Communiqué de presse . Press release

First half results : proving resilience
Confident in achieving upper end of 2009 objectives

Paris, 31 July 2009

The Safran Supervisory Board met on Wednesday, July 29, 2009, with Chairman Francis Mer presiding, to approve the financial statements for the first half of 2009.

Acting on a proposal by Chief Executive Officer Jean-Paul Herteman, and after reading a report by the Appointment Committee, the Supervisory Board appointed four new members to the Executive Board.

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***Safran** is a leading international high-technology group with three core businesses: Aerospace (propulsion and equipment), Defense and Security. Operating worldwide, the Safran group has 54,500 employees and generated sales exceeding 10 billion euros in 2008. Working alone or in partnership, Safran holds world or European leadership positions in its core markets. The Group invests heavily in Research & Development to meet the requirements of changing markets, including expenditures of 1.2 billion euros in 2008. Safran is listed on NYSE Euronext Paris and its share is part of the SBF 120 and Euronext 100 indexes.*

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First-half 2009 results

All figures in this press release represent adjusted data (see Appendix 1)

Key figures

- **€5,149 million in adjusted consolidated revenue**, up 1.8% on the first half of 2008
- **Services share of revenues increased to** 47% in Aerospace Propulsion revenue and 32% in Aircraft Equipment
- **Very strong organic growth in Security business** (+**30%)**
- **Profit from recurring operations €324 million**, representing 6.3% of revenue
- **Earnings per share of €0.70** versus €0.38 in first-half 2008
- **Free cash flow up sharply to €164 million** from €39 million in first-half 2008
- **Net debt roughly stable at €690 million** (representing a gearing of 16%)

Jean-Paul Herteman, Safran's Chief Executive Officer, stated: "Our first-half 2009 results – which were achieved in a difficult operating environment in the civil aviation sector – are in line with our objectives for the full year and illustrate how resilient the Group’s business model is. The first six months of 2009 saw services increase their share of Aerospace Propulsion and Aircraft Equipment revenue. At the same time, our Security business expanded considerably, resulting in strong organic growth of 30% in a market that gained 15% worldwide. It also saw a sharp rise in profitability, with operating margin coming in at 7.7%. During the period, the Security business also announced the imminent acquisition of GE Homeland Protection, a worldwide leader in airport detection systems.

Jean-Paul Herteman added: "Based on our first-half performance – which was bolstered by the steps we have taken to adapt our cost structure (such as by reducing overheads and streamlining our employee base) – and despite the challenging economic context we feel confident that the Group’s operating margin will come in at around 6%, ie the upper end of the target range set for full-year 2009.”

Appointments to the Executive Board

- **Ross McInnes,** Executive Vice President, Finance
- **Olivier Andriès, Yves Leclère and Marc Ventre**, Executive Vice Presidents in charge of the Group's three business branches, respectively Defense – Security, Aircraft Equipment, and Aerospace Propulsion.

These new members join the current members of the Executive Board:

- **Jean-Paul Herteman**, Chairman
- **Dominique-Jean Chertier,** Executive Vice President, Social and Institutional Affairs
- **Xavier Lagarde,** Executive Vice President, Quality, Audit and Risk Management

Analysis of the Group's results and financial position for the first half 2009 result

▪ Income statement (adjusted data)

(in € millions)	First-half 2008	First-half 2008 pro forma**	First-half 2009
Revenue	**5,057**	**5,017**	**5,149**
Profit from operations*	474		324
Profit from recurring operations	**328**	**321**	**324**
as a % of revenue	**6.5%**	**6.4%**	**6.3%**
Net financial income/(expense)	**(143)**		**48**
of which cost of debt	*(3)*		*(16)*
of which other finance costs/income	*(140)*		*64*
Income from associates	3		7
Income tax expense	**(51)**		**(99)**
Profit/(loss) from discontinued operations	(119)		6
Minority interests	(8)		(5)
Net profit attributable to equity holders of the parent	**156**		**281**
Earnings per share (in €)	**0.38**		**0.70**

