statut*) whose reference compensation (fixed compensation and annual bonus) for the calendar year preceding the assessment date (Y-1) is equal to or higher than seven times the social security ceiling (PASS) for Y-1.

The reference compensation for Y-1 is used to calculate the contributions to the plan. This reference compensation corresponds to the beneficiary's full-time basic fixed compensation plus the short-term bonus for the year concerned and excludes any other components of compensation.

For the Chairman, the contributions to the plan are based on the compensation that he receives for his role as Chairman of the Board of Directors.

In order for entitlements to accrue under the plan, the Company is required to:

- pay monthly contributions to an insurer, the rate of which is set based on the beneficiary's reference compensation for year Y-1 (Insurer Contribution) and which may represent up to 12.735% of that reference compensation; and
- pay a cash amount to the beneficiary corresponding to the Insurer Contribution (Additional Payment) so that the beneficiary can pay the applicable tax (the plan provides for up-front taxation so that the capital accrued and received on the beneficiaries' retirement is net of tax and social security contributions).

The above payments are borne in full by the Company and are subject to social security contributions in the same way as salaries.

The Insurer Contribution and Additional Payment for the Chairman for 2017 totaled €57,690.34 each (i.e., €115,380.68 altogether).

Following the shareholders' vote at the June 15, 2017 Annual General Meeting rejecting the resolution concerning this commitment, on July 27, 2017 the Board of Directors nevertheless confirmed its decision to enable the Chairman to be a beneficiary under this supplementary pension system.

(1) *Defined benefit plan meeting the conditions set out in Article L.137-11 of the French Social Security Code (Code de la sécurité sociale).*  
 (2) *Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).*

## Changes to the supplementary pension system in 2018

In late 2017, the Group's Article 83 Core Plan and Article 83 Additional Plan were amended in order to harmonize Group-wide this major element of the compensation packages of French managerial-grade staff. These amendments were agreed with the trade unions following a collective bargaining process aimed at replacing all of the Article 83 Core Plans specific to each French entity by a single plan for all of the Group's managerial-grade staff in France.

The amendments relate to the different contribution rates applicable to the various tranches of compensation as provided for in both plans. However the overall contribution rate under the two new plans will be 8%, which will not result in an increase in the value of the benefit that these contributions represent for the Chairman and the Chief Executive Officer and will even result in a reduction in the contributions and costs for Safran concerning these two corporate officers as well as a slight decrease in the amount of their pensions.

Although the amendments do not change the substance of the commitments previously made by the Company with respect to post-employment benefit obligations, technically and formally these commitments have been amended and replaced, which means that the approval procedure for related-party commitments needs to be followed once again in order for the corporate officers to be beneficiaries of the new plans.

On February 26, 2018, in application of its compensation policy – and particularly its objective of aligning the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff (see section 6.6.1.3) – the Board of Directors decided that the Chairman could be a beneficiary of the new Article 83 defined contribution supplementary pension plans in effect at January 1, 2018 (subject to the same terms and conditions as the plans' other members), i.e.:

- the Group's Article 83 Core Plan signed on November 6, 2017, which replaces Safran SA's previous plan with effect from January 1, 2018; and
- the Article 83 Additional Plan set up by way of a unilateral decision made by Safran SA, which replaces the previous plan with effect from January 1, 2018.

This commitment will be submitted to a shareholder vote at the Annual General Meeting on May 25, 2018. The new plans are described in section 8.2.1 of this Registration Document and in the Statutory Auditors' special report on related-party agreements and commitments in section 8.4.1.

## Indemnities or benefits payable for the termination of office or a change in duties – Non-compete indemnities

As stated in section 6.6.1.3 above, the Chairman of the Board of Directors is not eligible for the payment of any indemnities or benefits for the termination of his office or a change in his duties and has not received any commitment by the Company in relation to the payment of a non-compete indemnity.

Ross McInnes' employment contract with Safran has been suspended since April 21, 2011 (see sections 6.6.2.3 and 6.4). This contract will resume if he ceases to be a corporate officer of the Company, and if it is then terminated at Safran's initiative, he may be entitled to termination benefits under the applicable collective bargaining agreement. Based on Ross McInnes' seniority within the Company at the date his employment contract was suspended, and the amount of his compensation at that date, in accordance with the collective bargaining agreement applicable to engineers and executives in the metallurgy industry, his termination benefits could represent a maximum gross amount of €143,821.50. These termination benefits are payable in accordance with general French labor law.

## 6.6.2.2 Compensation and benefits of the Chief Executive Officer for 2017 (and components of compensation and benefits for 2018 that have already been set)

In his role as Chief Executive Officer, Philippe Petitcolin's compensation package for 2017 included annual fixed compensation, annual variable compensation and performance shares awarded under a long-term incentive plan. He also received attendance fees in his role as a Director of the Company and had the use of a company car as a benefit-in-kind.

The structure of Philippe Petitcolin's compensation package for 2017 was the same as for 2016, as described in section 6.6.1.2 of the 2016 Registration Document and approved by the shareholders at the Annual General Meeting of June 15, 2017.

The compensation and benefits of the Chief Executive Officer are summarized in the tables in section 6.6.2.3 of the Registration Document.

### Fixed compensation for 2017 and 2018

At its meeting on February 23, 2017, the Board of Directors decided to set the Chief Executive Officer's gross annual compensation at €600,000 for 2017, unchanged since 2015.

At its meeting on February 26, 2018, acting on the recommendation of the Appointments and Compensation Committee, the Board decided to raise Philippe Petitcolin's fixed annual compensation to €800,000 for 2018, which is the first increase since he became Chief Executive Officer in 2015 and comes at the same time as his reappointment.

This decision was taken concomitantly with the Board's decision to change certain components and parameters of the compensation policy applicable to the Chief Executive Officer from 2017 (see sections 6.6.1.2 and 6.6.1.4).

In reaching its decision, the Board of Directors first and foremost took into account the Chief Executive Officer's high degree of commitment and the additional tasks and responsibilities assigned to him for achieving the goals of integrating Zodiac Aerospace and leveraging the synergies of this business combination and continuing to rise to the industrial and commercial challenges stemming from the successful ramp-up of the LEAP engine. The Board also drew on a peer group analysis to assess the competitiveness of his compensation package compared with that of corporate officers in comparable companies which revealed that Philippe Petitcolin's package was significantly lower than the median for these other companies.

### Annual variable compensation for 2017

The Chief Executive Officer's annual variable compensation for 2017 was determined based on the terms and conditions set out in the compensation policy approved by the shareholders at the Annual General Meeting of June 15, 2017, as detailed in section 6.6.1.2 of the 2016 Registration Document, and was unchanged from the annual variable compensation for 2015 and 2016.

For 2017, the Chief Executive Officer's gross annual variable compensation could have totaled €700,000 (corresponding to 117% of his annual fixed compensation (the "Target")) if all of the applicable objectives had been achieved, or it could have increased to above €700,000 if the objectives had been exceeded, subject to a cap of 130% of this Target (i.e., 152% of his annual fixed compensation (the "Cap")).

At its meeting on February 26, 2018, the Board of Directors reviewed the achievement of the financial and individual objectives set for the variable compensation payable to the Chief Executive

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Officer for 2017, after consultation with the Appointments and Compensation Committee. Following this review, it set Philippe Petitcolin's variable compensation for 2017 at €777,500, based on the following achievement rates:

- 110% for the objectives related to the Group's financial performance (two-thirds weighting), breaking down as follows:
  - recurring operating income (60% weighting): 104% achievement,
  - free cash flow (30% weighting): 125% achievement,
  - working capital, comprising the following components:
    - operating assets (Inventories) (5% weighting): 99% achievement, and
    - unpaid receivables (5% weighting): 100% achievement;
- 113% for the individual quantitative and qualitative performance objectives (one-third weighting).

As described in section 6.6.2.2 of the 2016 Registration Document, these objectives (set by the Board on February 23, 2017) were related to:

- the Group's main industrial programs:
  - the LEAP program (quantitative objective),
  - the Silvercrest program (quantitative objective),
- R&T goals, including CSR aspects (qualitative objective), and
- Strategic goals (qualitative objective). When assessing the achievement of this objective the Board notably took into account the successful divestment of the Identity & Security business carried out as part of the Group's strategic move to refocus on its core businesses of aerospace and defense.

Payment of the Chief Executive Officer's annual variable compensation for 2017 is subject to shareholders' approval at the Annual General Meeting of May 25, 2018.

#### Annual variable compensation for 2018

The Chief Executive Officer's variable compensation for 2018 will be set based on the terms and conditions of the compensation policy applicable at the time, as approved by shareholders at the Annual General Meeting. It will be determined as follows:

- two-thirds will be contingent on quantitative financial performance objectives based on:
  - recurring operating income (60% weighting),
  - free cash flow (30% weighting), and
  - working capital (10% weighting), with two separate components based on operating assets (Inventories) and unpaid receivables;
- one-third is contingent on quantitative and qualitative individual objectives approved by the Board of Directors' meeting of February 26, 2018.

These objectives relate to:

- the integration of Zodiac Aerospace within the Group (quantitative and qualitative objectives),
- the Silvercrest program (quantitative and qualitative objectives),
- strategic and R&T goals (qualitative objectives),
- continuous corporate social responsibility (CSR) measures and priority action plans: carbon footprint management system, improvement in the frequency rate of occupational accidents, safer driving programs (quantitative and qualitative objectives).

No specific individual objectives have been included in relation to the LEAP program as the goals of this program and its ramp-up have been incorporated into the quantitative financial performance objectives which account for two-thirds of the

Chief Executive Officer's variable compensation (with recurring operating income representing 60% of this two-thirds portion).

No further details can be provided on the Chief Executive Officer's individual objectives for reasons of strategic and competitive sensitivity.

The achievement of the financial and individual objectives set for the Chief Executive Officer's variable compensation for 2018 will be reviewed by the Board of Directors, after consultation with the Appointments and Compensation Committee. Payment of this annual variable compensation for 2018 will be subject to shareholders' approval at the 2019 Annual General Meeting.

#### 2017 attendance fees

Until December 31, 2017, the Chief Executive Officer received attendance fees for his role as a Director, based on the allocation rules defined in the Board of Directors' Internal Rules which were applicable until December 31, 2017 (see section 6.6.3.1).

Philippe Petitcolin's attendance fees for 2017, as approved by the Board on February 26, 2018, amounted to €36,314.09 (gross).

#### 2017 long-term incentive plan (performance shares)

At its meeting on March 23, 2017, the Board of Directors decided to award performance shares to certain Group managers and senior executives (see section 6.6.4.2).

As part of this decision, the Board of Directors granted 27,165 performance shares to the Chief Executive Officer, which represented less than 5% of the total grant and 0.007% of the Company's share capital at the grant date. All of the performance shares awarded to the Chief Executive Officer are subject to the condition that he is still with the Group when the shares vest and to the achievement of internal and external performance conditions (see sections 6.6.1.4 and 6.6.4).

The vesting period has been set at three years (2017-2019) and the number of shares that will ultimately vest will depend on the extent to which the applicable performance conditions are met over that period.

The vesting period will be followed by a one-year lock-up period.

The Board also confirmed that following this lock-up period and until his term of office ends, the Chief Executive Officer will be required to hold in registered form 40% of the vested performance shares granted under this plan and any future plans, until the number of shares he holds represents the equivalent of one year of his most recent annual fixed compensation.

In addition, the Chief Executive Officer has given a formal undertaking to refrain from using instruments to hedge the risks related to these shares until after the end of the lock-up period.

The estimated accounting value of these performance shares, as measured at the grant date in accordance with IFRS 2 (see section 3.1, Note 1.q of this Registration Document - i.e., March 23, 2017 - corresponds to €839,893.

Further details of this performance share plan are provided in the tables in sections 6.6.2.3 and 6.6.4.2 below.

#### 2015 long-term incentive plan – multi-year variable compensation

On the recommendation of the Appointments and Compensation Committee, at its July 29, 2015 meeting, the Board of Directors decided to introduce a multi-year variable compensation system in the form of the 2015 Performance Unit (PU) plan, designed to

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recognize contributions to the Group's operating performance and the creation of shareholder value, as measured over several years. This multi-year compensation plan applied to the Chief Executive Officer and other members of Safran's Executive Committee. The Chief Executive Officer was granted 17,050 PUs under the plan.

The number of PUs that ultimately vested was based on the extent to which internal and external performance conditions were met, as measured over a period of three years (2015-2017):

- > the internal performance conditions corresponded to the achievement of recurring operating income (ROI) and free cash flow (FCF) objectives. These objectives accounted for 60% of the performance criteria determining the number of PUs that would vest (30% for the ROI objective and 30% for the FCF objective). Performance achievement levels were set for both of these objectives;
- > the external performance condition was based on Safran's total shareholder return (TSR) performance over a period of three years (2015-2017) as benchmarked against a panel of companies operating in the same business sectors as Safran. This objective accounted for 40% of the performance criteria determining the number of PUs that would vest. Performance levels were also set for this condition.

The main characteristics and terms and conditions of this plan, including the grant to the Chief Executive Officer, are described in sections 6.3.1.2 and 6.3.3.3 of the 2015 Registration Document.

This plan was presented to and approved by the shareholders at the General Meeting of May 19, 2016, in accordance with the "say-on-pay" rules applicable at that time.

Acting on the recommendation of the Appointments and Compensation Committee, on March 22, 2018 the Board of Directors noted the achievement rate for these conditions at the end of the specified period and determined the resulting number of PUs to be vested by the Chief Executive Officer at 8,678 PUs. This corresponds to an achievement rate of 50.9% for the performance conditions, breaking down as:

- > 106.9% for the ROI target (30% weighting);
- > 85.1% for the FCF target (30% weighting);
- > the TSR target is not achieved (0% on 40% weighting).

As provided for in the relevant plan:

- > payments will be made in two installments (end-October 2018 and end-October 2019), each one corresponding to 50% (i.e., 4,339) of the vested PUs;
- > one-third of each installment will be paid in Safran shares, with the remaining two-thirds paid in cash;
- > the gross compensation payable for each vested PU is determinable, even though it cannot be determined at today's date. The gross compensation payable for each vested PU will correspond to the average of the closing prices for the Safran share during the 20 trading days prior to the payment of each of the two installments. By way of illustration, with the value for each vested PU estimated at March 1, 2018 based on the average of the closing prices for the Safran share during the 20 trading days prior to that date (i.e., €87.724), each of the two installments would correspond to the payment of €253,756 and delivery of 1,446 Safran shares.

### Summary table of multi-year variable compensation allocated to the Chief Executive Officer

|                     | Period in which performance units were granted | Number of performance units granted | Value on grant date     | Conditions  |
|---------------------|--|-------------------------------------|-------------------------|---|
| Philippe Petitcolin | 2015   | 17,050                              | €701,620 <sup>(1)</sup> | The number of performance units that ultimately vest will depend on the extent to which internal and external performance conditions are met, as measured over a period of three years (2015-2017).<br>At its meeting of March 22, 2018, and after having noted the achievement rate associated with the performance conditions, the Board of Directors determined that 8,678 performance units ultimately vested for the Chief Executive Officer at the end of the specified 2015-2017 period.<br>Payments will be made in two installments, in October 2018 and October 2019.<br>A plan description is included in section 6.3.3.3 of the 2015 Registration Document. |

(1) The value was measured at the grant date in accordance with IFRS 2.

### Personal risk insurance plan

In his former capacity as a Company employee, Philippe Petitcolin was previously a beneficiary of Safran's personal risk insurance plan set up in France for all Group managerial-grade staff.

When Philippe Petitcolin was appointed Chief Executive Officer on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of this plan subject to the same terms and conditions as the other plan members.

This commitment was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.

The contributions under this plan for Mr. Petitcolin are based on the compensation that he receives for his role as Chief Executive Officer.

The corresponding expense recorded in the 2017 financial statements amounted to €6,229.

## Supplementary pension system in 2017

No specific supplementary pension plan was in place for the Chief Executive Officer in 2017.

### "Article 83" defined contribution plan (Article 83 Core Plan)

In his former capacity as an employee, Philippe Petitcolin was a beneficiary of Safran's defined contribution supplementary pension plan set up in France pursuant to Article 83 of the French General Tax Code for all Group managerial-grade staff (the "Article 83 Core Plan").

When Philippe Petitcolin was appointed Chief Executive Officer on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of this plan subject to the same terms and conditions as the other plan members.

The commitment given by the Company to enable Mr. Petitcolin to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.

The contributions to the plan are based on the annual compensation (fixed and variable) that Mr. Petitcolin receives for his role as Chief Executive Officer.

The expense recorded in the 2017 financial statements relating to the contributions paid under the Article 83 core plan for Philippe Petitcolin amounted to €49,653.

At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annuity that could be paid to Philippe Petitcolin under this plan was €22,913.

### New supplementary pension system set up in 2017

On March 23, 2017, the Board of Directors decided that the Chief Executive Officer could be a beneficiary under the new supplementary pension system set up as of January 1, 2017, as explained in section 6.6.2.1 above and described in section 6.6.2.1 of the 2016 Registration Document.

The commitment given by the Company to enable Mr. Petitcolin to be a beneficiary under this system was approved at the Annual General Meeting of June 15, 2017, pursuant to the provisions of Article L.225-40 of the French Commercial Code.

The three stages of this system apply to the Chief Executive Officer as follows:

#### **1. Closing the defined benefit plan (Article 39) to new entrants and freezing existing beneficiaries' entitlements as from January 1, 2017**

When Philippe Petitcolin was appointed as Chief Executive Officer on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran's defined benefit supplementary pension plan set up pursuant to Article 39<sup>(2)</sup> of the French General Tax Code for all Group managerial-grade staff (the "Article 39 Plan"), subject to the same terms and conditions as the other plan members. Mr. Petitcolin was previously a beneficiary under the plan in his former capacity as an employee. The commitment given by the Company to enable Mr. Petitcolin to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016.

This plan is now closed to new entrants and the benefit entitlements have been frozen, including for the Chief Executive Officer. However he could still be eligible for the pension entitlement he had accrued at December 31, 2016 provided the applicable terms and conditions are met, it being specified that:

- the reference compensation used to calculate the conditional entitlements will be calculated based on the average of beneficiaries' gross fixed and variable compensation for the years 2014 to 2016 (revalued annually using the actuarial assumptions applied to calculate retirement benefit provisions);
- the seniority taken into account for the plan - which represents an additional 1.8% of the reference compensation per year of service, capped at 18% - will have a cut-off date of December 31, 2016 and no additional conditional entitlements will be accrued under the plan for any service after that date. Consequently the Chief Executive Officer's seniority taken into account will correspond to 18%;
- the overall replacement rate may not exceed 35% of the reference compensation;
- the supplementary pension annuity is capped at three times the annual social security ceiling (PASS) in force at the date that the general social security retirement pension is paid (i.e., an annuity capped at €119,196, based on the 2018 value of the PASS, i.e. €39,732);
- the payment of this supplementary pension annuity is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

During the phase when the pension benefits accrue, the taxes and social security contributions payable by Safran correspond to 24% of the premiums paid to the insurer in respect of the Chief Executive Officer under this closed defined benefit plan.

At December 31, 2017, the estimated theoretical amount<sup>(3)</sup> of the annuity that could be paid to the Chief Executive Officer corresponded to the cap set in the plan, i.e., €119,196 (corresponding to three times the annual social security ceiling (PASS), based on the 2018 value of the PASS).

#### **2. Mandatory collective defined contribution plan (Article 83 Additional Plan)**

For the Chief Executive Officer, the contributions under the plan are based on the annual compensation (fixed and variable) that he receives for his role as Chief Executive Officer.

The corresponding expense recorded in the 2017 financial statements for Philippe Petitcolin amounted to €18,829.

#### **3. Voluntary collective defined contribution plan (Article 82 Plan)**

The contributions under this plan for Mr. Petitcolin are based on the compensation that he receives for his role as Chief Executive Officer.

In order for entitlements to accrue under the plan, the Company is required to:

- pay monthly contributions to an insurer, the rate of which is set based on the beneficiary's reference compensation for year Y-1 (Insurer Contribution) and which may represent up to 12.735% of that reference compensation; and
- pay a cash amount to the beneficiary corresponding to the Insurer Contribution (Additional Payment) so that the beneficiaries can pay the applicable tax (the plan provides for up-front taxation so that the capital accrued and received on the beneficiaries' retirement is net of tax and social security contributions).

The above payments are borne in full by the Company and are subject to social security contributions in the same way as salaries.

The Insurer Contribution and Additional Payment for the Chief Executive Officer for 2017 totaled €154,746.70 each (i.e., €309,493.40 altogether), corresponding in each case to 12.735% of his reference compensation (25.47% in total).

(1) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

(2) Defined benefit plan meeting the conditions set out in Article L.137-11 of the French Social Security Code.

(3) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).



### Changes to the supplementary pension system in 2018

In late 2017, the Group's Article 83 Core Plan and Article 83 Additional Plan were amended in order to harmonize Group-wide this major element of the compensation packages of French managerial staff, as explained in section 6.6.2.1.

On February 26, 2018, in application of its compensation policy – and particularly its objective of aligning the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff (see section 6.6.1.4) – the Board of Directors decided that the Chief Executive Officer could be a beneficiary of the new Article 83 defined contribution supplementary pension plans (subject to the same terms and conditions as the plans' other members), i.e.:

- the Group's Article 83 Core Plan signed on November 6, 2017, which replaces Safran SA's previous plan with effect from January 1, 2018; and
- the Article 83 Additional Plan set up by way of a unilateral decision made by Safran SA, which replaces the previous plan with effect from January 1, 2018.

This commitment will be submitted to a shareholder vote at the Annual General Meeting on May 25, 2018. The new plans are detailed in section 8.2.1 of this Registration Document and in the Statutory Auditors' special report in section 8.4.1.

### Indemnities or benefits payable for the termination of office or a change in duties – Non-compete indemnities

As stated in section 6.6.1.4 of this Registration Document, the Chief Executive Officer is not eligible for the payment of any indemnities or benefits for the termination of his office or a change in his duties and he has not been given any commitment by the Company in relation to the payment of a non-compete indemnity.

Philippe Petitcolin's employment contract with Safran has been suspended since April 23, 2015 (see sections 6.6.2.3 and 6.4). This contract will resume if he ceases to be a corporate officer of the Company, and if it is then terminated at Safran's initiative, he may be entitled to termination benefits under the applicable collective bargaining agreement. Based on Mr. Petitcolin's seniority within the Company at the date his employment contract was suspended, and the amount of his compensation at that date, in accordance with the collective bargaining agreement applicable to engineers and executives in the metallurgy industry, his termination benefits could represent a maximum gross amount of €906,044.67. These termination benefits are payable in accordance with general French labor law.

### 6.6.2.3 Summary tables for 2017

#### Summary tables showing the individual compensation and benefits of Ross McInnes, Chairman of the Board of Directors

##### Summary tables of compensation, stock options and performance shares granted in 2016 and 2017 to the Chairman of the Board of Directors

| Summary of compensation, stock options and performance shares granted | 2016            | 2017                       |
|---|-----------------|----------------------------|
| Compensation due for the year   | €418,764        | €484,375.22 <sup>(1)</sup> |
| Value of multi-year variable compensation allocated during the year   | N/A             | N/A                        |
| Value of stock options granted during the year                        | N/A             | N/A                        |
| Value of performance shares granted during the year                   | N/A             | N/A                        |
| <b>TOTAL</b>  | <b>€418,764</b> | <b>€484,375.22</b>         |

(1) Including €57,690.34 corresponding to the Additional Payment under the defined contribution plan (Article 82), enabling payment of the tax due under this plan, which is taxed upfront (see section 6.6.2.1).

##### Summary table of compensation of the Chairman of the Board of Directors

| Summary of compensation (gross)  | 2016                     |                              | 2017                     |                              |
|--|--------------------------|------------------------------|--------------------------|------------------------------|
|  | Amounts due for the year | Amounts paid during the year | Amounts due for the year | Amounts paid during the year |
| Fixed compensation   | €350,000                 | €350,000                     | €350,000                 | €350,000                     |
| Annual variable compensation   | N/A                      | €160,986                     | N/A                      | N/A                          |
| Multi-year variable compensation   | N/A                      | N/A                          | N/A                      | N/A                          |
| Exceptional compensation   | N/A                      | N/A                          | N/A                      | N/A                          |
| Attendance fees  | €65,000                  | €45,473                      | €73,513.88               | €65,000                      |
| Benefits-in-kind <sup>(1)</sup>  | €3,764                   | €3,764                       | €3,171                   | €3,171                       |
| Additional Payment provided for under the Article 82 voluntary collective defined contribution plan <sup>(2)</sup> | N/A                      | N/A                          | €57,690.34               | €57,690.34                   |
| <b>TOTAL</b>   | <b>€418,764</b>          | <b>€560,223</b>              | <b>€484,375.22</b>       | <b>€475,861.34</b>           |

(1) Company car.

(2) Corresponding to the Additional Payment under the defined contribution plan (Article 82), enabling payment of the tax due under this plan, which is taxed upfront (see section 6.6.2.1).

## Summary table showing the individual compensation and benefits of Philippe Petitcolin, Chief Executive Officer

### Summary table of compensation, stock options and performance shares granted in 2017 and 2016 to the Chief Executive Officer

| Summary of compensation, stock options and performance shares granted     | 2016                    | 2017                        |
|---|-------------------------|-----------------------------|
| Compensation due for the year   | €1,388,011              | 1,573,179.79 <sup>(2)</sup> |
| Value of multi-year variable compensation allocated during the year       | N/A                     | N/A                         |
| Value of stock options granted during the year                            | N/A                     | N/A                         |
| Value of performance shares granted during the year (see section 6.6.4.2) | €858,780 <sup>(1)</sup> | €839,893 <sup>(1)</sup>     |
| <b>TOTAL</b>  | <b>€2,246,791</b>       | <b>€2,413,072.79</b>        |

(1) In accordance with IFRS 2, the value of the performance shares was measured at the grant date and not based on compensation received by the beneficiary during the year (see section 3.1, Note 1.q).

(2) Including €154,746.70 corresponding to the Additional Payment under the defined contribution plan (Article 82), enabling payment of the tax due under this plan, which is taxed upfront (see section 6.6.2.2).

### Summary table of compensation of the Chief Executive Officer

| Summary of compensation (gross)  | 2016<br>In his capacity as a corporate officer |   | 2017<br>In his capacity as a corporate officer |                              |
|--|--|---|--|------------------------------|
|  | Amounts due for the year                       | Amounts paid during the year <sup>(1)</sup> | Amounts due for the year                       | Amounts paid during the year |
| Fixed compensation   | €600,000                                       | €600,000                                    | €600,000                                       | €600,000                     |
| Annual variable compensation   | €745,500                                       | €502,619                                    | €777,500                                       | €745,500                     |
| Multi-year variable compensation   | N/A  | N/A   | N/A  | N/A                          |
| Exceptional compensation   | N/A  | N/A   | N/A  | N/A                          |
| Attendance fees  | €38,500  | €17,323                                     | €36,314.09                                     | €38,500                      |
| Benefits-in-kind <sup>(2)</sup>  | €4,011   | €4,011                                      | €4,619   | €4,619                       |
| Additional Payment provided for under the Article 82 voluntary collective defined contribution plan <sup>(3)</sup> | N/A  | N/A   | €154,746.70                                    | €154,746.70                  |
| <b>TOTAL</b>   | <b>€1,388,011</b>                              | <b>€1,123,953</b>                           | <b>€1,573,179.79</b>                           | <b>€1,543,365.70</b>         |

(1) In 2016, Philippe Petitcolin also received variable compensation due under his employment contract for the period from January 1 to April 23, 2015 (i.e., prior to his appointment as Chief Executive Officer) in an amount of €112,510, as well as the discretionary and statutory profit-share for this same period and the Company top-up contribution for 2016 in a total amount of €10,736.

(2) Company car.

(3) Corresponding to the Additional Payment under the defined contribution plan (Article 82), enabling payment of the tax due under this plan, which is taxed upfront (see section 6.6.2.2).

### Summary table of performance shares granted during the year to the Chief Executive Officer

|                     | Plan date      | Number of shares granted | Value of shares (measured using the method applied for the consolidated financial statements) <sup>(1)</sup> (in €) | Vesting date   | End of lock-up period         | Performance conditions  |
|---------------------|----------------|--------------------------|---|----------------|-------------------------------|---|
| Philippe Petitcolin | March 23, 2017 | 27,165                   | €839,893  | March 25, 2020 | March 26, 2021 <sup>(2)</sup> | All the shares are subject to the performance conditions described in section 6.6.4.2 |
| <b>TOTAL</b>        |                | <b>27,165</b>            | <b>€839,893</b>   |                |                               |   |

(1) In accordance with IFRS 2, the value of the performance shares was measured at the grant date and not based on compensation received by the beneficiary during the year (see section 3.1, Note 1.q).

(2) The Chief Executive Officer is, however, required to hold in registered form 40% of the delivered performance shares for the time that he is in office and until these shares represent an amount that is equivalent to one year's worth of his most recent annual fixed compensation.

### Performance shares granted to the Chief Executive Officer for which the lock-up period ended during the year

|                     | Plan date | Total number of shares whose lock-up period ended |
|---------------------|-----------|---|
| Philippe Petitcolin |           | None  |

### Summary table, at December 31, 2017, of performance shares granted to the Chief Executive Officer

| Grantee             | Plan no. and date          | Total number of shares granted |
|---------------------|----------------------------|--------------------------------|
| Philippe Petitcolin | 2016 Plan - July 28, 2016  | 27,390                         |
| Philippe Petitcolin | 2017 Plan - March 23, 2017 | 27,165                         |
| <b>TOTAL</b>        |                            | <b>54,555</b>                  |

### Summary table of employment contracts, supplementary pension plans and termination benefits of the Chairman of the Board of Directors and the Chief Executive Officer

| Name                | Position                           | Employment contract           | Supplementary pension plan | Compensation or benefits payable for termination of office, change in duties, or non-compete agreements |
|---------------------|------------------------------------|-------------------------------|----------------------------|---|
| Ross McInnes        | Chairman of the Board of Directors | Yes, suspended <sup>(1)</sup> | Yes <sup>(3)</sup>         | No  |
| Philippe Petitcolin | Chief Executive Officer            | Yes, suspended <sup>(2)</sup> | Yes <sup>(3)</sup>         | No  |

(1) Employment contract initially suspended on April 21, 2011, the date on which he was appointed Deputy Chief Executive Officer. This suspension was extended when he was appointed Chairman of the Board of Directors on April 23, 2015 (see section 6.4).

(2) Employment contract suspended since April 23, 2015, the date on which he was appointed Chief Executive Officer (see section 6.4).

(3) No pension plan has been set up specifically for the Chairman of the Board of Directors or the Chief Executive Officer. They are beneficiaries, subject to the same terms and conditions as the other plan members, under (i) the defined contribution supplementary pension plan set up in France for all of the Group's senior managers, and (ii) the defined benefit supplementary pension plan which has now been closed and whose benefit entitlements were frozen at December 31, 2016 (see section 6.6.2.1 and 6.6.2.2).

## 6.6.3 Attendance fees paid to members of the Board of Directors

Directors receive attendance fees as provided for in Article 17 of Safran's bylaws.

The attendance fee allocation rules are approved by the Board of Directors and are described in the Board's Internal Rules.

In accordance with the applicable regulations, attendance fees allocated to the representative of the French State and Directors put forward by the French State in the capacity of public agent are paid to the French Treasury.

The members of the Board of Directors only receive attendance fees as compensation, except for the Chairman of the Board (see section 6.6.2.1), the Chief Executive Officer (see section 6.6.2.2), Directors representing employees and Directors representing employee shareholders (see section 6.6.3.4).

### 6.6.3.1 Rules for allocating attendance fees applicable until December 31, 2017

On February 24, 2016, the Board of Directors approved the rules for allocating attendance fees, effective from 2016. These rules gave a greater weighting to the variable portion based on Directors' attendance at meetings of the Board and Board Committees and took into account their actual workload.

In the 16<sup>th</sup> resolution of the Annual General Meeting of May 19, 2016, the shareholders increased the overall maximum amount of attendance fees to €1,000,000 for 2016 and subsequent years.

The rules for allocating attendance fees that were applicable until December 31, 2017 (as described in Article 23.2 of the Board's Internal Rules as adopted in February 24, 2016) and the amount of fees paid per meeting, were as follows:

> for attendance at Board meetings:

- fixed annual fee:
  - per Director (including the Chairman) = €11,000,
  - calculated proportionately to the number of meetings held during the year if a Director leaves or joins the Board part way through the year;
- variable fee per meeting:
  - for the Chairman and Vice-Chairman = €4,000,
  - for other Directors = €2,500;

> for attendance at meetings of the standing Board Committees (Audit and Risk Committee, Appointments and Compensation Committee and Innovation and Technology Committee) and special committees:

- variable fee per meeting (no fixed fee):
  - for the Chairs of the standing Board Committees (Audit and Risk Committee and Appointments and Compensation Committee) = €6,000,
  - for other Committee members (including the Chairs of any special committees) = €2,500 (no additional fees for the Chair of any special committee),
- additional fee for geographical distance:
  - for Directors who lived outside Metropolitan France, the variable fee was increased by 50% for each meeting attended in person,

- potential adjustment:
  - if applying these rules results in an overall amount of fees that is higher than the aggregate maximum amount authorized by shareholders at the Annual General Meeting, then the overall amount paid will be reduced proportionately until it reaches this maximum authorized amount,
- cap:
  - the gross annual amount of attendance fees will be capped at €100,000 per Director (*cap applicable if the calculation rules result in attendance fees representing more than this amount*).

### 6.6.3.2 Rules for allocating attendance fees applicable as from 2018

On February 26, 2018, the Board of Directors amended the rules for allocating attendance fees, effective from 2018. These new rules give a greater weighting to the variable portion based on Directors' attendance at meetings of the Board and Board Committees and remove the entitlement to attendance fees for the Chairman and the Chief Executive Officer.

The new rules for allocating attendance fees – described in Article 23.2 of the Board's Internal Rules, which have been amended as a result of these new rules – and the amount of fees paid per meeting, are as follows:

#### > for attendance at Board meetings:

- fixed annual fee:
  - per Director (excluding the Chairman and the Chief Executive Officer) = €11,000,
  - calculated proportionately to the number of meetings held during the year if a Director leaves or joins the Board part way through the year,

- variable fee per meeting:
  - no attendance fees for the Chairman and the Chief Executive Officer,
  - for other Directors = €3,700;
- > for attendance at Board committees and special temporary committees :
  - variable fee per meeting (no fixed fee):
    - for the Chairs of the standing Board Committees (Audit and Risk Committee, Appointments and Compensation Committee and Innovation and Technology Committee) = €7,400,
    - for other Committee members (including the Chairs of any special committees) = €3,700 (*no additional fees for the Chair of any special committee*),
  - additional fee for geographical distance:
    - for Directors who live outside Metropolitan France, there will be an additional fee of €1,250 for each meeting attended in person,
  - potential adjustment:
    - if applying these rules results in an overall amount of fees that is higher than the aggregate maximum amount authorized by shareholders at the Annual General Meeting, then the overall amount paid will be reduced proportionately until it reaches this maximum authorized amount,
  - cap:
    - the gross annual amount of attendance fees will be capped at €100,000 per Director (*cap applicable if the calculation rules result in attendance fees representing more than this amount*).

