IFRS 15 WORKSHOP

—

MARCH 12, 2018

SAFRAN

Disclaimer

IMPORTANT INFORMATION

This document is not intended to and does not constitute an offer to buy or a solicitation of an offer to sell any securities in any jurisdiction in connection with the acquisition of Zodiac Aerospace or otherwise.

This document must not be published, released or distributed, directly or indirectly, in any jurisdiction where the distribution of such information is restricted by law. This document and the information it contains do not, and will not, constitute an offer to purchase or the solicitation of an offer to sell securities of any entity in the United States of America or any other jurisdiction where restrictions may apply. The distribution of this document may be subject to legal or regulatory restrictions in certain jurisdictions. Any person who comes into possession of this document must inform him or herself of and comply with any such restrictions.

> FORWARD-LOOKING STATEMENTS

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

> USE OF NON-GAAP FINANCIAL INFORMATION

This document contains supplemental non-GAAP financial information. Readers are cautioned that these measures are unaudited and not directly reflected in the Group's financial statements as prepared under International Financial Reporting Standards and should not be considered as a substitute for GAAP financial measures. In addition, such non-GAAP financial measures may not be comparable to similarly titled information from other companies.

Introduction

- Purpose of this workshop : provide further explanations of the major IFRS 15 drivers for Safran

- 3 main lots of questions (previously sent to IR Department) with regards to :
  - Impacts by nature
    - Services revenue and civil aftermarket
    - R&D
    - Contracts with multiple performance obligations
    - Penalties and warranties
  - Impacts on balance sheet
  - Impacts on the different types of sales

- New slides with concrete examples

Key messages for Safran

NO CHANGE TO CASH

NO CHANGE TO CUMULATIVE MARGINS OVER THE LIFE OF A LT CONTRACT
-PHASING ISSUE-

MAIN AREAS OF IMPACTS (REVENUE & EBIT) :
SERVICE CONTRACTS, R&D SALES, TRANSACTION PRICE

IFRS 15 IMPACTS FOR ZODIAC AEROSPACE :
PROVIDED WITH UPDATED GUIDANCE 2018 EARLY SEPTEMBER

IFRS 15 for SAFRAN

- **Main accounting changes for the Group under IFRS15:**

1 **Fly by the hour / Per landing maintenance contracts :** sales will be recognized on a cost-to-cost basis and not at billing anymore. Timing is changed, margin are unchanged over the life of the contract.

2 **Combined contracts (development and series)**:

- In most contracts, development will not be a separate performance obligation
- Revenue related to customer financed development will be recognized over product delivery

3 **Separation of contracts into performance obligations**:

- The contract transaction price is split over the different performance obligations : reallocation of some contract prices, concessions and warranties
- Each performance obligation has its timing of revenue recognition

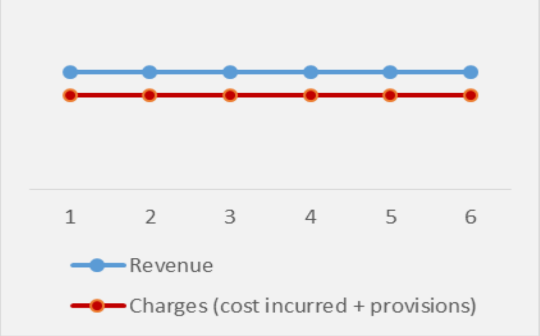
4 **Performance warranties granted to customers and penalties deducted from revenue whereas previously recognized in expenses. No impact on EBIT**

1 Fly by the hour / Per landing maintenance contracts

Before IFRS 15

Sales used to reflect billing of flight hours

Sales of a period = number of flight hours billed



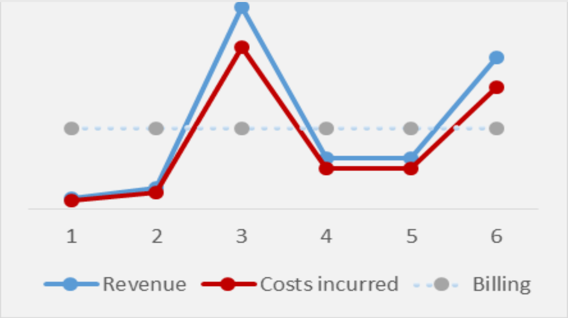
Years	1	2	3	4	5	6	Total
Billing	100	100	100	100	100	100	600
Revenue	100	100	100	100	100	100	600
Costs incurred	(10)	(20)	(200)	(50)	(50)	(150)	(480)
Provision	(70)	(60)	120	(30)	(30)	70	
Margin	20	20	20	20	20	20	120
%margin on sales	20%	20%	20%	20%	20%	20%	20%