** including the €146 million gain arising on the transfer of Monetel business to Ingenico.*
*** excluding Monetel business sold in April 2008, which results in negative impacts of €40 million on revenue and €7 million on profit from recurring operations for H1 2008.*

In first-half 2009, adjusted consolidated revenue rose 1.8% to €5,149 million from €5,057 million in the year-earlier period. At a constant Group structure and exchange rates (like-for-like), revenue contracted 2.6%, reflecting the combination of the following impacts:

Total like-for-like change	**-2.6%**
Currency impact	+3.8%
Impact of acquisitions	+1.4%
Pro forma growth:	**+2.6%**
Sale of the electronic payment solutions business in 2008	-0.8%
Reported growth	**+1.8%**

The impact of acquisitions primarily reflects the first-time consolidation of Sagem Identification (formerly SDU) from September 1, 2008 and Printrak from April 1, 2009 as well as the sale of Monetel business in April 2008. After restatement of H1 2008 by excluding Monetel business, revenue growth was 2.6%.

Despite variable aviation market conditions and declining air traffic levels, consolidated revenue climbed 1.8% on a reported basis, spurred by favorable US dollar exchange rates and a resilient performance from aeronautics services which posted a 3.5% rise in revenue. During the first half of 2009, services contributed 47% to Aerospace Propulsion revenue and 32% to Aircraft Equipment revenue, versus 45% and 31% respectively in the same period of 2008.

These positive factors more than offset the 5% decline in aeronautics original equipment revenue* stemming primarily from lower deliveries of civil aircraft engines, which had been expected after the very high levels achieved in recent periods and the Boeing strike in late 2008.

The Group's revenue was particularly buoyed by the Security business which reported organic growth of 30% and has incorporated new companies that are high-performing leaders in their sectors, such as Sagem Identification in the Netherlands and Printrak in the United States.

Adjusted profit from recurring operations remained stable in the six months ended June 30, 2009, coming in at €324 million and representing 6.3% of revenue. It rose €3 million, however, after adjusting first-half 2008 data for the April 2008 sale of Monetel business.

During the period, profit from operations felt the benefit of a favorable €38 million currency effect, arising mainly from changes in the hedged EUR/USD rate – which went from 1.46 in first-half 2008 to 1.43 in first-half 2009 – as well as the positive €11 million impact from change in Group scope. Excluding these effects, profit from operations decreased by €46 million. However, this cannot be considered a structural trend, as the basis of comparison (first-half 2008) was particularly strong. The decrease reflects a decline in sales of civil aircraft engines at constant dollar rates together with a slump in original equipment sales in regional and business aircraft segment. It also takes into account the €33 million provision for depreciation of intangible assets linked with the engine program of the A400M. Productivity gains, such as significant overheads savings achieved during the period, mitigated the majority of these effects.

Adjusted net financial result is a positive amount of €48 million versus a negative amount of €143 million in the first half of 2008. The main cash item corresponds to interest charge on net debt which rose to €16 million from €3 million due to the year-on-year change in the amount of net debt. Net financial result for the period also includes the unwinding effect on repayable advances and provisions (a €50 million charge in first-half 2009 compared with a €28 million charge one year earlier). Other components of this line item mainly correspond to the ineffective portion of currency hedging instruments. In first-half 2009 this amount represented a gain of €129 million versus a loss of €109 million in the first six months of 2008. The positive swing in the first half of 2009 primarily arose from (i) the contraction in the difference between EUR and USD interest rates which pushed up the fair value of Group currency hedging instruments during the period; and (ii) the reduction of our portfolio of options which were out of the money throughout the entire period and therefore deemed to be ineffective.

The adjusted income tax expense figure increased to €99 million for first-half 2009 from €51 million in the first six months of 2008 and the effective tax rate was 26%. The higher tax charge is attributable to the rise in net profit from ordinary activities before tax (excluding capital gains), which increased to €372 million from €185 million. The €146 million gain on the sale of the Monetel business to Ingenico was taxed at the reduced rate of 1.72% in first-half 2008.