### 6.6.3.3 Summary table of attendance fees paid to members of the Board of Directors

|  | Amount of attendance fees |                           |                           |                            |
|--|---------------------------|---------------------------|---------------------------|----------------------------|
|  | 2016                      |                           | 2017                      |                            |
|  | Gross amount              | Net amount paid in 2017   | Gross amount              | Net amount paid in 2018    |
| <b>NON-EXECUTIVE DIRECTORS (EXCLUDING REPRESENTATIVES OF THE FRENCH STATE AND DIRECTORS PUT FORWARD BY THE FRENCH STATE)</b>                             |                           |                           |                           |                            |
| Christian Streiff  | €73,500                   | €46,672.50 <sup>(1)</sup> | €81,042.41                | €56,729.69 <sup>(1)</sup>  |
| Marc Aubry (Director until May 19, 2016)   | €16,500                   | €10,477.50 <sup>(1)</sup> | -                         | -                          |
| Hélène Auriol Potier (Director since June 15, 2017)  | -                         | -                         | €19,996.59 <sup>(5)</sup> | €13,997.62 <sup>(1)</sup>  |
| Giovanni Bisignani (Director until June 15, 2017)  | €61,000                   | €42,700 <sup>(2)</sup>    | €38,102.54 <sup>(6)</sup> | €33,225.41 <sup>(2)</sup>  |
| Frédéric Bourges   | €46,000                   | €38,870 <sup>(3)</sup>    | €67,313.92                | €55,735.92 <sup>(3)</sup>  |
| Éliane Carré-Copin (Director since May 19, 2016)   | €24,500 <sup>(4)</sup>    | €15,557.50 <sup>(5)</sup> | €38,528.36                | €26,969.85 <sup>(5)</sup>  |
| Jean-Lou Chameau   | €71,000                   | €49,700 <sup>(2)</sup>    | €63,992.51                | €44,794.75 <sup>(1)</sup>  |
| Monique Cohen  | €61,000                   | €38,735 <sup>(1)</sup>    | €76,613.86                | €53,629.71 <sup>(1)</sup>  |
| Odile Desforges  | €84,500                   | €53,657.50 <sup>(1)</sup> | €76,171.01                | €53,319.71 <sup>(1)</sup>  |
| Jean-Marc Forneri  | €66,000                   | €41,910 <sup>(1)</sup>    | €59,785.39                | €41,849.77 <sup>(1)</sup>  |
| Christian Halary (Director until May 19, 2016)   | €24,000                   | €15,240 <sup>(1)</sup>    | -                         | -                          |
| Xavier Lagarde (Director until June 15, 2017)  | €56,000                   | €35,560 <sup>(1)</sup>    | €32,566.85 <sup>(7)</sup> | €22,796.80 <sup>(1)</sup>  |
| Élisabeth Lulin (Director until June 15, 2017)   | €53,500                   | €33,972.50 <sup>(1)</sup> | €28,138.31 <sup>(7)</sup> | €19,696.81 <sup>(1)</sup>  |
| Gérard Mardiné (Director since May 19, 2016)   | €32,000 <sup>(3)(4)</sup> | €27,040 <sup>(3)</sup>    | €47,385.45                | €39,235.16 <sup>(1)</sup>  |
| Daniel Mazaltarim  | €53,500                   | €45,207.50 <sup>(3)</sup> | €49,599.73                | €41,068.57 <sup>(3)</sup>  |
| Patrick Pélatà (Director since June 15, 2017)  | -                         | -                         | €26,639.41 <sup>(6)</sup> | €18,647.59 <sup>(1)</sup>  |
| Sophie Zurquiyah (Director since June 15, 2017)  | -                         | -                         | €33,282.23 <sup>(6)</sup> | €29,022.11 <sup>(2)</sup>  |
| <b>Total attendance fees paid to non-executive Directors excluding representatives of the French State and Directors put forward by the French State</b> | <b>€723,000</b>           | <b>€495,300</b>           | <b>€739,158.57</b>        | <b>€550,719.47</b>         |
| Amount paid to the French Treasury   | €133,000                  | €133,000 <sup>(8)</sup>   | €151,013.46               | €151,013.46 <sup>(8)</sup> |
| <b>Total attendance fees paid to non-executive Directors</b>   | <b>€856,000</b>           | <b>€628,300</b>           | <b>€890,172.03</b>        | <b>€701,732.93</b>         |
| <b>THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER</b>  |                           |                           |                           |                            |
| Ross McInnes   | €65,000                   | €58,948.50 <sup>(9)</sup> | €73,513.88                | €66,088.97 <sup>(9)</sup>  |
| Philippe Petitcolin  | €38,500                   | €34,915.65 <sup>(9)</sup> | €36,314.09                | €32,646.36 <sup>(9)</sup>  |
| <b>Total attendance fees paid to the Chairman and the Chief Executive Officer</b>  | <b>€103,500</b>           | <b>€93,864.15</b>         | <b>€109,827.97</b>        | <b>€98,735.33</b>          |
| <b>TOTAL ATTENDANCE FEES PAID TO MEMBERS OF THE BOARD OF DIRECTORS</b>   | <b>€959,500</b>           | <b>€722,164.15</b>        | <b>€1,000,000.00</b>      | <b>€801,187.73</b>         |

(1) After the 21% withholding tax applicable for individuals domiciled in France for tax purposes (in accordance with Article 117 quater of the French Tax Code (Code général des impôts) and social security contributions of 15.5%.

(2) After the 30% withholding tax applicable for individuals not domiciled in France for tax purposes.

(3) As the Directors representing employees or employee shareholders requested that their attendance fees be paid over to their trade union, these amounts were exempt from tax and social security contributions.

(4) Calculated on a proportionate basis as from her appointment on May 19, 2016.

(5) The attendance fees of the Director representing employee shareholders are paid into Safran's personal risk insurance plan (after taxes and social security contributions).

(6) Calculated on a proportionate basis as from her appointment on June 15, 2017.

(7) Calculated on a proportionate basis until the expiration of his/her term of office on June 15, 2017.

(8) For representatives of the French State and Directors put forward by the French State.

(9) Estimated amount. The gross amount is subject to social security contributions. These attendance fees will be taxed in the same way as for salaries.

### 6.6.3.4 Compensation in 2017 of Directors representing employee shareholders and Directors representing employees

In 2017, Frédéric Bourges received €46,440 in gross compensation under his employment contract with Safran Aircraft Engines and an advance of €16,649 in partial payment for his statutory retirement bonus due in 2018. He also received statutory and discretionary profit-sharing as well as a Company top-up contribution to the Group savings plan on the same basis and under the same terms as the other employees of the Group's companies.

Daniel Mazaltarim received €84,397 in gross compensation in 2017 under his employment contract with Safran Aircraft Engines. He also received statutory and discretionary profit-sharing as well as a Company top-up contribution to the Group savings plan on the same basis and under the same terms as the other employees of the Group's companies. At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annual retirement benefits that could be paid to Daniel Mazaltarim under the

defined contribution supplementary pension plan (Article 83) of which he is a beneficiary was €1,627.

Éliane Carré-Copin received €68,351 in gross compensation in 2017 under her employment contract with Safran. She also received statutory and discretionary profit-sharing as well as a Company top-up contribution to the Group savings plan on the same basis and under the same terms as the other employees of the Group's companies. At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annual retirement benefits that could be paid to Éliane Carré-Copin under the defined contribution supplementary pension plan (Article 83) of which she is a beneficiary was €1,282.

Gérard Mardiné received €133,582 in gross compensation in 2017 under his employment contract with Safran Electronics & Defense. He also received statutory and discretionary profit-sharing as well as a Company top-up contribution to the Group savings plan on the same basis and under the same terms as the other employees of the Group's companies. At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annual retirement benefits that could be paid to Gérard Mardiné under the defined contribution supplementary pension plan (Article 83) of which he is a beneficiary was €2,280.

## 6.6.4 Long-term incentive plan

### 6.6.4.1 Stock options

No stock options were granted during 2017 and there are currently no stock options outstanding.

### 6.6.4.2 2017 performance share plan

Performance share grants are a common method used by companies in order to strengthen the motivation and teamwork of beneficiaries and foster their loyalty, while at the same time aligning their interests with those of the Company and its shareholders.

In the 23<sup>rd</sup> resolution of the May 19, 2016 Annual General Meeting, the Company's shareholders authorized the Board of Directors to grant performance shares to (i) employees or certain categories of employees of the Company and/or of other entities in the Safran group, and/or (ii) corporate officers of the Company and/or of other entities in the Group (except for the Chairman of the Company's Board of Directors when the duties of Chairman of the Board and Chief Executive Officer are separated), provided said corporate officers are eligible for such grants under the applicable law. The shareholders gave full powers to the Board of Directors to determine the beneficiaries of the grants and set the terms and conditions thereof as well as the applicable eligibility criteria.

The total number of performance shares granted cannot exceed (i) 0.35% of the Company's capital as at the date on which the Board of Directors decides to make the share grants (main ceiling), and (ii) 0.18% of the Company's capital in any given fiscal year (sub-ceiling).

In addition, it was specified that for each grant of performance shares the maximum number of shares granted to each of the Company's corporate officers could not exceed 5% of the total number of shares making up the grant (representing a

sub-ceiling of 0.009% of the Company's capital per corporate officer per fiscal year).

Acting on the recommendation of the Appointments and Compensation Committee, at its March 23, 2017 meeting, the Board of Directors decided to grant 567,747 performance shares to over 400 Group senior managers under the 2017 Long-Term Incentive Plan, which is designed to recognize contributions to the Group's operating performance and the creation of shareholder value, as measured over a period of several years.

The shares granted could either be new shares or existing shares previously bought back by the Company.

The main conditions and characteristics of these share grants authorized by the Board are the same as those presented at the Annual General Meeting of May 19, 2016 (see section 8.2.2 of the 2015 Registration Document) and are set out below.

### Conditions

The vesting of all of the performance shares granted is subject to the achievement of internal and external performance conditions, which are similar for all beneficiaries and are assessed over three full consecutive fiscal years, including 2017 – the year in which the performance shares were granted. In addition, the shares will only vest if the beneficiary still forms part of the Group at the vesting date, as explained in section 6.6.4.2 of the 2016 Registration Document.

- the two internal performance conditions count for 70% of the total vested shares and are based on:
  - ROI – 35%,
  - FCF – 35%;
- the external performance condition counts for 30% of the total vested shares and is based on Safran's total shareholder return (TSR) performance as measured relative to a group of peer companies operating in the same business sectors as Safran.

<sup>(1)</sup> Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

### Vesting and lock-up periods

The shares granted are subject to a three-year vesting period as set by the Board of Directors.

In addition, the shares granted to the Chief Executive Officer and members of Safran's Executive Committee are subject to a lock-up period of at least one year following their vesting date.

In accordance with the Board of Directors' Internal Rules, the Chief Executive Officer is required to hold in registered form a proportion of his vested shares, as set by the Board of Directors, until his term of office as Chief Executive Officer ends.

In addition, each beneficiary has given a formal undertaking not to hedge the risks related to the shares granted to them until those shares become freely transferable (i.e., at the end of either the vesting period or the lock-up period set by the Board of Directors, depending on the beneficiary concerned).

### Performance shares granted to the Chief Executive Officer

On March 23, 2017, the Board of Directors decided to grant 27,165 performance shares to the Chief Executive Officer under the 2017 Long-Term Incentive Plan (see section 6.6.2.2), which represented less than 5% of the total grant and 0.007% of the Company's capital at the grant date.

### Summary table of performance share plans at December 31, 2017

|  | 2016 Plan<br>– July 28, 2016                          | 2017 Plan<br>– March 23, 2017                         |
|--|---|---|
| Shareholder authorization  | May 19, 2016  | May 19, 2016  |
| Grant date by the Board of Directors   | July 28, 2016   | March 23, 2017  |
| Number of performance shares granted   | 558,840   | 567,747   |
| Of which to corporate officers   | 27,390  | 27,165  |
| <i>Philippe Petitcolin</i>   | 27,390  | 27,165  |
| Of which to the ten employees (non-corporate officers) who received the most shares    | 57,300  | 58,980  |
| Number of beneficiaries at the grant date  | 506   | 430   |
| Vesting date   | July 30, 2019   | March 25, 2020  |
| Availability date  | July 30, 2019   | March 25, 2020  |
| <i>Availability date for the Chief Executive Officer (end of lock-up period)</i>       | July 31, 2020   | March 26, 2021  |
| <i>Availability date for other Executive Committee members (end of lock-up period)</i> | July 31, 2020   | March 26, 2021  |
| Performance conditions   | See section 6.6.4.2 of the 2016 Registration Document | See section 6.6.4.2 of the 2016 Registration Document |
| Total number of shares canceled or forfeited   | 71,611  | 3,082   |
| Number of performance shares vested at December 31, 2017                               | 0   | 0   |
| Number of performance shares outstanding at December 31, 2017                          | 487,229   | 564,665   |

## 6.7 CROSS-REFERENCE TABLE FOR THE CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH ARTICLE L.225-37 OF THE FRENCH COMMERCIAL CODE

This report was reviewed by the Appointments and Compensation Committee (for the parts falling within its remit), before being submitted to the Board of Directors, which approved it at its meeting on March 22, 2018.

### Cross-reference table

The table below lists the references to the chapters and sections of this Registration Document in which information is provided on the topics required in the corporate governance report.

|    | Topics required in the corporate governance report  | 2017 Registration Document chapter(s) and section(s) |
|----|---|--|
| 1  | Framework Corporate Governance Code   | Section 6.1  |
| 2  | Structure of Executive Management   | Section 6.1.1  |
| 3  | Powers and responsibilities of the Chief Executive Officer and restrictions on these powers and responsibilities  | Sections 6.1.3 and 6.1.4.2                           |
| 4  | Membership structure of the Board of Directors  | Section 6.2  |
| 5  | Offices and positions held by Safran's Directors  | Section 6.2.2  |
| 6  | Organization and operating procedures of the Board of Directors and the Board Committees  | Section 6.3  |
| 7  | Self-assessment by the Board of its operating procedures  | Section 6.3.5  |
| 8  | Principles and criteria used to determine the compensation of the corporate officers and the related proposed resolutions presented to the shareholders at the Annual General Meeting | Sections 6.6 and 8.2.1                               |
| 9  | Compensation and benefits paid in 2017  | Sections 6.6.2 to 6.6.4                              |
| 10 | Related party agreements and commitments  | Sections 7.1.4 and 8.2.1                             |
| 11 | Commitments given by the Company to its corporate officers  | Section 6.6.2  |
| 12 | Terms and conditions of shareholders' participation in General Meetings and any restrictions on such participation  | Section 7.1.2.2                                      |
| 13 | Ownership structure   | Section 7.3  |
| 14 | Authorizations currently in force granted to the Board of Directors   | Section 8.2.5  |
| 15 | Items with a potential impact in the event of a public offering   | Sections 7.1.2.2, 7.1.4.2 and 7.1.2.6                |





|              |  |            |              |  |            |              |   |            |
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**INFORMATION  
ABOUT THE COMPANY,  
THE CAPITAL AND  
SHARE OWNERSHIP**

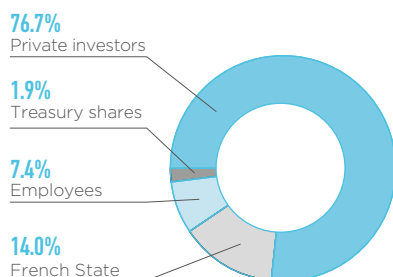
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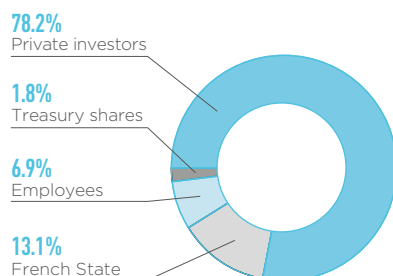
# IN BRIEF

## BREAKDOWN OF SHARE CAPITAL

As of December 31, 2017

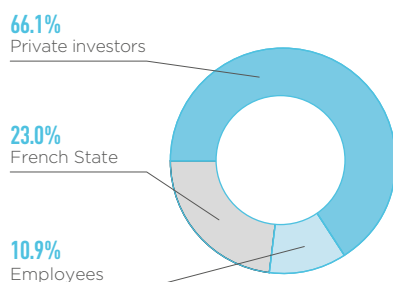


As of February 13, 2018

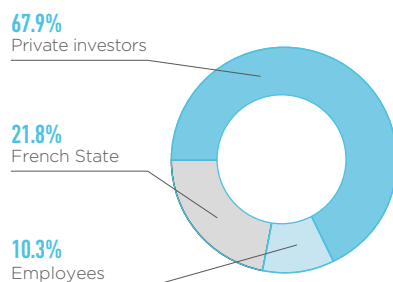


## BREAKDOWN OF EXERCISABLE VOTING RIGHTS

As of December 31, 2017



As of February 13, 2018



## GENERAL INFORMATION

The Company is registered with the Paris Trade and Companies Registry under number 562 082 909.

Safran's registered office is located at 2, boulevard du Général Martial-Valin, 75015 Paris - France.

## SUBSCRIBED SHARE CAPITAL

As of December 31, 2017, Safran's share capital amounted to €83,405,917, made up of 417,029,585 fully paid-up shares with a par value of €0.20 each.

On February 13, 2018, Safran's share capital was increased by €5,330,211.60 through the creation of 26,651,058 Class A Preferred Shares (see section 7.2.2.1), with the result that since that date the share capital has amounted to €88,736,128.60, divided into:

- 417,029,585 fully paid-up ordinary shares with a par value of €0.20 each; and
- 26,651,058 fully paid-up Class A Preferred Shares with a par value of €0.20 each.

## INDICES

Safran's share has been included in the CAC 40 index since September 19, 2011 and the Euro STOXX 50 index since September 21, 2015.

## RELATIONS WITH SHAREHOLDERS



To ensure good relations with the financial community, the Financial Communications Department regularly organizes events to enable analysts and institutional investors to meet with Executive Management.

In addition to the Annual General Meeting, which is held in Paris every year, Safran organizes two meetings especially for individual shareholders, with a view to developing a close, trust-based relationship with them.

## SAFRAN SHARE PRICE



| Main stock market data over three years                        | 2015               | 2016               | 2017               |
|--|--------------------|--------------------|--------------------|
| <b>Number of shares as of December 31</b>                      | <b>417,029,585</b> | <b>417,029,585</b> | <b>417,029,585</b> |
| <b>Safran share price (in €)</b>                               |                    |                    |                    |
| High   | 72.450             | 69.890             | 92.250             |
| Low  | 50.620             | 48.865             | 61.510             |
| Closing  | 63.370             | 68.420             | 85.910             |
| <b>Market capitalization as of December 31 (in € millions)</b> | <b>26,427</b>      | <b>28,533</b>      | <b>35,827</b>      |

## 7.1 GENERAL INFORMATION AND BYLAWS

### 7.1.1 General information

#### Corporate name

Safran.

#### Registered office

2, boulevard du Général Martial-Valin, 75015 Paris – France.

Tel.: +33 (0)1 40 60 80 80

#### Legal form

Safran is a French *société anonyme* (joint-stock corporation).

#### Registration

The Company is registered with the Paris Trade and Companies Registry under number 562 082 909.

#### Incorporation date and term

The Company was incorporated on August 16, 1924.

The Company's term has been set at 99 years from the date of registration with the Trade and Companies Registry, i.e., expiring on August 28, 2023, unless said term is extended or the Company is wound up in advance.

#### Corporate purpose

Under Article 3 of the bylaws, the Company's purpose, in any and all countries, for its own account, on behalf of third parties, or directly or indirectly in conjunction with third parties, is to carry out research, design, development, testing, manufacturing, sales, maintenance and support operations for high-technology activities, and notably for:

- > all aviation and Aerospace activities for the civilian and military markets, particularly those related to:
  - aviation and Aerospace Propulsion solutions, including the operation of systems that produce or use energy, and equipment designed to be used with such systems, and
  - equipment and sub-systems used in aircraft, helicopters, launch vehicles and missiles;
- > all air, land and naval Defense activities, particularly those related to:
  - optronics, avionics and navigation solutions and services, and
  - electronics and critical software for Aerospace and Defense applications;
- > all Security activities, particularly those related to:
  - multi-biometric identification solutions, identity management solutions, smart cards and secure transactions, and
  - detection solutions for explosives and narcotics;

and generally, to conduct any and all transactions of a commercial, industrial or financial nature or involving movable assets or real estate that relate directly or indirectly to the above corporate purpose or to anything incidental or conducive to the achievement of said corporate purpose.

#### Fiscal year

The fiscal year begins on January 1 and ends on December 31.

### 7.1.2 Principal provisions of the bylaws

With the increase in share capital on February 13, 2018 in the amount of €5,330,211.60, which increased total share capital from €83,405,917 to €88,736,128.60, through the creation of 26,651,058 Class A Preferred Shares (see sections 2.5 and 7.2.2.1), Articles 6, 7, 9, 11 and 12 of the bylaws were modified to reflect the new share capital and establish the features of Class A Preferred Shares, and a new Article 36 was added with respect to the Special Shareholders' Meeting of holders of Class A Preferred Shares.

#### 7.1.2.1 Board of Directors

##### Membership structure

Under the terms of Article 14 of the bylaws, the Company is administered by a Board of Directors with at least three and no more than thirteen members, including, where applicable, a representative appointed by the French State and/or Directors put forward by the French State in accordance with Articles 4 and/or 6 of French government *ordonnance* (order) 2014-948 of August 20, 2014 regarding the governance of companies in which the French State has a stake and regarding corporate actions involving these companies.

The maximum number of thirteen Board members may be increased to allow for the inclusion of Directors representing employee shareholders, appointed as provided for in Article 14.8 of the bylaws, and Directors representing employees, appointed as provided for in Article 14.9 of the bylaws.

The Board of Directors appoints a Chairman and, if applicable, a Vice-Chairman from among its members, who must be individuals.

##### Representatives of employee shareholders

The Safran Board of Directors includes two Directors representing employee shareholders, who are elected by the Annual General Meeting in accordance with Article 14.8 of the bylaws.

##### Representatives of employees

In accordance with the law on securing employment of June 14, 2013, the Safran Board of Directors includes two Directors representing employees, who are elected under Article 14.9 of the Company's bylaws.

##### Shareholding

Under Article 14.5 of the bylaws, each member of the Board of Directors shall be required to own a certain number of shares in the Company for his/her entire term of office in accordance with the terms and conditions set down in the Board of Directors' Internal Rules. As an exception, this shareholding obligation shall not apply to the representative of the French State and/or Directors put forward by the French State in accordance with Articles 4 and/or 6 of French government *ordonnance* (order) 2014-948 of August 20, 2014, or Directors representing employees or Directors representing employee shareholders. However, under Article 14.8 of the bylaws, each Director representing employee shareholders shall be required to hold – either individually or through a corporate mutual fund set up as part of the Group's employee share ownership program – at least one share or a number of units in the fund equivalent to at least one share.

##### Term of office – age limit

Members of the Board of Directors are appointed by the Ordinary Shareholders' Meeting for a term of four years, ending at the close of the Ordinary Shareholders' Meeting held during the

year in which their term of office expires in order to approve the financial statements for the previous year. Members of the Board of Directors may be re-appointed, it being specified that:

- > the number of Directors (both individuals and permanent representatives of legal entities) over the age of 70 may not exceed one-quarter of the total number of Directors in office, rounded up to the nearest whole number where appropriate;
- > no Director over the age of 70 may be appointed if such appointment would raise the number of Directors over the age of 70 to more than one-quarter of the total number of Directors in office, rounded up to the nearest whole number where appropriate; and
- > if the number of Directors over the age of 70 exceeds one-quarter of the total number of Directors in office, and if no Director over the age of 70 resigns, the oldest Board member shall automatically be deemed to have resigned.

Article 15 of the bylaws stipulates that the duties of the Chairman and Vice-Chairman shall end no later than at the close of the first Ordinary Shareholders' Meeting following the date on which they reach the age of 75.

##### Meetings

Under the terms of Article 18 of the bylaws, the Board of Directors shall meet as often as required in the interests of the Company and at least four times a year. Meetings shall be called by the Chairman, or if he is unable to do so, by the Vice-Chairman.

If the Board has not met for more than two months, a group of at least one-third of the Directors may ask the Chairman to call a meeting to discuss a specific agenda.

The Chief Executive Officer or the Deputy Chief Executive Officer(s) may also request that the Chairman call a Board meeting to consider a specific agenda.

In both of these cases the Chairman is bound by such requests and must call a Board meeting within seven days of receiving the request (or within a shorter timeframe in the event of urgency).

Board meetings shall only be validly constituted if at least half of the Directors are present.

Directors who participate in Board meetings by videoconference or any other telecommunications media that comply with the technical criteria set in the applicable laws and regulations shall be considered as being physically present for the purposes of calculating the quorum and voting majority, in accordance with the terms and conditions set out in the Board of Directors' Internal Rules.

Directors may give written proxy to another Director to represent them at Board meetings, provided that no Director holds more than one proxy at any single meeting.

##### Powers

Under Article 19 of the bylaws, the Board of Directors shall determine the Company's overall business strategy and oversee its implementation. Subject to the powers directly vested in Shareholders' Meetings (appointment of Directors and Statutory Auditors, approval of the financial statements and related-party agreements, decisions that amend the bylaws), the Board is responsible for dealing with all matters concerning the efficient running of the Company and for making all related decisions, within the scope of the Company's corporate purpose.

Subject to the applicable laws and regulations and the terms and conditions set out in the Board of Directors' Internal Rules, the roles and responsibilities of the Board of Directors shall include, but shall not be limited to:

- calling the Annual General Meeting and drawing up its agenda;
- approving the Group's annual budget presented by the Chief Executive Officer as well as any amendments thereto;
- approving the Group's medium-term business plan;
- approving the financial statements of the Company and the Group and drawing up the annual management report;
- authorizing related-party agreements governed by Article L.225-38 of the French Commercial Code (*Code de commerce*);
- selecting the Company's management structure;
- appointing and removing from office (i) the Chairman of the Board of Directors, and the Vice-Chairman (if any), and (ii) the Chief Executive Officer and, on the recommendation of the Chief Executive Officer, the Deputy Chief Executive Officer(s) (if any);
- determining the powers of the Chief Executive Officer and, in agreement with the Chief Executive Officer, of the Deputy Chief Executive Officer(s) (if any);
- appointing Directors prior to ratification by shareholders;
- setting the compensation payable to the Chairman of the Board of Directors and the Vice-Chairman (if any), and the Chief Executive Officer and the Deputy Chief Executive Officer(s) (if any);
- appointing the members of the Audit and Risk Committee and the members of any other Board committees set up in accordance with the provisions of the bylaws and the Board of Directors' Internal Rules;
- allocating attendance fees among the Board members, in accordance with the Board of Directors' Internal Rules;
- deciding on issues of debt securities not carrying rights to shares;
- deciding whether to allocate compensation to any Board Advisors (*censeurs*);
- giving the Chief Executive Officer authorization (which may be delegated) to grant guarantees and endorsements, setting for each fiscal year:
  - an overall ceiling and, where appropriate,
  - a maximum amount per transaction;
- authorizing in advance any transactions that would result in exceeding the above-mentioned overall ceiling or maximum amount per transaction set by the Board, as indicated in the point above.

In addition to the legal and regulatory requirements concerning prior authorizations that must be obtained from the Board of Directors, a number of specific transactions must also be approved by the Board before they can be carried out by the Chief Executive Officer or a Deputy Chief Executive Officer, as required by the internal procedures of the Company and Group. These transactions are listed in the Board of Directors' Internal Rules (see sections 6.1.4.2 and 6.3.1).

The Board of Directors shall perform any checks and controls that it deems appropriate. Each Director shall be provided with all the information required to carry out his/her duties and may request any documents he or she deems useful.

## Attendance fees

Under Article 17 of the bylaws, at the Annual General Meeting, the Company's shareholders shall set an annual aggregate amount of attendance fees, effective for the current year and, if appropriate, subsequent years until the shareholders decide otherwise.

The Board of Directors shall allocate the attendance fees among its members as it deems fit, in accordance with the rules set out in the Board's Internal Rules (see sections 6.6.3.1 and 6.6.3.2).

## Board Advisors

Under Article 20 of the bylaws, shareholders in an Ordinary Shareholders' Meeting may appoint up to two Board Advisors to attend Board meetings in an advisory capacity. However, if the French State's interest in the Company's capital falls below 10%, the French State would automatically be entitled to appoint a Board Advisor and the maximum number would be increased to three. Board Advisors are appointed for four years and may be re-appointed. Any Board Advisor reaching the age of 70 shall be deemed to have resigned.

## Executive Management

Under Article 21 of the bylaws, the Company's management shall be placed under the responsibility of either:

- the Chairman of the Board of Directors; or
- another individual appointed by the Board, who shall hold the title of Chief Executive Officer and who may or may not be a Director.

Under Article 22 of the bylaws, the Chief Executive Officer shall have the broadest powers to act in all circumstances in the Company's name. The Chief Executive Officer shall exercise these powers within the scope of the Company's corporate purpose and subject to:

- the powers expressly vested by the applicable laws and regulations in Shareholders' Meetings and the Board of Directors; and
- any restrictions placed on his powers and any matters that require the prior approval of the Board of Directors in accordance with the Board of Directors' Internal Rules.

The Board of Directors shall determine compensation payable to the Chief Executive Officer and the length of his term of office. The age limit for the Chief Executive Officer is set at 68 years.

## Deputy Chief Executive Officer(s)

Under Article 23 of the bylaws, at the proposal of the Chief Executive Officer, the Board of Directors may appoint up to three Deputy Chief Executive Officers (who may or may not be Directors) to assist the Chief Executive Officer in his duties.

In agreement with the Chief Executive Officer, the Board of Directors shall determine the scope and duration of the powers vested in the Deputy Chief Executive Officer(s). The Board of Directors shall also set their compensation, in accordance with Article 24 of the bylaws.

The Deputy Chief Executive Officer(s) shall have the same powers as the Chief Executive Officer with respect to third parties.

The age limit for holding office as Deputy Chief Executive Officer is set at 68 years.

### 7.1.2.2 General Shareholders' Meetings

#### Convening and participating

General Shareholders' Meetings shall be called in accordance with the applicable laws and regulations.

The conditions for the participation of shareholders in General Meetings are governed by the legal provisions and regulations in effect and by Articles 30 *et seq.* of Safran's bylaws. Any shareholder, regardless of the number of shares held, is entitled to attend General Meetings, on proof of identity and of his/her capacity as a shareholder, provided that the shareholder's shares are registered in his/her name in Safran's share register managed by BNP Paribas Securities Services, or in the securities accounts managed by the authorized intermediary, no later than zero hours (CET) on the second business day preceding the meeting.

Proxy/postal voting forms for General Shareholders' Meetings may be sent in paper form or, by decision of the Board of Directors published in the notice of meeting, by electronic mail in accordance with the applicable laws and regulations.

Where a shareholder electronically submits a proxy or postal voting form, the shareholder's signature must be a secure electronic signature or be subject to a reliable identification procedure to ensure signature security, for example by registering a unique identification code and password.

Shareholders who have not paid up the amounts due on their shares within 30 days of a notice to pay issued by the Company shall not be entitled to participate in General Shareholders' Meetings and the shares concerned shall be deducted from the total of the Company's outstanding shares for the purposes of calculating the quorum.

#### Exercising voting rights – double voting rights – restriction on voting rights

Under Article 31 of the bylaws, each shareholder shall have a number of votes corresponding to the number of shares held or represented by proxy, unless otherwise provided for in the applicable laws or regulations.

The General Shareholders' Meeting of June 21, 1974 decided to allocate double voting rights in respect of all fully paid-up shares registered in the name of the same holder for at least two years (Article 31.8 of the bylaws).

In the event of a capital increase paid up by capitalizing retained earnings, profits or additional paid-in capital, the registered bonus shares allocated in respect of shares carrying double voting rights shall also carry double voting rights.

Double voting rights shall be forfeited if registered shares are converted into bearer shares or transferred. However, registered shares shall not be stripped of double voting rights and the qualifying period shall continue to run following a transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an *inter vivos* gift to a spouse or a relative in the direct line of succession.

Any merger or demerger of the Company shall have no impact on double voting rights, which may be exercised in the surviving company if its bylaws so provide.

In accordance with the law, double voting rights may not be abolished by the Extraordinary Shareholders' Meeting unless this decision is first approved by a special meeting of holders of shares with double voting rights.

Under Article 31.12 of the bylaws, no shareholder may exercise more than 30% of the total voting rights attached to all of the Company's shares. The voting rights exercised by a shareholder for this purpose shall include the voting rights exercised directly by the shareholder himself/herself and in the capacity as proxy for another shareholder that are attached to shares (i) that he/she holds directly or indirectly and (ii) that are owned by another shareholder for which he/she is acting as proxy.

For the purposes of these provisions:

- the total number of voting rights attached to the Company's shares taken into account shall be calculated as at the date of the General Shareholders' Meeting concerned and the shareholders shall be informed thereof at the start of the meeting;
- the number of voting rights held directly or indirectly shall mean those voting rights attached to shares held by:
  - a private individual, either personally or as part of jointly-owned property, or
  - a company, group of entities, association or foundation; as well as voting rights attached to shares held by a company that is controlled – within the meaning of Article L.233-3 of the French Commercial Code – by a company, private individual, association, group of entities or foundation;
- the restrictions set out above shall not include voting rights exercised by the Chairman of a General Shareholders' Meeting when said voting rights are (i) attached to shares for which a proxy form has been returned to the Company without any named proxy, and (ii) do not individually infringe the specified restrictions.

The restrictions provided for above shall automatically become null and void, without the requirement for a new decision by shareholders in an Extraordinary Shareholders' Meeting, in the event that an individual or entity – acting alone or in concert with one or more other individuals or entities – acquires an interest in the Company representing two-thirds of the Company's capital or voting rights following a public tender offer for all of the Company's shares.

### 7.1.2.3 Rights and restrictions attached to shares

Under Article 9 of the bylaws:

- fully paid-up ordinary shares may be held either in registered or bearer form, at the shareholder's discretion, subject to compliance with the provisions of the applicable laws and regulations and the Board of Directors' Internal Rules concerning the form of shares held by certain categories of shareholder;
- Class A Preferred Shares must be held in registered form.

Under Article 12 of the bylaws, each share shall entitle its holder to a proportion of the Company's profits, net assets and any liquidation surplus equal to the proportion of capital represented by the share.

