

Safran: 6.8% revenue growth in third quarter 2014, driven by continued momentum in Propulsion

Full-year 2014 outlook confirmed

All revenue figures in this press release refer to Adjusted ^[1] revenue. Comparisons are established against 2013 figures restated for the application of IFRS 11, Joint Arrangements. Please refer to definitions contained in the Notes on page 7 of this press release.

KEY FIGURES FOR THIRD QUARTER 2014

- **Third-quarter 2014 adjusted revenue was Euro 3,589 million**, up 6.8% on a reported basis, up 6.3% on an organic basis, compared to third quarter 2013.
- **Aerospace Propulsion** activities continue to benefit from services growth, notably civil aftermarket. **Aircraft Equipment** growth is principally driven by continuing OE momentum. Revenue declined slightly in **Defence** activities and grew for the **Security** activities.
- Third-quarter 2014 **civil aftermarket** ^[2] **was up 11.9%** in USD terms, driven by a robust level of revenue in 2014, spare parts in particular, compared to a high comparison base in the year-ago quarter.
- **The full-year 2014 adjusted revenue and adjusted EBIT outlook is confirmed.** Regarding free cash flow, cash flow linked to business performance will be consistent with objectives, while significant uncertainty remains concerning the rhythm of payments (including advance payments) by State-customers in the fourth quarter.

KEY FIGURES FOR YEAR TO DATE 2014

- **Adjusted revenue for the first nine months of 2014 was Euro 10,797 million**, an increase of 5.2% on a reported basis, up 5.6% on an organic basis, compared to 2013.
- **Global civil aftermarket revenue was up 10.3%** in USD at September 30th, driven by first overhaul activity on recent CFM56 and GE90 engines and with particularly strong growth in spares.

KEY BUSINESS HIGHLIGHTS

- **CFM International:** Several new large orders and commitments have been received since the outstanding Farnborough airshow: BOC Aviation selected LEAP-1B engines to power 50 Boeing 737 MAX, in addition to CFM56 engines for 30 Boeing 737 NG. Ryanair committed to purchase 200 LEAP-1B to power 100 Boeing 737 MAX. Cumulative orders and commitments for Leap are now above 7,700 engines.
- **LEAP first flight:** LEAP engine took the skies for the first time on 6 October on a modified 747 flying testbed at GE Aviation Flight Test Operations in Victorville, California. The engine behaved well during this very successful first flight and is on track for certification in 2015. The configuration currently being tested is a fully integrated propulsion system (IPS), comprising the engine as well as the nacelle and thrust reverser.
- **Equipment:** US-based Spirit Airlines chose Safran wheels, brakes and MRO maintenance services for its fleet of Airbus single aisle aircraft. Spirit Airlines also selected Safran to provide landing gear MRO services on its A319 and A321 fleet, at Safran's MRO operation in Querétaro, Mexico.

- **Defence:** Safran received the notification from MBDA of the development and production contract for the infrared seekers of the future anti-tank Medium-Range Missile (MMP) for the French Army. Safran also signed a contract with MBDA for the development and production of the infrared seekers of the French-British anti-surface guided weapon (FASGW).
- **Security:** Safran finalized the acquisition of Dictao, the leading developer of software solutions for security and digital trust. Safran will now be able to offer an even more extensive range of highly secure solutions to both governments and private sector companies (banks, insurance firms, manufacturers, etc.)

Paris, October 23, 2014 - Safran (Euronext Paris: SAF) today reported its revenue for the third quarter of 2014.

EXECUTIVE COMMENTARY

Chairman and CEO Jean-Paul Herteman commented:

“The commercial success of the Leap family of engines is once again confirmed with a strong number of new orders and commitments signed this quarter including an excellent Farnborough air show. At quarter-end our backlog stood at over 7,700 engines, more than 4 years of production at the nominal annual rate. We are well on track on our development schedule to meet the expectations of our customers as the successful first flight of this engine earlier this month demonstrates. We have also recorded orders for over 1,300 CFM56 so far this year, bringing our backlog to close to 4,800 engines at the end of September.