The rise in income from associates mainly comes from Safran's 22.3% interest in Ingenico which has been consolidated since the second quarter of 2008.

** also including revenues from R&D contracts and miscellaneous*

The Group ended the period with €281 million in net profit attributable to equity holders of the parent versus €156 million in the first six months of 2008. In addition to the rise in net profit from ordinary activities before tax this robust performance reflects the one-off impact in first-half 2008 of losses and restructuring costs recorded in relation to withdrawing from the Communications business.

Earnings per share almost doubled to €0.70.

▪ Research & Development

At €294 million, self-funded R&D (before research tax credits awarded to companies based on their R&D outlay) were slightly lower than the first-half 2008 figure of €305 million and represented 5.7% of consolidated revenue compared with 6.0%. The decrease was mainly due to the tailing off of the R&D program for the SaM146 engine designed for the Russian regional jet, the Sukhoi SSJ 100, whose certification is pending.

▪ Cash flow and financial position

(in € millions	First-half 2008	**First-half 2009**
Adjusted attributable net profit	156	**281**
Depreciation, amortization and provisions	180	**304**
Other	(103)	**67**
Elimination of discontinued operations	129	**4**
Cash flow from operations	362	**656**
Of which premiums on unwound options	*(85)*	***37***
Changes in working capital	(42)	**(249)**
Purchases of intangible assets	(95)	**(111)**
Purchases of tangible assets	(186)	**(132)**
Free cash flow	39	**164**
Dividends paid (including interim dividends)	(170)	**(73)**
Divestments/acquisitions and others	199	**(146)**
Net change in cash and cash equivalents	68	**(55)**
Net debt at January 1	(169)	**(635)**
Net debt at June 30	(101)	**(690)**

Cash flow from operations increased sharply in the first half of 2009, to €656 million from €362 million in the comparable prior-year period. This strong performance mainly reflects the increase in depreciation, amortization and provisions, the positive cash impact of favorable movements in option premiums and significant net repayments of tax surplus.

Free cash flow came to €164 million vs €39 million in the comparable prior-year period, due to sharp increase in cash flow from operations, and despite increase in working capital by €249 million. The latter reflects the impact of the Boeing strike in late 2008 and the one-off effect arising from the implementation in France of the Economic Modernization Act (LME) which imposed a reduction in supplier payment times and is expected to have an adverse €150 million effect on the Group's working capital for full-year 2009.

Net debt amounted to €690 million, representing 16% of shareholders' equity (which totaled €4,279 million). The overall stability during the period was primarily due to a good level of free cash flow (€164 million) which globally covered the Group's main cash outflows, corresponding to the €133 million payment for the acquisition of Printrak and €73 million in remaining dividend payments made in June for fiscal 2008.

▪ Revenue and profit by branch

In order to facilitate comparisons of the Group's financial performance, the Group has prepared pro-forma figures for first-half 2008 in addition to making adjustments to reflect the sale of Monetel business in April 2008. These pro-forma data factor in the inter-branch reorganisation that have taken place since the beginning of 2009, but have no impact on profit from operations reported by each activity.

All of the following comments are based on pro-forma data.

Aerospace Propulsion

Adjusted consolidated revenue for Aerospace Propulsion came to €2,769 million in first-half 2009, down 2.8% on the same period of 2008, or 6.9% like-for-like. After two exceptional years, business in the first six months of 2009 was hit by (i) a falloff in the number of CFM engine deliveries (597 units delivered compared with 683 in first-half 2008), which was partly due to the strikes at Boeing in late-2008; and (ii) a limited slowdown in the services business (with worldwide revenue generated by CFM International joint venture in spare parts operations for CFM engines, down 1%). The total number of shop visits for civil aircraft CFM engines decreased to 1,145 in first-half 2009 from 1,228 in the corresponding prior-year period, reflecting a sharp drop in the number of flight hours for first-generation engines versus a 25% increase for more recent models.