Where a shareholder must own a specific number of shares to exercise a particular right, notably in the event of an exchange or allocation of shares, a stock split, reverse stock-split, a capital increase or reduction, a merger, demerger, partial asset transfer, dividend payment or any other corporate action, any shares held that fall below the required number shall not confer any rights on their holders with respect to the Company, and the shareholders concerned shall be personally responsible for obtaining the necessary number of shares or rights, including through purchases or sales of shares or rights where required.



## Non-transferability of Class A Preferred Shares

In accordance with the bylaws as amended on February 13, 2018, Class A Preferred Shares have the following characteristics:

- under Articles 11.1 and 12, Class A Preferred Shares are non-transferable for a period of thirty-six (36) months (the "Non-transferability Period") as from the date of their issue;
- during the Non-transferability Period, they may not be transferred in any way except in connection with (i) an inheritance, settlement of marital property or donation, (ii) a universal asset transfer (*transmission universelle de patrimoine*), (iii) a contribution to a public offer on the Company's entire share capital, or (iv) the enforcement of a pledge;
- under Article 9, they are not admitted to trading on Euronext Paris;
- under Article 12.7, each Class A Preferred Share will automatically become transferable, rank *pari passu* with the Company's ordinary shares and be converted into one ordinary share at the earlier of the following two dates:
  - the end of the Non-transferability Period,
  - the date at which the Company were to be merged into another company not controlled by it within the meaning of Article L.233-3 of the French Commercial Code.

It should be noted that the conversion of Class A Preferred Shares into ordinary shares will have no impact on the double voting rights attached to the Class A Preferred Shares or on the minimum holding period required to qualify for double voting rights provided for in Article 31.8 of the bylaws, under the conditions provided for by law.

They will then be admitted to trading on Euronext Paris;

- under Article 7.2, in the event of a capital increase through the issue of ordinary shares with pre-emptive subscription rights, the holders of Class A Preferred Shares will have, under the conditions set out in the applicable laws and regulations, a pre-emptive right to subscribe to ordinary shares in proportion to the number of Class A Preferred Shares held, exercisable under the same conditions as the pre-emptive subscription rights attached to ordinary shares.

### 7.1.2.4 Conditions governing changes to share capital and shareholders' rights

The Company's bylaws do not require that the conditions to change share capital and shareholders' rights be more restrictive than prevailing legislation. These changes are subject to the approval of the shareholders at the Extraordinary Shareholders' Meeting deliberating in accordance with the rules of quorum and majority set out in the applicable laws and regulations.

## Special Shareholders' Meeting for holders of Class A Preferred Shares

Under Article 36 of the amended bylaws, holders of Class A Preferred Shares are consulted, under the conditions provided for by law, on matters falling specifically within their remit under the terms of the law. Special Shareholders' Meetings are called for holders of Class A Preferred Shares to decide on any changes in the rights attached to this class of share.

### 7.1.2.5 Disclosure obligation in the event of exceeding the threshold for ownership set out in the bylaws

Under Article 13 of the bylaws, in addition to the disclosures required under the applicable laws and regulations when certain ownership thresholds are crossed, any person or legal entity, acting alone or in concert with others, that becomes the owner - directly or indirectly through one or more companies controlled by said person or entity within the meaning of Article L.233-3 of the French Commercial Code - of 1% or more of the Company's capital or voting rights or any multiple thereof, as calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial Code and the General Regulations of the French financial markets authority (Autorité des marchés financiers - AMF), must notify the Company of the total number of shares and voting rights held as well as the total number of securities held that carry deferred rights to the Company's capital and the potential voting rights attached thereto.

Said notification shall be sent to the Company by registered letter with recorded delivery within four trading days of the relevant threshold being crossed.

The same disclosures are required - within the same timeframe and in accordance with the same conditions - in cases where a shareholder's interest falls below any of the thresholds referred to above.

The sanctions provided for by law in the event of a failure to comply with the disclosure requirements applicable when a legal threshold is crossed shall also apply if a shareholder does not comply with the disclosure requirements applicable in the bylaws, where requested by one or more shareholders holding at least 5% of the Company's capital or voting rights (with said request duly recorded in the minutes of the relevant General Shareholders' Meeting).

### 7.1.2.6 Provisions that could delay, postpone or prevent a change in control of the Company

The provisions of the bylaws or other contractual documents related to the Company that could delay, postpone or prevent a change in the Company's control are as follows: (i) the granting of double voting rights to any shareholder owning fully paid-up shares which the shareholder must prove have been registered in the name of the same shareholder for at least two years, (ii) the restriction on voting rights provided for by Article 31.12 of the bylaws, (iii) an agreement with the French State (see section 7.1.4.2).

## 7.1.3 Information on investments

### 7.1.3.1 Direct and indirect investments as of December 31, 2017

The direct and indirect investments which meet the criteria defined by the European Securities and Markets Authority (ESMA) in its March 2013 recommendation are set out in section 3.1, Note 33 and section 3.3, Note 3.1.

### 7.1.4 Relations with related parties

The list of joint ventures and associates accounted for under the equity method is presented in section 3.1, Note 33.

Quantified information on joint ventures is presented in section 3.1, Note 28. Transactions with associates were not material in 2016 or 2017.

Information on management compensation is presented in section 3.1, Note 29, section 3.3, Note 5.4 and section 6.6.2.

Information on transactions with related parties other than joint ventures is presented in section 3.1, Note 28.

#### 7.1.4.1 Relations with the French State

In 2017, Safran generated adjusted revenue of €914 million with the French State and entities in which it has interests, primarily in military areas.

The Aerospace Propulsion business (see section 1.3.1) develops, manufactures and maintains aircraft engines for the French armed forces. It is the industrial prime contractor for this equipment in major aviation projects.

The Aircraft Equipment business (see section 1.3.2) participates in major French military aviation programs, primarily in terms of landing gear and braking systems.

The Defense business (see section 1.3.3) applies the following technology on behalf of French government agencies across all defense areas (national defense and security of information systems):

- inertia for independent positioning, navigation and guidance systems for all types of vehicles and engines; inertia for flight command systems for helicopters;
- flight command systems for helicopters;
- optronics and signal processing for monitoring, observation, day/night imaging, warning and guidance systems;
- information technologies and systems integration.

The Security business, up until its sale (see section 1.3.4), implemented for French government agencies, across all security areas (security of individuals, assets and transport), biometrics for police systems and border checkpoints (visas, passports) and systems to ensure French territorial security and citizen safety.

### 7.1.3.2 Investments

In accordance with the provisions of Article L.233-6 of the French Commercial Code, in 2017 Safran acquired the following investments within the meaning of said Article:

- acquisition of a stake of around 7% in Kalray by Safran Corporate Ventures;
- acquisition of a stake of around 14% in Cailabs by Safran Corporate Ventures.

#### 7.1.4.2 Agreement with the French State relating to strategic assets and subsidiaries

In order to protect national interests and preserve national independence, and in the context of the proposed combination of Sagem and Snecma's businesses through the merger of these two companies, the French State reminded these companies of its right to a "golden share" with regard to Snecma of the kind defined in Article 10 of Law 86-912 of August 6, 1986. In exchange for the waiver of this right to a "golden share", the French State required sufficient contractual rights to ensure national interests are protected.

In view of this, a three-way agreement in lieu of a "golden share" was entered into by Sagem and Snecma (now Safran) and the French State on December 21, 2004 (the "2004 Agreement").

The merger between Snecma and Sagem which created Safran in 2005 and the various transactions completed by Safran since then have significantly changed the Group's scope, prompting Safran and the French State to amend the 2004 Agreement through a series of six successive addendums: Addendum no. 1 of March 31, 2011, Addendum no. 2 of June 29, 2011, Addendum no. 3 of December 16, 2011, Addendum no. 4 of December 1, 2014 (effective as of January 14, 2015), Addendum no. 5 of December 17, 2014 and Addendum no. 6 of June 24, 2016 (effective as of June 30, 2016).

Safran and the French State wished to consolidate the 2004 Agreement and its amendments into a single document (the "Agreement") and to update its contents.

The consolidated, updated Agreement, which supersedes the 2004 Agreement, provides notably as follows:

#### On corporate governance matters:

- Safran's competent bodies shall be invited to appoint the French State as a Director if its interest in the Company's share capital is less than 10% but more than 1%;
- Safran's competent bodies shall in addition be invited to appoint a member proposed by the French State to the Board of Directors if its interest in the Company's share capital is more than 5%;

the shareholders will thus be invited to approve the terms of office of these Directors;

- at the request of the French State, the Board of Directors shall be invited to appoint one of the persons referred to above to any Board committee that may be set up for the purpose of addressing matters directly related to its rights under the Agreement;

- the French State shall be entitled to appoint a non-voting representative to the Boards of Directors or equivalent bodies of Safran's strategic subsidiaries (Safran Ceramics and Safran Power Units) and subsidiaries owning sensitive defense assets.

**On strategic or sensitive defense assets and the entities that hold such assets:**

- the French State shall have a prior right of approval over:
  - sales of assets (other than those that do not affect the defense activities) owned by strategic subsidiaries and accordingly identified as strategic; sales of shares in strategic subsidiaries Safran Ceramics and Safran Power Units; and sales of shares in ArianeGroup Holding,
  - sales of certain assets identified as defense sensitive (such as engines, components and systems, high precision inertial navigation and missile guidance systems, financed directly or indirectly by the French Defense Ministry) owned by Group entities,
  - sales of shares in Safran Electronics & Defense, which owns sensitive defense assets,
  - acquisitions of interests resulting in a holding of more than 33.33% or more than 50% of the share capital or voting rights of the other Group companies that own sensitive defense assets,
  - projects conferring special management or information rights over strategic or sensitive defense assets or rights of representation on the administrative or management bodies of Safran Ceramics, Safran Power Units, ArianeGroup Holding or another entity owning sensitive defense assets controlled by Safran,

the French State's failure to respond within a period of 30 business days shall be deemed to constitute agreement, except in the case of proposals to sell shares in ArianeGroup Holding, in which case failure to respond shall be deemed to constitute refusal;

- the French State shall be informed beforehand of any proposal by a strategic subsidiary or an entity controlled by Safran that owns sensitive defense assets, to sell assets that do not

fall into these protected categories but whose sale could have a material impact on the independent management on French territory of the entity's strategic assets or sensitive defense assets;

- in the event a third party acquires more than 10% or a multiple of 10% of the capital or voting rights of Safran, and failing an agreement on other ways of protecting national interests in connection with the strategic assets, the French State shall be entitled to purchase the securities and assets of the strategic subsidiaries Safran Ceramics and Safran Power Units and the stake in ArianeGroup Holding at a price to be set by a panel of experts.

The Agreement is a related-party agreement and as such was authorized by Safran's Board of Directors on March 22, 2018. It was signed by Safran on March 26, 2018.

The Agreement will be submitted for the approval of the shareholders at the Annual General Meeting of May 25, 2018 (see section 8.2.1 of this Registration Document), in accordance with Article L.225-40 of the French Commercial Code.

**7.1.4.3 Other related-party agreements**

The related-party agreements and commitments authorized in previous years and which had continuing effect during this period, are presented in the Statutory Auditors' special report in section 8.4.1 of this Registration Document.

Related-party commitments made to the Chairman of the Board and the Chief Executive Officer and authorized by the Board of Directors on February 26, 2018 are presented in sections 6.6.2.1, 6.6.2.2 and 8.2.1 of this Registration Document as well as in the Statutory Auditors' special report (see section 8.4.1). They will be submitted for approval at the Annual General Meeting of May 25, 2018.

**7.2 INFORMATION ON SHARE CAPITAL**

**7.2.1 Share capital**

As of December 31, 2017, Safran's share capital amounted to €83,405,917, made up of 417,029,585 fully paid-up shares with a par value of €0.20 each.

There were no changes to the amount or structure of the share capital during 2017.

On February 13, 2018, Safran's share capital was increased by €5,330,211.60 through the creation of 26,651,058 Class A Preferred Shares (see section 7.2.2.1), with the result that since that date the share capital has amounted to €88,736,128.60, divided into:

- 417,029,585 fully paid-up ordinary shares with a par value of €0.20 each; and
- 26,651,058 fully paid-up Class A Preferred Shares with a par value of €0.20 each.

There were no other changes to the amount or structure of the share capital between February 13, 2018 and the filing date of this Registration Document.

## 7.2.2 Authorizations granted to the Board of Directors

### 7.2.2.1 Authorizations granted by the Annual General Meeting to the Board of Directors with respect to share capital increases

The authorizations with respect to share capital increases currently in force, already granted by shareholders to the Board of Directors, are summarized in section 8.2.5 of this Registration Document.

The authorization granted to the Board of Directors in the 33<sup>rd</sup> resolution of the Annual General Meeting of June 15, 2017 for the purpose of issuing, without pre-emptive subscription rights, Class A Preferred Shares in the event of a public exchange offer initiated by the Company, was used in February 2018 to compensate the 88,847,828 Zodiac Aerospace shares tendered by Zodiac Aerospace shareholders to the subsidiary exchange offer described in sections 2.5 and 8.3.

The authorization granted to the Board of Directors in the 23<sup>rd</sup> resolution of the Annual General Meeting on May 19, 2016 to grant existing or new shares of the Company free of consideration was used in July 2016 and March 2017 (see section 7.3.7.1).

The other authorizations with respect to share capital increases granted to the Board of Directors by the Annual General Meeting were not used in 2017 nor as of the filing date of this Registration Document.

### 7.2.2.2 Authorizations submitted for approval at the Annual General Meeting of May 25, 2018

A new authorization, described in section 8.2.2, will be submitted for approval at the Annual General Meeting of May 25, 2018.

## 7.2.3 The Company's securities

### 7.2.3.1 Other securities not representing the Company's capital

Other securities issued by Safran not representing the Company's capital as of the date of this Registration Document are set out in section 3.1, Note 22 and section 3.3, Note 3.9.

persons or entities falling within the scope of Article L.411-2-II of the French Monetary and Financial Code (*Code monétaire et financier*). The placement corresponded to an amount of €649,999,950.60, represented by 7,277,205 bonds with a nominal unit value of €89.32. In the event that Safran decided to provide only new shares, the maximum dilution would be 1.64%. The terms and conditions of the placement are described in section 3.1, Note 19.b and section 3.3, Note 3.9.

### 7.2.3.2 Securities carrying rights to shares of the Company

Pursuant to the Board of Directors' decision of December 17, 2015 acting on the shareholder authorization granted in the 21<sup>st</sup> resolution of the Annual General Meeting of April 23, 2015, on January 5, 2016 Safran carried out an issue of "OCEANE" bonds maturing on December 31, 2020. The issue was carried out by way of a private placement in France and outside France – apart from in the United States, Canada, Australia and Japan – among

The reports of the Chief Executive Officer and the Statutory Auditors on the use of this authorization can be found in sections 8.3 and 8.6.3 of the 2015 Registration Document.

### 7.2.3.3 Ratings

Safran has not, at this time, sought a rating from a financial rating agency. Moreover, to the best of the Company's knowledge, no unsolicited rating of Safran has been made by a financial rating agency.

## 7.2.4 History of the share capital since 2005

| Date                              | Transaction  | Safran share price<br>(in €) | Amount of share capital<br>(in €) | Number of shares           | Additional paid-in capital<br>(in € thousands) |
|-----------------------------------|--|------------------------------|-----------------------------------|----------------------------|--|
| February 13, 2018                 | Settlement of Class A Preferred Shares delivered in exchange as part of the Safran subsidiary exchange offer for Zodiac Aerospace shares | 0.20                         | 88,736,128.60                     | 443,680,643 <sup>(1)</sup> | 2,238,155                                      |
| Situation as of December 31, 2017 |  | 0.20                         | 83,405,917                        | 417,029,585                | 3,288,568                                      |
| May 11, 2005                      | Merger of Snecma into Sagem SA, now Safran   | 0.20                         | 83,405,917                        | 417,029,585                | 3,288,568                                      |
| March 17, 2005                    | Settlement of Sagem shares delivered in exchange as part of the Sagem public exchange offer for Snecma shares                            | 0.20                         | 73,054,834                        | 365,274,170                | 3,214,696                                      |
| Situation as of January 1, 2005   |  | 0.20                         | 35,500,000                        | 177,500,000                | 163,366  |

(1) Including 26,651,058 Class A Preferred Shares (see sections 2.5, 7.2.1 and 7.2.2.1).

## 7.2.5 Pledging of shares

To the best of the Company's knowledge, 125,893 shares representing 0.03% of the share capital were pledged as of December 31, 2017, compared with 265,958 shares representing 0.06% of the share capital as of December 31, 2016.

## 7.2.6 Treasury shares

### SITUATION AS OF DECEMBER 31, 2017

|                                  | Number of shares | % share capital | Carrying amount as of Dec. 31, 2017 (in €) | Total nominal value (in €) |
|----------------------------------|------------------|-----------------|--|----------------------------|
| Treasury shares, held directly   | 7,742,624        | 1.86            | 512,941,521.52                             | 1,548,524.8                |
| Treasury shares, held indirectly | -                | -               | -  | -                          |
| <b>TOTAL</b>                     | <b>7,742,624</b> | <b>1.86</b>     | <b>512,941,521.52</b>                      | <b>1,548,524.8</b>         |

## 7.2.7 Share buyback programs

The Annual General Meeting of June 15, 2017 by its 15<sup>th</sup> resolution authorized the Board of Directors, for a period of 18 months, to set up a share buyback program with the following primary characteristics:

Purpose of the program:

- > to maintain a liquid market in the Company's shares via a liquidity agreement that complies with the Code of Ethics drawn up by the French association of financial and investment firms (*Association Française des Marchés Financiers* - AMAFI), approved by the AMF, and entered into with an investment services firm;
- > for allocation or sale to employees and/or corporate officers of the Company or of other Group companies, in accordance with the terms and conditions provided for by law, notably in connection with a profit-sharing plan, free share grant plan, stock option plan, the Group employee savings plan, or any company employee savings plan in place within the Group;
- > for delivery on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- > to hold shares in treasury for subsequent delivery as payment or exchange for external growth transactions;
- > for cancellation in accordance with the authorization granted in the 22<sup>nd</sup> resolution of the Annual General Meeting of May 19, 2016.

Maximum percentage of share capital to be bought back:

- > 10% of share capital.

Maximum purchase price per share:

- > €95.

Total maximum amount that may be invested in the share buyback program:

- > €3.9 billion.

On June 15, 2017, this program superseded the previous program authorized by the Annual General Meeting of May 19, 2016 (21<sup>st</sup> resolution), with the same objectives, a maximum purchase price of €80 per share and a total maximum amount of €3.3 billion to be invested in the buyback program.

### 7.2.7.1 Treasury share transactions in 2017

#### Liquidity agreement

The liquidity agreement has been managed by Oddo Corporate Finance since February 1, 2012.

On January 11, 2017, Safran announced that it had made an additional contribution of €24 million in cash to increase the total resources allocated to the liquidity agreement to €40,000,000. This contribution reflects the increase in Safran's market capitalization since 2012.

#### Share buybacks

On December 12, 2016, Safran announced a buyback program for up to €450 million worth of its own shares in order to neutralize the dilutive effect of equity instruments on its balance sheet:

- > on December 8, 2016, Safran signed a share purchase agreement with a bank for an initial buyback tranche of up to €250 million;
- > on February 27, 2017, Safran signed a share purchase agreement with a different investment services firm for a second tranche of up to €200 million.

As of December 31, 2017, the two tranches had been successively completed and a total of 6,428,664 shares had been purchased under the above agreements for a total amount of €444 million.

In 2017, Safran purchased 3,700,272 treasury shares under a liquidity agreement (that complies with the AMAFI Code of Ethics) entered into with Oddo Corporate Finance:

- > 2,051,851 shares were purchased between January 1 and June 15, 2017, at an average price of €70.52;
- > 1,648,421 shares were purchased between June 16 and December 31, 2017, at an average price of €84.20.

### Sales of shares

In 2017, Safran sold 3,603,324 treasury shares under the above-mentioned liquidity agreement:

- > 1,859,375 shares were sold between January 1 and June 15, 2017, at an average price of €70.63;
- > 1,743,949 shares were sold between June 16 and December 31, 2017, at an average price of €84.36.

### Cancellation of shares

None.

### Delivery of free shares

None.

### Situation as of December 31, 2017

As of December 31, 2017, Safran directly held 7,742,624 of its own shares, representing 1.86% of its capital.

These treasury shares were held for the following purposes:

- > for allocation or sale to employees: 1,118,604 shares, representing 0.27% of the Company's capital;
- > to cover exchangeable debt securities: 6,428,664 shares, representing 1.54% of the Company's capital;
- > to maintain a liquid market in the Company's shares via a liquidity agreement: 195,356 shares, representing 0.05% of the Company's capital.

### Situation as of February 28, 2018

As of February 28, 2018, Safran directly held 7,742,624 of its own shares, representing 1.75% of its capital.

These treasury shares were held for the following purposes:

- > for allocation or sale to employees: 1,118,064 shares, representing 0.25% of the share capital;
- > to cover exchangeable debt securities: 6,428,664 shares, representing 1.45% of the share capital;
- > to maintain a liquid market in the Company's shares via a liquidity agreement: 195,356 shares, representing 0.05% of the share capital.

### 7.2.7.2 Description of the share buyback program to be approved by the Annual General Meeting of May 25, 2018

Under the 14<sup>th</sup> resolution, the Annual General Meeting of May 25, 2018 is invited to authorize a new share buyback program. Drafted in accordance with the provisions of Article 241-2 of the AMF's General Regulations, the program's description is presented below and will not be published separately pursuant to Article 241-3 of said Regulations.

The number of shares and percentage of share capital held directly or indirectly by the Company as of February 28, 2018 are set forth in section 7.3.1 of this Registration Document.

### Objectives of the share buyback program

In accordance with Regulation (EU) no. 596/2014 of the European Parliament, the AMF's General Regulations and market practices permitted by the AMF, the objectives of the share buyback program to be approved by the Annual General Meeting of May 25, 2018 are to purchase shares:

- > to maintain a liquid market in the Company's shares via a liquidity agreement that complies with the AMAFI Code of Ethics, approved by the AMF, and entered into with an investment services firm;
- > for allocation or sale to employees and/or corporate officers of the Company or of other Group companies, in accordance with the terms and conditions provided for by law, notably in connection with a profit-sharing plan, free share grant plan, stock option plan, the Group employee savings plan, or any company employee savings plan in place within the Group;
- > for delivery on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- > to hold shares in treasury for subsequent delivery as payment or exchange for external growth transactions;
- > for cancellation, pursuant to the share capital reduction authorization in effect, granted by the Annual General Meeting of June 15, 2017 (30<sup>th</sup> resolution).

The program is also designed to enable any current or future market practices permitted by the AMF to be carried out and, more generally, to enable any other authorized operations or operations that would be authorized in the future by the applicable regulations. The Company will inform its shareholders in a press release prior to carrying out any such operations.

### Maximum percentage of share capital, maximum number and purchase price, and characteristics of the shares the Company wishes to acquire

The number of shares that may be bought back under the program may not exceed 10% of the Company's total shares. This ceiling is reduced to 5% for shares acquired for the purpose of being held in treasury for subsequent delivery as payment or exchange for external growth transactions. When shares are bought back for the purpose of maintaining a liquid market in the Company's shares via a liquidity agreement, the number of shares included for the calculation of the 10% ceiling corresponds to the number of shares purchased less any shares sold during the authorization period.

Under no circumstances may the use of this authorization have the effect of increasing the number of Safran shares held by the Company, either directly or indirectly, to more than 10% of its share capital.

As of February 28, 2018, the Company's capital comprised 443,680,643 shares. Given the 7,742,624 shares already directly held by the Company at this date, the maximum number of shares the Company could acquire in connection with this buyback program would be 36,625,440 shares.

Shares may not be purchased at a price of more than €118 per share and the maximum amount that may be invested in the program is €5.2 billion.

Generally, Safran sets the maximum purchase price at around 130% of the highest closing price of the Safran share over the 12 months preceding the pricing date. It does not prescribe a target price.

The maximum number of shares and the maximum purchase price as indicated above may be adjusted to reflect the impact on the share price of any share capital transactions carried out by the Company.

### Share buyback program procedures

Shares may be purchased, sold, or transferred in one or several transactions and by any method allowed under the laws and regulations applicable at the transaction date, including over-the-counter and through a block trade for all or part of the program, as well as via the use of derivative financial instruments.

The Board of Directors may use this authorization at any time subject to the limitations set down by the applicable regulations, except during, or in the run-up to, a public offer for the Company's shares.

### Term of the share buyback program

This new share buyback program shall be valid for a period of 18 months as from the approval of the Annual General Meeting of May 25, 2018, i.e., until November 24, 2019 at the latest.

## 7.3 SHARE OWNERSHIP

### 7.3.1 Breakdown of share capital and voting rights

#### Situation as of December 31, 2017

To the best of the Company's knowledge, Safran's share capital and voting rights were held as follows as of December 31, 2017:

| Shareholders                     | Shares             |               | Exercisable voting rights |               | Theoretical voting rights <sup>(4)</sup> |               |
|----------------------------------|--------------------|---------------|---------------------------|---------------|--|---------------|
|                                  | Number             | % capital     | Number                    | %             | Number                                   | %             |
| Public float <sup>(1)</sup>      | 299,146,355        | 71.73         | 315,322,505               | 62.01         | 315,322,505                              | 61.09         |
| French State                     | 58,393,131         | 14.00         | 116,786,262               | 22.97         | 116,786,262                              | 22.62         |
| Employees <sup>(2)</sup>         | 30,861,700         | 7.40          | 55,471,370                | 10.91         | 55,471,370                               | 10.75         |
| BlackRock, Inc. <sup>(3)</sup>   | 20,885,775         | 5.01          | 20,885,775                | 4.11          | 20,885,775                               | 4.04          |
| Treasury shares, held directly   | 7,742,624          | 1.86          | -                         | -             | 7,742,624                                | 1.50          |
| Treasury shares, held indirectly | -                  | -             | -                         | -             | -  | -             |
| <b>TOTAL</b>                     | <b>417,029,585</b> | <b>100.00</b> | <b>508,465,912</b>        | <b>100.00</b> | <b>516,208,536</b>                       | <b>100.00</b> |

(1) Less the shares and voting rights held by BlackRock, Inc. (see (3) below).

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

(3) Number of shares and voting rights declared by BlackRock, Inc. as of September 14, 2017 (AMF notice no. 217C2147).

(4) Calculated based on all shares with voting rights, including treasury shares stripped of voting rights (Article 223-11 of the AMF's General Regulations).

To the best of the Company's knowledge, no shareholder apart from those listed in the table above held more than 5% of Safran's share capital or voting rights as of December 31, 2017.

#### Situation as of February 28, 2018

To the best of the Company's knowledge, Safran's share capital and voting rights were held as follows as of February 28, 2018:

| Shareholders                             | Shares             |               | Exercisable voting rights |               | Theoretical voting rights <sup>(4)</sup> |               |
|--|--------------------|---------------|---------------------------|---------------|--|---------------|
|  | Number             | % capital     | Number                    | %             | Number                                   | %             |
| Public float <sup>(1)</sup>              | 319,881,781        | 72.10         | 335,944,997               | 62.81         | 335,944,997                              | 61.92         |
| <i>of which Class A Preferred Shares</i> | 26,651,058         |               |                           |               |  |               |
| French State                             | 58,393,131         | 13.16         | 116,786,262               | 21.84         | 116,786,262                              | 21.52         |
| Employees <sup>(2)</sup>                 | 30,652,850         | 6.90          | 55,071,275                | 10.30         | 55,071,275                               | 10.15         |
| BlackRock, Inc. <sup>(3)</sup>           | 27,010,257         | 6.09          | 27,010,257                | 5.05          | 27,010,257                               | 4.98          |
| Treasury shares, held directly           | 7,742,624          | 1.75          |                           |               | 7,742,624                                | 1.43          |
| Treasury shares, held indirectly         |                    |               |                           |               |  |               |
| <b>TOTAL</b>                             | <b>443,680,643</b> | <b>100.00</b> | <b>534,812,791</b>        | <b>100.00</b> | <b>542,555,415</b>                       | <b>100.00</b> |

(1) Less the shares and voting rights held by BlackRock, Inc. (see (3) below).

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

(3) Number of shares and voting rights declared by BlackRock, Inc. as of February 28, 2018 (AMF notice no. 218C0517).

(4) Calculated based on all shares with voting rights, including treasury shares stripped of voting rights (Article 223-11 of the AMF's General Regulations).

## 7 INFORMATION ABOUT THE COMPANY, THE CAPITAL AND SHARE OWNERSHIP

### Share ownership

To the best of the Company's knowledge, no shareholder apart from those listed in the table above held more than 5% of Safran's share capital or voting rights as of February 28, 2018.

#### Double voting rights

As of December 31, 2017, 99,178,951 shares are entitled to double voting rights pursuant to Article 31.8 of the Company's bylaws.

The main Safran shareholders do not have different voting rights from those of other shareholders. Any shareholder may be entitled to double voting rights in accordance with the conditions stipulated in Article 31.8 of the Company's bylaws (see section 7.1.2.2).

### 7.3.2 Breakdown of share ownership by geographic origin

According to a survey on identifiable bearer shares carried out by Euroclear France, as of December 31, 2017, Safran's free-float shareholders break down as approximately 83.7% institutional investors, 7.1% index funds and other institutional holdings, 5.9% individual investors and 3.3% unidentified.

The breakdown of the institutional investors identified by geographic area is as follows: 45% are from North America, 25% are from the United Kingdom and Ireland, 16% are from France and 14% are from other countries.

Individual shareholders represent around 4.4% of Safran's share capital, the majority of them being French.

### 7.3.3 Change in the breakdown of share capital and voting rights over the last three years

| Shareholders                     | December 31, 2015         |               |                                | December 31, 2016         |               |                                | December 31, 2017         |               |                                |
|----------------------------------|---------------------------|---------------|--------------------------------|---------------------------|---------------|--------------------------------|---------------------------|---------------|--------------------------------|
|                                  | Number of shares          | % capital     | % voting rights <sup>(3)</sup> | Number of shares          | % capital     | % voting rights <sup>(3)</sup> | Number of shares          | % capital     | % voting rights <sup>(3)</sup> |
| Public float <sup>(1)</sup>      | 279,387,739               | 66.99         | 55.13                          | 295,517,241               | 70.87         | 60.26                          | 299,146,355               | 71.73         | 62.01                          |
| French State                     | 64,193,131                | 15.39         | 23.96                          | 58,393,131                | 14.00         | 22.62                          | 58,393,131                | 14.00         | 22.97                          |
| Employees <sup>(2)</sup>         | 33,100,170                | 7.94          | 11.03                          | 38,515,045                | 9.23          | 12.48                          | 30,861,700                | 7.40          | 10.91                          |
| BlackRock, Inc.                  | 26,538,434 <sup>(4)</sup> | 6.36          | 4.95                           | 21,545,597 <sup>(5)</sup> | 5.17          | 4.17                           | 20,885,775 <sup>(6)</sup> | 5.01          | 4.11                           |
| Club Sagem                       | 13,204,407                | 3.17          | 4.93                           | 1,220,084                 | 0.29          | 0.47                           | (7)                       | (7)           | (7)                            |
| Treasury shares, held directly   | 605,704                   | 0.14          | -                              | 1,838,487                 | 0.44          | -                              | 7,742,624                 | 1.86          | -                              |
| Treasury shares, held indirectly | -                         | -             | -                              | -                         | -             | -                              | -                         | -             | -                              |
| <b>TOTAL</b>                     | <b>417,029,585</b>        | <b>100.00</b> | <b>100.00</b>                  | <b>417,029,585</b>        | <b>100.00</b> | <b>100.00</b>                  | <b>417,029,585</b>        | <b>100.00</b> | <b>100.00</b>                  |

(1) Less the shares and voting rights held by BlackRock, Inc. (see section 7.3.1).

(2) Employee shareholding within the meaning of Article L.225-102 of the French Commercial Code.

(3) Exercisable voting rights.

(4) Number of shares declared by BlackRock, Inc. as of December 29, 2015 (AMF notice no. 215C2193).

(5) Number of shares declared by BlackRock, Inc. as of December 28, 2016 (AMF notice no. 216C2966).

(6) Number of shares declared by BlackRock, Inc. as of September 14, 2017 (AMF notice no. 217C2147).

(7) Included in Public float.

### 7.3.4 Disclosure thresholds

#### 7.3.4.1 Significant movements during 2017

##### Disclosure of the crossing of legal thresholds

The main legal thresholds that were crossed and disclosed were as follows:

1. Natixis Asset Management, on behalf of the company mutual fund FCPE Safran Investissement that it manages, reported that on November 30, 2017 it had fallen below the 5% threshold of share capital and that it held on such date,

on behalf of said FCPE, 20,849,900 shares, representing 4.99% of the share capital and 8.06% of the voting rights of the Company (AMF notice no. 217C2825).

2. BlackRock, Inc. made several disclosures, on behalf of the clients and funds that it manages, that it had both exceeded and fallen below the 5% threshold. Most recently, it reported that it had exceeded on September 14, 2017 the 5% threshold of share capital and that it held on such date, on behalf of said clients and funds, 20,885,775 shares, representing 5.01% of the share capital and 4.04% of the voting rights of the Company (AMF notice no. 217C2147).



## Disclosure of the crossing of statutory thresholds

The following are the material statutory thresholds as disclosed to Safran:

| Shareholder                        | Date of crossing   | Reported statutory threshold crossed | Upward or downward | Reported number of shares post-crossing | Reported % of capital post-crossing | Reported % of voting rights <sup>(1)</sup> post-crossing |
|------------------------------------|--------------------|--------------------------------------|--------------------|---|-------------------------------------|--|
| FCPE Safran Investissement         | November 30, 2017  | 5% of capital                        | Downward           | 20,849,900                              | 4.99                                | 8.06   |
| Banque Fédérative du Crédit Mutuel | October 13, 2017   | 1% of capital                        | Downward           | 1,236,593                               | 0.3                                 | 0.24   |
| AMUNDI                             | September 27, 2017 | 1% of voting rights                  | Downward           | 5,169,876                               | 0.99                                |  |
| Viking Global Investors LP         | September 14, 2017 | 1% of capital                        | Downward           | 4,061,574                               | 0.974                               | 0.786  |
| FCPE Avenir Sagem                  | September 12, 2017 | 2% of capital                        | Downward           | 8,327,190                               | 1.99                                |  |
| Wellington Management Group        | August 4, 2017     | 1% of capital                        | Upward             | 4,429,114                               | 1.06                                |  |
| Lone Pine Capital LLC              | August 2, 2017     | 3% of voting rights                  | Upward             | 15,652,740                              | 3.753                               | 3.027  |
| Egerton Capital                    | June 1, 2017       | 2% of capital                        | Upward             | 8,354,570                               | 2                                   |  |
| Harris Associates LP               | April 21, 2017     | 2% of capital                        | Downward           | 8,187,830                               | 1.96                                |  |
| Tweedy, Browne Company LLC         | April 4, 2017      | 1% of capital and voting rights      | Upward             | 6,731,870                               | 1.614                               | 1.579  |
| Davis Selected Advisers LP         | March 28, 2017     | 1% of capital                        | Upward             | 5,507,988                               |                                     |  |

(1) Theoretical voting rights.