Safran’s activity this quarter is once again driven by the robust demand for new civil aircraft, fuelling our OE deliveries, and for services and spares particularly on our installed base of narrow body and wide body engines. Our defence activities are showing resilience, thanks in part to export markets, as domestic military spending remains highly constrained. Security registered another quarter of organic growth thanks notably to broad-based growth in Identification.

Our nine-month performance provides comfort to achieve our outlook for 2014 and strong confidence for success in the longer term.”

THIRD-QUARTER 2014 REVENUE

Solid revenue growth. For the third quarter 2014, Safran’s revenue was Euro 3,589 million, up 6.8% compared to Euro 3,361 million in the same period a year ago. This Euro 228 million increase reflects growth in aerospace (Propulsion and Equipment) and Security activities, and a slight decline in Defence revenue.

On an organic basis (excluding the effects of acquisitions, disposals and currency variations), Group revenue increased by Euro 213 million, or 6.3%. Organic revenue was determined by applying constant exchange rates and by excluding the effects of changes in structure. Hence, the following calculations were applied:

Reported growth			6.8%
Impact of acquisitions, newly consolidated activities & disposals	Euro 8 million	(0.3)%	
Impact of currency variations	Euro 7 million	(0.2)%	
Organic growth			6.3%

Globally the impact of currency in revenue was slightly favourable, Euro 7 million, for third quarter 2014. The Group’s average spot rate was slightly higher than the year-ago period at USD1.33 to the Euro in the third quarter 2014. The Group’s hedge rate improved to USD1.26 to the Euro in the third quarter 2014 from USD1.29 in the year-ago period.

BUSINESS COMMENTARY FOR THE THIRD QUARTER 2014

▪ **Aerospace Propulsion**

In the third quarter 2014, Aerospace Propulsion recorded revenue of Euro 1,944 million, an increase of 9.8% compared to revenue in the year-ago period of Euro 1,771 million. On an organic basis, revenue was up 8.9%. Revenue growth was primarily driven by services (+15.9%). The civil aftermarket (measured in USD) increased 11.9% compared to the third quarter 2013. Sales of spare parts for CFM56 and GE90 engines contributed strongly to this momentum. Military aftermarket grew, as did helicopter support revenues notably with the contribution of the RTM322 programme. OE Propulsion revenue increased 3.7%. Sales from helicopter turbine deliveries were down, as in the first half. Civil aircraft OE grew due to slightly higher volume and favourable mix in both CFM56 and high thrust engine modules.

Year-to-date, civil aftermarket growth is 10.3%, compared with a level of business in 2013 which had grown 25.5% compared with the prior year. The momentum is driven particularly by first overhaul activity on recent CFM56 and GE90 engines as well as robust growth specifically on spare parts business.

OE CFM56 engine deliveries at September 30 stand at 1,174 units, up 3% from last year.

▪ **Aircraft Equipment**

The Aircraft Equipment segment reported third-quarter 2014 revenue of Euro 1,021 million, up 4.0%, or 4.7% on an organic basis, compared to Euro 982 million in the year-ago period. Year to date growth of the Aircraft Equipment activities was 7.9%.

Revenue growth was primarily attributable to stronger OE activity this quarter notably on the Boeing 787 programme (landing and wiring systems). A380 nacelle shipments were higher (+7 units) this quarter than in third quarter 2013, bringing total shipments in the first 9 months to 84 units, 12 more than in the comparable period in 2013. Facing a comparison with an unusual base in the year-ago period, deliveries on other Airbus programmes (primarily A320 and A330 - landing systems and thrust reversers) were lower, as expected. Growth rates for landing gear and nacelle aftermarket activities were sequentially lower due to the seasonal profile.

▪ **Defence**

Third-quarter 2014 revenue of Euro 256 million was down (0.8)%, or (4.3)% on an organic basis, compared to revenue of Euro 258 million in the year-ago period. Revenue declined, despite the resilience of the Avionics business, due to softness in Optronics in the global defence context and the effect of long term contract adjustments, as anticipated.

▪ **Security**

The Security activity reported third-quarter 2014 revenue of Euro 368 million, up 5.4% compared to revenue in the year-ago period of Euro 349 million. Excluding the translation effect of various currencies, revenue increased by 6.3%.