Aerospace Propulsion recorded a satisfactory level of profitability during the period considering the current backdrop in the aviation market, with profit from operations coming in at €259 million (9.4% of revenue) against €278 million (9.8% of revenue) in first-half 2008. The decline primarily stemmed from a lower coverage of fixed costs by sales of civil aircraft engines but this impact was partly offset by a favorable currency effect and a robust showing from the military engines business.

Although weighed down by current market conditions, the first-half performance of Aerospace Propulsion testifies to the long-term sustainability of the Group's business model. The total fleet of delivered CFM engines, net of announced groundings, amounted to 19,200 units compared with around 18,000 in first-half 2008, confirming the future revenue potential of the services business. Services accounted for 47% of total revenue during the period, up from 45% for the first six months of 2008. The proportion of second-generation CFM civil engines (CFM 56 – 5B and 7) out of the total fleet of delivered CFM engines was up significantly, from 48% to 52%; these engines generate much higher service revenue than first-generation engines (primarily the CFM 56 – 3), which represented a lower proportion of the total fleet than in first-half 2008.

Aircraft Equipment

The Aircraft Equipment activities reported adjusted consolidated revenue of €1,413 million in the six months ended June 30, 2009, up 2.0% on first-half 2008. On a like-for-like basis, however, activities revenue edged back 3.0%. The main positive impacts during the period were (i) a ramp-up in deliveries of A380 nacelles from 30 to 41 units; (ii) a solid performance by services for landing gear, brakes for recent generation aircraft, wheels and related systems, particularly internationally (Asia); and (iii) landing gear and systems designed for the military market.

Conversely, the second-quarter slump in the market for equipment for business and regional aircraft – which account for around 15% of Aircraft Equipment business – adversely affected revenue and profitability during the period. The number of deliveries of nacelles for business and regional aircraft fell to 165 from 285 in first-half 2008. Wiring and landing systems also suffered from the depressed market conditions in this segment.

Profit from operations for the Aircraft Equipment was relatively stable, coming in at €44 million and representing 3.1% of revenue. A favorable currency effect coupled with a good performance from services for landing gear, brakes, wheels and related systems were able to offset the impact of the collapse in the business and regional aircraft market.

Defense

Adjusted consolidated revenue generated by the Defense branch came to €511 million, up 3.7% on first-half 2008, or 1.8% like-for-like. At €18 million, or 3.6% of revenue, profit from operations for the first six months of 2009 was on a par with the corresponding prior-year period.

Avionics reported growth of over 10%, reflecting the smooth roll-out of programs for navigation systems (with deliveries of inertial units up 16%) and guidance systems (AASM, OSF and Mistral 2 missile programs). Optronic applications turned in an overall performance that was on a par with first-half 2008, with the positive impact of firm sales momentum for goggles offset by lower deliveries of land sights.

Security

Adjusted consolidated revenue for the Security branch jumped to €434 million, up 54.4% on first-half 2008 or 30.4% like-for-like. The main impact of changes in Group structure stemmed from the consolidation of Sagem Identification from September 1, 2008 and Printrak from April 1, 2009. Profit from operations climbed to €33 million from €9 million in the same period of 2008 and operating margin rose to 7.7% from 3.3%.

The branch's strong performance during the period was driven by (i) sales growth for identity solutions both internationally and in France with the introduction of the new biometric passport by local councils; (ii) the first-time consolidation of new profit-making companies; and (iii) economies of scale. Altogether, these achievements demonstrate how the Group has got its strategy right for the Security business.

▪ Expansion in the Security business with the acquisition of GE Homeland Protection

In April 2009, Safran announced the acquisition of **GE Homeland Protection (GE HLP), a global leader in baggage screening equipment.** Following the acquisition of Sagem Identification and Printrak, adding GE Homeland will considerably bolster the Group's position in Security in line with its long term objective for this activity to generate 20% of total consolidated revenue. The transaction is expected to be completed before the end of summer 2009, according to the conditions initially communicated by Safran, and integrated into the Group's financial results in the second half.