### 7.3.4.2 Significant movements since January 1, 2018

The main reported threshold crossings as declared between January 1, 2018 and March 15, 2018 were as follows:

- BlackRock, Inc. made several disclosures, on behalf of the clients and funds that it manages, that it had both exceeded and fallen below the 5% legal threshold since January 1, 2018. Most recently, it reported that it had exceeded on March 1, 2018 the 5% threshold of voting rights and that it held on such date, on behalf of said clients and funds, 27,598,613 shares, representing 6.22% of the share capital.
- Egerton Capital (UK) LLP, on behalf of the funds that it manages, reported that it had fallen below on February 2, 2018 the 2% threshold of share capital and that it held on such date, on behalf of said funds, 8,093,203 shares, representing 1.94% of the share capital.
- The party acting in concert formed by Fonds Stratégique de Participations, FFP Invest and FFP reported:
  - on February 16, 2018, that it had exceeded the 1% threshold of share capital stipulated in the Company's bylaws and that it held on such date 5,251,027 shares (including 4,875,790 Class A Preferred shares and 375,237 ordinary shares) representing 1.18% of the share capital and 0.97% of the voting rights of the Company;
  - on March 6, 2018, that on March 1, 2018 it had exceeded the 1% threshold of voting rights stipulated in the Company's bylaws and that it held on such date 5,980,889 shares (including 4,875,790 Class A Preferred shares and 1,105,099 ordinary shares) representing 1.35% of the share capital and 1.10% of the voting rights of the Company.

4. The French State declared on February 26, 2018, that it had fallen below (passive crossing) the 14% threshold of share capital and 22% of voting rights stipulated in the Company's bylaws and that, at that date, it held 58,393,131 shares representing 13.16% of the share capital and 21.52% of the voting rights of the Company.

5. Lone Pine Capital LLC, on behalf of the funds that it manages, reported that it had fallen below (passive crossing) on March 5, 2018 the 3% threshold of share capital stipulated in the Company's bylaws and that it held on such date, on behalf of said funds, 13,106,722 shares, representing 2.95% of the share capital and 2.41% of the voting rights of the Company.

### 7.3.4.3 Trigger level for mandatory bids – grandfather clause

No shareholder benefits from a “grandfather” clause providing an exception from the legal trigger level for mandatory filing of a public offer.

The French State, a shareholder of the Company, benefited from a grandfather clause from February 2011 to March 2013 (described in section 7.3.4.3 of the 2013 Registration Document).

## 7.3.5 Control of the Company – shareholders' agreement

As of the date of filing of this Registration Document, no shareholder held, directly or indirectly, jointly or in concert with another shareholder, a percentage of voting rights conferring control of the Company.

To the best of the Company's knowledge, there are no current shareholder agreements relating to Safran shares.

### 7.3.6 Agreements whose implementation could lead to a change in control of the Company

To the best of the Company's knowledge, there are no agreements whose implementation at a later date could lead to a change in control of the Company.

### 7.3.7 Employee shareholders

#### 7.3.7.1 Free share grants

At its March 23, 2017 meeting, using the authorization granted in the 23<sup>rd</sup> resolution of the Annual General Meeting of May 19, 2016, the Board of Directors authorized a grant of performance shares to certain managers and executives of the Group (2017 Long-Term Incentive Plan, as described in section 6.6.4.3 of the 2016 Registration Document and also referred to in section 6.6.4.2 of this Registration Document). This grant will be subject to the same continuing service and performance conditions as the grant authorized on July 28, 2016 (see sections 6.6.4.2 and 7.3.7.1 of the 2016 Registration Document). The vesting period has been set at three years (2017-2019) and the number of shares that will ultimately vest will depend on the extent to which the applicable conditions are met over that period. Under the 2017 Long-Term Incentive Plan, 27,165 performance shares were granted to the Chief Executive Officer (see section 6.6.2.2 of the 2016 Registration Document).

Safran affiliates have not granted free shares.

#### 7.3.7.2 Other transactions

Following the sale by the French State of 2.64% of the Company's share capital on December 1, 2015 (see section 7.3.4.1 of the 2015 Registration Document) in accordance with Article 31.2 of French government *ordonnance* (order) 2014-948 of August 20, 2014 regarding the governance of companies in which the French State has a stake and regarding corporate actions

### 7.3.8 Temporary transfer of Safran shares

In accordance with French law, any individual or legal entity (with the exception of the investment services firms described in paragraph IV-3 of Article L.233-7 of the French Commercial Code) holding alone or in concert a number of shares representing more than 0.5% of the Company's voting rights pursuant to one or more temporary transfers or similar transactions within the meaning of Article L.225-126 of the aforementioned Code, is required to notify the Company and the AMF of the number of shares owned on a temporary basis no later than the second business day preceding the Shareholders' Meeting at zero hours.

### Undertaking to hold securities

To the best of the Company's knowledge, there is no collective undertaking to hold securities relating to Safran shares.

involving these companies, as amended by French Act 2015-990 of August 6, 2015 on growth, business and equal economic opportunities, 1,222,222 additional shares representing 0.29% of the capital will be offered to current and former employees of Safran and its subsidiaries at a later date.

Following the sale by the French State of 1.39% of the Company's share capital on November 23, 2016 (see section 7.3.4.1 of the 2016 Registration Document) in accordance with Article 31.2 of the French government *ordonnance* (order) 2014-948 of August 20, 2014 regarding the governance of companies in which the French State has a stake and regarding corporate actions involving these companies, as amended by French Act 2015-990 of August 6, 2015 on growth, business and equal economic opportunities, 644,444 additional shares representing 0.15% of the capital will be offered to current and former employees of Safran and its subsidiaries at a later date.

#### 7.3.7.3 Stock options

No authorizations for the Board of Directors to give stock options granting entitlement to subscribe for new shares of the Company or to purchase existing shares were in force as of December 31, 2017 or the date of this Registration Document.

There is no stock subscription or stock purchase option plan in progress.

Safran affiliates do not grant stock subscription or purchase options.

If no notification is sent, any shares acquired under a temporary transfer will be stripped of voting rights at the Shareholders' Meeting concerned and at any Shareholders' Meeting that may be held until such shares are resold or returned.

No disclosures of temporary transfers were notified to the Company in 2017.

No disclosures of temporary transfers were notified to the Company between January 1, 2018 and the filing date of the Registration Document.

## 7.4 RELATIONS WITH SHAREHOLDERS

### 7.4.1 Accessible financial information

The following financial information and financial publications are available on the website at [www.safran-group.com](http://www.safran-group.com) in the Finance section:

- > the annual report (including the sustainable development report);
- > the Registration Document (including the annual financial report) and the half-year financial report filed with the AMF;
- > financial press releases and financial publications (results, Capital Markets Day, roadshow, etc.);

- > documents relating to the Shareholders' Meeting;
- > the shareholders' newsletter, the shareholders' guide, and the site visit program (reserved for members of the Safran Shareholders' Club).

The information can be mailed upon request from the Financial Communications Department.

Lastly, a website dedicated to the public offer targeting Zodiac Aerospace shares was created in 2017 to bring together all of the documentation concerning this transaction.

### 7.4.2 Relations with institutional investors and financial analysts

To ensure good relations with the financial community, the Financial Communications Department regularly organizes events to enable financial analysts and institutional investors to meet with Executive Management.

In 2017, Executive Management participated in conference calls during which it presented financial data (quarterly revenue, first-half and annual results) and the planned combination with Zodiac Aerospace and answered questions from investors and financial analysts.

Throughout the year, Executive Management and the Financial Communications Department also participated in meetings with the financial community (financial analysts and institutional investors) in the form of conference calls, roadshows in France and abroad as well as during the Le Bourget Air Show in June. These regular contacts contribute to developing a relationship of trust.

In March 2016, Safran held an investor meeting (Capital Markets Day) in London for financial analysts and investors. This event was led by the Chief Executive Officer, assisted by members of the Executive Committee and the Executive Management team.

At the Capital Markets Day, the Group's management executives presented Safran's strategic priorities, business model and innovation initiatives during plenary sessions which focused on civil engines and aircraft equipment. A broadcast and the related slides can be viewed on Safran's website at <https://www.safran-group.com/finance>.

The Safran share is monitored by more than 20 financial analysts.

### 7.4.3 Relations with individual shareholders

Safran organized two meetings in 2017 especially for individual shareholders, with a view to developing a close, trust-based relationship with them. The first of these meetings was held in Biarritz on September 21, 2017, and the second in Le Havre on December 7, 2017.

To further strengthen these relationships, Safran proposes site visits to members of the Shareholders' Club. Six half-day visits were organized in 2017 during which 100 people got an insider's view of the Group's business activities. The Group also organized a visit to the Palais Brongniart, the historical home of the Paris stock exchange, followed by an introduction to the stock market provided by the French financial training institute École de la Bourse.

### 7.4.4 Provisional shareholders' calendar

First-quarter 2018 revenue: April 25, 2018.

Ordinary and Extraordinary Shareholders' Meeting: May 25, 2018 (2 p.m.) at "Espace Grande Arche", La Défense in Paris - France.

First-half 2018 results: September 6, 2018.

### 7.4.5 Investor relations' contacts

2, boulevard du Général-Martial-Valin

75724 Paris Cedex 15 - France

Tel.: +33 (0)1 40 60 80 80

| Investors and analysts   | Individual shareholders and Shareholders' Club   |
|--|--|
| <ul style="list-style-type: none"><li>&gt; Email: <a href="mailto:investor.relation@safrangroup.com">investor.relation@safrangroup.com</a></li></ul> | <ul style="list-style-type: none"><li>&gt; Toll-free number (France only): 0 800 17 17 17</li><li>&gt; Email: <a href="mailto:actionnaire.individuel@safrangroup.com">actionnaire.individuel@safrangroup.com</a></li></ul> |

## 7.5 STOCK MARKET INFORMATION

The Safran share (ISIN code: FR0000073272 - Ticker symbol: SAF) is listed on compartment A of the Euronext Paris Eurolist market and is eligible for deferred settlement (see Euronext notice 2005-1865 of May 11, 2005).

Since September 19, 2011, the Safran share has been included in the CAC 40, CAC 40 Equal Weight, CAC Large 60, SBF 120, CAC All-Tradable, CAC All-Share, CAC Industrials, CAC Aero & Def., Euronext 100 and Euronext FAS IAS indices. The Safran share has been included in the LC 100 Europe index since March 21, 2011 and the Euro STOXX 50 index since September 21, 2015.

| Main stock market data over three years                 | 2015               | 2016               | 2017               |
|---|--------------------|--------------------|--------------------|
| <b>Number of shares as of December 31</b>               | <b>417,029,585</b> | <b>417,029,585</b> | <b>417,029,585</b> |
| <b>Safran share price (in €)</b>                        |                    |                    |                    |
| High  | 72.450             | 69.890             | 92.250             |
| Low   | 50.620             | 48.865             | 61.510             |
| Closing   | 63.370             | 68.420             | 85.910             |
| Market capitalization as of December 31 (in € millions) | 26,427             | 28,533             | 35,827             |

| Change in share price from January 1, 2017 to February 28, 2018 |             | Average share price* (in €) | High (in €) | Low (in €) | Average daily transactions (in number of shares) | Average market capitalization** (in € millions) |
|---|-------------|-----------------------------|-------------|------------|--|---|
| January   | <b>2017</b> | 66.239                      | 69.870      | 62.700     | 1,328,839  | 27,624  |
| February  |             | 64.511                      | 67.550      | 61.510     | 1,107,872  | 26,903  |
| March   |             | 68.948                      | 70.300      | 67.170     | 939,498  | 28,753  |
| April   |             | 73.432                      | 77.120      | 69.810     | 1,112,881  | 30,623  |
| May   |             | 77.364                      | 80.090      | 74.970     | 1,001,988  | 32,263  |
| June  |             | 80.025                      | 82.790      | 76.960     | 1,028,049  | 33,373  |
| July  |             | 81.740                      | 83.880      | 79.600     | 909,566  | 34,088  |
| August  |             | 81.920                      | 84.270      | 78.940     | 783,809  | 34,163  |
| September   |             | 83.993                      | 86.440      | 80.720     | 920,854  | 35,028  |
| October   |             | 87.165                      | 92.250      | 85.000     | 755,813  | 36,350  |
| November  |             | 88.325                      | 91.430      | 85.960     | 1,006,141  | 36,834  |
| December  |             | 87.877                      | 89.950      | 85.000     | 811,837  | 36,647  |
| January   | <b>2018</b> | 89.655                      | 92.360      | 83.780     | 811,735  | 39,778  |
| February  |             | 87.724                      | 91.560      | 81.040     | 1,086,826  | 38,921  |

(\*) Average closing price.

(\*\*) Out of the 417,029,585 shares that comprised the share capital from January 1, 2017 to February 13, 2018 and out of the 443,680,643 shares that comprised the share capital from February 13, 2018 to February 28, 2018. Source: Euronext.

|              |   |            |              |   |            |              |  |            |
|--------------|---|------------|--------------|---|------------|--------------|--|------------|
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# ANNUAL GENERAL MEETING

# 8



## IN BRIEF

### PRESENTATION OF THE RESOLUTIONS

- > Approval of the parent company and consolidated financial statements for the year ended December 31, 2017.
- > Appropriation of profit for the year and approval of the recommended dividend.
- > Related-party agreement and commitments.
- > Re-appointment/appointments of Directors.
- > Approval of the components of compensation and benefits paid or awarded to corporate officers.
- > Compensation policy.
- > Authorization for the Board of Directors to carry out a share buyback program.
- > Amendments to the Company's bylaws.
- > Grant of performance shares free of consideration.
- > Powers to carry out formalities.

14

Ordinary  
resolutions

3

Extraordinary  
resolutions

1

Resolution  
concerning powers  
to carry out formalities

The Annual General Meeting will be held on **May 25, 2018** at "Espace Grande Arche", La Défense in Paris, France.

### DIVIDEND

At the Annual General Meeting on May 25, 2018, the Board of Directors will recommend the payment of a **€1.60 per-share dividend** for 2017, representing a total payout of approximately €710 million.

| Year               | 2014  | 2015  | 2016  |
|--------------------|-------|-------|-------|
| Dividend per share | €1.20 | €1.38 | €1.52 |



## 8.1 AGENDA

### Ordinary resolutions

|                        |   |
|------------------------|---|
| First resolution:      | Approval of the parent company financial statements for the year ended December 31, 2017  |
| Second resolution:     | Approval of the consolidated financial statements for the year ended December 31, 2017  |
| Third resolution:      | Appropriation of profit for the year and approval of the recommended dividend   |
| Fourth resolution:     | Approval of a related-party commitment governed by Article L.225-42-1 of the French Commercial Code, given to Ross McInnes (Chairman of the Board of Directors) concerning pension benefits |
| Fifth resolution:      | Approval of a related-party commitment governed by Article L.225-42-1 of the French Commercial Code, given to Philippe Petitcolin (Chief Executive Officer) concerning pension benefits     |
| Sixth resolution:      | Approval of a related-party agreement entered into with the French State, governed by Article L.225-38 of the French Commercial Code  |
| Seventh resolution:    | Re-appointment of Monique Cohen as a Director   |
| Eighth resolution:     | Appointment of Didier Domange as a Director   |
| Ninth resolution:      | Appointment of F&P as a corporate Director  |
| Tenth resolution:      | Approval of the fixed, variable and exceptional components of the total compensation and benefits paid or awarded to the Chairman of the Board of Directors for 2017                        |
| Eleventh resolution:   | Approval of the fixed, variable and exceptional components of the total compensation and benefits paid or awarded to the Chief Executive Officer for 2017                                   |
| Twelfth resolution:    | Approval of the compensation policy applicable to the Chairman of the Board of Directors  |
| Thirteenth resolution: | Approval of the compensation policy applicable to the Chief Executive Officer   |
| Fourteenth resolution: | Authorization for the Board of Directors to carry out a share buyback program   |

### Extraordinary resolutions

|                         |  |
|-------------------------|--|
| Fifteenth resolution:   | Extension of the Board of Directors' powers to relocate the Company's registered office and related amendment to Article 4 of the bylaws   |
| Sixteenth resolution:   | Rules for appointing Alternate Auditors and related amendment to Article 40 of the bylaws  |
| Seventeenth resolution: | Authorization for the Board of Directors to grant existing or new shares of the Company, free of consideration, to employees and corporate officers of the Company and other Safran group entities, with a waiver of shareholders' pre-emptive subscription rights |

### Resolution concerning powers to carry out formalities

|                        |                                 |
|------------------------|---------------------------------|
| Eighteenth resolution: | Powers to carry out formalities |
|------------------------|---------------------------------|

## 8.2 REPORT OF THE BOARD OF DIRECTORS ON THE RESOLUTIONS PUT FORWARD AT THE ANNUAL GENERAL MEETING AND TEXT OF THE PROPOSED RESOLUTIONS

The proposed resolutions that will be submitted for shareholder approval at Safran's Annual General Meeting on May 25, 2018 are presented below.

Each of the resolutions is preceded by an explanatory paragraph providing a description of the resolution and setting out the reasons why it is being proposed.

### 8.2.1 Ordinary resolutions

#### Approval of the parent company and consolidated financial statements for the year ended December 31, 2017

##### Presentation of the first and second resolutions

Shareholders are invited to approve the parent company and consolidated financial statements for the year ended December 31, 2017 as well as the expenses incurred during the year that are not deductible for tax purposes (company vehicles):

- the parent company financial statements show that the Company ended 2017 with profit of €1,360 million;
- the consolidated financial statements show attributable profit for the year amounting to €4,790 million.

##### Text of the first resolution

#### Approval of the parent company financial statements for the year ended December 31, 2017

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the management report prepared by the Board of Directors and the Statutory Auditors' report on the parent company financial statements, the shareholders approve the financial statements of the parent company for the year ended December 31, 2017 as presented - showing profit for the year of €1,359,762,344.15 - together with the transactions reflected in those financial statements and referred to in those reports.

Pursuant to Article 223 *quater* of the French Tax Code (*Code général des impôts*), the shareholders approve the non-deductible expenses governed by Article 39-4 of said Code, which totaled €139,570 and gave rise to a tax charge of €62,011.

##### Text of the second resolution

#### Approval of the consolidated financial statements for the year ended December 31, 2017

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the management report prepared by the Board of Directors and the Statutory Auditors' report on the consolidated financial statements, the shareholders approve the consolidated financial statements for the year ended December 31, 2017 as presented, together with the transactions reflected in those financial statements and referred to in those reports.

#### Appropriation of profit for the year and approval of the recommended dividend

##### Presentation of the third resolution

The Company's distributable profit for 2017 totals €3,161 million, breaking down as €1,360 million in profit for the year plus €1,801 million in retained earnings brought forward from the previous year.

The Board of Directors is recommending a total dividend payout of €710 million, corresponding to a per-share dividend of €1.60 (as the Company's capital is divided into 443,680,643 shares, of which 417,029,585 ordinary shares and 26,651,058 Class A Preferred Shares - see section 7.2.1 of this Registration Document). This recommended dividend payment is 5.3% higher than the dividend paid for 2016.

The remaining €2,451 million of distributable profit would be allocated to retained earnings.

For individual shareholders domiciled for tax purposes in France, this dividend will be subject to the 12.8% flat-rate tax provided for in Article 200 A of the French Tax Code, as amended by Article 28, I-28° of the 2018 French Finance Act. This flat-rate tax will automatically apply unless the taxpayer expressly opts to be taxed based on the standard income tax bands for all of his or her investment income. For shareholders who exercise this option, the dividend will be eligible for the 40% tax relief provided for in Article 158, 3-2° (as amended) of the French Tax Code.

The ex-dividend date will be May 29, 2018 and the dividend will be paid on May 31, 2018.

##### Text of the third resolution

#### Appropriation of profit for the year and approval of the recommended dividend

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, and based on the Board of Directors' recommendation, the shareholders resolve to appropriate the profit for the year ended December 31, 2017 as follows:

|                                   |                   |
|-----------------------------------|-------------------|
| Profit for 2017                   | €1,359,762,344.15 |
| Retained earnings <sup>(1)</sup>  | €1,801,147,979.31 |
| Profit available for distribution | €3,160,910,323.46 |
| Appropriation:                    |                   |
| Dividend                          | €709,889,028.80   |
| Retained earnings                 | €2,451,021,294.66 |

(1) Including €7,301,487.92 corresponding to the 2016 dividend due on shares held in treasury at the dividend payment date.

## Report of the Board of Directors on the resolutions put forward at the Annual General Meeting

Accordingly, the dividend paid will be €1.60 per share.

The ex-dividend date will be May 29, 2018 and the dividend will be paid on May 31, 2018.

For individual shareholders domiciled for tax purposes in France, this dividend will be subject to the 12.8% flat-rate tax provided for in Article 200 A of the French Tax Code, as amended by Article 28, I-28° of the 2018 French Finance Act. This flat-rate tax will automatically apply unless the taxpayer expressly opts to be taxed based on the standard income tax bands for all of

his or her investment income. For shareholders who exercise this option, the dividend will be eligible for the 40% tax relief provided for in Article 158, 3-2° (as amended) of the French Tax Code.

The shareholders resolve that dividends not payable on shares held in treasury at the dividend payment date will be credited to retained earnings.

The shareholders note that dividends paid for the past three years were as follows:

|      | Number of shares carrying dividend rights <sup>(1)</sup> | Net dividend per share | Total payout <sup>(5)</sup> |
|------|--|------------------------|-----------------------------|
| 2016 | 409,239,433 <sup>(2)</sup>                               | €1.52                  | €626,602,111.28             |
| 2015 | 416,410,610 <sup>(3)</sup>                               | €1.38                  | €574,637,624.40             |
| 2014 | 416,459,463 <sup>(4)</sup>                               | €1.20                  | €499,711,590.56             |

(1) Total number of shares making up the Company's capital (417,029,585) less the number of Safran shares held in treasury at the dividend payment date.

(2) An interim dividend (€0.69) was paid on 415,845,481 shares and the remainder of the dividend (€0.83) was paid on 409,239,433 shares.

(3) An interim dividend (€0.60) was paid on 416,395,581 shares and the remainder of the dividend (€0.78) was paid on 416,410,610 shares.

(4) An interim dividend (€0.56) was paid on 416,388,454 shares and the remainder of the dividend (€0.64) was paid on 416,459,463 shares.

(5) Fully eligible for the 40% tax relief provided for under Article 158, 3-2° of the French Tax Code.

## Related-party commitments

### Presentation of the fourth and fifth resolutions

The Chairman and the Chief Executive Officer are both members of the Group's general supplementary pension plan system. In late 2017, two of the plans within this system were amended. These correspond to the two "Article 83" defined contribution supplementary pension plans which, following a collective bargaining process with the relevant trade unions, were amended in order to harmonize Group-wide in France this major element of the compensation packages of French managerial staff.

The amendments concern the various contribution rates (based on the applicable ranges of compensation) provided for in both plans. They do not increase the amount of the benefit (overall, the contribution rates paid under the two plans will remain at 8%), and will even result in lower contributions and charges payable by Safran for the Chairman and the Chief Executive Officer and a slight decrease in the amount of their respective post-employment benefits.

Although the amendments do not alter the substance of the related benefit obligations, the Board's decision to open up the two amended "Article 83" plans to the Chairman and the Chief Executive Officer is subject to a vote by shareholders at the Annual General Meeting as part of the "related-party commitments" procedure.

The Chairman and the Chief Executive Officer were already members of the previous "Article 83" plans, bearing in mind that Safran's policy is to align the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff in order that when in-house executives are promoted to corporate officer positions they do not lose their existing benefit entitlements that they have accrued over time.

### Details of the new "Article 83" defined contribution supplementary pension plans and amendments to the old plan:

- > the new "Article 83 Core Plan" (which replaces the previous plans for the Group's French companies including that of Safran SA) will be financed through employer contributions equal to 1.5% of salary Tranche A<sup>(1)</sup>, 4% of Tranches B and C and no contributions on Tranche D (as opposed to 2% of gross salary with no cap, i.e., including on Tranche D, under Safran SA's previous plan);
- > the contribution rates for Safran SA's amended "Article 83 Additional Plan" will be changed to 6.5% on Tranche A and 4% on Tranches B and C (as opposed to 6% on Tranches A, B and C under Safran SA's previous plan).

On February 26, 2018, the Board of Directors decided that the Chairman and the Chief Executive Officer could be beneficiaries of the new "Article 83" defined contribution supplementary pension system effective from January 1, 2018 under the same terms and conditions as the other managerial-grade staff who are beneficiaries under the system. The Chairman and the Chief Executive Officer did not take part in the Board's vote concerning them.

Consequently, shareholders at the May 25, 2018 Annual General Meeting are invited to approve the above-described commitments given to the Chairman and the Chief Executive Officer in the following resolutions:

- > the 4<sup>th</sup> resolution for the Chairman of the Board of Directors; and
- > the 5<sup>th</sup> resolution for the Chief Executive Officer.

(1) To calculate the amount of pension contributions, the pension funds divide gross annual salary into three tranches, A, B and C. The portion of salary attributed to each tranche determines the amount of the contributions. Tranche A corresponds to the portion of salary below the social security ceiling. Tranche B corresponds to the portion of salary between one and four times the social security ceiling. Tranche C corresponds to the portion of salary between four and eight times the social security ceiling.

### Text of the fourth resolution

#### Approval of a related-party commitment governed by Article L.225-42-1 of the French Commercial Code, given to Ross McInnes (Chairman of the Board of Directors) concerning pension benefits

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the Statutory Auditors' special report on related-party commitments governed by Article L.225-42-1 of the French Commercial Code, the shareholders approve (i) the commitment described therein given to Ross McInnes (Chairman of the Board of Directors) concerning Safran's new "Article 83" defined contribution supplementary pension system, and (ii) the related provisions of said report.

### Text of the fifth resolution

#### Approval of a related-party commitment governed by Article L.225-42-1 of the French Commercial Code, given to Philippe Petitcolin (Chief Executive Officer) concerning pension benefits

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the Statutory Auditors' special report on related-party commitments governed by Article L.225-42-1 of the French Commercial Code, the shareholders approve (i) the commitment described therein given to Philippe Petitcolin (Chief Executive Officer) concerning Safran's new "Article 83" defined contribution supplementary pension system, and (ii) the related provisions of said report.

## Related-party agreement

### Presentation of the sixth resolution

When Snecma was privatized following its merger with Sagem SA, the French State agreed to waive its right, pursuant to Article 10 of the privatization act of August 6, 1986, to take a golden share in Snecma, provided that equivalent contractual rights were granted in an agreement.

In order to protect the national interest and preserve the country's national independence, the French State therefore entered into an agreement on December 21, 2004 with Sagem and Snecma related to strategic defense assets and subsidiaries (the "2004 Agreement"). The 2004 Agreement is designed to (i) give the French State control over the ownership and, where applicable, the devolution of all or part of certain assets and shares of subsidiaries or other equity investments owned by the companies party to the 2004 Agreement, combined with certain acquisition thresholds, and (ii) to give the French State rights of representation on the governing bodies of the strategic subsidiaries and subsidiaries owning assets related to French combat aircraft engines.

The merger between Snecma and Sagem which created Safran in 2005 and the various transactions completed by Safran since then have significantly changed the Group's scope, prompting Safran and the French State to amend the 2004 Agreement through a series of six successive addendums.

Safran and the French State wished to consolidate the 2004 Agreement and its amendments into a single document (the "Agreement") and to update its contents.

The consolidated, updated Agreement, which supersedes the 2004 Agreement, provides notably as follows:

On corporate governance matters:

- Safran's competent bodies shall be invited to appoint the French State as a Director if its interest in the Company's share capital is less than 10% but more than 1%;
- Safran's competent bodies shall in addition be invited to appoint a member proposed by the French State to the Board of Directors if its interest in the Company's share capital is more than 5%;

the shareholders will thus be invited to approve the terms of office of these Directors;

- at the request of the French State, the Board of Directors shall be invited to appoint one of the persons referred to above to any Board committees that may be set up for the purpose of addressing matters directly related to its rights under the Agreement;
- the French State shall be entitled to appoint a non-voting representative to the Boards of Directors or equivalent

bodies of Safran's strategic subsidiaries (Safran Ceramics and Safran Power Units) and subsidiaries owning sensitive defense assets.

On strategic or sensitive defense assets and the companies that hold such assets:

- the French State shall have a prior right of approval over:
  - sales of assets (other than those that do not affect the defense activities) owned by strategic subsidiaries and accordingly identified as strategic; sales of shares in strategic subsidiaries Safran Ceramics and Safran Power Units; and sales of shares in ArianeGroup Holding,
  - sales of certain assets identified as defense sensitive (such as engines, components and systems, high precision inertial navigation and missile guidance systems financed directly or indirectly by the French Defense Ministry) owned by Group entities,
  - sales of shares in Safran Electronics & Defense, which owns sensitive defense assets,
  - acquisitions of interests resulting in a holding of more than 33.33% or more than 50% of the share capital or voting rights of the other Group companies that own sensitive defense assets,
  - projects conferring special management or information rights over strategic or sensitive defense assets or rights of representation on the administrative or management bodies of Safran Ceramics, Safran Power Units, ArianeGroup Holding or another entity owning sensitive defense assets controlled by Safran;

the French State's failure to respond within a period of 30 business days shall be deemed to constitute agreement, except in the case of proposals to sell shares in ArianeGroup Holding, in which case failure to respond shall be deemed to constitute refusal;

- The French State shall be informed beforehand of any proposal by a strategic subsidiary or an entity controlled by Safran that owns sensitive defense assets to sell assets that do not fall into these protected categories but whose sale could have a material impact on the independent management on French territory of the entity's strategic assets or sensitive defense assets;
- in the event a third party acquires more than 10% or a multiple of 10% of the capital or voting rights of Safran, and failing an agreement on other ways of protecting national interests in connection with the strategic assets, the French State shall be entitled to purchase the securities and assets of the strategic subsidiaries Safran Ceramics and Safran Power Units and the stake in ArianeGroup Holding at a price to be set by a panel of experts.

The Agreement is a related-party agreement and as such was authorized by Safran's Board of Directors on March 22, 2018 (the French State representative and the Directors nominated by the French State did not take part in the vote). It was signed by Safran on March 26, 2018.

Shareholders are invited to approve the Agreement at the May 25, 2018 Annual General Meeting and the French State representatives will not take part in the vote.

## Text of the sixth resolution

### Approval of a related-party agreement entered into with the French State, governed by Article L.225-38 of the French Commercial Code

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the

Statutory Auditors' special report on the related-party agreement governed by Article L.225-38 of the French Commercial Code, the shareholders approve the conclusions of this report and the agreement entered into with the French State as described therein.

## Re-appointment/Appointments of Directors

### Presentation of the seventh, eighth and ninth resolutions

The terms of office of Monique Cohen, Jean-Marc Forneri and Christian Streiff are due to expire at the close of the Annual General Meeting to be held on May 25, 2018. Shareholders are invited to vote on the proposals to fill these vacancies.

Shareholders are invited to re-appoint Monique Cohen as a Director for a four-year term. Monique Cohen, an independent Director, brings to the Board her experience as an executive and director of international groups, as well as in-depth knowledge of the financial and banking markets, expertise in private equity and a financial view of shareholding structures. She is also Chair of the Appointments and Compensation Committee

Following Safran's successful offer for Zodiac Aerospace shares, and in accordance with the business combination agreement entered into between the two companies on May 24, 2017 (see section 2.5 of this Registration Document), shareholders are invited to appoint to Safran's Board of Directors (i) a Director representing Zodiac Aerospace's main family shareholders and (ii) one of Zodiac Aerospace's main institutional shareholders as an independent Director.

Consequently, shareholders are asked to appoint the following Directors for a four-year term:

- Didier Domange, the former Chairman of Zodiac's Supervisory Board; and

- F&P - a joint venture set up by FFP Invest and Fonds Stratégique de Participations. F&P is a simplified joint stock corporation (*société par actions simplifiée*) with a share capital of €60,000, whose registered office is located at 66, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine, registered with the Nanterre Trade and Companies Registry under number 837 701 499. F&P informed Safran in advance that if appointed as a Director it would appoint its Chairman, Robert Peugeot, as its permanent representative.

F&P and its permanent representative Robert Peugeot would qualify as independent.

Didier Domange would bring to the Board his experience as a corporate officer of an international group, as well as his knowledge of the aeronautical sector and, in particular, the Safran Group's new businesses resulting from the acquisition of Zodiac Aerospace.

Robert Peugeot - F&P's permanent representative - would contribute his experience as an executive and director of international industrial groups, as well as his experience in private equity and finance.

On shareholder approval of the above appointments and re-appointment, the independence rate of the Board of Directors would be 53.85%, unchanged from last year.

The profiles of the candidates put forward for appointment or re-appointment as Directors are presented in section 8.2.4 below.

## Text of the seventh resolution

### Re-appointment of Monique Cohen as a Director

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, the shareholders re-appoint Monique Cohen as a Director, for a four-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2021.

## Text of the eighth resolution

### Appointment of Didier Domange as a Director

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, the shareholders appoint

Didier Domange as a Director to replace Jean-Marc Forneri whose term of office is due to expire at the close of this meeting.

Didier Domange is appointed for a four-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2021.

## Text of the ninth resolution

### Appointment of F&P as a corporate Director

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, the shareholders appoint F&P as a corporate Director to replace Christian Streiff whose term of office is due to expire at the close of this meeting.

F&P is appointed for a four-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending December 31, 2021.

## Approval of the components of compensation and benefits paid or awarded to corporate officers for 2017

### Presentation of the tenth and eleventh resolutions

At the Annual General Meeting of June 15, 2017, the shareholders were asked for the first time to approve the compensation policies adopted by the Board of Directors for (i) the Chairman of the Board of Directors, in the 13<sup>th</sup> resolution, and (ii) the Chief Executive Officer, in the 14<sup>th</sup> resolution (*ex-ante* vote).

The Board set the Chairman's and Chief Executive Officer's compensation packages for 2017 in accordance with these policies.

In compliance with Article L.225-100 of the French Commercial Code, the Board of Directors is now asking the shareholders to vote on the components of compensation and benefits paid or awarded to Safran's corporate officers for 2017 (*ex-post* say-on-pay vote).

This is in line with the requirements of the applicable regulations, which state that the following components of compensation paid or awarded to corporate officers for the previous fiscal year must be put to a shareholder vote at the Annual General Meeting:

- > fixed compensation;
- > variable compensation;
- > exceptional compensation;

- > performance shares;
- > supplementary pension plans;
- > directors' attendance fees;
- > benefits-in-kind.