Identification grew strongly in the quarter, particularly activities in the US (Federal and State enrolment contracts, driving licences and passports), and Government Solutions in Chile (secure passports and ID cards) and Europe (secure passports). This growth was partially offset by lower revenues at Enterprise Solutions smart chips, despite rising volumes, and by temporary softness in Detection due to the slippage into the fourth quarter of CTX tomographic detection systems deliveries to be recovered by year end.

CURRENCY HEDGES

Safran now expects annual net USD exposure for 2014-18 to range between USD 6.5 billion and USD 7 billion due to strong growth of businesses with exposed USD-denominated revenues.

2014: Hedging is finalised at a hedged rate of USD 1.26.

2015: Hedging is finalised at a hedged rate of USD 1.25.

2016: Exposure of USD 5.5 billion is hedged at a rate of USD 1.25 (including knock out option strategies). Hedging of an additional USD 1.2 billion will be added through accumulators as long as $\text{€}/\text{\$} < 1.38$ up to end 2015. Knock out options barriers are set at various levels between USD 1.36 and USD 1.45 for limited periods up to mid 2015.

2017: Exposure of USD 5.5 billion is hedged at a rate of USD 1.26 (mainly through knock out option strategies). Accumulators will allow coverage to grow to a total of USD 6.4 billion as long as $\text{€}/\text{\$} < 1.40$ up to end 2015. Knock out options barriers are set at various levels between USD 1.37 and USD 1.42 for limited periods of time up to end 2015.

2018: During the third quarter, hedging was put in place to cover exposure of USD 2 billion at rate of USD 1.20 through knock out option strategies. Knock out options barriers are set at various levels between USD 1.32 and USD 1.45 with maturities ranging between 1 and 3 years.

Due to the use of knock out option strategies in 2016-18 portfolios, effective coverage for the period will be secured in the course of 2014-17 depending on forex market conditions. If all or part of the options were to be knocked out the optional strategies would be adapted to new market conditions.

At October 16, 2014, the firm hedge book amounted to USD 19.7 billion.

Targeted hedged rates are as follows:

- 2014: USD 1.26 to the Euro
- 2015-17: USD 1.25 to the Euro.

2014 OUTLOOK

Full-year 2014 revenue and profit guidance is confirmed reflecting solid year-to-date performance. Safran expects on a full-year basis:

- Adjusted revenue to increase by a percentage rate in the mid-single digits compared to 2013 revenue restated for IFRS 11 (at an estimated average rate of USD 1.30 to the Euro).
- Adjusted recurring operating income to increase a percentage approaching the mid-teens compared to 2013 recurring operating income restated for IFRS 11 (at a hedged rate of USD 1.26 to the Euro). The hedging policy isolates adjusted recurring operating income from current EUR/USD variations except for the part generated in USD by activities located in the US, subject to the translation effect when converted into Euro.
- Regarding free cash flow, cash flow linked to business performance will be consistent with objectives, while significant uncertainty remains concerning the rhythm of payments (including advance payments) by State-customers in the fourth quarter.

Full-year 2014 outlook is based on the following underlying assumptions:

- A healthy increase in aerospace OE deliveries.
- Civil aftermarket increase by a percentage in the low to mid-teens.
- An increase of self-funded R&D of the order of Euro 50 million to Euro 100 million compared with 2013 with a lower level of capitalisation.
- An increase in tangible capex of the order of Euro 70 million to Euro 100 million compared with 2013.
- Profitable growth for the Security business, characterized, unlike other activities, by significant exposure to translation effect.
- Continued benefits from the on-going Safran+ plan to enhance the cost structure and reduce overhead.

UPCOMING EVENTS

FY 2014 results

February 25, 2015

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Safran will host today a conference call open to analysts at 8:00 am CET which can be accessed at +33 1 70 77 09 42 in France, +44 203 367 9453 in the UK and +1 866 907 5928 in the US. A replay will be available for 3 months at +33 1 72 00 15 00, +44 203 367 9460 and +1 877 642 3018 (access code 289194#).

The press release and presentation are available on the website at www.safran-group.com.

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KEY FIGURES

The 2013 financial statements have been restated to reflect the changes induced by IFRS 11.