With IFRS 15

Sales will reflect costs patterns

Sales = Cost + margin (overall margin at contract completion)

Sales of a period = costs incurred + cumulative margin projected to contract end



Years	1	2	3	4	5	6	Total
Billing	100	100	100	100	100	100	600
Revenue	12.5	25	250	62.5	62.5	187.5	600
Costs incurred	(10)	(20)	(200)	(50)	(50)	(150)	(480)
Margin	2.5	5	50	12.5	12.5	37.5	120
%margin on sales	20%	20%	20%	20%	20%	20%	20%
Deferred Revenue	87.5	75.0	(150)	37.5	37.5	(87.5)	0

- **Year 1 = Revenue €(87,5)M / Margin €(17.5)M / Cash identical**
- **At end of Year 6 = Cumulative Revenue, Margin and Cash identical**

SAFRAN

1 Impacts on the balance sheet related to flight hour/per landing contracts

Before

Assets	Liabilities
	Provisions for services to be rendered
Cash received (billing)	

With IFRS 15

Assets	Liabilities
	Contract liability : deferred revenue
Cash received (billing)	

(1) Billing is ahead of costs. Provisions for services to be rendered correspond to work not yet performed

(1) When billing is ahead of calculated revenue, a contract liability (equivalent to deferred income) is registered.

> Impact on Working Capital

1 Impact on the civil aftermarket indicator

Civil aftermarket profile as of December 31, 2017

Time and Material	Time & Material business limited impact of IFRS 15 : warranties deducted from revenue / No impact to EBIT 2017 and 2018 deductions homogenous ⇨ no major impact on the indicator
LTSA contracts (ESPH/ESPO)	LTSA contracts : impacts of IFRS 15 due to recognition of revenue when cost are incurred ⇨ growing basis with limited impact on the indicator

2017 : no restatement of civil aftermarket growth rate
2018 : civil aftermarket guidance under IFRS 15

2 Financed R&D in combined contracts (development and series) under IFRS 15

Development is a distinct obligation under IFRS 15

(different from part deliveries)

Yes

100% of the financing for development in <u>sales</u> during the development period.

Case 1

No

All the R&D financing received is <u>postponed: recognized in sales over product delivery.</u>

Case 2

Before IFRS 15:

- Revenue and costs were recognized either as billing milestones were met or on a percentage of completion basis.

Under IFRS 15, for Safran:

- In most contracts, development will not be a separate performance obligation (case 2).
- **Sales** related to R&D financing will be **recognized over product delivery** in « sales of original equipment and related products »
- **Limited impacts**:
  - Change in timing of recognition
  - Sales registred in «sales of original equipment and related products » instead of « sales of studies ».

2 Impacts on the balance sheet for financed development

Let's take an example :

- **A contract to develop and produce aerospace equipment .**
- **Development is not a distinct performance obligation**
- **Part of the development is financed upfront**
- **Assumption taken : No margin on development**

Before IFRS 15

P&L

- Revenues and costs related to the financed part of the development are registered in the P&L **as development costs incurred**

Balance Sheet

- No capitalized R&D for the financed part of the development
- Cash received

with IFRS 15

- **Financing received is registered as a contract liability (deferred revenue)**
- **Costs related to the financing are registered as an intangible (capitalized R&D)**
- **Revenue** related to the development financing will be **recognized over product delivery**
- **Costs will be amortized**

Balance sheet

Assets	Liabilities
Intangible assets (costs related to the financed development)	Contract liability = Deferred revenue (financing received)

SAFRAN

2 Impact on R&D disclosure - FY 2017 Published and IFRS 15 restated

(In €M)	**Published**	**IFRS 15 Restated**	*Change*
Total R&D	**(1,367)**	**(1,367)**	
Third party financing	314	244	*(70)*
Total self-funded R&D	**(1,053)**	**(1,123)**	*(70)*
as a % of revenue	*6.4%*	*7.0%*	
Tax credit	140	140	-
Total self-funded R&D after tax credit	**(913)**	**(983)**	*(70)*
Gross capitalized R&D	275	345	*70*
Amortisation and depreciation of R&D	(177)	(202)	*(25)*
P&L R&D in recurring EBIT	**(815)**	**(840)**	*(25)*
as a % of revenue	*4.9%*	*5.3%*	

- Before, revenue and costs were recognized either as billing milestones were met or on a percentage of completion basis.
- Under IFRS15, revenue is differed over product delivery and costs are capitalized