In accordance with Article L.225-37-2 of the French Commercial Code, payment of the corporate officers' variable compensation and any exceptional compensation for the past fiscal year ("Year Y-1") has to be approved by shareholders in a General Meeting held the following fiscal year ("Year Y")

Payment of the Chief Executive Officer's annual variable compensation for 2017 is therefore subject to shareholder approval of the 11<sup>th</sup> resolution.

Consequently:

- > in the 10<sup>th</sup> resolution, the shareholders are asked to approve the fixed, variable and exceptional components making up the total compensation and benefits paid or awarded for 2017 to Ross McInnes, Chairman of the Board of Directors; and
- > in the 11<sup>th</sup> resolution, the shareholders are asked to approve the fixed, variable and exceptional components making up the total compensation and benefits paid or awarded for 2017 to Philippe Petitcolin, Chief Executive Officer.

### COMPONENTS OF COMPENSATION PAID OR AWARDED TO ROSS MCINNES, CHAIRMAN OF THE BOARD OF DIRECTORS

| Components of compensation paid or awarded for 2017                           | Amounts (or accounting value) submitted to the shareholder vote   | Presentation   |
|---|---|--|
| <b>Fixed compensation</b>   | <b>€350,000</b><br>(paid in 2017)   | Ross McInnes' gross annual fixed compensation was set at €350,000 by the Board of Directors at its meeting of April 23, 2015 and remained unchanged in 2016 and 2017.  |
| <b>Annual variable compensation</b>   | <b>N/A<sup>(1)</sup></b>  | Ross McInnes does not receive any annual variable compensation.  |
| <b>Multi-year variable compensation</b>                                       | <b>N/A</b>  | Ross McInnes does not receive any multi-year variable compensation.  |
| <b>Exceptional compensation</b>   | <b>N/A</b>  | Ross McInnes did not receive any exceptional compensation.   |
| <b>Stock options, performance shares and any other long-term compensation</b> | Stock options: <b>N/A</b><br>Performance shares: <b>N/A</b><br>Other long-term compensation: <b>N/A</b> | Ross McInnes does not receive any stock options.<br>Ross McInnes does not receive any performance shares or any other long-term compensation.  |
| <b>Attendance fees</b>  | <b>€73,513.88</b><br>(gross amount due for 2017; paid in 2018)  | Ross McInnes received attendance fees in his capacity as a Director and Chairman of the Board of Directors, based on the allocation rules applicable in 2017, as described in section 6.6.3 of this Registration Document. |
| <b>Benefits-in-kind</b>   | <b>€3,171</b><br>(accounting value)   | Ross McInnes has the use of a company car.   |
| <b>Termination benefits</b>   | <b>N/A</b>  | Ross McInnes is not entitled to any termination benefits in his capacity as Chairman of the Board of Directors.  |
| <b>Non-compete indemnity</b>  | <b>N/A</b>  | Ross McInnes is not subject to any non-compete clause.   |

(1) N/A = not applicable.

| Components of compensation paid or awarded for 2017 | Amounts (or accounting value) submitted to the shareholder vote | Presentation  |
|---|---|---|
| <b>Supplementary pension plan</b>                   | €0  | <p>No specific supplementary pension plan was in place for the Chairman of the Board of Directors in 2017.</p> <p><u>“Article 83” defined contribution plan (Article 83 Core Plan)</u></p> <p>When Ross McInnes was appointed as Chairman of the Board of Directors on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran’s defined contribution supplementary pension plan set up in France pursuant to Article 83 of the French General Tax Code for all Group managerial-grade staff (the “Article 83 Core Plan”), subject to the same terms and conditions as the other plan members. Mr. McInnes was previously a beneficiary of this plan in his former capacity as a Company employee, then as Deputy Chief Executive Officer following a decision by the Board of Directors. The commitment given by the Company to enable Mr. McInnes to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.</p> <p>The contributions to the plan are based on the compensation that Ross McInnes receives for his role as Chairman of the Board of Directors.</p> <p>The expense recorded in the 2017 financial statements relating to the contributions paid under the Article 83 Core Plan for Ross McInnes amounted to €10,671. At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annuity that could be paid to Ross McInnes under this plan was €6,062.</p> <p>In 2017, the Board decided to change the Company’s supplementary pension system for the reasons explained in section 6.6.1.1 of the 2016 Registration Document, and on March 23, 2017 it authorized the Chairman of the Board of Directors to become a beneficiary under this new system.</p> <p>This system – which is described in section 6.6.2.1 of the 2016 Registration Document and in section 6.6.2.1 of this Registration Document and was applied from January 1, 2017 – comprised three stages:</p> |
|   | €0  | <p><b>1. <u>Closing the defined benefit plan (Article 39) to new entrants and freezing existing beneficiaries’ entitlements as from January 1, 2017</u></b></p> <p>When Ross McInnes was appointed as Chairman of the Board of Directors on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran’s defined benefit supplementary pension plan set up in France pursuant to Article 39<sup>(2)</sup> of the French General Tax Code for all Group managerial-grade staff (the “Article 39 Plan”), subject to the same terms and conditions as the other plan members. Mr. McInnes was previously a beneficiary of the plan in his former capacity as Deputy Chief Executive Officer. The commitment given by the Company to enable Mr. McInnes to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016.</p> <p>During the phase when the pension benefits accrue, the taxes and social security contributions payable by Safran correspond to 24% of the premiums paid to the insurer in respect of the Chairman under this closed defined benefit plan. At December 31, 2017, the estimated theoretical amount<sup>(3)</sup> of the annuity that could be paid to the Chairman corresponded to the cap set in the plan, i.e., €119,196 (corresponding to three times the annual social security ceiling [PASS], based on the 2018 value of the PASS).</p> <p>To compensate for the closure of this defined benefit plan, new plans were set up for senior managers in France, effective from January 1, 2017.</p>   |
|   | €0  | <p><b>2. <u>Mandatory collective defined contribution plan (Article 83 Additional Plan)</u></b></p> <p>For the Chairman, the contributions to the plan are based on the compensation that he receives for his role as Chairman of the Board of Directors.</p> <p>The corresponding expense recorded in the 2017 financial statements for Ross McInnes amounted to €18,829.</p>  |
|   | <b>Additional Payment:<br/>€57,690.34</b>                       | <p><b>3. <u>Voluntary collective defined contribution plan (Article 82 Plan)</u></b></p> <p>The Insurer Contribution and Additional Payment for the Chairman for 2017 totaled €57,690.34 each (i.e., €115,380.68 altogether).</p> <p>The purpose of the Additional Payment is to pay the tax due under this plan, which is taxed upfront.</p> <p>Following the shareholders’ vote at the June 15, 2017 Annual General Meeting rejecting the resolution concerning this commitment, on July 27, 2017 the Board of Directors nevertheless confirmed its decision to enable the Chairman to be a beneficiary under this supplementary pension system.</p>  |

(1) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

(2) Defined benefit plan meeting the conditions set out in Article L.137-11 of the French Social Security Code (Code de la sécurité sociale).

(3) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

**COMPONENTS OF COMPENSATION PAID OR AWARDED TO PHILIPPE PETITCOLIN, CHIEF EXECUTIVE OFFICER**

| Components of compensation paid or awarded for 2017 | Amounts (or accounting value) submitted to the shareholder vote                                    | Presentation  |
|---|--|---|
| <b>Fixed compensation</b>                           | <b>€600,000</b><br>(paid in 2017)  | Philippe Petitcolin's gross annual fixed compensation was set at €600,000 by the Board of Directors at its meeting on April 23, 2015 and remained unchanged in 2016 and 2017.   |
| <b>Annual variable compensation</b>                 | <b>€777,500</b><br>(amount due for 2017; payable in 2018)  | <p>The Chief Executive Officer's annual variable compensation for 2017 was determined by the Board of Directors in accordance with the compensation policy approved at the Annual General Meeting on June 15, 2017 (see section 6.6.1.1 of the 2016 Registration Document) and described in section 6.6.2.2 of this Registration Document. At its meeting on February 26, 2018, the Board of Directors reviewed the achievement of the objectives set for the variable compensation payable to the Chief Executive Officer for 2017, after consultation with the Appointments and Compensation Committee. Following this review, it set Philippe Petitcolin's variable compensation for 2017 at €777,500, based on the following achievement rates:</p> <ul style="list-style-type: none"> <li>&gt; 110% for the objectives related to the Group's financial performance (two-thirds weighting), breaking down as follows: <ul style="list-style-type: none"> <li>• recurring operating income (60% weighting): 104% achievement,</li> <li>• free cash flow (30% weighting): 125% achievement,</li> <li>• working capital, comprising the following components: <ul style="list-style-type: none"> <li>- operating assets (Inventories) (5% weighting): 99% achievement, and</li> <li>- unpaid receivables (5% weighting): 100% achievement;</li> </ul> </li> </ul> </li> <li>&gt; 113% for the individual quantitative and qualitative performance objectives (one-third weighting).</li> </ul> <p>Payment of the Chief Executive Officer's annual variable compensation for 2017 is subject to shareholders' approval at the Annual General Meeting of May 25, 2018.</p>  |
| <b>Multi-year variable compensation</b>             | <b>N/A<sup>(1)</sup></b><br><br><b>Number of performance units vested: 8,678</b><br>(see opposite) | <p>No multi-year variable compensation was awarded to Philippe Petitcolin in 2017.</p> <p><u>Summary of 2015 long-term incentive plan:</u></p> <p>As a reminder, the Chief Executive Officer was granted multi-year variable compensation (performance units) in 2015. Of the 17,050 performance units (PUs) initially granted to him, the number of PUs that ultimately vested was based on the extent to which internal and external performance conditions were met, as measured over a period of three years (2015-2017):</p> <ul style="list-style-type: none"> <li>&gt; the internal performance conditions corresponded to the achievement of recurring operating income (ROI) and free cash flow (FCF) objectives. These objectives accounted for 60% of the performance criteria determining the number of PUs that would vest (30% for the ROI objective and 30% for the FCF objective). Performance achievement levels were set for both of these objectives;</li> <li>&gt; the external performance condition was based on Safran's total shareholder return (TSR) performance over a period of three years (2015-2017) as benchmarked against a panel of companies operating in the same business sectors as Safran. This objective accounted for 40% of the performance criteria determining the number of PUs that would vest. Performance levels were also set for this condition.</li> </ul> <p>The main characteristics and terms and conditions of this plan, including the grant to the Chief Executive Officer, are described in sections 6.3.1.2 and 6.3.3.3 of the 2015 Registration Document.</p> <p>This plan was presented to and approved by the shareholders at the General Meeting of May 19, 2016, in accordance with the "say-on-pay" rules applicable at that time. Acting on the recommendation of the Appointments and Compensation Committee, on March 22, 2018 the Board of Directors noted the achievement rate for these conditions at the end of the specified period and determined the resulting number of PUs to be vested by the Chief Executive Officer at 8,678 PUs. This corresponds to an achievement rate of 50.9% for the performance conditions, breaking down as:</p> <ul style="list-style-type: none"> <li>&gt; 106.9% for the ROI target (30% weighting);</li> <li>&gt; 85.1% for the FCF target (30% weighting);</li> <li>&gt; the TSR target is not achieved (0% on 40% weighting).</li> </ul> <p>As provided for in the relevant plan, payments will be made in two installments (end-October 2018 and end-October 2019), each one corresponding to 50% (i.e., 4,339) of the vested PUs. One-third of each installment will be paid in Safran shares, with the remaining two-thirds paid in cash.</p> <p>The gross compensation payable for each vested PU is determinable, even though it cannot be determined at today's date. The gross compensation payable for each vested PU will correspond to the average of the closing prices for the Safran share during the 20 trading days prior to the payment of each of the two installments.</p> <p>By way of illustration, with the value for each vested PU estimated at March 1, 2018 based on the average of the closing prices for the Safran share during the 20 trading days prior to that date (i.e., €87,724), each of the two installments would correspond to the payment of €253,756 and delivery of 1,446 Safran shares.</p> |

(1) N/A = not applicable.



| Components of compensation paid or awarded for 2017                           | Amounts (or accounting value) submitted to the shareholder vote         | Presentation  |
|---|---|---|
| <b>Exceptional compensation</b>   | <b>N/A<sup>(1)</sup></b>  | Philippe Petitcolin did not receive any exceptional compensation.   |
| <b>Stock options, performance shares and any other long-term compensation</b> | <b>Stock options:</b><br><b>N/A</b>                                     | Philippe Petitcolin did not receive any stock options.  |
|   | <b>Performance shares: €839,893</b><br>(accounting value on grant date) | On the recommendation of the Appointments and Compensation Committee, at its meeting on March 23, 2017, the Board of Directors used the authorization granted in the 23 <sup>rd</sup> resolution of the May 19, 2016 Annual General Meeting and decided to grant 27,165 performance shares to Philippe Petitcolin (see section 6.6.2.2 of this Registration Document).<br>The general terms and conditions of this performance share plan and the terms and conditions relating specifically to the Chief Executive Officer are described in section 6.6.4.2 of this Registration Document.<br>The estimated accounting value of these performance plans, as measured at the grant date, corresponds to €839,893 <sup>(2)</sup> . |
|   | Other long-term compensation:<br><b>N/A</b>                             | Philippe Petitcolin did not receive any other long-term compensation.   |
| <b>Attendance fees</b>  | <b>€36,614.09</b><br>(gross amount due for 2017; paid in 2018)          | Philippe Petitcolin received attendance fees in his capacity as a Director of the Company, in accordance with the allocation rules applicable in 2017, as described in section 6.6.3 of this Registration Document.   |
| <b>Value of benefits-in-kind</b>  | <b>€4,619</b><br>(accounting value)                                     | Philippe Petitcolin has the use of a company car.   |
| <b>Termination benefits</b>   | <b>N/A</b>  | Philippe Petitcolin is not entitled to any termination benefits in his capacity as Chief Executive Officer.   |
| <b>Non-compete indemnity</b>  | <b>N/A</b>  | Philippe Petitcolin is not subject to any non-compete clause.   |

(1) N/A = not applicable.

(2) In accordance with IFRS 2, the value of the performance shares was measured at the grant date (i.e., March 23, 2017) and not based on compensation received by the beneficiary during the year (see section 3.1, Note 1.q).

| Components of compensation paid or awarded for 2017 | Amounts (or accounting value) submitted to the shareholder vote | Presentation  |
|---|---|---|
| <b>Supplementary pension plan</b>                   | €0  | <p>No specific supplementary pension plan was in place for the Chief Executive Officer in 2017. <u>“Article 83” defined contribution plan (Article 83 Core Plan)</u></p> <p>In his former capacity as an employee, Philippe Petitcolin was a beneficiary of Safran’s defined contribution supplementary pension plan set up in France pursuant to Article 83 of the French General Tax Code for all Group managerial-grade staff (the “Article 83 Core Plan”).</p> <p>When Philippe Petitcolin was appointed as Chief Executive Officer on April 23, 2015, the Board of Directors decided to authorize him to continue to be a beneficiary of this plan subject to the same terms and conditions as the other plan members.</p> <p>This commitment given by the Company to enable Mr. Petitcolin to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016, pursuant to the provisions of Article L.225-40 of the French Commercial Code.</p> <p>The contributions to the plan are based on the annual compensation (fixed and variable) that Mr. Petitcolin receives for his role as Chief Executive Officer.</p> <p>The expense recorded in the 2017 financial statements relating to the contributions paid under the Article 83 Core Plan for Philippe Petitcolin amounted to €49,653.</p> <p>At December 31, 2017, the estimated theoretical amount<sup>(1)</sup> of the annuity that could be paid to Philippe Petitcolin under this plan was €22,913.</p> <p>On March 23, 2017, the Board of Directors decided that the Chief Executive Officer could be a beneficiary under the new supplementary pension system set up as of January 1, 2017 (as described in section 6.6.2.1 of the 2016 Registration Document and reiterated in section 6.6.2.2 of this Registration Document).</p> <p>The commitment given by the Company to enable Mr. Petitcolin to be a beneficiary under this system was approved at the Annual General Meeting of June 15, 2017, pursuant to the provisions of Article L.225-40 of the French Commercial Code.</p> <p>The three stages of this system apply to the Chief Executive Officer as follows:</p> |
|   | €0  | <p><b>1. <u>Closing the defined benefit plan (Article 39)<sup>(2)</sup> to new entrants and freezing existing beneficiaries’ entitlements as from January 1, 2017</u></b></p> <p>When Philippe Petitcolin was appointed as Chief Executive Officer on April 23, 2015, the Board decided to authorize him to continue to be a beneficiary of Safran’s defined benefit supplementary pension plan set up pursuant to Article 39 of the French General Tax Code for all Group managerial-grade staff (the “Article 39 Plan”), subject to the same terms and conditions as the other plan members. Mr. Petitcolin was previously a beneficiary under the plan in his former capacity as an employee.</p> <p>The commitment given by the Company to enable Mr. Petitcolin to continue to be a beneficiary of this plan was approved at the Annual General Meeting of May 19, 2016.</p> <p>During the phase when the pension benefits accrue, the taxes and social security contributions payable by Safran correspond to 24% of the premiums paid to the insurer in respect of the Chief Executive Officer under this closed defined benefit plan.</p> <p>At December 31, 2017, the estimated theoretical amount<sup>(3)</sup> of the annuity that could be paid to the Chief Executive Officer corresponded to the cap set in the plan, i.e., €119,196 (corresponding to three times the annual social security ceiling [PASS], based on the 2018 value of the PASS).</p> <p>To compensate for the closure of this defined benefit plan, new plans were set up for senior managers in France, effective from January 1, 2017.</p>   |
|   | €0  | <p><b>2. Mandatory collective defined contribution plan (<u>Article 83 Additional Plan</u>)</b></p> <p>For the Chief Executive Officer, the contributions under the plan are based on the annual compensation (fixed and variable) that he receives for his role as Chief Executive Officer. The corresponding expense recorded in the 2017 financial statements for Philippe Petitcolin amounted to €18,829.</p>   |
| <b>Additional Payment:</b>                          | <b>€154,746.70</b>  | <p><b>3. Voluntary collective defined contribution plan (<u>Article 82 Plan</u>)</b></p> <p>The Insurer Contribution and Additional Payment for the Chief Executive Officer for 2017 totaled €154,746.70 each (i.e., €309,493.40 altogether), corresponding in each case to 12.735% of his reference compensation (25.47% in total). The purpose of the Additional Payment is to pay the tax due under this plan, which is taxed upfront.</p>   |

(1) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

(2) Defined benefit plan meeting the conditions set out in Article L.137-11 of the French Social Security Code (Code de la sécurité sociale).

(3) Calculated based on the assumption that the annuity would be received as from January 1, 2018, irrespective of the eligibility conditions (in accordance with Article D.225-104-1 of the French Commercial Code).

### Text of the tenth resolution

#### Approval of the fixed, variable and exceptional components of the total compensation and benefits paid or awarded to the Chairman of the Board of Directors for 2017

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, in accordance with Articles L.225-37-2 and L.225-100 of the French Commercial Code, the shareholders approve the fixed, variable and exceptional components making up the total compensation and benefits paid or awarded to Ross McInnes, Chairman of the Board of Directors, for the year ended December 31, 2017, as presented in the Company's corporate governance report prepared in application of Article L.225-37 of the French Commercial Code and set out in chapter 6 of this Registration Document.

### Text of the eleventh resolution

#### Approval of the fixed, variable and exceptional components of the total compensation and benefits paid or awarded to the Chief Executive Officer for 2017

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings, in accordance with Articles L.225-37-2 and L.225-100 of the French Commercial Code, the shareholders approve the fixed, variable and exceptional components making up the total compensation and benefits paid or awarded to Philippe Petitcolin, Chief Executive Officer, for the year ended December 31, 2017, as presented in the Company's corporate governance report prepared in application of Article L.225-37 of the French Commercial Code and set out in chapter 6 of this Registration Document.

## Compensation policy

### Presentation of the twelfth and thirteenth resolutions

In accordance with Article L.225-37-2 of the French Commercial Code (introduced by French Act no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and modernization of business practice), at least once a year the shareholders are asked to give a forward-looking (*ex-ante*) vote on the principles and criteria used to determine, allocate and award the fixed, variable and exceptional components of the total compensation and benefits packages of corporate officers, which together constitute the compensation policy adopted by the Board of Directors.

Shareholder approval is also required for any changes that may be made to the components of the policy and each time a corporate officer's term of office is renewed.

At the Annual General Meeting of June 15, 2017, the Company held its first *ex-ante* say-on-pay vote, when the shareholders were asked to vote on the compensation policy adopted by the Board of Directors. Accordingly, in the 13<sup>th</sup> and 14<sup>th</sup> resolutions of that meeting the shareholders approved the policies for the Chairman of the Board of Directors and the Chief Executive Officer, respectively.

Section 6.6.1 of this Registration Document constitutes the report on the principles and criteria used to determine, allocate and award the fixed, variable and exceptional components of the total compensation and benefits packages of corporate officers, as required under Article L.225-37-2 of the French Commercial Code.

Consequently, this section sets out:

- > the principles and rules for determining the compensation and benefits packages of corporate officers;
- > the main changes as of 2018 in the compensation policies for the Chairman and the Chief Executive Officer compared with those previously presented to and approved by the Company's shareholders at the Annual General Meeting, for ease of comparison;
- > the compensation policy concerning the Chairman of the Board of Directors; and
- > the compensation policy concerning the Chief Executive Officer;

as amended by the Board of Directors (see section 6.6.1.2) and which will be submitted to a shareholder vote at the Annual General Meeting of May 25, 2018.

In the 12<sup>th</sup> and 13<sup>th</sup> resolutions of the May 25, 2018 Annual General Meeting, shareholders are invited to approve the compensation policies that will be applicable respectively to the Chairman of the Board of Directors and the Chief Executive Officer, for and as of 2018.

### Text of the twelfth resolution

#### Approval of the compensation policy applicable to the Chairman of the Board of Directors

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the Board of Directors' report on the compensation policy applicable to corporate officers drawn up in accordance with Article L.225-37-2 of the French Commercial Code, the shareholders approve the compensation policy applicable to the Chairman of the Board of Directors, as presented in sections 6.6.1.1, 6.6.1.2 and section 6.6.1.3 of the 2017 Registration Document.

### Text of the thirteenth resolution

#### Approval of the compensation policy applicable to the Chief Executive Officer

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the Board of Directors' report on the compensation policy applicable to corporate officers drawn up in accordance with Article L.225-37-2 of the French Commercial Code, the shareholders approve the compensation policy applicable to the Chief Executive Officer, as presented in sections 6.6.1.1, 6.6.1.2 and 6.6.1.4 of the 2017 Registration Document.

## Authorization for the Board of Directors to carry out a share buyback program

### Presentation of the fourteenth resolution

#### Share buyback programs

The Company needs to have the necessary flexibility to react to changes in financial markets by buying back Safran shares.

The shareholders are therefore asked to renew the authorization given to the Board of Directors to carry out a share buyback program, with the following main conditions:

- > the number of shares that may be bought back may not exceed 10% of the Company's total outstanding shares (for information purposes, 44,368,064 shares based on the issued capital at February 28, 2018) and the Company may at no time directly or indirectly hold a number of Safran shares representing more than 10% of its capital;
- > the shares may be purchased, sold or transferred by any authorized method, including through block trades for all or some of the program, subject to the regulations in force at the date on which the authorization is implemented.

Subject to the limits authorized by the applicable laws and regulations, the Board of Directors may use this authorization at any time, except during periods when there is a public offer in progress for the Company's shares, or during the run-up to such an offer.

The maximum purchase price per share would be set at €118 and the maximum total investment in the buyback program would be €5.2 billion.

Generally, Safran sets the maximum purchase price at around 130% of the highest closing price of the Safran share over the 12 months preceding the pricing date. It does not prescribe a target price.

The buyback program would be used to purchase shares for the following purposes:

- > to maintain a liquid market in the Company's shares via a liquidity agreement entered into with an investment services firm;
- > for allocation or sale to employees and/or certain corporate officers, notably in connection with a profit-sharing plan, free share grant plan or Group employee savings plan;
- > for delivery on the exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- > for delivery in payment or exchange for external growth transactions; and
- > for cancellation, pursuant to the share capital reduction authorization in effect, granted in the 30<sup>th</sup> resolution of the June 15, 2017 Annual General Meeting.

This program is also designed to enable any future market practices permitted by the French financial markets authority (*Autorité des marchés financiers* - AMF) to be carried out and, more generally, to enable any other authorized operations or operations that may be authorized in the future by the applicable regulations. In such a case, the Company would inform its shareholders in a press release.

This authorization would be given for a period of 18 months and would supersede the previous authorization granted for the same purpose in the 15<sup>th</sup> resolution of the Annual General Meeting held on June 15, 2017.

This authorization would be used to implement the €2.3 billion share buyback program over a period of 18 months to two years, as announced in the press release of May 24, 2017 on the Zodiac Aerospace acquisition.

#### Report on the utilization in 2017 of previous shareholder-approved share buyback programs

On December 12, 2016, Safran announced a buyback program for up to €450 million worth of its own shares in order to neutralize the dilutive effect of equity instruments on its balance sheet.

- > on December 8, 2016, Safran signed a share purchase agreement with a bank for an initial buyback tranche of up to €250 million;
- > on February 27, 2017, Safran signed a share purchase agreement with a different investment services firm for a second tranche of up to €200 million.

These two tranches of buybacks had been carried out by December 31, 2017 in an amount of €444 million, representing the purchase of 6,428,664 shares.

In 2017, the aggregate number of shares purchased under the liquidity agreement entered into with Oddo Corporate Finance amounted to 3,700,272.

The total number of shares sold under this liquidity agreement during the year amounted to 3,603,324.

No treasury shares purchased under a buyback program were canceled in 2017.

At December 31, 2017, Safran directly held 7,742,624 of its own shares, representing 1.86% of its capital.

These treasury shares were held for the following purposes:

- > for allocation or sale to employees: 1,118,604 shares, representing 0.27% of the Company's capital;
- > to cover exchangeable debt securities: 6,428,664 shares, representing 1.54% of the Company's capital;
- > to maintain a liquid market in the Company's shares via a liquidity agreement: 195,356 shares, representing 0.05% of the Company's capital.

## Text of the fourteenth resolution

### Authorization for the Board of Directors to carry out a share buyback program

Deliberating in accordance with the rules of quorum and majority applicable to Ordinary General Meetings and having considered the report of the Board of Directors, the shareholders grant the Board of Directors an authorization - which may be delegated pursuant to the law - to purchase, directly or indirectly, the Company's shares in accordance with the conditions set out in Articles L.225-209 *et seq.* of the French Commercial Code and EC Regulation 596/2014 dated April 16, 2014, as well as any other laws and regulations that may be applicable in the future.

The authorization may be used to purchase shares:

- > to maintain a liquid market in the Company's shares via a liquidity agreement that complies with the Code of Ethics drawn up by the French association of financial and investment firms (*Association française des marchés financiers* - AMAFI) approved by the AMF, and entered into with an investment services firm;
- > for allocation or sale to employees and/or corporate officers of the Company or other Group companies, in accordance with the terms and conditions provided for by law, notably in connection with a profit-sharing plan, free share grants, the exercise of stock options, the Group employee savings plan, or any company employee savings plan in place within the Group;
- > for delivery on the exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- > to hold in treasury for subsequent delivery in payment or exchange for external growth transactions; and
- > for cancellation, pursuant to the share capital reduction authorization in effect, granted by the Annual General Meeting.

This authorization is also designed to enable any future market practices permitted by the AMF to be carried out and, more generally, to enable any other operations authorized by the applicable regulations. In such a case, the Company would inform its shareholders in a press release.

Shares may be purchased, sold, or transferred by any method allowed under the laws and regulations applicable at the transaction date, on one or more occasions, including, in accordance with the regulations in force at the date of this meeting, over the counter and through block trades for all or part of the program, as well as through the use of derivative financial instruments.

The Board of Directors may use this authorization at any time subject to the limitations set down by the applicable laws and regulations, except during, or in the run-up to, a public offer for the Company's shares.

The number of shares that may be bought back under this authorization may not exceed 10% of the Company's total outstanding shares (for information purposes, 44,368,064 shares based on the issued capital at February 28, 2018). This ceiling is reduced to 5% for shares acquired for the purpose of being held in treasury for subsequent delivery in payment or exchange for external growth transactions. When shares are bought back for the purpose of maintaining a liquid market in the Company's shares via a liquidity agreement, the number of shares included in the calculation of the 10% ceiling corresponds to the number of shares purchased less any shares sold during the period covered by this authorization.

Under no circumstances may the Company hold, either directly or indirectly, more than 10% of its share capital.

The shares may not be purchased at a price of more than €118 per share and the maximum amount that may be invested in the program is €5.2 billion. However, the Board of Directors may adjust this maximum purchase price to take into account the impact on the share price of any corporate actions.

The shareholders give full powers to the Board of Directors - or any representative duly empowered in accordance with the law - to carry out this share buyback program, set the applicable terms and conditions, make the required adjustments as a result of any corporate actions, place any and all buy and sell orders, enter into any and all agreements notably for the keeping of registers of share purchases and sales, make any and all filings with the AMF and any other organization, carry out all other formalities, and generally do everything necessary to use this authorization.

This authorization is given for a period of 18 months from the date of this meeting and supersedes the authorization given to the Board of Directors for the same purpose in the 15<sup>th</sup> resolution of the June 15, 2017 Annual General Meeting.

## 8.2.2 Extraordinary resolutions

### Amendments to the Company's bylaws

#### Presentation of the fifteenth resolution

Further to the introduction of French Act 2016-1691 of December 9, 2016, the Board of Directors' powers for relocating the Company's registered office have been extended. The Board previously only had the power to relocate the Company's registered office within the same *département*, or to a neighboring *département*, whereas under Article L.225-36 of the French Commercial Code it now has the power to relocate it anywhere in France, provided (as was also previously the case) such a decision is ratified by the Company's shareholders at the next General Meeting.

Consequently, the shareholders are invited to amend Article 4 of the Company's bylaws in order to take into account this extension of the Board's powers introduced by the applicable legislation.

#### Text of the fifteenth resolution

##### Extension of the Board of Directors' powers to relocate the Company's registered office and related amendment to Article 4 of the bylaws

Deliberating in accordance with the rules of quorum and majority applicable to Extraordinary General Meetings and having considered the report of the Board of Directors, the shareholders resolve to amend Article 4, "Registered Office" of the Company's bylaws in order to extend the Board of Directors' powers for relocating the Company's registered office. These amendments are as follows:

| Previous wording   | New wording  |
|--|--|
| <p>4.1. Safran's registered office is located at 2, boulevard du Général-Martial-Valin, 75015 Paris, France.</p> <p>4.2. In accordance with the applicable laws and regulations, the Company's registered office may be relocated:</p> <ul style="list-style-type: none"> <li>&gt; the Board of Directors may transfer the registered office to another location in the same <i>département</i> or a neighboring <i>département</i>, subject to ratification of the Board's decision at the Ordinary General Meeting following said decision; and</li> <li>&gt; the transfer of the registered office to any other location shall be subject to a decision by shareholders in an Extraordinary General Meeting.</li> </ul> <p>If the Board of Directors decides to transfer the registered office, it shall be authorized to amend the bylaws accordingly.</p> | <p>4.1. Safran's registered office is located at 2, boulevard du Général-Martial-Valin, 75015 Paris, France.</p> <p>4.2. In accordance with the applicable laws and regulations, the Company's registered office may be relocated:</p> <ul style="list-style-type: none"> <li>&gt; <b>anywhere in France</b> by way of a decision of the Board of Directors, subject to ratification of that decision by shareholders at the following Ordinary General Meeting; and</li> <li>&gt; to any other place by way of a decision by shareholders in an Extraordinary General Meeting.</li> </ul> <p>If the Board of Directors decides to relocate the registered office, it shall be authorized to amend the bylaws accordingly.</p> |

#### Presentation of the sixteenth resolution

Since the introduction of French Act 2016-1691 of December 9, 2016, companies are only required to appoint one or more Alternate Auditor(s) if their Statutory Auditor is an individual or a one-person company (Article L.823-1, paragraph 2, as amended by the above-mentioned Act). They may however appoint one or more Alternate Auditor(s) on a voluntary basis should they so wish.

The Board is therefore inviting shareholders to amend the Company's bylaws to reflect this simplification measure.

#### Text of the sixteenth resolution

##### Rules for appointing Alternate Auditors and related amendment to Article 40 of the bylaws

Deliberating in accordance with the rules of quorum and majority applicable to Extraordinary General Meetings and having considered the report of the Board of Directors, the shareholders resolve to amend Article 40 of the Company's bylaws in order to reflect the new, more flexible, legal provisions concerning the appointment of Alternate Auditors. These amendments are as follows:

| Previous wording   | New wording  |
|--|--|
| <ul style="list-style-type: none"> <li>&gt; The Company's financial statements shall be audited by either one or two Statutory Auditors,</li> <li>&gt; Backed by one or two Alternate Auditor(s), who shall be appointed and carry out their engagement in accordance with the applicable laws and regulations.</li> </ul> | <ul style="list-style-type: none"> <li>&gt; The Company's financial statements shall be audited by either one or two Statutory Auditors,</li> <li>&gt; <b>If deemed necessary</b>, backed by one or two Alternate Auditors, who shall be appointed and carry out their engagement in accordance with the applicable laws and regulations.</li> </ul> |

## Performance shares (free share grants)

### Presentation of the seventeenth resolution

In the 17<sup>th</sup> resolution, shareholders are invited to authorize the Board of Directors to grant performance shares to (i) employees or certain categories of employees of the Company and/or of other entities in the Safran group, and/or (ii) executive corporate officers of the Company and/or other entities in the Safran group (except the Chairman of the Company's Board of Directors when the duties of Chairman of the Board and Chief Executive Officer are separated), provided said corporate officers are eligible for such grants under the applicable law.

Performance share grants are a common method used by companies in order to strengthen the motivation and teamwork of beneficiaries and foster their loyalty, while at the same time aligning their interests with those of the Company and its shareholders. They are also in line with the strategy of linking the incentives of executive managers to share performance – with the inherent risks and rewards that this involves – in order to encourage long-term reasoning in their actions.

The Board of Directors would determine the beneficiaries of the grants and set the terms and conditions thereof as well as the applicable eligibility criteria.

The shares granted could either be new shares or existing shares bought back by the Company under the terms and conditions provided for by law.

This authorization would entail the waiver by existing shareholders of their pre-emptive rights to subscribe for any shares issued pursuant to this resolution.

This authorization would supersede, as from the date of this meeting, the authorization granted to the Board of Directors for the same purpose in the 31<sup>st</sup> resolution of the Annual General Meeting held on June 15, 2017.

### The main characteristics of any performance share grants carried out using this authorization would be as follows:

#### Performance conditions:

Performance share grants would be subject to the achievement of internal and external performance conditions, assessed over three full consecutive fiscal years, including the year of grant.