<i>Segment breakdown of revenue (In Euro million)</i>	Q3 2013 restated	Q3 2014	% change reported	% change organic
Aerospace Propulsion	1,771	1,944	9.8%	8.9%
Aircraft Equipment	982	1,021	4.0%	4.7%
Defence	258	256	(0.8)%	(4.3)%
Security	349	368	5.4%	6.3%
Others	1	0	na	na
Total	3,361	3,589	6.8%	6.3%

<i>Segment breakdown of revenue (In Euro million)</i>	9m 2013 restated	9m 2014	% change reported	% change organic
Aerospace Propulsion	5,442	5,707	4.9%	4.4%
Aircraft Equipment	2,927	3,158	7.9%	9.3%
Defence	824	840	1.9%	1.0%
Security	1,073	1,090	1.6%	5.4%
Others	2	2	na	na
Total	10,268	10,797	5.2%	5.6%

<i>Restated 2013 adjusted revenue by quarter (In Euro million)</i>	Q1 2013 restated	Q2 2013 restated	Q3 2013 restated	Q4 2013 restated	FY 2013 restated
Aerospace Propulsion	1,785	1,886	1,771	2,147	7,589
Aircraft Equipment	915	1,030	982	1,164	4,091
Defence	292	274	258	373	1,197
Security	340	384	349	409	1,482
Others	1	-	1	2	4
Total revenue	3,333	3,574	3,361	4,095	14,363

<i>2014 revenue by quarter (In Euro million)</i>	First quarter 2014	Second quarter 2014	Third quarter 2014
Aerospace Propulsion	1,825	1,938	1,944
Aircraft Equipment	1,016	1,121	1,021
Defence	257	327	256
Security	345	377	368
Others	-	2	-
Total revenue	3,443	3,765	3,589

<i>Euro/USD rate</i>	Third quarter 2013	Third quarter 2014	9 months 2013	9 months 2014
Average spot rate	1.32	1.33	1.32	1.36
Spot rate (end of period)	1.35	1.26	1.35	1.26
Hedge rate	1.29	1.26	1.29	1.26

NOTES

[1] Adjusted data

To reflect the Group's actual economic performance and enable it to be monitored and benchmarked against competitors, Safran prepares an adjusted revenue.

Safran's consolidated revenue has been adjusted for the impact of:

- the mark-to-market of foreign currency derivatives, in order to better reflect the economic substance of the Group's overall foreign currency risk hedging strategy:
 - revenue net of purchases denominated in foreign currencies is measured using the effective hedged rate, i.e., including the costs of the hedging strategy,
 - all mark-to-market changes on foreign currency derivatives hedging future cash flows is neutralized.

Third-quarter 2014 and nine-month 2014 reconciliation between consolidated revenue and adjusted revenue:

Q3 2014 <i>(In Euro million)</i>	Consolidated revenue	Hedge accounting		Business combinations		Adjusted revenue
		Remeasurement of revenue	Deferred hedging gain (loss)	Amortization intangible assets - Sagem-Snecma	PPA impacts - other business combinations	
Revenue	3,526	63	na	na	na	3,589

9m 2014 <i>(In Euro million)</i>	Consolidated revenue	Hedge accounting		Business combinations		Adjusted revenue
		Remeasurement of revenue	Deferred hedging gain (loss)	Amortization intangible assets - Sagem-Snecma	PPA impacts - other business combinations	
Revenue	10,499	298	na	na	na	10,797

[2] Civil aftermarket (expressed in USD)

This non-accounting indicator (non-audited) comprises spares and MRO (Maintenance, Repair & Overhaul) revenue for all civil aircraft engines for Snecma and its subsidiaries and reflects the Group's performance in civil aircraft engines aftermarket compared to the market.

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Safran is a leading international high-technology group with three core businesses: Aerospace (propulsion and equipment), Defence and Security. Operating worldwide, the Group has 66,300 employees and generated sales of 14.7 billion euros in 2013*. 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 1.8 billion Euros in 2013. Safran is listed on Euronext Paris and is part of the CAC40 index.

* Sales in 2013 restated for the impacts of IFRS11 amounted to 14.4 billion euros.

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Disclaimer

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