An increase in total self-funded R&D

- These expenses are capitalized

An increase in the amount of capitalized R&D

- Capitalized development expenditures are amortized using the strait-line method over the useful life of the product (not exceeding 20 years)

An increase in amortization of R&D

SAFRAN

3 Separation of contracts into performance obligations (P/Os)

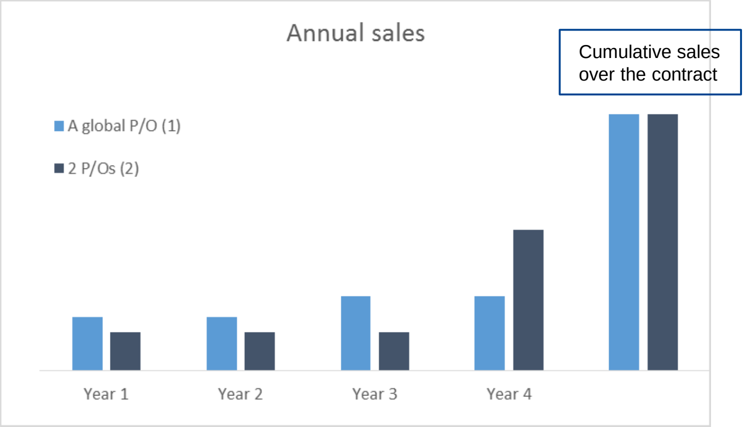
2 possible analysis of a contract (both under IFRS 15):

1 One single performance obligation

- An overall margin
- Revenues and margins are recognized as costs are incurred (cost-to-cost method)

2 Several performance obligations

- A split of the contract global price over the different P/Os
- Revenue is registered at the transfer of control of each P/O.



A difference of timing in the revenue recognition

An impact in the Balance Sheet in deferred revenue or in contracts assets and Inventories

For Safran:

Defense:

- Separation of contracts into several P/Os. Each P/O will reflect an individual margin and will have its own timing of revenue recognition
- A limited impact for Safran

Aerospace Propulsion & Aircraft Equipements:

- A re-allocation of the total transaction price over the different P/Os in some contracts
- Impact over the total life of the contract = 0
- Positive or negative impact over each year of the contract.

4 Performance warranties granted to customers and penalties

- **Penalties and Performance warranties granted to customers along with extended warranties will be recognized as a deduction from revenue, whereas they were recognized in expenses.**
    - No impact on EBIT
- **In the Balance Sheet,**
    - Provisions for penalties and warranties are cancelled
    - Costs for warranties and penalties are reclassified as “contract liabilities (credit notes to be issued)” or “deferred revenue”
- **Impact on working Capital**

FY2017 estimated balance sheet in IFRS 15

Assets - Figures FY2017 (In €Bn)	Published	IFRS 15 Restated
Goodwill	1.8	1.8
Intangible & tangible assets	8.7	9.1
Investment in JV & Associates	2.1	2.1
Other non current Assets	0.5	0.6
Inventories & WIP	4.5	4.0
Contracts costs	-	0.3
Trade & other receivables	6.4	4.9
Contracts assets	-	1.4
Other current assets	3.3	3.3
Cash & cash equivalents	4.9	4.9
Total assets	32.2	32.4

4

5

5

Liabilities- Figures FY2017 (In €B)	Published	IFRS 15 Restated
Shareholder's equity	10.3	9.3
Minority interests	0.3	0.3
Non current liabilities	1.6	1.3
Provisions	3.4	2.2
Trade and other payables	10.8	4.4
Contracts liabilities	-	9.1
Other current liabilities	1.2	1.2
Financial liabilities	4.6	4.6
Total equity and liabilities	32.2	32.4

1

2

3

SAFRAN

Main accounting changes in the 2017 balance sheet in IFRS 15:

1. **Equity:**
   - An impact on consolidated equity at Jan 1, 2017 of €(0.8)Bn + an impact on 2017 net result of €(0.2)Bn
2. **Provisions:**
   - A decrease in the amount of provisions linked to the change in accounting for maintenance contracts and warranties (see slides 7 and 13)
3. **Contracts liabilities:** include
   - Advance payments from customers included in “Trade Payables and others” before
   - Deferred revenues
4. **Capitalized R&D**:
   - An increase of +€0.4Bn linked to Customer Financed Development
   - This increase is covered by an increase deferred revenue
5. **Separation of contracts in different performance obligations**:
   - Different impacts in the B/S