This rule would apply to all beneficiaries regardless of the weighting of the various conditions, which vary according to the different beneficiary categories.

#### Standard internal conditions applying to all beneficiaries:

These internal performance conditions would count for at least 70% of the total for all beneficiaries.

However, for grants to be made in 2018 pursuant to this authorization to the Chief Executive Officer and a beneficiary category that would also be subject to additional conditions to take into account the expected performance of the new Zodiac Aerospace scope integrated in the Group, these standard internal conditions would count for 45% (and the additional conditions would count for 25% – see below).

These two standard internal performance conditions would be based on:

- > adjusted recurring operating income (see section 2.1.2 of this Registration Document);
- > FCF (free cash flow as defined in section 2.2.3 of this Registration Document);

each would count for half of the weighting assigned to these two conditions.

The achievement levels for these conditions would be measured by reference to the average of the targets for ROI and FCF set for the fiscal year in which the grant takes place and for the following two fiscal years, as contained in the most recent medium-term plan (MTP) approved by the Board of Directors before the grant date. The following achievement levels would be set for these conditions:

- > lowest achievement level: if 80% of the MTP target is achieved, 40% of the shares contingent on that target will vest;
- > target achievement level: if 100% of the MTP target is achieved, 80% of the shares contingent on that target will vest;
- > highest achievement level (cap): if 125% of the MTP target is achieved, 100% of the shares contingent on that target will vest;
- > between the lowest achievement level and the target level, and between the target level and the highest achievement level, the number of shares that would vest would vary in linear fashion. Below the lowest achievement level, none of the shares contingent on the internal performance condition concerned would vest.

As the reference MTP does not yet include the Zodiac Aerospace scope, grants made in 2018 pursuant to this authorization would be subject to additional internal conditions (see below) to include performance targets related to the new scope for beneficiaries directly or specifically involved in its integration in the Group.

For future grants beginning in 2019, the Group's reference MTP will include Zodiac Aerospace's expected performance, which will therefore be included in the internal performance conditions that would apply to all beneficiaries.

The performance criteria would be measured by comparing results against a same-scope reference base. If an entity is deconsolidated, the reference bases used for past grants will be adjusted to exclude the amounts related to the deconsolidated entity for the years concerned. For the first performance share grant after a new entity has been consolidated, additional performance conditions may be added in line with the method presented in the paragraph above. Past grants will continue to be measured based on the previous scope of consolidation (i.e., not including the newly-consolidated entity).

#### Additional internal condition applying to certain beneficiaries – 2018 grant:

As indicated above, in order to take into account the new Zodiac Aerospace scope, additional internal conditions would

be added for the Chief Executive Officer and beneficiaries directly or specifically involved in its integration in the Group, beginning with the 2018 grant.

These additional conditions would count for 25% for the Chief Executive Officer and other relevant beneficiaries.

These two internal conditions would be based on:

- > adjusted recurring operating income for the Zodiac scope (adjusted for currency effects and based on Safran's definition of adjusted recurring operating income), which would count for 10%;
- > the amount of synergies unlocked as a result of Zodiac Aerospace's integration at end-2020, which would count for 15%.

The achievement levels for these conditions would be measured by reference to the business plan used by Safran for the Zodiac Aerospace acquisition (data for 2018 to 2020, reconstituted on a calendar year basis and adjusted for currency effects), as indicated at the Annual General Meeting held on June 15, 2017. The levels will be as follows:

- > lowest achievement level: if 80% of the business plan target were achieved, 40% of the shares contingent on that target would vest;
- > target achievement level: if 100% of the business plan target were achieved, 100% of the shares contingent on that target would vest;
- > between the lowest achievement level and the target level, the shares would vest on a linear basis. Below the lowest achievement level, none of the shares contingent on the internal performance condition concerned would vest.

For the Chief Executive Officer, the additional performance conditions would not affect the cap on the value of grants made to him set in the compensation policy. These additional conditions would therefore not result in an increase in the number of performance shares granted to him.

After the 2018 grant, in addition to the portion attributed to the standard performance conditions, the Board of Directors may, at its discretion, maintain or add demanding, quantifiable additional performance conditions for which it would define the parameters, to take into account the Group's medium-term priorities and challenges. In such case, the additional performance conditions and their parameters would be disclosed.

External condition:

The external performance condition would be based on Safran's total shareholder return (TSR) performance as measured relative to a group of peer companies operating in the same business sectors as Safran or enlarged to include other comparable

companies operating in other sectors, or including or made up of one or more indexes. The composition of this panel may change to factor in changes in the structure or operations of the Group or of the peer companies concerned (in 2017, the panel included Airbus Group, BAE Systems, Boeing, Esterline, Leonardo, Meggit, MTU Aero Engines, Rolls-Royce, Spirit Aero Systems and Thales).

This external condition would count for 30% for the Chief Executive Officer and members of Safran's Executive Committee. For other beneficiaries, it could count for a lower percentage, but would in any event not be less than 10%.

The following achievement levels would be set for this condition:

- > lowest achievement level: if Safran's TSR is equal to that of the peer companies, 40% of the shares contingent on the external performance condition will vest;
- > target achievement level: if Safran's TSR is 8 points higher than that of the peer companies, 80% of the shares contingent on the external performance condition will vest;
- > highest achievement level: if Safran's TSR is 12 points higher than that of the peer companies, 100% of the shares contingent on the external performance condition will vest;
- > between the lowest achievement level and the target level, and between the target level and the highest achievement level, the number of shares that would vest would vary in linear fashion. Below the lowest achievement level, none of the shares contingent on the external performance condition would vest.

Ceilings:

The total number of performance shares granted could not exceed 0.4% of the Company's capital as at the date on which the Board of Directors decides to make the share grants (main ceiling), or two-thirds of this percentage in any given fiscal year (sub-ceiling).

In addition, for each grant of performance shares the maximum number of shares granted to each of the Company's corporate officers would be set at 5% of the total number of shares making up the grant (representing a sub-ceiling of 0.01% of the Company's capital per corporate officer and fiscal year).

Anticipated use:

If this authorization is approved by shareholders, in line with its long-term compensation policy, the Board of Directors intends to set up annual performance share plans which will have the characteristics and be subject to the performance conditions and ceilings, including the specific conditions for the 2018 grant, as described above.



## Text of the seventeenth resolution

### **Authorization for the Board of Directors to grant existing or new shares of the Company, free of consideration, to employees and corporate officers of the Company and other Safran group entities, with a waiver of shareholders' pre-emptive subscription rights**

Deliberating in accordance with the rules of quorum and majority applicable to Extraordinary General Meetings and having considered the report of the Board of Directors and the Statutory Auditors' special report, in accordance with Articles L.225-197-1 *et seq.* of the French Commercial Code, the shareholders:

1. Authorize the Board of Directors to grant, on one or more occasions, existing or new Safran shares, free of consideration, to (i) employees or certain categories of employees of the Company and/or of companies or groups affiliated to it within the meaning of Article L.225-197-2 of the French Commercial Code, and/or (ii) corporate officers of the Company and/or of related companies or groups within the meaning of Article L.225-197-2 of the French Commercial Code (except for the Chairman of the Company's Board of Directors when the duties of Chairman of the Board and Chief Executive Officer are separated), provided said corporate officers are eligible for such grants under the applicable law. The amounts and timing of such grants will be determined at the Board's discretion.
2. Resolve that the total number of existing or new shares granted free of consideration pursuant to this authorization may not exceed 0.4% of the Company's capital at the date of the Board of Directors' decision to grant free shares, or two-thirds of this percentage in any given fiscal year.
3. Resolve that the shares granted pursuant to this authorization will be subject to performance conditions set by the Board of Directors based on the recommendations of the Appointments and Compensation Committee and assessed over a minimum period of three consecutive fiscal years, including the year of grant.
4. Resolve that for each grant of free shares, any shares granted to the Company's corporate officers in accordance with the conditions provided for by law may not represent over 5% of the total number of shares making up the grant (per corporate officer).
5. Resolve that the shares granted will be subject to a vesting period which will be set by the Board of Directors but may not be less than three years, followed, in certain cases, by a lock-up period whose duration will also be set by the Board of Directors.
6. Resolve that any free shares granted to the Company's corporate officers and members of the Executive Committee will be subject to a lock-up period which will be set by the Board of Directors but may not be less than one year as from the vesting date;
7. Resolve that the shares will vest before the expiration of the above-mentioned vesting period and will be freely transferable before the expiration of the above-mentioned lock-up period in the event that the beneficiary becomes disabled, within the meaning of the definition set down in the second or third categories under Article L.341-4 of the French Social Security Code (or the equivalent in any foreign country).
8. Note that if new shares are issued for the purpose of allocating the free shares, this authorization will result in capital increases paid up by capitalizing reserves, retained earnings or additional paid-in capital as the shares vest, as well as a corresponding waiver by shareholders of their pre-emptive rights to subscribe for the shares issued as part of these capital increases.

The shareholders give full powers to the Board of Directors - or any representative duly empowered in accordance with the law - to use this authorization within the limits set by the applicable laws and regulations and in particular to:

- determine if the shares granted free of consideration will be new shares or existing shares, it being specified that the Board may change its choice before the vesting date;
- draw up the list or categories of eligible beneficiaries;
- set the applicable performance and vesting conditions, notably the duration of the vesting period and lock-up period, particularly concerning the Company's corporate officers and members of the Executive Committee;
- provide for the possibility to provisionally suspend the beneficiaries' rights to receive the shares;
- place on record the vesting dates of the shares granted and the dates from which the shares may be freely transferred or sold;
- make any adjustments required during the vesting period to the number of free shares granted in order to protect the rights of beneficiaries, it being specified that the shares granted in connection with any such adjustments will be deemed to have been granted on the same date as the initial grant;
- in the event of the issue of new shares, (i) deduct, where applicable, from reserves, retained earnings or additional paid-in capital, the amounts necessary to pay up the shares, (ii) place on record the capital increases carried out pursuant to this authorization, (iii) amend the bylaws to reflect the new capital; and generally
- take all appropriate measures and enter into any and all agreements to successfully complete the share grants.

This authorization is given for a period of 26 months from the date of this meeting and supersedes the authorization given to the Board of Directors for the same purpose in the 31<sup>st</sup> resolution of the Annual General Meeting held on June 15, 2017.

### 8.2.3 Resolution concerning powers to carry out formalities

#### Presentation of the eighteenth resolution

The 18<sup>th</sup> resolution concerns the powers that are necessary to carry out the filing and other legal formalities required for the resolutions adopted at the meeting.

#### Text of the eighteenth resolution

##### Powers to carry out formalities

The shareholders give full powers to the bearer of an original, extract or copy of the minutes of this meeting to carry out any and all filing, publication, declaration and other formalities required by the applicable laws and regulations.

### 8.2.4 Nominees to the Board of Directors

#### Re-appointment of a Director proposed by the Board of Directors

The profile of Monique Cohen, whose re-appointment is being proposed to shareholders, is set out in section 6.2.2 of this Registration Document.

#### Appointment of a new Director proposed by the Board of Directors

Shareholders are invited to appoint Didier Domange as a Director (see profile below).



Didier Domange

2, rue de Franqueville - 75016 Paris, France

Number of Safran shares held: 195,109

#### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1943, Didier Domange is a graduate of Le Havre École Supérieure de Commerce.

He joined the Domange family business in 1966 as supply chain manager and was a member of the Management Committee of Établissements Domange from 1970 to 1980.

In 1996, he was also appointed Director of Zodiac, becoming Chairman and Chief Executive Officer in 1973.

When Zodiac was floated in 1983, he was appointed Chairman of the Supervisory Board, a position he held until January 2018.

#### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

##### CURRENT OFFICES AND POSITIONS

###### SAFRAN GROUP

None

###### NON-GROUP

- > Chairman of the Supervisory Board of Fidoma
- > Representative of CICOR on the Board of Directors of Banque Transatlantique

##### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

###### SAFRAN GROUP

None

###### NON-GROUP

- > Chairman of the Supervisory Board and member of the Strategy Committee of Zodiac Aerospace (listed company) until January 2018
- > Director of Zodiac Seats France until January 2018
- > Chairman of the Compensation Committee, member of the Audit Committee and member of the Selection Committee of Zodiac Aerospace (listed company) until September 2014

## Appointment of a new Director proposed by the Board of Directors

Shareholders are invited to appoint F&P as a corporate Director, represented by Robert Peugeot (see profile below).



### ➤ Robert Peugeot

Permanent representative of F&P – 66, avenue Charles de Gaulle – 92200 Neuilly-sur-Seine – France

Number of Safran shares held by F&P: pursuant to the Board of Directors' Internal Rules, each Director is required to own at least 500 registered shares of the Company

#### PROFILE – EXPERTISE AND EXPERIENCE

Born in 1950.

Robert Peugeot is a graduate of École Centrale de Paris and INSEAD. He has held a number of high-level positions in the PSA Group and was a member of the Group Executive Committee from 1998 to 2007, responsible for Innovation and Quality.

He is FFP's permanent representative on the Supervisory Board of Peugeot S.A., and is also Chairman of the Strategy Committee and a member of the Finance and Audit Committee of Peugeot S.A. He has been Chairman and Chief Executive Officer of FFP, responsible for its business development, since end-2002.

#### OFFICES AND POSITIONS HELD IN FRENCH AND NON-FRENCH COMPANIES

##### CURRENT OFFICES AND POSITIONS

###### SAFRAN GROUP

None

###### NON-GROUP

- Chairman and Chief Executive Officer and Chairman of the Investments and Participations Committee of FFP (listed company)
- Permanent representative of FFP as Chairman of FFP Invest
- Chairman of F&P since February 2018
- Permanent representative of FFP as a member of the Supervisory Board, Chairman of the Strategy Committee and a member of the Finance and Audit Committee of Peugeot S.A. (listed company)
- Permanent representative of FFP Invest as Chairman and a member of the Supervisory Board of Financière Guiraud SAS
- Permanent representative of Maillot I as a member of the Board of Directors of SICAV ARMENE
- Director and member of the Management Committee of Faurecia (listed company)
- Director, Chairman of the Nominations Committee and Chairman of the Compensation Committee of Sofina (listed company) (Belgium)
- Director and member of the Nomination and Compensation Committee of DKSH Holding AG (listed company) (Switzerland)
- Director and member of the Audit Committee of Établissements Peugeot Frères
- Director and member of the Nomination and Compensation Committee of Tikehau Capital Advisors
- Member of the Supervisory Board, member of the Audit Committee and member of the Compensation, Appointments and Governance Committee of Hermès International (listed company)
- Legal manager of:
  - SARL CHP Gestion
  - SC Rodom

##### OFFICES AND POSITIONS THAT EXPIRED IN THE LAST FIVE YEARS

###### SAFRAN GROUP

None

###### NON-GROUP

- Permanent representative of FFP Invest as a member of the Board of Directors and Chairman of the Compensation and Nominations Committee of Sanef until April 2017
- Permanent representative of FFP Invest as a member of the Supervisory Board and the Audit Committee of Zodiac Aerospace (listed company) until September 2014
- Director and a member of the Strategy Committee and the Nomination and Compensation Committee of Imerys (listed company) until May 2016
- Director of Holding Reinier S.A.S. until March 2016
- Permanent representative of FFP Invest as a member of the Supervisory Board of IDI Emerging Markets S.A. (Luxembourg) until June 2015
- Member of the Supervisory Board of:
  - Peugeot S.A. (listed company) until April 2014
  - IDI Emerging Markets S.A. (Luxembourg) until May 2014
- Director and Chairman of the Nominations and Compensation Committee of Sanef until June 2014

## 8.2.5 Summary table of authorizations in force already granted to the Board of Directors

The financial authorizations in force, already granted by shareholders to the Board of Directors, are summarized below.

| Type of authorization   | Date of authorization, term and expiration  | Ceiling<br>(maximum nominal amount of capital increases and maximum principal amount of debt securities) | Amount used at December 31, 2017 |
|---|---|--|----------------------------------|
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, with pre-emptive subscription rights for existing shareholders, which may not be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (17 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €20 million<br>€2 billion<br>(debt securities)   | None                             |
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, by way of a public offer, which may not be used during, or in the run-up to, a public offer for the Company's shares   | June 15, 2017 AGM (18 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)</sup>                            | None                             |
| Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, in the event of a public exchange offer initiated by the Company, which may not be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (19 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)(4)</sup>                      | None                             |
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2-II of the French Monetary and Financial Code, which may not be used during, or in the run-up to, a public offer for the Company's shares | June 15, 2017 AGM (20 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)(4)</sup>                      | None                             |
| Authorization for the Board of Directors to increase the number of securities included in an issue carried out with or without pre-emptive subscription rights for existing shareholders (pursuant to the 17 <sup>th</sup> , 18 <sup>th</sup> , 19 <sup>th</sup> and 20 <sup>th</sup> resolutions), which may not be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (21 <sup>st</sup> resolution)<br>26 months, i.e., until August 14, 2019 | 15% of the original issue <sup>(5)</sup>   | None                             |
| Authorization for the Board of Directors to increase the Company's capital by capitalizing reserves, retained earnings or additional paid-in capital, which may not be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (22 <sup>nd</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €12.5 million <sup>(1)</sup>   | None                             |
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, with pre-emptive subscription rights for existing shareholders, which may only be used during, or in the run-up to, a public offer for the Company's shares   | June 15, 2017 AGM (23 <sup>rd</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)</sup><br>€2 billion<br>(debt securities) <sup>(2)</sup>                              | None                             |
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, by way of a public offer, which may only be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (24 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)(6)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)(4)(7)</sup>                | None                             |
| Authorization for the Board of Directors to issue shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, in the event of a public exchange offer initiated by the Company, which may only be used during, or in the run-up to, a public offer for the Company's shares   | June 15, 2017 AGM (25 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)(6)(8)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)(4)(9)</sup>             | None                             |

## Report of the Board of Directors on the resolutions put forward at the Annual General Meeting

| Type of authorization  | Date of authorization, term and expiration  | Ceiling<br>(maximum nominal amount of capital increases and maximum principal amount of debt securities) | Amount used at December 31, 2017  |
|--|---|--|---|
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares of the Company, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2-II of the French Monetary and Financial Code, which may only be used during, or in the run-up to, a public offer for the Company's shares | June 15, 2017 AGM (26 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)(6)(8)</sup><br>€1.8 billion<br>(debt securities) <sup>(2)(4)(9)</sup>             | None  |
| Authorization for the Board of Directors to increase the number of securities included in an issue carried out with or without pre-emptive subscription rights for existing shareholders (pursuant to the 23 <sup>rd</sup> , 24 <sup>th</sup> , 25 <sup>th</sup> or 26 <sup>th</sup> resolutions), which may only be used during, or in the run-up to, a public offer for the Company's shares   | June 15, 2017 AGM (27 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | 15% of the original issue <sup>(10)</sup>  | None  |
| Authorization for the Board of Directors to increase the Company's capital by capitalizing reserves, retained earnings or additional paid-in capital, which may only be used during, or in the run-up to, a public offer for the Company's shares  | June 15, 2017 AGM (28 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(6)</sup>   | None  |
| Authorization for the Board of Directors to increase the Company's capital by issuing ordinary shares to employees who are members of a Safran group employee savings plan, without pre-emptive subscription rights for existing shareholders  | June 15, 2017 AGM (29 <sup>th</sup> resolution)<br>26 months, i.e., until August 14, 2019 | 1% of the Company's capital <sup>(1)</sup>   | None  |
| Authorization for the Board of Directors to reduce the Company's capital by canceling treasury shares  | June 15, 2017 AGM (30 <sup>th</sup> resolution)<br>24 months, i.e., until June 14, 2019   | 10% of the Company's capital   | None  |
| Authorization for the Board of Directors to grant existing or new shares of the Company, free of consideration, to employees and corporate officers of the Company and other Group entities, with a waiver of shareholders' pre-emptive subscription rights  | June 15, 2017 AGM (31 <sup>st</sup> resolution)<br>26 months, i.e., until August 14, 2019 | 0.40% of the Company's capital at the grant date   | None  |
| Authorization for the Board of Directors to issue Class A Preferred Shares in the event of a public exchange offer initiated by the Company  | June 15, 2017 AGM (33 <sup>rd</sup> resolution)<br>26 months, i.e., until August 14, 2019 | €8 million <sup>(1)(3)(11)</sup>   | <b>Amount used at Dec. 31, 2017:</b><br>None<br><b>Amount used at Feb 13, 2018:</b><br>€5,330,211.60<br><b>Amount remaining at March 30, 2018:</b><br>€2,669,788.40 |

(1) This amount is included in the €20 million ceiling for capital increases set in the 17<sup>th</sup> resolution of the June 15, 2017 AGM.

(2) This amount is included in the €2 billion ceiling for issues of debt securities set in the 17<sup>th</sup> resolution of the June 15, 2017 AGM.

(3) This amount is included in the €8 million ceiling for capital increases set in the 18<sup>th</sup> resolution of the June 15, 2017 AGM.

(4) This amount is included in the €1.8 billion ceiling for issues of debt securities set in the 18<sup>th</sup> resolution of the June 15, 2017 AGM.

(5) The ceilings applicable to the 17<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> resolutions of the June 15, 2017 AGM still apply if the option provided for in the 21<sup>st</sup> resolution of that AGM is used.

(6) This amount is included in the €8 million ceiling for capital increases set in the 23<sup>rd</sup> resolution of the June 15, 2017 AGM.

(7) This amount is included in the €2 billion ceiling for issues of debt securities set in the 23<sup>rd</sup> resolution of the June 15, 2017 AGM.

(8) This amount is included in the €8 million ceiling for capital increases set in the 24<sup>th</sup> resolution of the June 15, 2017 AGM.

(9) This amount is included in the €1.8 billion ceiling for issues of debt securities set in the 24<sup>th</sup> resolution of the June 15, 2017 AGM.

(10) The ceilings applicable to the 23<sup>rd</sup>, 24<sup>th</sup>, 25<sup>th</sup> and 26<sup>th</sup> resolutions of the June 15, 2017 AGM will still apply if the option provided for in the 27<sup>th</sup> resolution of that AGM is used.

(11) This amount is included in the €8 million ceiling for capital increases set in the 19<sup>th</sup> resolution of the June 15, 2017 AGM.

## 8.3 USE BY THE BOARD OF DIRECTORS OF AN AUTHORIZATION GIVEN AT THE JUNE 15, 2017 ANNUAL GENERAL MEETING

### 8.3.1 Report on the use of the authorization granted to the Board of Directors in the thirty-third resolution adopted at the June 15, 2017 Annual General Meeting

#### Authorization for the Board of Directors to increase the Company's capital as payment for the securities tendered to the subsidiary exchange offer initiated by Safran for the shares of Zodiac Aerospace

#### Additional report of the Board of Directors

(Article R.225-116 of the French Commercial Code)

To the Shareholders,

In accordance with Articles L.225-129-5 and R.225-116 of the French Commercial Code, we hereby report to you on the use of the authorization granted to the Board of Directors in the thirty-second and thirty-third resolutions (extraordinary resolutions) of the June 15, 2017 Annual General Meeting to issue new shares of the Company, without pre-emptive subscription rights for existing shareholders, as payment for the shares tendered to and accepted under the exchange offer carried out on a subsidiary basis (the "Subsidiary Exchange Offer") to the cash tender offer made on a principal basis (the "Principal Tender Offer") initiated by the Company for the shares of Zodiac Aerospace ("Zodiac").

On this basis, and in accordance with the above-mentioned legal and regulatory provisions, the report below (i) describes the final terms and conditions of the overall transaction approved by the Board of Directors and (ii) explains the impact of those terms and conditions on the Company's shareholders.

#### 1. Legal framework of the transaction

##### 1.1 Annual General Meeting of June 15, 2017

In the thirty-third resolution of the June 15, 2017 Annual General Meeting (extraordinary resolution), in accordance with Articles L.225-129-2 to L.225-129-6, L.225-148 and L.228-15 of the French Commercial Code, the shareholders:

- ▶ granted the Board of Directors a twenty-six month authorization to (i) issue Class A Preferred Shares as payment for securities of another company tendered to a public exchange offer initiated by the Company and (ii) cancel the pre-emptive rights of existing shareholders to subscribe for the Class A Preferred Shares issued under this authorization.

The shareholders resolved that this authorization could be used in connection with any public exchange offer initiated by the

Company, in France or abroad, for the securities of another company listed on one of the regulated markets referred to in Article L.225-148 of the French Commercial Code, or any other type of public offer that complies with the applicable laws and regulations;

- ▶ noted that, in accordance with Article L.225-132 of the French Commercial Code, in the event of an issue of Class A Preferred Shares carried out under this authorization, existing shareholders would waive their pre-emptive rights to subscribe for the ordinary shares resulting from the conversion of said Class A Preferred Shares;
- ▶ resolved that the maximum nominal amount of the capital increases that could be carried out pursuant to this authorization would be €8 million;
- ▶ resolved that the Board of Directors would have full powers to use this authorization, in particular to carry out issues of Class A Preferred Shares in connection with public offers falling within the scope of this resolution, and notably to:
  - set the exchange ratio as well as any balance to be paid in cash,
  - place on record the number of securities tendered to the exchange,
  - determine the timing and other terms and conditions of the issue(s) and notably the price and cum-rights date (which could be retroactive) of the Class A Preferred Shares issued in accordance with this resolution,
  - suspend, where appropriate, the exercise of any rights attached to new or existing securities in accordance with the applicable laws and regulations, and make any adjustments in order to take into account the impact of any issues on the Company's capital and set the terms and conditions for protecting the rights of holders of securities carrying rights to the Company's shares, in accordance with the applicable laws, regulations and contractual provisions,
  - credit the difference between the issue price of the new Class A Preferred Shares and their par value to a premium account to which all shareholders would have equivalent rights,
  - charge all the issuance costs against said premium; and more generally,
  - take all appropriate measures and enter into any and all agreements to successfully carry out the issue(s), place on record the completion of the capital increase(s), and amend the Company's bylaws to reflect the new capital;
- ▶ authorized the Board of Directors, within the limits set in advance by the Board, to delegate to the Chief Executive Officer or, in agreement with him and where applicable, to one or more Deputy Chief Executive Officers, the authorization given under this resolution.

## 1.2 Decision taken by the Board of Directors on December 6, 2017 using the above-described authorization

At its meeting on December 6, 2017, having placed on record that the maximum number of Class A Preferred Shares that could be issued in connection with the Subsidiary Exchange Offer was 29,497,478, corresponding to a capital increase representing a maximum nominal amount of €5,899,495.60, the Board of Directors (i) resolved that the Class A Preferred Shares to be used as payment under the Subsidiary Exchange Offer would be issued using the above-mentioned thirty-second and thirty-third resolutions, and (ii) delegated to the Chief Executive Officer the power to carry out one or two increases of Safran's capital depending on whether or not the Subsidiary Exchange Offer is re-opened, by issuing the Class A Preferred Shares to be used as payment in connection with the Subsidiary Exchange Offer, in accordance with the terms and conditions and ceilings set out in section 2.3.2 of the Information Memorandum (as this term is defined below), and notably but not exhaustively, to:

- place on record the number of Zodiac shares tendered to the Subsidiary Exchange Offer and the number of Class A Preferred Shares to be issued based on the Exchange Ratio as well as the amount of the capital increase(s) and, where applicable, the amount of any cash compensation payable for any rights to fractional shares;
- determine the dates and terms and conditions of the issue(s);
- suspend, where appropriate and in accordance with the applicable laws and regulations, the exercise of any rights attached to new or existing securities and make any adjustments in order to take into account the impact of the issue(s) on the Company's capital and set the terms and conditions for protecting the rights of holders of securities carrying rights to the Company's shares;
- recognize on the liabilities side of the balance sheet, in a premium account to which all of the shareholders will have equivalent rights, the difference between the issue price of the Class A Preferred Shares and their par value, and, where appropriate, deduct from that premium all of the costs and fees incurred in relation to the transaction concerned; and more generally;
- take all appropriate measures and enter into any and all agreements to successfully carry out the issue(s), place on record the completion of the capital increase(s), place on record any conversion of the Class A Preferred Shares into ordinary shares and amend the Company's bylaws accordingly.

The Board of Directors further resolved that if the Chief Executive Officer were to use the powers delegated to him as described above, he would be required to report to the Board of Directors thereon at the first Board meeting following such use.

In accordance with Articles 232-1 *et seq.* of the AMF's General Regulations, the Offer was filed with the AMF on December 7, 2017 by Crédit Agricole CIB, acting on behalf of the Company. In this Offer the Company irrevocably offered to Zodiac's shareholders to (i) purchase their Zodiac shares at a price of €25 under the Principal Tender Offer, or (ii) exchange their Zodiac shares for new Class A Preferred Shares, based on an Exchange Ratio of between 0.300 and 0.332 Preferred Shares for one Zodiac share accepted under the Subsidiary Exchange Offer, subject to an overall ceiling of 88,847,828 Zodiac shares.

The filing notice for the Offer was published by the AMF on its website on December 7, 2017 under number 217C2859.

On December 21, 2017, the AMF stated that the Offer complied with the applicable laws and regulations and published a compliance statement under number 217C2992. Accordingly, on the same

date the AMF approved the Information Memorandum for the Offer (the "Information Memorandum") under visa number 17-648.

On January 17, 2018, Safran announced that the final Exchange Ratio for the Subsidiary Exchange Offer – determined in accordance with section 2.3.2 of the Information Memorandum – was 0.300 Safran Class A Preferred Shares for one Zodiac share.

The Offer period ran from December 27, 2017 to January 31, 2018. In view of its success, it was re-opened from February 19, 2018 to March 2, 2018. Only the Principal Tender Offer was re-opened as the number of Zodiac shares tendered to the Subsidiary Exchange Offer had reached the ceiling set in the initial Offer.

## 1.3 Decision taken by the Chief Executive Officer on February 7, 2018 using the above-described delegation of powers

On February 7, 2018, having considered:

- (i) the Exchange Ratio for the Subsidiary Exchange Offer, corresponding to 0.300 Safran Class A Preferred Shares for one Zodiac share;
- (ii) the notice of the results of the Offer published by the AMF on February 6, 2018;
- (iii) the notice of the results of the Offer published by Euronext on February 6, 2018 and the "Funds Flow" document issued by Euronext on February 6, 2018 for the purpose of organizing the settlement of the shares concerned;

the Chief Executive Officer placed on record that:

- the number of Zodiac shares actually tendered to the Subsidiary Exchange Offer, after application of the reduction mechanism, was 88,847,828;
- these Zodiac shares tendered to the Subsidiary Exchange Offer should be paid for in the form of (i) 26,651,058 Class A Preferred Shares and, (ii) in accordance with the terms and conditions set out in section 2.3.5 of the Information Memorandum, in the form of a €274,200 cash payment as compensation for rights to fractional shares (although certain shareholders may have waived their entitlement to this cash compensation); and
- Safran's share capital was fully paid up.

Consequently, the Chief Executive Officer decided to use the delegation of powers granted to him by Safran's Board of Directors on December 6, 2017 and decided to:

- increase Safran's share capital by €5,330,211.60 from €83,405,917 to €88,736,128.60, by issuing, at the settlement date of the Offer, 26,651,058 Class A Preferred Shares (ISIN FRO013306479) as payment for the 88,847,828 Zodiac shares definitively tendered to the Subsidiary Exchange Offer. These Preferred Shares have a par value of €0.20, are all in the same class, carry immediate dividend rights and have the same characteristics as the Safran ordinary shares currently traded on Euronext Paris (compartment A) under ISIN FRO000073272, but they are subject to a lock-up period of 36 months as from their issue;
- recognize the difference between the issue price of the Class A Preferred Shares and their par value in an "Issue premium" account on the liabilities side of the balance sheet, to which all shareholders will have equivalent rights and against which all of the costs and fees incurred in connection with the transaction may be charged;
- amend Articles 6, 7, 9, 11 and 12 of the Company's bylaws relating to the share capital, to insert an Article 36 relating to Special Meetings of holders of Class A Preferred Shares and to amend the numbering of the bylaws accordingly.

## 2. Terms and conditions of the capital increase and impact of the issue

### 2.1 Terms and conditions of the capital increase

As stated in paragraph 1.3 above, the total nominal amount of the capital increase carried out on February 7, 2018, using the authorization given by shareholders at the June 15, 2017 Extraordinary General Meeting and the delegation of powers given by the Board of Directors on December 6, 2017, was five million three hundred and thirty thousand two hundred and eleven euros and sixty euro cents (€5,330,211.60) and the aggregate amount of the issue, including the premium, was €2,243,486,062.44. The Company's share capital was increased from eighty-three million four hundred and five thousand nine hundred and seventeen euros (€83,405,917) before the issue of the Class A Preferred Shares to eighty-eight million seven hundred and thirty-six thousand one hundred and twenty-eight euros and sixty euro cents (€88,736,128.60) after the issue,

bringing the total number of shares making up Safran's capital to 443,680,643, including 417,029,585 ordinary shares and 26,651,058 newly-issued Class A Preferred Shares.

The full terms and conditions of the issue of the Class A Preferred Shares and, more generally, the terms and conditions of the Subsidiary Exchange Offer are set out in the Information Memorandum available on the websites of Safran ([www.safran-group.com](http://www.safran-group.com)) and the AMF ([www.amf-france.org](http://www.amf-france.org)).

### 2.2 Impact of the issue

#### 2.2.1 Impact of the issue on equity

The table below shows the impact of the issue of the new Class A Preferred Shares on equity per share calculated at parent company and Group level at December 31, 2017 based on the number of shares making up the Company's capital at that date (after deducting the 7,742,624 shares held in treasury at December 31, 2017).

|  | Before issue | After issue  |
|--|--------------|--------------|
| Parent company's equity                                    | €8,289,826k  | €10,533,312k |
| Consolidated equity (attributable to owners of the parent) | €10,321,139k | €12,564,625k |
| Number of shares - undiluted                               | 409,286,961  | 435,938,019  |
| Number of shares - diluted <sup>(1)</sup>                  | 416,564,166  | 443,215,224  |
| Parent company's equity per share - undiluted              | €20.25       | €24.16       |
| Parent company's equity per share - diluted                | €21.46       | €25.23       |
| Attributable consolidated equity per share - undiluted     | €25.22       | €28.82       |
| Attributable consolidated equity per share - diluted       | €26.27       | €29.75       |

(1) Assuming the conversion of the 7,277,205 Océane convertible bonds issued by Safran on January 5, 2016.

#### 2.2.2 Impact of the issue on shareholders' interests' in the Company's capital

The table below shows the impact of the issue of the Class A Preferred Shares on the ownership interest of a shareholder holding 1% of the Company's capital prior to the issue.

| Shareholder's % ownership interest | Before issue | After issue |
|------------------------------------|--------------|-------------|
| Undiluted basis                    | 1%           | 0.94%       |
| Diluted basis <sup>(1)</sup>       | 0.98%        | 0.92%       |

(1) Assuming the conversion of the 7,277,205 Océane convertible bonds issued by Safran on January 5, 2016.