GE HLP – which reported revenue of $260 million in 2008 – provides a range of equipments and services to protect airports, ports, borders and critical infrastructures, for government, military and commercial customers. By acquiring GE HLP, Safran has gained access to tomography, a key technology for detecting explosives and narcotics in baggage, in a move that will foster synergies with the Group's identity solutions and access control capabilities. GE HLP currently operates around 1,600 machines, representing the world's largest installed based of computed tomography units and generating a significant stream of service revenue.

GE HLP's growth outlook is good with a forecast EBITDA margin of 25% for 2009 and average annual revenue growth of over 15% over medium term.

Outlook

▪ Currency hedges

The Group has set up currency hedges for the next three years. At June 30, 2009 the hedging portfolio amounted to €13,700 million with the following average EUR/USD exchange rates:
€1 < $1.43 in 2009
€1 < €1.525 in 2010 (40% options)
€1 < $1.40 in 2011
€1 < $1.32 in 2012 (partial hedging)

The Group's objective is to reduce its exchange rate to at least $1.48 in 2010 (versus $1.5250).

▪ Moving ahead and preparing for the future

In early 2009, Safran + set up a new efficiency plan in order to adapt its business to the new economic environment. This plan generated efficiency gains as of the first half of 2009 and enabled the Group to partly offset the impact of lower business volumes. The measures put in place included:

- Optimizing the supply chain: Safran has stepped up its supplier development program enabling it to reduce prices, improve quality and ensure on-time deliveries. In addition, new supply sources in the dollar zone and emerging markets have made the Group less sensitive to fluctuations in the dollar exchange rate and have reduced purchasing costs (particularly in Taiwan and the USA).

- Enhancing productivity: Safran has started to roll out the "Lean Sigma" business improvement model at all of its units and for all of its operations (manufacturing, management and development). Over 200 Green Belt/Black Belt certifications have already been received. In addition, during the period, reorganization plans continue to be implemented at a number of plants (Dijon, Poitiers, Montluçon, Mantes and Fougères in France). Lastly, existing facilities in countries with low labor costs (Poland and Morocco) are strengthened.
- Reducing overheads: the Group has scaled back overheads by cutting travel expenses and increasing the use of Group-wide logistics contracts. Recurring savings amounting to about €20 million were achieved during the period.
- Selling more effectively and accelerating the pace of growth in services: the Group is successfully rolling out Global Care offers for systems services with the objective of generating an additional 20% in revenue from systems support business.

The Group has also taken measures to adapt its cost base in order to counter any further worsening of the economic environment in the near future. These measures include:

- Negotiating with employee representatives with a view to optimizing available human resources in line with changing needs.
- Voluntary retirement for employees aged over 60 – 2,000 people concerned over a two-year period.
- Restricting new hires to key competencies.
- Continuing to selectively use reduced working time.

▪ Outlook for full-year 2009

In an economic environment that remains difficult and volatile, Safran is maintaining its full-year targets for 2009, namely:

- Revenue to be on the same scale as for 2008
- Operating margin coming in at about 6% at the upper range set at the beginning of the year.

These objectives are based on the following assumptions for the full year:

- A forecast 4%-5% reduction in air traffic
- An exchange rate of $1.43 to the euro
- A slight decrease in original equipment business on a constant dollar basis
- Sales of services at constant dollars remaining stable or edging back slightly
- Strong and profitable growth for the Security business
- Ongoing measures to enhance profitability and reduce overheads

In view of the current economic environment the Group does not wish to give any forecasts for 2010 at this stage.

APPENDIX 1

Reconciliation between reported and adjusted data

In order to reflect the true economic performance of the Group and enable this performance to be monitored and compared with that of competitors, in addition to its statutory consolidated interim financial statements, Safran prepares an income statement presenting adjusted data.