SAFRAN

In conclusion, IFRS 15 for SAFRAN

➢ **Limited change in the OE accounting:**

1. **A conservative accounting under IAS 18 which was already « IFRS 15 compliant »**
   - Revenues booked at net contract price including variable consideration (allowances, ..)
   - All cost incurred are expensed (no capitalization of negative margins and learning curve)
   - No program accounting
   - Margins booked at delivery
     - Upon delivery if positive
     - No later than delivery if negative
2. **With IFRS 15, limited reallocations of prices related to some contracts**
3. **Performance warranties granted to customer , extended warranties and penalties deducted from revenue**

An impact of €(119)M on €8,166M OE sales

In conclusion, IFRS 15 for SAFRAN

➢ **Major changes in Services accounting:**

1. **A conservative accounting under IAS 18 which was already « IFRS 15 compliant »**
    - Revenues booked at net contract price including variable consideration (allowances, ..)

2. **A change in the timing of revenue and margins recognition depending on type of contracts**
    - “T&M” contracts : no change – at shop visit
    - Long term maintenance contracts : main change : as cost incurred instead of at billing, convergence toward T&M

3. **Performance warranties granted to customer, extended warranties and penalties deducted from revenue**

An impact of €(357)M on €7,809M Services sales

SAFRAN

In conclusion, IFRS 15 for SAFRAN

- **No significant change in sales of studies recognition:**

1. **Revenue of customer financed development recognized on product delivery**

2. **Revenue recognized as “OE and Equipment revenue” instead of “sales of studies”**

An impact of €(102)M on €365M sales of studies

Q&A

APPENDICES

IFRS 15 for SAFRAN

- **Safran has chosen the full retrospective method of implementation:**
  - Estimated impact on consolidated equity at Jan 1, 2017 in the region of €(0.8Bn)

- **Impact on FY 2017 restated**

Adjusted figures (In €M)	Published	IFRS 15 Restated	*Change*
Revenue	**16,521**	**15,953**	*(568)*
Recurring operating income	**2,470**	**2,192**	*(278)*
% of revenue	*15.0%*	*13.7%*	

- **No impact on cash flows**

- **No impact on cumulative margin over Safran contracts**

Impact on 2017 Group revenue by nature of activity

Adjusted Revenue in €M	**Published**	**IFRS 15 Restated**	*Change*
OE and Equipment	8,166	8,047	*(119)*
Services	7,809	7,452	*(357)*
Sales of studies (RTDI)	365	263	*(102)*
Others	181	191	*10*
Total	**16,521**	**15,953**	***(568)***

- **OE and Equipment:**
  - Performance warranties granted to customers, extended warranties and penalties deducted from revenue.
  - Separation of some contracts into different performance obligations:
    - Re allocation of the contract transaction price to each performance obligation
    - Change of the timing in which revenue is recognized
- **Services:**
  - Maintenance contracts per flight-hour/landing: revenue recognized on a cost to cost basis
  - Performance warranties granted to customers and penalties deducted from revenue
- **Sales of studies (RTDI):**
  - Revenue of customer financed development recognized on product delivery as « OE and Equipment revenue » instead of « sales of studies »

SAFRAN

Impact on 2017 Group revenue and recurring operating income by business line

Aerospace Propulsion *(In €M)*	Published	IFRS 15 restated	*Change*
Revenue	9,741	9,357	*(384)*
Recurring operating income	1,729	1,516	*(213)*
% of revenue	*17.7%*	*16.2%*	

Aircraft Equipment *(In €M)*	Published	IFRS 15 restated	*Change*
Revenue	5,415	5,260	*(155)*
Recurring operating income	682	619	*(63)*
% of revenue	*12.6%*	*11.8%*	

Defense *(In €M)*	Published	IFRS 15 restated	*Change*
Revenue	1,345	1,316	*(29)*
Recurring operating income	95	93	*(2)*
% of revenue	*7.1%*	*7.1%*	

- **Aerospace Propulsion :**
  - Maintenance contracts per flight-hour (RPFH, SBH, MCO) recognized on a cost to cost basis
  - Warranties and penalties deducted from revenue
  - Re-allocation of the total contract transaction price over the different performance obligations in some contracts
- **Aircraft Equipment :**
  - Maintenance contracts per landing recognized on a cost to cost basis
  - Customer financed development recognized on product deliveries in combined contracts
  - Concessions for landing equipments recognized as a deduction of revenue and on a different timing.
- **Defense:**
  - Separation of contracts into different performance obligations : reallocation of the contract price and change in the pattern in which revenue is recognized