#### 2.2.3 Theoretical impact of the issue of the Class A Preferred Shares on the Company's share price and market capitalization

The theoretical impact of the issue of the Class A Preferred Shares on Safran's current market capitalization is zero on an undiluted basis and a positive 0.012% on a diluted basis.

This impact was calculated based on the following:

- > a price of €88.50 per Safran share, corresponding to the average of the closing Safran share prices over the twenty trading days preceding the issue date;
- > the issue of 26,651,058 Class A Preferred Shares with a par value of €0.20 each;
- > net proceeds from the issue of the 26,651,058 Class A Preferred Shares amounting to €2,243,486,062.44 (including a €2,238,155,850.84 issue premium), calculated based on the opening price on February 13, 2018, i.e., €84.18.



## Use by the Board of Directors of an authorization given at the June 15, 2017 Annual General Meeting

Based on the above, the following table shows the theoretical impact of the issue of the Class A Preferred Shares on Safran's current share price and market capitalization:

| <b>Issue of Class A Preferred Shares under the Offer</b>                                       |                   |
|--|-------------------|
| Number of Safran shares after issue of the Class A Preferred Shares                            | 443,680,643       |
| Net proceeds from the issue of the Class A Preferred Shares                                    | 2,243,486,062.44  |
| <b>Situation before the issue of the Class A Preferred Shares</b>                              |                   |
| Number of Safran shares before the issue of the Class A Preferred Shares                       | 417,029,585       |
| Safran share price before the issue of the Class A Preferred Shares                            | 88.50             |
| Safran's market capitalization before the issue of the Class A Preferred Shares                | 36,907,118,272.50 |
| <b>Situation after the issue of the Class A Preferred Shares (undiluted basis)</b>             |                   |
| Theoretical Safran share price after the issue of the Class A Preferred Shares                 | 88.50             |
| Safran's theoretical market capitalization after the issue of the Class A Preferred Shares     | 39,265,736,905.50 |
| <b>Situation after the issue of the Class A Preferred Shares (diluted basis)<sup>(1)</sup></b> |                   |
| Theoretical Safran share price after the issue of the Class A Preferred Shares                 | 88.51             |
| Safran's theoretical market capitalization after the issue of the Class A Preferred Shares     | 39,915,736,846.10 |

(1) Assuming the conversion of the 7,277,205 OCÉANE convertible bonds issued by Safran on January 5, 2016.

In accordance with the applicable laws and regulations, this report as well as the Statutory Auditors' report on the use of this authorization are available for consultation by shareholders at the Company's registered office and will be provided to them at the next Annual General Meeting.

The Board of Directors

### 8.3.2 Additional report of the Statutory Auditors on the issuance of Class A Preferred Shares as consideration for shares tendered to the subsidiary exchange offer made by Safran for Zodiac Aerospace

*This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in accordance with Article R.225-116 of the French Commercial Code (*Code de commerce*), and further to our report of May 23, 2017, we hereby report to you on the issuance of Class A Preferred Shares as consideration for shares tendered to a public exchange offer made by your Company, as authorized at the Extraordinary Shareholders' Meeting of June 15, 2017.

The Shareholders' Meeting delegated authority to the Board of Directors, which may be sub-delegated, to decide on such an operation within a period of twenty-six months and for a maximum amount of €8 million.

Exercising this delegation, at its meeting on December 6, 2017, the Board of Directors agreed in principle to issue Class A Preferred Shares as consideration for shares tendered to the subsidiary exchange offer made by Safran for Zodiac Aerospace. Also at its meeting on December 6, 2017, the Board of Directors decided to sub-delegate to the Chief Executive Officer the necessary powers to make one or more capital increases depending on whether or not the subsidiary exchange offer was re-opened, by issuing Class A Preferred Shares as consideration for shares tendered to the subsidiary exchange offer.

Exercising this sub-delegation, on February 7, 2018, the Chief Executive Officer decided to proceed with a capital increase in an amount of €5,330,211.60 via the issuance of 26,651,058 Class A Preferred Shares with a par value of €0.20 per share. A total of 88,847,828 Zodiac Aerospace shares were tendered to the subsidiary exchange offer (ceiling set in the initial offer) and the final exchange ratio for the subsidiary exchange offer – determined in accordance with section 2.3.2 of the Information Memorandum – was set at 0.30 Safran Class A Preferred Shares for one Zodiac share.

At its meeting on February 26, 2018, the Board of Directors placed on record the issuance of 26,651,058 Class A Preferred Shares with a par value of €0.20 per share, making a total issue amount of €2,243,486,062.44 including the share premium.

It is the responsibility of the Board of Directors to prepare an additional report in accordance with Article R.228-17 of the French Commercial Code. Our role is to express an opinion on the capital increase and certain other information concerning the issue, given in this report.

We have performed those procedures which we considered necessary in accordance with professional guidance issued by the French national auditing body (*Compagnie nationale des commissaires aux comptes*) for this type of engagement. These procedures mainly consisted in verifying:

- the compliance of the terms and conditions of the transaction with the delegation of authority granted by the Shareholders' Meeting;
- the presentation of the impact of the issuance on the financial position of the holders of shares and securities granting access to the share capital, as expressed in relation to shareholders' equity and calculated on the basis of the annual and consolidated financial statements, which were audited by us in accordance with professional standards applicable in France.

We have no matters to report as to:

- the compliance of the terms and conditions of the transaction with the delegation of authority granted by the Shareholders' Meeting of June 15, 2017 and the information provided to the shareholders;
- the presentation of the impact of the issuance on the financial position of the holders of shares and securities granting access to the share capital, as expressed in relation to shareholders' equity;
- the capital increase upon which you previously voted.

Courbevoie and Paris-La Défense, March 5, 2018

The Statutory Auditors

Mazars

Gaël Lamant

Christophe Berrard

Ernst & Young et Autres

Jean-Roch Varon

Nicolas Macé

## 8.4 STATUTORY AUDITORS' REPORTS

### 8.4.1 Statutory Auditors' special report on related-party agreements and commitments

*This is a free translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related-party agreements and commitments.

It is our responsibility to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is the responsibility of the shareholders pursuant to Article R.225-31 of the French Commercial Code (*Code de commerce*) to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is our responsibility to provide shareholders with the information required by Article R.225-31 of the French Commercial Code concerning the implementation during the year of the agreements and commitments already approved by the Annual General Meeting.

We have performed those procedures which we considered necessary in accordance with professional guidance issued by the French national auditing body (*Compagnie nationale des commissaires aux comptes*) for this type of engagement.

#### Agreements and commitments submitted for approval by the Annual General Meeting

##### Agreements and commitments authorized and signed during the year

We hereby inform you that we were not advised of any agreements or commitments authorized and signed by the Board of Directors during the year to be submitted for the approval of the Annual General Meeting in accordance with Article L.225-38 of the French Commercial Code.

##### Agreements and commitments authorized and signed since the year-end

We have been advised of the following agreements and commitments authorized and signed since the end of the year, which received prior authorization from the Board of Directors.

#### 1. With the French State (shareholder holding more than 10% of the Company's voting rights)

##### Persons concerned

Lucie Muniesa, representative of the French State to the Board of Directors of your Company, and Patrick Gandil and Vincent Imbert, Directors put forward by the French State.

##### Nature, purpose, terms and conditions

Consolidation and update of the 2004 agreement related to strategic defense assets and subsidiaries and its addendums in a single document

When Snecma was privatized following its merger with Sagem, the French State agreed to waive its right, pursuant to Article 10 of the privatization act of August 6, 1986, to take a golden share in Snecma, provided that equivalent contractual rights were granted in an agreement.

In order to protect France's national interests and preserve the country's national independence, the French State therefore entered into an agreement on December 21, 2004 with Sagem and Snecma related to strategic defense assets and subsidiaries (the "2004 Agreement"). The 2004 Agreement is designed to (i) give the French State control over the ownership and, where applicable, the devolution of all or part of certain assets and shares of subsidiaries or other equity investments held by the companies party to the 2004 Agreement, combined with certain acquisition thresholds, and (ii) to give the French State rights of representation on the governing bodies of the strategic subsidiaries and subsidiaries holding assets related to French combat aircraft engines.

The merger between Snecma and Sagem which created Safran in 2005 and the various transactions completed by Safran since then have significantly changed the Group's scope, prompting Safran and the French State to amend the 2004 Agreement through a series of six successive addendums.

Safran and the French State wished to consolidate the 2004 Agreement and its amendments into a single document (the "Agreement") and to update its contents.

The consolidated, updated Agreement, which supersedes the 2004 Agreement, provides notably as follows:

On corporate governance matters:

- Safran's competent bodies shall be invited to appoint the French State as a Director if its interest in the Company's share capital is less than 10% but more than 1%;
- Safran's competent bodies shall in addition be invited to appoint a member proposed by the French State to the Board of Directors if its interest in the Company's share capital is more than 5%;

the shareholders will thus be invited to approve the terms of office of these Directors;

- at the request of the French State, the Board of Directors shall be invited to appoint one of the persons referred to above to any Board committee that may be set up for the purpose of addressing matters directly related to its rights under the Agreement;
- the French State shall be entitled to appoint a non-voting representative to the Boards of Directors or equivalent bodies of Safran's strategic subsidiaries (Safran Ceramics and Safran Power Units) and subsidiaries owning sensitive defense assets.

On strategic or sensitive defense assets and the entities that hold such assets:

- the French State shall have a prior right of approval over:
  - sales of assets (other than those that do not affect the defense activities) owned by strategic subsidiaries and accordingly identified as strategic; sales of shares in strategic subsidiaries Safran Ceramics and Safran Power Units; and sales of shares in ArianeGroup Holding,

- sales of certain assets identified as defense sensitive (such as engines, components and systems, high precision inertial navigation and missile guidance systems, financed directly or indirectly by the French Defense Ministry) owned by Group entities,
- sales of shares in Safran Electronics & Defense, which owns sensitive defense assets,
- acquisitions of interests resulting in a holding of more than 33.33% or more than 50% of the share capital or voting rights of the other Group companies that own sensitive defense assets,
- projects conferring special management or information rights over strategic or sensitive defense assets or rights of representation on the administrative or management bodies of Safran Ceramics, Safran Power Units, ArianeGroup Holding or another entity owning sensitive defense assets controlled by Safran,

the French State's failure to respond within a period of 30 business days shall be deemed to constitute agreement, except in the case of proposals to sell shares in ArianeGroup Holding, in which case failure to respond shall be deemed to constitute refusal;

- the French State shall be informed beforehand of any proposal by a strategic subsidiary or an entity controlled by Safran that owns sensitive defense assets, to sell assets that do not fall into these protected categories but whose sale could have a material impact on the independent management on French territory of the entity's strategic assets or sensitive defense assets;
- in the event a third party acquires more than 10% or a multiple of 10% of the capital or voting rights of Safran, and failing an agreement on other ways of protecting national interests in connection with the strategic assets, the French State shall be entitled to purchase the securities and assets of the strategic subsidiaries Safran Ceramics and Safran Power Units and the stake in ArianeGroup Holding at a price to be set by a panel of experts.

The Agreement was authorized by the Board of Directors at its meeting on March 22, 2018. It was signed by Safran on March 26, 2018.

### *Reason for the Agreement*

The Board of Directors signed this agreement for the following reason:

Safran and the French State wished to consolidate the 2004 Agreement and update its contents.

## **2. With Ross McInnes, Chairman of the Board of Directors**

### *Nature, purpose, terms and conditions*

#### **Changes to the pension plan system**

The Chairman and the Chief Executive Officer are both members of the Group's general supplementary pension plan system.

In late 2017, two of the plans within this system were amended. These correspond to the two "Article 83" defined contribution supplementary pension plans which, following a collective bargaining process with the relevant trade unions, were amended in order to harmonize Group-wide in France this major element of the compensation packages of French managerial staff.

The amendments concern the various contribution rates (based on the applicable ranges of compensation) provided for in both plans. They do not increase the amount of the benefit (overall, the contribution rates paid under the two plans will remain at 8%), and will even result in lower contributions and charges payable by Safran for the Chairman and the Chief Executive Officer and a slight decrease in the amount of their respective post-employment benefits.

As a reminder:

- the commitments given to the Chairman and the Chief Executive Officer to enable them to be beneficiaries under the "Article 83 Core Plan" were approved in accordance with the procedure applicable to related-party commitments by way of a decision of the Board of Directors on April 23, 2015 and by the shareholders at the May 19, 2016 Annual General Meeting;
- the commitments given to the Chairman and the Chief Executive Officer to enable them to be beneficiaries under the "Article 83 Additional Plan" set up in 2017 were approved in accordance with the procedure applicable to related-party commitments by way of a decision of the Board of Directors on March 23, 2017 and were submitted for a shareholder vote at the June 15, 2017 Annual General Meeting. The shareholders rejected the resolution concerning the Chairman, but the Board of Directors decided at its meeting on July 26, 2017 that the Chairman could still be a beneficiary under the "Article 83 Additional Plan".

Details of the new "Article 83" defined contribution supplementary pension plans and amendments to the old plan:

- the new Group-wide "Article 83 Core Plan" (which replaces the previous plans for the Group's French companies including that of Safran) will be financed through employer contributions equal to 1.5% of salary Tranche A, 4% of Tranches B and C and no contributions on Tranche D (as opposed to 2% of gross salary with no cap, i.e., including on Tranche D), under Safran's previous plan;
- the contribution rates for Safran's amended "Article 83 Additional Plan" will be changed to 6.5% on Tranche A and 4% on Tranches B and C (as opposed to 6% on Tranches A, B and C under Safran's previous plan).

On February 26, 2018, the Board of Directors decided that the Chairman could be a beneficiary of the new "Article 83" defined contribution supplementary pension plan system effective from January 1, 2018 under the same terms and conditions as the other managerial-grade staff who are beneficiaries under the system. The new "Article 83" defined contribution supplementary pension plan system includes the following:

- the Group-wide "Article 83 Core Plan" signed on November 6, 2017, which replaces Safran's previous plan with effect from January 1, 2018;
- Safran's amended "Article 83 Additional Plan", which replaces Safran's previous plan with effect from January 1, 2018.

### *Reason for the commitment*

The Board of Directors gave this commitment for the following reasons:

The Chairman and the Chief Executive Officer were already members of the previous "Article 83" defined contribution supplementary pension plans, bearing in mind that Safran's policy is to align the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff in order that when in-house executives are promoted to corporate officer positions they do not lose their existing benefit entitlements that they have accrued over time. The amendments do not alter the substance of the related benefit obligations.

## **3. With Philippe Petitcolin, Chief Executive Officer**

### *Nature, purpose, terms and conditions*

#### **Changes to the pension plan system**

The Chairman and the Chief Executive Officer are both members of the Group's general supplementary pension plan system.

In late 2017, two of the plans within this system were amended. These correspond to the two "Article 83" defined contribution supplementary pension plans which, following a collective bargaining process with the relevant trade unions, were amended in order to harmonize Group-wide in France this major element of the compensation packages of French managerial staff.

The amendments concern the various contribution rates (based on the applicable ranges of compensation) provided for in both plans. They do not increase the amount of the benefit (overall, the contribution rates paid under the two plans will remain at 8%), and will even result in lower contributions and charges payable by Safran for the Chairman and the Chief Executive Officer and a slight decrease in the amount of their respective post-employment benefits.

As a reminder:

- > the commitments given to the Chairman and the Chief Executive Officer to enable them to be beneficiaries under the "Article 83 Core Plan" were approved in accordance with the procedure applicable to related-party commitments by way of a decision of the Board of Directors on April 23, 2015 and by the shareholders at the May 19, 2016 Annual General Meeting;
- > the commitments given to the Chairman and the Chief Executive Officer to enable them to be beneficiaries under the "Article 83 Additional Plan" set up in 2017 were approved in accordance with the procedure applicable to related-party commitments by way of a decision of the Board of Directors on March 23, 2017 and were submitted for a shareholder vote at the June 15, 2017 Annual General Meeting.

Details of the new "Article 83" defined contribution supplementary pension plans and amendments to the old plan:

- > the new Group-wide "Article 83 Core Plan" (which replaces the previous plans for the Group's French companies including that of Safran) will be financed through employer contributions equal to 1.5% of salary Tranche A, 4% of Tranches B and C and no contributions on Tranche D (as opposed to 2% of gross salary with no cap, i.e., including on Tranche D, under Safran's previous plan);
- > the contribution rates for Safran's amended "Article 83 Additional Plan" will be changed to 6.5% on Tranche A and 4% on Tranches B and C (as opposed to 6% on Tranches A, B and C under Safran's previous plan).

On February 26, 2018, the Board of Directors decided that the Chief Executive Officer could be a beneficiary of the new "Article 83" defined contribution supplementary pension plan system effective from January 1, 2018 under the same terms and conditions as the other managerial-grade staff who are beneficiaries under the system. The new "Article 83" defined contribution supplementary pension plan system includes the following:

- > the Group-wide "Article 83 Core Plan" signed on November 6, 2017, which replaces Safran's previous plan with effect from January 1, 2018;
- > Safran's amended "Article 83 Additional Plan", which replaces Safran's previous plan with effect from January 1, 2018.

### Reason for the commitment

The Board of Directors gave this commitment for the following reasons:

The Chief Executive Officer and the Chairman were already members of the previous "Article 83" defined contribution supplementary pension plans, bearing in mind that Safran's policy is to align the post-employment benefits of its corporate officers with those of the Group's managerial-grade staff in order that when in-house executives are promoted to corporate officer positions they do not lose their existing benefit entitlements that they have accrued over time. The amendments do not alter the substance of the related benefit obligations.

## Agreements and commitments already approved by the Annual General Meeting

### Agreements and commitments approved in prior years

In accordance with Article R.225-30 of the French Commercial Code, we were informed that the following agreements and commitments, approved by the Annual General Meeting in prior years, remained in force during the year.

## 1. With the French State, ArianeGroup Holding (AGH) and CNES, in the presence of Safran

### Persons concerned

The French State (shareholder holding more than 10% of the Company's voting rights)

Lucie Muniesa, representative of the French State to the Board of Directors of your Company, and Patrick Gandil and Vincent Imbert, Directors put forward by the French State.

### Nature, purpose, terms and conditions

#### Arianespace framework protocol

The CNES (French National Space Studies Center), the French State and AGH, in the presence of Airbus Group SE and Safran, signed the Arianespace Framework Protocol, which relates to the buying back by AGH of Arianespace shares and Ariane brand names held by CNES and establishes the principal terms and conditions of the sale to AGH of Arianespace shares held by CNES, as well as the parties' declarations and commitments. In its capacity as a shareholder of AGH, Safran undertakes to ensure that AGH fully complies with said agreement.

The protocol would provide for a new operating framework for European launchers.

The signature of the protocol was authorized by the Board of Directors on December 17, 2015. It was signed on February 8, 2016 and approved by the Annual General Meeting of May 19, 2016. It subsequently entered into force on June 30, 2016.

## 2. With Ross McInnes, Chairman of the Board of Directors

### Nature, purpose, terms and conditions

#### Continuation of the personal risk insurance and defined contribution supplementary pension plans for the Chairman of the Board of Directors

At its April 23, 2015 meeting, the Board of Directors decided to separate the roles of Chairman of the Board of Directors and Chief Executive Officer, and appointed Ross McInnes as Chairman of the Board of Directors. At the same meeting, the Board decided, in accordance with Article L.225-42-1 of the French Commercial Code, to authorize him to continue to be a beneficiary under:

- > the personal risk insurance plan set up for all Safran Group employees, subject to the same terms and conditions as the other plan members. Mr. McInnes was previously a beneficiary under the plan in his former capacity as a Company employee, then as Deputy Chief Executive Officer, as decided by the Board of Directors at its July 27, 2011 meeting. This includes, as decided by the Board of Directors at its December 17, 2014 meeting, the Group's Accidental Death and Disability insurance coverage, which was added to the coverage already provided for under the Group Personal Risk Insurance Plan, effective from January 1, 2015;
- > the defined contribution supplementary pension plans set up for the Company's managerial-grade staff, subject to the same terms and conditions as the other plan members. Mr. McInnes was previously covered in his former capacity as a Company employee, then as Deputy Chief Executive Officer, as decided by the Board of Directors at its July 27, 2011 meeting.

The contributions to the plans are based on the fixed compensation that Mr. McInnes receives for his role as Chairman of the Board of Directors.

This commitment was approved by the Annual General Meeting of May 19, 2016.

In respect of 2017, the corresponding expenses recorded in Safran's financial statements totaled €6,015 for the personal risk insurance plan and €10,671 for the defined contribution supplementary pension plan.

### 3. With Philippe Petitcolin, Chief Executive Officer

#### *Nature, purpose, terms and conditions*

##### **Continuation of the personal risk insurance and defined contribution supplementary pension plans for the Chief Executive Officer**

At its April 23, 2015 meeting, the Board of Directors decided to separate the roles of Chairman of the Board of Directors and Chief Executive Officer, and appointed Philippe Petitcolin as Chief Executive Officer. At the same meeting, the Board decided, in accordance with Article L.225-42-1 of the French Commercial Code, to authorize him to continue to be a beneficiary under:

- > the personal risk insurance plan set up for all Safran Group employees, subject to the same terms and conditions as the other plan members. Mr. Petitcolin was previously a beneficiary under the plan in his former capacity as a Company employee. This includes the Group's Accidental Death and Disability insurance coverage, which was added to the coverage already provided for under the Group Personal Risk Insurance Plan, effective from January 1, 2015;
- > the defined contribution supplementary pension plan set up for the Company's managerial-grade staff, subject to the same terms and conditions as the other plan members. Mr. Petitcolin was previously covered in his capacity as a former Company employee.

The contributions to the plans are based on the compensation (fixed and variable) that Mr. Petitcolin receives for his role as Chief Executive Officer.

This commitment was approved the Annual General Meeting of May 19, 2016.

In respect of 2017, the corresponding expenses recorded in Safran's financial statements totaled €6,229 for the personal risk insurance plan and €49,653 for the defined contribution supplementary pension plan.

### 4. With a pool of banks including BNP Paribas

#### *Person concerned*

Monique Cohen, a Director of Safran and BNP Paribas.

#### *Nature, purpose, terms and conditions*

##### **Agreement relating to a credit facility**

This agreement was authorized by the Board of Directors on October 29, 2015 and signed on December 4, 2015.

The facility amounts to €2,520 million and has a five-year term with two successive one-year extension options. It was granted by a pool of fifteen banks, including BNP Paribas, whose proportion of the facility is the same as that of the other banks which are parties to the agreement.

Both one-year extension options have been exercised, extending the term to December 2022.

This revolving credit facility was put in place to ensure that the Group will have sufficient liquidity over the medium term and to enable it to cover its general financing requirements. By refinancing and replacing two existing facilities with shorter terms than the new facility, the Group was able to take advantage of the current favorable market interest rates.

In respect of 2017, a €191,150 expense was recorded in Safran's financial statements corresponding to BNP Paribas' share of the no-use fee (split between lenders based on their respective commitments).

### Agreements and commitments approved during the year

We were informed of the implementation during the year of the following agreements and commitments, already approved by the June 15, 2017 Annual General Meeting, as indicated in the Statutory Auditors' special report of March 24, 2017.

#### 1. With Philippe Petitcolin, Chief Executive Officer

##### **Changes to the pension plan system of the Chief Executive Officer**

#### *Nature, purpose, terms and conditions*

We remind you that the Board of Directors decided to separate the roles of Chairman of the Board of Directors and Chief Executive Officer at its April 23, 2015 meeting and subsequently appointed Philippe Petitcolin as Chief Executive Officer. At the same meeting, it decided - in accordance with Article L.225-42-1 of the French Commercial Code - to authorize him to continue to be a beneficiary under the defined benefit supplementary pension plan (Article 39) and the defined contribution supplementary pension plan (Article 83) set up in France, subject to the same terms and conditions as the other plan members.

These commitments were approved by the Annual General Meeting of May 19, 2016, as indicated in the Statutory Auditors' special report of March 29, 2016.

At its March 23, 2017 meeting, the Board of Directors decided to modify the supplementary pension plans in order to align them with future needs, bring them more into line with market practices and enhance the Group's appeal.

The new pension plan system comprises three stages:

- > closing the current defined benefit plan (Article 39) to new entrants and freezing existing beneficiaries' entitlements as at December 31, 2016;
  - to compensate for the closure of this plan, new plans were set up for senior managers in France, effective from January 1, 2017:
- > an additional defined contribution pension plan (Article 83), in addition to the mandatory collective defined contribution plan already in place;
- > a defined contribution plan (Article 82).

##### **Mandatory collective defined contribution plan (Article 83 Additional Plan)**

This plan was set up for all managerial-grade staff whose gross annual compensation for the calendar year preceding the assessment date (Y-1) was equal to or higher than four times the social security ceiling (PASS) for Y-1.

The contributions were based on salary Tranches A, B and C as defined for the calculation of statutory top-up pensions (ARRCO-AGIRC plans).

Entitlements under the plan accrued in return for the payment of monthly contributions representing 6% of Tranche A, 6% of Tranche B and 6% of Tranche C. All of these monthly payments are borne in full by the Company (in addition to the 2% contribution already paid by the Company under the existing Article 83 Core Plan).

The taxes and social security contributions on the monthly payments are also borne in full by the Company.

**Voluntary collective defined contribution plan (Article 82 Plan)**

Unlike for the defined benefit plan (Article 39), this plan does not provide a guaranteed level of retirement benefits. It is a voluntary plan which eligible beneficiaries can decide whether or not to sign up to.

Eligible beneficiaries correspond to top executives (*hors statut*) whose reference compensation (fixed compensation and annual bonus) for the calendar year preceding the assessment date (Y-1) is equal to or higher than seven times the social security ceiling (PASS) for Y-1.

The reference compensation for Y-1 is used to calculate the contributions to the plan. This reference compensation corresponds to the beneficiary's full-time basic fixed compensation plus the short-term bonus for the year concerned and excludes any other components of compensation.

In order for entitlements to accrue under the plan, the Company is required to:

- > pay monthly contributions to an insurer, the rate of which is set based on the beneficiary's reference compensation for Y-1 (Insurer Contribution) and which may represent up to 12.7% of that reference compensation;
- > pay a cash amount to the beneficiary corresponding to the Insurer Contribution (Additional Payment) so that the beneficiary can pay the applicable tax (the plan provides for up-front taxation so that the capital accrued and received on retirement is net of tax and social security contributions).

The above payments are borne in full by the Company and are subject to social security contributions in the same way as salaries.

**Closing the defined benefit plan (Article 39) to new entrants and freezing existing entitlements**

This plan is now closed to new entrants and the benefit entitlements have been frozen, including for the Chairman and the Chief Executive Officer. However, they could still be eligible for the pension entitlements that they had accrued as at December 31, 2016 provided that the applicable terms and conditions are met, it being specified that:

- > the reference compensation used to calculate the conditional entitlements will be calculated based on the average of beneficiaries' gross fixed and variable compensation for the years 2014 to 2016 (revalued annually using the actuarial assumptions applied to calculate retirement benefit provisions);
- > the seniority taken into account for the plan - which represents an additional 1.8% of the reference compensation per year of service, capped at 18% - will have a cut-off date of December 31, 2016 and no additional conditional entitlements will be accrued under the plan for any service after that date. Consequently, the seniority taken into account for the Chairman and the Chief Executive Officer will correspond to 14% and 18%, respectively;
- > the overall replacement rate may not exceed 35% of the reference compensation;
- > the supplementary pension annuity is capped at three times the annual social security ceiling (PASS) in force at the date that the general social security retirement pension is paid;
- > the payment of this supplementary pension annuity is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

At its meeting on March 23, 2017, the Board of Directors decided that the Chief Executive Officer could be a beneficiary under the new supplementary pension plan system. These commitments were approved by the Annual General Meeting of June 15, 2017 in its 5<sup>th</sup> resolution.

Concerning the Article 82 Plan, the Insurer Contribution and the Additional Payment to the Chief Executive Officer for 2017 amounted to €154,746.70 each (i.e., a total of €309,493.40).

Concerning the Article 83 Additional Plan, the expenses payable by Safran for 2017 represented €18,829.

**2. With the French State (shareholder holding more than 10% of the Company's voting rights)****Persons concerned**

Lucie Muniesa, representative of the French State to the Board of Directors of your Company, and Patrick Gandil and Vincent Imbert, Directors put forward by the French State.

**Nature, purpose, terms and conditions****ArianeGroup Holding (AGH) Agreement, Arianespace Agreement, Pre-emption Agreement, addendum no. 6 to the agreement of December 21, 2004 and addendum to the Environmental Guarantee Agreement (EGA)**

To boost competitive performance and safeguard the future of the European space launch vehicle sector, which is faced with increasing international competition, Safran and Airbus Group joined forces in the launch vehicle sector through Airbus Safran Launchers Holding (since renamed ArianeGroup Holding [AGH]) and its wholly-owned subsidiary Airbus Safran Launchers (since renamed ArianeGroup SAS [AGH SAS]). This combination was carried out in two phases and finalized on June 30, 2016.

In the first half of 2016, the following agreements and addendums governed by Article L.225-38 of the French Commercial Code were signed with the French State:

- > AGH Agreement;
- > Arianespace Agreement;
- > Pre-emption Agreement;
- > addendum no. 6 to the agreement of December 21, 2004;
- > addendum to the Environmental Guarantee Agreement (EGA).

These agreements and addendums relate to the finalization of the above-mentioned business combination. Together they make up a set of indivisible agreements that are required to establish the business combination. Primarily required by the French State to ensure the protection of France's national interests, these agreements provide for the transfer of the French State's protective rights over the strategic assets to AGH and confer on it the benefits of the rights related to these assets.

The AGH Agreement, the Arianespace Agreement and the Pre-emption Agreement as well as addendum no. 6 to the agreement of December 21, 2004 were authorized by the Board of Directors on December 17, 2015. They were signed on June 24, 2016 and entered into force on June 30, 2016. They were subsequently approved by the Annual General Meeting of June 15, 2017.

Effective from June 30, 2016, the protection of the French State's strategic interests is ensured via:

- > the AGH Agreement: an agreement between the French State and AGH relating to protected assets and strategic subsidiaries and interests, entered into in the presence of Safran and Airbus Group SE;
- > the Arianespace Agreement: an agreement between the French State and AGH relating to Arianespace Participation and Arianespace SA shares, entered into in the presence of Safran and Airbus Group SE.

The following agreements were entered into at the same time:

- the Pre-emption Agreement: an agreement between Safran, Airbus Group SE and the French State, which sets out the conditions under which Airbus Group SE and Safran may exercise a pre-emptive right on the shares of the other partner in AGH if the French State exercises any of the call options granted to it by Airbus Group SE and Safran. The French State may only buy back AGH shares once the pre-emptive rights of Safran and Airbus have been used or expire;
- addendum no. 6 to the agreement of December 21, 2004 between Safran and the French State:

When Sagem SA and Snecma merged, the French State required adequate contractual rights to be put in place to protect France's national interests, as consideration for waiving its right to take a golden share in Snecma in accordance with Article 10 of Act no. 86-912 of August 6, 1986.

A three-way agreement in lieu of a golden share was therefore entered into on December 21, 2004 between the French State and Sagem SA and Snecma, which have now been merged into Safran. It was approved by shareholders at the May 11, 2005 Annual General Meeting. The agreement, as amended or supplemented by the three addendums signed in 2011 and approved at the May 31, 2012 Annual General Meeting and the two addendums signed in 2014 and approved at the April 23, 2015 Annual General Meeting as well as addendum no. 6, provides that:

- the French State shall be entitled to appoint a non-voting representative to the Safran Board of Directors should its interest in the Company's share capital fall below 10%;
- the French State shall be entitled to appoint a non-voting representative to the Boards of Directors or equivalent bodies of Safran's strategic subsidiaries and subsidiaries holding assets with a connection to French combat aircraft engines;
- the French State shall have a prior right of approval over (i) sales of certain assets identified as strategic or defense sensitive owned by Group entities, (ii) acquisitions of interests resulting in a holding of more than 33.33% or more than 50% of the share capital or voting rights of other Group entities that own sensitive defense assets, and (iii) projects conferring special management or information rights over strategic assets or rights of representation on the administrative or management bodies of subsidiaries or strategic interests;
- in the event that a third party acquires more than 10% or a multiple of 10% of Safran's share capital or voting rights, and failing an agreement on other ways of protecting France's national interests in connection with the strategic assets, the French State shall be entitled to purchase the securities and assets of the strategic subsidiaries.

Addendum no. 6, whose purpose is to exclude from the scope of the agreement of December 21, 2004 the assets, subsidiaries and interests henceforth protected by the AGH Agreement, the ArianeSpace Agreement and the Pre-emption Agreement described above.

Moreover, the EGA Addendum, an addendum to an Environmental Guarantee Agreement (EGA) with SNPE authorized by the Board of Directors on December 17, 2015, was signed on May 17, 2016 and entered into force on June 30, 2016. It was subsequently approved by the Annual General Meeting of June 15, 2017. Some sites transferred to AGH, as part of the above described business combination, are covered by an Environmental Guarantee Agreement (EGA) granted to Safran by SNPE and counter-guaranteed by the French State. With the French State's

approval, the addendum to the EGA was entered into between SNPE, AGH and Safran in order to transfer the benefit of the EGA to AGH for said sites (Safran being substituted by AGH).

## **Agreements and commitments authorized and signed during the year but not approved by the Annual General Meeting**

We hereby report to you on the following commitment which was authorized and signed during the year and subsequently implemented despite not being approved by the Annual General Meeting of June 15, 2017.

### **1. With Ross McInnes, Chairman of the Board of Directors**

#### *Nature, purpose, terms and conditions*

#### **Changes to the pension plan system of the Chairman of the Board of Directors**

We remind you that the Board of Directors decided to separate the roles of Chairman of the Board of Directors and Chief Executive Officer at its April 23, 2015 meeting and subsequently appointed Ross McInnes as Chairman of the Board of Directors. At the same meeting, it decided – in accordance with Article L.225-42-1 of the French Commercial Code – to authorize him to continue to be a beneficiary under the defined benefit supplementary pension plan (Article 39) and the defined contribution supplementary pension plan (Article 83) set up in France, subject to the same terms and conditions as the other plan members.

These commitments were approved by the Annual General Meeting of May 19, 2016, as indicated in the Statutory Auditors' special report of March 29, 2016.

At its March 23, 2017 meeting, the Board of Directors decided to modify the supplementary pension plans in order to align them with future needs, bring them more into line with market practices and enhance the Group's appeal.

The new pension plan system comprises three stages:

- closing the current defined benefit plan (Article 39) to new entrants and freezing existing beneficiaries' entitlements as at December 31, 2016;
  - to compensate for the closure of this plan, new plans were set up for senior managers in France, effective from January 1, 2017:
- an additional defined contribution pension plan (Article 83), in addition to the mandatory collective defined contribution plan already in place;
- a defined contribution plan (Article 82).