The Safran group:

- is the result of the May 11, 2005 merger of the Sagem and Snecma groups accounted for in accordance with IFRS 3, Business Combinations, in its statutory consolidated financial statements,
- has recorded, since July 1, 2005, all fair value gains and losses on currency derivatives in net financial income/(expense), in accordance with the provisions of IAS 39 applicable to transactions not qualifying for hedge accounting.

Consequently, the financial information extracted from the Safran group statutory consolidated financial statements has been adjusted for:

- the impact of applying hedge accounting to currency financial instruments, which better reflects the results of the Group's overall foreign currency risk management policy
- the impact of amortization charges for intangible assets relating to aircraft programs revalued at the time of the Sagem/Snecma merger in accordance with IFRS 3

The impact of these adjustments on the Group's income statement items is as follows

(in € million)	**Statutory consolidated statements**	Hedge accounting		intangible assets depreciation and amortisation (3)	**Adjusted consolidated statements**
		remeasurement of the revenue (1)	deferred hedge gain (loss) (2)		
Revenue	**5,295**	**(146)**			**5,149**
Other operating income / expense	**(4,907)**	6	(3)	79	**(4,825)**
Profit (loss) from operations	**388**	**(140)**	**(3)**	**79**	**324**
Cost of debt	**(16)**				**(16)**
Foreign exchange financial income (loss)	**299**	140	(310)		**129**
Other finance costs / income	**(65)**				**(65)**
Net finance costs / income	**218**	**140**	**(310)**	**-**	**48**
Income from associates	**7**				**7**
Income tax expense	**(179)**	(1)	108	(27)	**(99)**
Profit (loss) from continuing operations	**434**	**(1)**	**(205)**	**52**	**280**
Profit (loss) from discontinued operations	**6**	-	-	-	**6**
Attributable to non-controlling interests	**(6)**	2	1	(2)	**(5)**
Attributable to equity holders of the parent	**434**	**1**	**(204)**	**50**	**281**

(1) Restatement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options), through the reclassification of gains and losses on hedges of cash flows for the period.

(2) Gains and losses on hedges of future cash flows (a negative €310 million before tax), deferred in equity and the impact of the inclusion of hedges in the valuation of provisions for losses to completion for a negative €3 million.

(3) Cancellation of amortization/impairment of intangible assets relating to the revaluation of aircraft programs pursuant to application of IFRS 3 at April 1, 2005.

Only the consolidated interim financial statements are subject to a limited review by the Group's Statutory Auditors. The adjusted data are verified by the Auditors as part of their review of all of the information contained in the interim report for the six months ended June 30, 2009.

APPENDIX 2

Revenue and Profit from operations by activity

H1 2008 reported	*(in € millions)*	H1 2008 pro-forma	H1 2009	% change (H1 2009/ H1 2008 pro-forma)	Organic growth
	Aerospace Propulsion				
2,852	Revenue	2,850	2,769	-2.8%	-6.9%
278	Profit from operations	278	259		
9.7%	% revenue	9.8%	9.4%		
	Aircraft Equipment				
1,426	Revenue	1,385	1,413	+2.0%	-3.0%
47	Profit from operations	47	44		
3.3%	% revenue	3.4%	3.1%		
	Defense				
458	Revenue	493	511	+3.7%	+1.8%
17	Profit from operations	17	18		
3.7%	% revenue	3.4%	3.6%		
	Security				
321	Revenue	281*	434	+54.4%	+30.4%
17	Profit from operations	9*	33		
5.3%	% revenue	3.3%	7.7%		
	Holding companies and other				
0	Revenue	8	22	nm	nm
(31)	Profit (loss) from operations	(31)	(30)		
	Total				
5,057	**Revenue**	**5,017**	**5,149**	**+2.6%**	**-2.6%**
328	**Profit from operations**	**321**	**324**		
6.5%	**% revenue**	**6.4%**	**6.3%**		

** Adjustments made to reflect the sale of the electronic payment solutions business had negative impacts of €40 million on revenue and €7 million on profit from operations.*