#### **Mandatory collective defined contribution plan (Article 83 Additional Plan)**

This plan was set up for all managerial-grade staff whose gross annual compensation for the calendar year preceding the assessment date (Y-1) was equal to or higher than four times the social security ceiling (PASS) for Y-1.

The contributions were based on salary Tranches A, B and C as defined for the calculation of statutory top-up pensions (ARRCO-AGIRC plans).



Entitlements under the plan accrued in return for the payment of monthly contributions representing 6% of Tranche A, 6% of Tranche B and 6% of Tranche C. All of these monthly payments are borne in full by the Company (in addition to the 2% contribution already paid by the Company under the existing Article 83 Core Plan).

The taxes and social security contributions on the monthly payments are also borne in full by the Company.

#### **Voluntary collective defined contribution plan (Article 82 Plan)**

Unlike for the defined benefit plan (Article 39), this plan does not provide a guaranteed level of retirement benefits. It is a voluntary plan which eligible beneficiaries can decide whether or not to sign up to.

Eligible beneficiaries correspond to top executives (*hors statut*) whose reference compensation (fixed compensation and annual bonus) for the calendar year preceding the assessment date (Y-1) is equal to or higher than seven times the social security ceiling (PASS) for Y-1.

The reference compensation for Y-1 is used to calculate the contributions to the plan. This reference compensation corresponds to the beneficiary's full-time basic fixed compensation plus the short-term bonus for the year concerned and excludes any other components of compensation.

In order for entitlements to accrue under the plan, the Company is required to:

- pay monthly contributions to an insurer, the rate of which is set based on the beneficiary's reference compensation for Y-1 (Insurer Contribution) and which may represent up to 12.7% of that reference compensation;
- pay a cash amount to the beneficiary corresponding to the Insurer Contribution (Additional Payment) so that the beneficiary can pay the applicable tax (the plan provides for up-front taxation so that the capital accrued and received on retirement is net of tax and social security contributions).

The above payments are borne in full by the Company and are subject to social security contributions in the same way as salaries.

#### **Closing the defined benefit plan (Article 39) to new entrants and freezing existing entitlements**

This plan is now closed to new entrants and the benefit entitlements have been frozen, including for the Chairman and the Chief

Executive Officer. However, they could still be eligible for the pension entitlements that they had accrued as at December 31, 2016 provided that the applicable terms and conditions are met, it being specified that:

- the reference compensation used to calculate the conditional entitlements will be calculated based on the average of beneficiaries' gross fixed and variable compensation for the years 2014 to 2016 (revalued annually using the actuarial assumptions applied to calculate retirement benefit provisions);
- the seniority taken into account for the plan – which represents an additional 1.8% of the reference compensation per year of service, capped at 18% – will have a cut-off date of December 31, 2016 and no additional conditional entitlements will be accrued under the plan for any service after that date. Consequently, the seniority taken into account for the Chairman and the Chief Executive Officer will correspond to 14% and 18%, respectively;
- the overall replacement rate may not exceed 35% of the reference compensation;
- the supplementary pension annuity is capped at three times the annual social security ceiling (PASS) in force at the date that the general social security retirement pension is paid;
- the payment of this supplementary pension annuity is subject to beneficiaries completing their careers with the Group and being entitled to retire under French social security rules having completed the required number of working years.

At its meeting on March 23, 2017, the Board of Directors decided that the Chairman could be a beneficiary under the new supplementary pension plan system. These commitments were rejected by the Annual General Meeting of June 15, 2017 in its fourth resolution. On the recommendation of the Appointments and Compensation Committee, at its July 27, 2017 meeting, the Board of Directors ratified its decision of March 23, 2017 to include the Chairman as a beneficiary under the new supplementary pension plan system, subject to the same terms and conditions as the other managerial-grade staff who are beneficiaries under the system.

Concerning the Article 82 Plan, the Insurer Contribution and the Additional Payment to the Chairman for 2017 amounted to €57,690.34 each (i.e., a total of €115,380.68).

Concerning the Article 83 Additional Plan, the expenses payable by Safran for 2017 represented €18,829.

Courbevoie and Paris-La Défense, March 27, 2018

The Statutory Auditors

MAZARS

Gaël Lamant

Christophe Berrard

ERNST & YOUNG et Autres

Jean-Roch Varon

Nicolas Macé

## 8.4.2 Statutory Auditors' special report on the authorization to grant new or existing shares, free of consideration

*This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in compliance with Article L.225-197-1 of the French Commercial Code (*Code de commerce*), we hereby report on the proposed authorization to grant new or existing shares of the Company, free of consideration, to (i) employees or certain categories of employees of the Company and/or of related companies or groups within the meaning of Article L.225-197-2 of the French Commercial Code, and (ii) corporate officers of the Company and/or of related companies or groups within the meaning of Article L.225-197-2 of the French Commercial Code (except for the Chairman of the Company's Board of Directors when the duties of Chairman of the Board and Chief Executive Officer are separated), provided said corporate officers are eligible for such grants under the applicable law, which is submitted for your approval.

This authorization may not grant entitlement to a total number of shares exceeding 0.4% of the number of shares making up the Company's share capital on the date of the grant decision by the Board of Directors.

Your Board of Directors proposes that, on the basis of its report, it be authorized for a period of 26 months starting on the date of this meeting to grant new or existing shares, free of consideration.

It is the responsibility of the Board of Directors to prepare a report on the proposed operation. Our role is to report on any matters relating to the information regarding the proposed operation.

We performed the procedures that we deemed necessary in accordance with professional guidance issued by the French national auditing body (*Compagnie nationale des commissaires aux comptes*) for this type of engagement. These procedures consisted mainly in verifying that the proposed methods described in the Board of Directors' report comply with the legal provisions governing such operations.

We have no matters to report as to the information provided in the Board of Directors' report relating to the proposed authorization to grant new or existing shares of the Company.

Courbevoie and Paris-La Défense, March 27, 2018

The Statutory Auditors

MAZARS

Gaël Lamant

Christophe Berrard

ERNST & YOUNG et Autres

Jean-Roch Varon

Nicolas Macé



|              |   |            |            |   |            |              |   |            |
|--------------|---|------------|------------|---|------------|--------------|---|------------|
| <b>9.1</b>   | <b>PERSONS RESPONSIBLE</b>  | <b>349</b> | <b>9.2</b> | <b>STATUTORY AUDITORS</b>               | <b>350</b> | <b>9.5</b>   | <b>CROSS-REFERENCE TABLES</b>                               | <b>351</b> |
| <b>9.1.1</b> | Person responsible for the Registration Document                    | 349        | <b>9.3</b> | <b>HISTORICAL FINANCIAL INFORMATION</b> | <b>350</b> | <b>9.5.1</b> | Board of Directors' management report cross-reference table | 351        |
| <b>9.1.2</b> | Declaration by the person responsible for the Registration Document | 349        | <b>9.4</b> | <b>DOCUMENTS ON DISPLAY</b>             | <b>351</b> | <b>9.5.2</b> | EC Regulation No. 809/2004 cross-reference table            | 353        |
| <b>9.1.3</b> | Person responsible for the financial information                    | 349        |            |   |            | <b>9.5.3</b> | Annual Financial Report cross-reference table               | 356        |
|              |   |            |            |   |            | <b>9.5.4</b> | Corporate social responsibility cross-reference table       | 357        |



# ADDITIONAL INFORMATION

# 9



# IN BRIEF

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## PERSONS RESPONSIBLE

**Person responsible  
for the Registration Document**

**Philippe Petitcolin**  
Chief Executive Officer

**Person responsible  
for the financial information**

**Bernard Delpit**  
Chief Financial Officer



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## STATUTORY AUDITORS

**Statutory Auditors**

**Mazars**

61, rue Henri-Regnault  
92400 Courbevoie

**Ernst & Young et Autres**

1-2, place des Saisons  
Paris-La Défense 1  
92400 Courbevoie

The terms of office  
of the Statutory Auditors  
will expire at the close  
of the Annual General Meeting  
held to approve the financial  
statements for the year ending  
December 31, 2021.

## CROSS-REFERENCE TABLES

- > BOARD OF DIRECTORS' MANAGEMENT REPORT
- > EC REGULATION NO. 809/2004
- > ANNUAL FINANCIAL REPORT
- > CORPORATE SOCIAL RESPONSIBILITY

## 9.1 PERSONS RESPONSIBLE

### 9.1.1 Person responsible for the Registration Document

Philippe Petitcolin

Chief Executive Officer of Safran

### 9.1.2 Declaration by the person responsible for the Registration Document

"I hereby declare, having taken all reasonable care to ensure that such is the case, that the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I further declare that to the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings in the consolidation taken as a whole, and that the management report (the cross-reference table for which is shown in section 9.5.1) includes a fair review of the development of the business, the results of operations and the financial position of the Company and of all the undertakings in the consolidation taken as a whole, and also describes the main risks and uncertainties to which they are exposed.

I have obtained a statement from the Statutory Auditors, Mazars and Ernst & Young et Autres, in which they state that they have audited the information contained in this document relating to the financial position and the financial statements contained herewithin, and that they have read this document in its entirety."

Paris, March 29, 2018

Chief Executive Officer,

Philippe Petitcolin

### 9.1.3 Person responsible for the financial information

Bernard Delpit

Chief Financial Officer

Tel.: +33 (0)1 40 60 81 24

Email: [bernard.delpit@safrangroup.com](mailto:bernard.delpit@safrangroup.com)

## 9.2 STATUTORY AUDITORS

For the period covered by the historical financial information, Safran's Statutory Auditors are as follows:

### Statutory Auditors

| Mazars   | Ernst & Young et Autres  |
|--|--|
| Represented by:  | Represented by:  |
| <b>Gaël Lamant and Christophe Berrard</b>  | <b>Jean-Roch Varon and Nicolas Macé</b>  |
| 61, rue Henri-Regnault   | 1-2, place des Saisons - Paris-La Défense 1  |
| 92400 Courbevoie   | 92400 Courbevoie   |
| <ul style="list-style-type: none"> <li>&gt; Start date of first term of office: May 19, 2016<br/>Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 19, 2016 for a term of six years (2016 to 2021)</li> <li>&gt; Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2021</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Start date of first term of office: May 19, 2016<br/>Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 19, 2016 for a term of six years (2016 to 2021)</li> <li>&gt; Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2021</li> </ul> |

Mazars and Ernst & Young are members of the Versailles regional auditing body (*Compagnie régionale des commissaires aux comptes de Versailles*).

### Alternate auditors

| Gilles Rainaut   | Auditex  |
|--|--|
| 60, rue du Général-Leclerc   | 1-2, place des Saisons - Paris-La Défense 1  |
| 92100 Boulogne-Billancourt   | 92400 Courbevoie   |
| <ul style="list-style-type: none"> <li>&gt; Start date of first term of office: May 19, 2016<br/>Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 19, 2016 for a term of six years (2016 to 2021)</li> <li>&gt; Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2021</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Start date of first term of office: May 19, 2016<br/>Appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 19, 2016 for a term of six years (2016 to 2021)</li> <li>&gt; Expiration of term of office: close of the Annual General Meeting, held to approve the financial statements for the year ending December 31, 2021</li> </ul> |

### New terms of office and non-renewal

None.

## 9.3 HISTORICAL FINANCIAL INFORMATION

In accordance with Article 28 of Regulation (EC) 809/2004 of the European Commission, the following information is incorporated by reference in this Registration Document:

#### For 2016

The information required in the management report is presented in section 8.4.1, the consolidated and parent company financial statements are presented in sections 3.1 and 3.3 and the corresponding Statutory Auditors' reports are presented in sections 3.2 and 3.4 of the 2016 Registration Document, which was filed with the AMF on March 30, 2017 under number D.17-0275.

#### For 2015

The information required in the management report is presented in section 9.4.1, the consolidated and parent company financial statements are presented in sections 3.1 and 3.3 and the corresponding Statutory Auditors' reports are presented in sections 3.2 and 3.4 of the 2015 Registration Document, which was filed with the AMF on March 30, 2016 under number D.16-0225.

### Date of latest financial information

December 31, 2016.



## 9.4 DOCUMENTS ON DISPLAY

### Availability of documents and information concerning the Company

Safran's legal documents that must be made available to shareholders, in accordance with the applicable regulations, may be consulted at the registered office located at 2, boulevard du Général Martial-Valin, 75015 Paris.

Safran provides its shareholders with a wide range of tools for the frequent communication of transparent and accessible information on the Group, its businesses and its results. The Group website ([www.safran-group.com](http://www.safran-group.com)) contains information for the public, such as presentations to analysts, financial press releases, and Registration Documents (last five years).

## 9.5 CROSS-REFERENCE TABLES

### 9.5.1 Board of Directors' management report cross-reference table

This Registration Document includes the information contained in the Board of Directors' management report provided for by Articles L.225-100, L.225-100-2, L.225-102 and L.225-102-1 of the French Commercial Code.

The table below lists the references to excerpts of the Registration Document corresponding to the various sections of the management report as approved by the Board of Directors.

|          | Board of Directors' management report headings                            | 2017 Registration Document section(s) |
|----------|---|---------------------------------------|
| <b>1</b> | <b>Group activities in 2017</b>   | <b>Profile and 2.1</b>                |
|          | Summary of key figures by business (adjusted data)                        | <b>Profile and 2.1.3</b>              |
| <b>2</b> | <b>Human resources</b>  |                                       |
| 2.1      | Headcount   | <b>5.2.7</b>                          |
| 2.2      | Human resources policy  | <b>5.2.1</b>                          |
| 2.3      | Labor relations   | <b>5.2.2</b>                          |
| 2.4      | Statutory and optional profit-sharing schemes                             | <b>5.2.3</b>                          |
| 2.5      | Group employee savings plan and international Group employee savings plan | <b>5.2.3</b>                          |
| 2.6      | The importance of sub-contracting   | <b>5.1.5</b>                          |
| 2.7      | Group ethics and values   | <b>5.1.1</b>                          |
| <b>3</b> | <b>CSR Information</b>  | <b>5</b>                              |
| <b>4</b> | <b>Research and development</b>   |                                       |
| 4.1      | Major technological focuses   | <b>1.5.1</b>                          |
| 4.2      | Technical and scientific partnerships                                     | <b>1.5.2</b>                          |
| 4.3      | Innovation and intellectual property                                      | <b>1.5.3</b>                          |
| <b>5</b> | <b>Operating and financial position</b>                                   |                                       |
| 5.1      | Consolidated income statement   | <b>2.1.1, 2.2.1 and 3.1</b>           |
| 5.2      | Consolidated balance sheet  | <b>2.2.2 and 3.1</b>                  |
| 5.3      | Research and development expenditure                                      | <b>1.5.5</b>                          |
| 5.4      | Information concerning payment periods                                    | <b>2.3.3</b>                          |
| 5.5      | Parent company financial statements                                       | <b>2.3 and 3.3</b>                    |
| 5.6      | Non-deductible expenses   | <b>2.3.3</b>                          |
| 5.7      | Proposed appropriation of profit  | <b>2.3.3 and 8.2.1</b>                |

# 9 ADDITIONAL INFORMATION

## Cross-reference tables

|                   | Board of Directors' management report headings  | 2017 Registration Document section(s) |
|-------------------|---|---------------------------------------|
| <b>6</b>          | <b>Risk factors</b>   |                                       |
| 6.1               | Identified risk factors   | 4.3                                   |
| 6.2               | General risk management policy  | 4.1                                   |
| 6.3               | Insurance   | 4.4                                   |
| 6.4               | Health, safety and environmental risks  | 5.2.6 and 5.3                         |
| <b>7</b>          | <b>Investments</b>  | 7.1.3.2                               |
| <b>8</b>          | <b>Share capital and share ownership</b>  |                                       |
| 8.1               | Breakdown of share capital and voting rights  | 7.3.1                                 |
| 8.2               | Shareholder agreements  | 7.3.5                                 |
| 8.3               | Agreement with the French State   | 7.1.4.2                               |
| 8.4               | Undertaking to hold securities  | 7.3.6                                 |
| 8.5               | Stock options   | 7.3.7.3                               |
| 8.6               | Free share grants   | 7.3.7.1                               |
| 8.7               | Share buyback programs  | 7.2.7                                 |
| 8.8               | Safran share  | 7.5                                   |
| <b>9</b>          | <b>Corporate officers</b>   |                                       |
| 9.1               | Terms of office and duties  | 6.2.2                                 |
| 9.2               | Compensation and benefits   | 6.6                                   |
| 9.3               | Transactions in the Company's shares  | 6.5.3                                 |
| <b>10</b>         | <b>Outlook for 2018 and significant subsequent events</b>   | 2.4, 2.5 and 3.1 - Note 32            |
| <b>11</b>         | <b>Principal provisions of the bylaws</b>   | 7.1.2                                 |
|                   | <b>Appendices</b>   |                                       |
| <b>Appendix 1</b> | List of subsidiaries and investments  | 3.1 - Note 33                         |
| <b>Appendix 2</b> | Five-year financial summary   | 2.3.3                                 |
| <b>Appendix 3</b> | Authorizations granted by the AGM to the Board of Directors with respect to share capital increases | 8.2.5                                 |
| <b>Appendix 4</b> | Dividends paid over the past three years  | 2.3.3 and 8.2.1                       |

## 9.5.2 EC Regulation No. 809/2004 cross-reference table

This Registration Document includes the information to be included in registration documents as set out in Annex 1 of EC Regulation No. 809/2004.

The following table presents the cross-references between the two documents.

|          | EC Regulation No. 809/2004 Annex 1 headings   | 2017 Registration Document section(s) |
|----------|---|---------------------------------------|
| <b>1</b> | <b>Persons responsible</b>  |                                       |
| 1.1      | Name and positions of the persons responsible   | 9.1.1                                 |
| 1.2      | Declaration by the persons responsible  | 9.1.2                                 |
| <b>2</b> | <b>Statutory Auditors</b>   |                                       |
| 2.1      | Names and addresses of the issuer's auditors  | 9.2                                   |
| 2.2      | Change in auditors, where applicable  | 9.2                                   |
| <b>3</b> | <b>Selected financial information</b>   |                                       |
| 3.1      | Historical financial information  | Profile                               |
| 3.2      | Interim financial information   | N/A                                   |
| <b>4</b> | <b>Risk factors</b>   | 4.3                                   |
| <b>5</b> | <b>Information about the issuer</b>   |                                       |
| 5.1      | History and development of the issuer   |                                       |
| 5.1.1    | Legal and commercial name of the issuer   | 7.1.1                                 |
| 5.1.2    | Place of registration of the issuer and its registration number   | 7.1.1                                 |
| 5.1.3    | Date of incorporation and the length of life of the issuer  | 7.1.1                                 |
| 5.1.4    | Domicile and legal form of the issuer, legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office | 7.1.1                                 |
| 5.1.5    | Important events in the development of the issuer's business  | 1.1.1                                 |
| 5.2      | Investments   |                                       |
| 5.2.1    | Past principal investments  | 1.1.1, 1.5.5, 1.6.2 and 1.7           |
| 5.2.2    | Principal investments in progress   | 1.6.2                                 |
| 5.2.3    | Future principal investments  | 1.5                                   |
| <b>6</b> | <b>Business overview</b>  |                                       |
| 6.1      | Principal activities  |                                       |
| 6.1.1    | Nature of the issuer's operations and its principal activities  | 1.1.4 and 1.3                         |
| 6.1.2    | New products  | 1.3 and 2.1.3                         |
| 6.2      | Principal markets   | 1.3, 2.1.3 and 3.1 – Note 4           |
| 6.3      | Exceptional factors   | N/A                                   |
| 6.4      | Extent to which the issuer is dependent on patents or licenses, industrial contracts or manufacturing processes   | 1.5.3                                 |
| 6.5      | Competitive position  | 1.4                                   |
| <b>7</b> | <b>Organizational structure</b>   |                                       |
| 7.1      | Brief description of the Group  | 1.1.2, 1.1.3 and 1.1.4                |
| 7.2      | List of significant subsidiaries  | 1.1.3, 1.1.4 and 3.1 – Note 33        |
| <b>8</b> | <b>Property, plant and equipment</b>  |                                       |
| 8.1      | Material property, plant and equipment  | 1.7                                   |
| 8.2      | Environmental issues  | 1.7, 4.3.2.1 and 5.3                  |
| <b>9</b> | <b>Operating and financial review</b>   |                                       |
| 9.1      | Financial position  | 2.1 and 2.2                           |
| 9.2      | Operating results   |                                       |
| 9.2.1    | Significant factors materially affecting the issuer's income from operations  | 2.1                                   |
| 9.2.2    | Explanation of material changes in net sales or revenue   | 2.1                                   |
| 9.2.3    | Policies or factors that have materially affected, directly or indirectly, the issuer's operations  | 2.1                                   |

|           | EC Regulation No. 809/2004 Annex 1 headings   | 2017 Registration Document section(s)       |
|-----------|---|---|
| <b>10</b> | <b>Capital resources</b>  |   |
| 10.1      | Issuer's capital resources  | 3.1 - Note 18 and 3.3 - Note 3.7            |
| 10.2      | Source and amounts of cash flows  | 3.1 (including the statement of cash flows) |
| 10.3      | Borrowing requirements and the funding structure of the issuer  | 3.1 - Note 22                               |
| 10.4      | Restrictions on the use of capital resources  | N/A   |
| 10.5      | Information regarding the anticipated sources of funds  | 2.2.3, 2.4 and 3.1 - Notes 16 and 22        |
| <b>11</b> | <b>Research and development, patents and licenses</b>   | 1.5   |
| <b>12</b> | <b>Trend information</b>  |   |
| 12.1      | Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year   | N/A   |
| 12.2      | Information on any known trends, uncertainties, demands, commitments, or events that are reasonably likely to have a material effect on the issuer's prospects for at least the current fiscal year | 2.4 and 2.6                                 |
| <b>13</b> | <b>Profit forecasts or estimates</b>  | N/A   |
| <b>14</b> | <b>Administrative, management, and supervisory bodies and Executive Management</b>  |   |
| 14.1      | Members of the administrative and management bodies   | 6.1 and 6.2                                 |
| 14.2      | Administrative and management bodies conflicts of interest  | 6.2.5                                       |
| <b>15</b> | <b>Compensation and benefits</b>  |   |
| 15.1      | Compensation paid and benefits in kind  | 6.6.2                                       |
| 15.2      | Amounts set aside or accrued to provide pension, retirement or similar benefits   | 6.6.2                                       |
| <b>16</b> | <b>Board practices</b>  |   |
| 16.1      | Date of expiration of the current terms of office   | 6.2.6.2                                     |
| 16.2      | Members of the administrative or management bodies' service contracts with the issuer or any of its subsidiaries  | 6.2.5                                       |
| 16.3      | Information about Board committees  | 6.3.3                                       |
| 16.4      | Statement of compliance with the corporate governance regime in force   | 6.4   |
| <b>17</b> | <b>Employees</b>  |   |
| 17.1      | Number and breakdown of employees   | 5.2.7                                       |
| 17.2      | Shareholdings and stock options   | 6.2.2 and 6.6.4                             |
| 17.3      | Arrangements for involving the employees in the capital of the issuer   | 5.2.3 and 7.3.7                             |
| <b>18</b> | <b>Major shareholders</b>   |   |
| 18.1      | Major shareholders  | 7.3.1                                       |
| 18.2      | Breakdown of voting rights  | 7.3.1                                       |
| 18.3      | Controlling shareholder   | 7.3.5                                       |
| 18.4      | Change in control   | 7.3.6                                       |
| <b>19</b> | <b>Related-party transactions</b>   | 7.1.4                                       |
| <b>20</b> | <b>Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>  |   |
| 20.1      | Historical financial information  | 3.1 and 3.3                                 |
| 20.2      | Pro forma financial information   | N/A   |
| 20.3      | Financial statements  | 3.1 and 3.3                                 |
| 20.4      | Auditing of historical annual financial information   |   |
| 20.4.1    | Statement that the historical financial information has been audited  | 3.2, 3.4 and 9.3                            |
| 20.4.2    | Indication of other financial data that has been audited by the auditors  | 8.4   |
| 20.4.3    | Indication of the source of the data and the absence of verification of the financial data appearing in the Registration Document that is not taken from the issuer's audited financial statements  | N/A   |
| 20.5      | Date of latest financial information  | 9.3   |

| EC Regulation No. 809/2004 Annex 1 headings  | 2017 Registration Document section(s)   |
|--|---|
| <b>20.6</b> Interim and other financial information  |   |
| 20.6.1 Quarterly or half-yearly financial information  | N/A                                     |
| 20.6.2 Interim financial information   | N/A                                     |
| <b>20.7</b> Dividend policy  |   |
| 20.7.1 Amount of dividend  | 2.3.3 and 8.2.1                         |
| <b>20.8</b> Legal and arbitration proceedings  | 3.1 – Note 31                           |
| <b>20.9</b> Significant change in the issuer's financial or trading position   | 3.1 – Note 32                           |
| <b>21</b> <b>Additional information</b>  |   |
| <b>21.1</b> Share capital  |   |
| 21.1.1 Amount of issued capital  | 7.2.1 and 7.2.2.1                       |
| 21.1.2 Securities not representing capital   | 7.2.3                                   |
| 21.1.3 Shares held by the issuer   | 7.2.6                                   |
| 21.1.4 Convertible securities, exchangeable securities or securities with warrants   | 7.2.3.2                                 |
| 21.1.5 Information about and terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital | N/A                                     |
| 21.1.6 Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option        | N/A                                     |
| 21.1.7 History of share capital  | 7.2.4                                   |
| <b>21.2</b> Bylaws   |   |
| 21.2.1 Corporate purpose   | 7.1.1                                   |
| 21.2.2 Provisions of the issuer's bylaws with respect to administrative, management and supervisory bodies   | 7.1.2.1                                 |
| 21.2.3 Rights, preferential rights and restrictions attached to shares   | 7.1.2.2 and 7.1.2.3                     |
| 21.2.4 Change in shareholder rights  | 7.1.2.4                                 |
| 21.2.5 Notice of meeting and admission to Shareholders' Meetings   | 7.1.2.2                                 |
| 21.2.6 Change in control   | 7.1.2.6                                 |
| 21.2.7 Share ownership thresholds  | 7.1.2.5 and 7.3.4                       |
| 21.2.8 Description of conditions imposed by the bylaws governing changes in capital, where such conditions are more stringent than is required by law          | 7.1.2.4                                 |
| <b>22</b> <b>Material contracts</b>  | 7.1.4.2                                 |
| <b>23</b> <b>Third party information, statements by experts and declarations of interest</b>   |   |
| <b>23.1</b> Statement or report attributed to a person as an expert  | N/A                                     |
| <b>23.2</b> Information sourced from a third party   | N/A                                     |
| <b>24</b> <b>Documents on display</b>  | 9.4                                     |
| <b>25</b> <b>Information on investments</b>  | 7.1.3, 3.1 – Note 33 and 3.3 – Note 3.1 |

### 9.5.3 Annual Financial Report cross-reference table

This Registration Document includes the information contained in the Annual Financial Report mentioned in paragraph 1 of Article L.451-1-2 of the French Monetary and Financial Code and Article 222-3 of the AMF's General Regulations.

The following table presents the cross-references between the two documents.

| Annual Financial Report headings                                 | 2017 Registration Document section(s)              |
|--|--|
| <b>Declaration by the person responsible</b>                     | <b>9.1.2</b>                                       |
| <b>Board of Directors' management report</b>                     | <b>See cross-reference tables, 9.5.1 and 9.5.4</b> |
| <b>Financial statements and reports</b>                          |  |
| Parent company financial statements                              | <b>3.3</b>   |
| Consolidated financial statements                                | <b>3.1</b>   |
| Board of Directors' corporate governance report                  | <b>6.7.1</b>                                       |
| Disputes and litigation  | <b>3.1 - Note 31</b>                               |
| Significant change in the issuer's financial or trading position | <b>3.1 - Note 32</b>                               |
| Statutory Auditors' reports                                      | <b>3.2, 3.4 and 8.4</b>                            |
| Audit fees   | <b>3.1 - Note 34</b>                               |

## 9.5.4 Corporate social responsibility cross-reference table

This Registration Document includes the labor, environmental and social information contained in the Board of Directors' management report in accordance with Article R.225-105-1 of the French Commercial Code.

The following table presents the cross-references between the two documents.

|            | Headings from Article R.225-105 of the French Commercial Code  | 2017 Registration Document section(s) |
|------------|--|---------------------------------------|
| <b>1</b>   | <b>Labor information</b>   |                                       |
| <b>1.1</b> | <b>Employment</b>  |                                       |
| 1.1.1      | Total headcount and breakdown of employees by gender, age and region   | 5.2.7                                 |
| 1.1.2      | New hires and departures   | 5.2.7                                 |
| 1.1.3      | Compensation and changes in compensation   | 5.2.3                                 |
| <b>1.2</b> | <b>Working hours</b>   |                                       |
| 1.2.1      | Organization of working hours  | 5.2.2 and 5.2.7                       |
| 1.2.2      | Absenteeism  | 5.2.7                                 |
| <b>1.3</b> | <b>Labor relations</b>   |                                       |
| 1.3.1      | Employer/employee relations, in particular procedures for informing, consulting and negotiating with employees   | 5.2.2                                 |
| 1.3.2      | Collective bargaining agreements   | 5.2.2                                 |
| <b>1.4</b> | <b>Health and safety</b>   |                                       |
| 1.4.1      | Occupational health and safety conditions  | 5.2.6                                 |
| 1.4.2      | Agreements signed with trade unions and employee representatives concerning occupational health and safety   | 5.2.6                                 |
| 1.4.3      | Occupational accidents, in particular frequency and severity, and occupational illnesses   | 5.2.6                                 |
| <b>1.5</b> | <b>Training</b>  |                                       |
| 1.5.1      | Training policies  | 5.2.1                                 |
| 1.5.2      | Total number of training hours   | 5.2.1                                 |
| <b>1.6</b> | <b>Equal opportunity</b>   |                                       |
| 1.6.1      | Measures taken to promote professional equality between men and women  | 5.2.4                                 |
| 1.6.2      | Measures taken to integrate and maintain employees with disabilities   | 5.2.4                                 |
| 1.6.3      | Policy concerning the fight against discrimination   | 5.2.4                                 |
| <b>1.7</b> | <b>Promotion of and compliance with the core conventions of the International Labour Organization as regards:</b>  |                                       |
| 1.7.1      | The respect for the freedom of association and the right to collective bargaining  | 5 - Introduction and 5.2.2            |
| 1.7.2      | The elimination of discrimination in respect of employment and occupation  | 5 - Introduction and 5.2.4            |
| 1.7.3      | The abolition of forced and compulsory labor   | 5 - Introduction, 5.2.1 and 5.4.1     |
| 1.7.4      | The effective abolition of child labor   | 5 - Introduction, 5.1.1.1 and 5.2.1   |
| <b>2</b>   | <b>Environmental information</b>   |                                       |
| <b>2.1</b> | <b>General environmental policy</b>  |                                       |
| 2.1.1      | Organization of steps taken by the Company to address environmental issues and, where applicable, environmental assessment and certification procedures                              | 5.3.1, 5.3.2 and 5.3.5                |
| 2.1.2      | Initiatives taken to train and raise awareness among employees on environmental protection   | 5.3.5                                 |
| 2.1.3      | Resources assigned to the prevention of environmental risks and pollution  | 5.3.2 and 5.3.3                       |
| 2.1.4      | Amount of provisions set aside for environmental risks, provided that this information is not likely to cause serious prejudice to the Company in the context of ongoing proceedings | 5.3.4                                 |

| Headings from Article R.225-105 of the French Commercial Code |   | 2017 Registration Document section(s) |
|---|---|---------------------------------------|
| <b>2.2</b>  | <b>Pollution</b>  |                                       |
| 2.2.1   | Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant environmental impact   | <b>5.3.3 and 5.3.4</b>                |
| 2.2.2   | Measures taken to reduce noise and any other form of pollution relating to a specific activity  | <b>5.3.4</b>                          |
| <b>2.3</b>  | <b>Circular economy</b>   |                                       |
|   | <b>Waste reduction and management</b>   |                                       |
| 2.3.1   | Measures taken to reduce, recycle and eliminate waste   | <b>5.3.2</b>                          |
| 2.3.2   | Initiatives to fight against food waste   | <b>5.3.4</b>                          |
|   | <b>Sustainable use of resources</b>   |                                       |
| 2.3.3   | Water consumption and water supply in accordance with local regulations   | <b>5.3.4</b>                          |
| 2.3.4   | Consumption of natural resources and measures taken to promote more efficient use   | <b>5.3.3 and 5.3.4</b>                |
| 2.3.5   | Energy consumption and measures taken to improve energy efficiency and use of renewable energy  | <b>5.3.3</b>                          |
| 2.3.6   | Land use  | <b>5.3.4</b>                          |
| <b>2.4</b>  | <b>Climate change</b>   |                                       |
| 2.4.1   | The major sources of greenhouse gas generated by the Company's business, primarily through the use of products and services that it produces  | <b>5.3.3</b>                          |
| 2.4.2   | Adapting to climate change  | <b>5.3.4</b>                          |
| <b>2.5</b>  | <b>Protection of biodiversity</b>   |                                       |
| 2.5.1   | Measures taken to protect and develop biodiversity  | <b>5.3.4</b>                          |
| <b>3</b>  | <b>Information on community involvement promoting sustainable development</b>   |                                       |
| <b>3.1</b>  | <b>Community, economic and social impact of the Company's activities on:</b>  |                                       |
| 3.1.1   | Employment and regional development   | <b>5.1.6</b>                          |
| 3.1.2   | Local community   | <b>5.1.6</b>                          |
| <b>3.2</b>  | <b>Relationships with people and organizations who benefit from the Company's activities, in particular integration associations, educational institutions, environmental protection associations, consumer and local residents' associations</b> |                                       |
| 3.2.1   | Status of dialog with these people and organizations  | <b>5.1.6</b>                          |
| 3.2.2   | Partnership and corporate sponsorship programs  | <b>5.1.6</b>                          |
| <b>3.3</b>  | <b>Sub-contractors and suppliers</b>  |                                       |
| 3.3.1   | Integration of social and environmental issues in purchasing policies   | <b>5.1.5</b>                          |
| 3.3.2   | Scale of outsourcing and measures taken to raise awareness among suppliers and sub-contractors with respect to corporate social responsibility  | <b>5.1.1 and 5.1.5</b>                |
| <b>3.4</b>  | <b>Fair practices</b>   |                                       |
| 3.4.1   | Measures taken to fight against corruption  | <b>5.1.1</b>                          |
| 3.4.2   | Measures taken to promote consumer health and safety  | <b>1.9</b>                            |
| <b>3.5</b>  | <b>Other action taken, pursuant to paragraph 3, to promote human rights</b>   | <b>5.1.1, 5.1.2 and 5.2</b>           |
|   | <b>Report by the independent third party on the consolidated labor, environmental and social information included in the management report</b>  | <b>5.4.2</b>                          |







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