The diversity of the Group's businesses and its many sites across the globe expose it to a variety of risks that could have a material impact on its earnings, image or share price.

These risks are identified and managed as part of an enterprise risk management system and within the framework of audit and internal control procedures (see section 6.7).

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 and actions 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 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.

4.1.2 Organization

The Risk and Insurance Department reports to the Group Chief Financial Officer 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 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. Detailed guidance is also prepared for the analysis of certain risks.

The Risk and Insurance Department sets risk management maturity objectives for first-tier entities. Risk management in newly acquired entities forms part of the action plans that the Risk and Insurance Department requires first-tier entities to set up within the context of the integration plan.

The Risk and Insurance Department also coordinates the risk manager network. Regular meetings are held to share best practices and identify emerging risks. Task forces are set up on the basis of priorities approved by the Group Risk Committee.

Each first-tier 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.

Each quarter, the risk managers of first-tier entities submit a series of indicators to the Risk and Insurance Department (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 of the risk management process within their respective operational perimeter. The Risk and Insurance Department also periodically meets with the risk manager of each first-tier entity in order to discuss his/her work and risk metrics.

First-tier entity risk managers are tasked with implementing the risk management process for their entire operational perimeter, i.e., in their companies as well as in their subsidiaries. They appoint a risk representatives' network 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 risk management approach is respected by management and who verifies consistency of the risk mapping and the associated action plans of the different corporate departments within first-tier entities falling under his/her responsibility. The Risk and Insurance Department is also involved in this work.

Finally, the Risk and Insurance Department prepares a consolidated mapping of major risks to which the Group is exposed using these risk mappings and the detailed analyses of the major risks facing first-tier entities, with input from the risk representatives of the central corporate departments.

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 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 first-tier entities;
- the Group Risk Committee;
- the Board of Directors' Audit and Risk Committee.

Internal procedures require regular meetings of first-tier entities and Group Risk Committees.

Risk Committees of first-tier entities

Each first-tier 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 that the risk management process is effective;
- 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 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 the 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.

4.2.1 Risks relating to the environment in which the Group operates

4.2.1.1 Risks relating to the changes in the competitive landscape

POLITICAL UNCERTAINTIES

In the Aerospace, Defense and Security 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 governmental or other special 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 trade compliance, export and customs controls and ethics (see sections 5.2.1, 5.2.2, 5.2.3 and 5.2.4).

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 by 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, 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 2016, civil aviation activities accounted for approximately 70% of the Group's adjusted consolidated revenue. Safran has a large fleet of engines in service, including some 29,400 CFM56 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 48% of Aerospace revenue.

Safran's capacity to ramp up production to fulfil orders will depend on its ability to manage its internal and external supply chain (see section 4.2.2.1, "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 select 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.

4.2.1.2 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 7.5 billion for 2016.

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 27, "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 27, "Management of market risks and derivatives").

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 27, "Management of market risks and derivatives") of this Registration Document.

The Group has hedged its entire USD exposure for 2017 and 2018 at a rate of 1.21 (2017) and 1.18 (2018).

The Group has continued its exposure hedging strategy for 2019. At February 6, 2017, the hedging portfolio for 2019 amounted to USD 2.7 billion, of which USD 0.3 billion in forward sales and USD 2.4 billion in options with knock-out barriers set at various levels above 1.18. Provided that the EUR/USD exchange rate remains below 1.25 in 2017, the performance of all instruments in the portfolio should allow the Group to gradually increase the 2019 portfolio to USD 8.0 billion, with a target hedging rate of between 1.15 and 1.18.

The Group has begun to hedge its projected net exposure for 2020. At February 6, 2017, the hedging portfolio for 2020 represented USD 1.5 billion in options with knock-out barriers set at various levels above 1.18. Provided that the EUR/USD exchange rate remains below 1.25 up to the middle of 2018, the performance of all instruments in the portfolio should allow the Group to gradually increase the 2020 portfolio to USD 5.5 billion, with a target hedging rate of between 1.13 and 1.18.

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 7.5 billion for 2017 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 €50 million on adjusted profit from operations.

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 27, "Management of market risks and derivatives") of this Registration Document.

Adjusted data *(in € millions)*	2015*		2016	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
Average exchange rate	1.11		1.11	
Average exchange rate used for sensitivity analysis	1.05	1.17	1.05	1.16
Closing rate	1.09		1.05	
Closing exchange rate used for sensitivity analysis	1.03	1.14	1.00	1.11
Revenue	338	(306)	356	(322)
Profit (loss) from operations	9	(8)	9	(8)
Financial income (expense)	13	(12)	4	(4)
Profit (loss) before tax	22	(20)	13	(12)

Non-adjusted consolidated data *(in € millions)*	2015*		2016	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
Average exchange rate	1.11		1.11	
Average exchange rate used for sensitivity analysis	1.05	1.17	1.05	1.16
Closing rate	1.09		1.05	
Closing exchange rate used for sensitivity analysis	1.03	1.14	1.00	1.11
Revenue	644	(583)	660	(597)
Profit (loss) from operations	315	(285)	314	(284)
Financial income (expense)	(2,068)	1,641	(2,114)	1,675
Profit (loss) before tax	(1,753)	1,356	(1,800)	1,391

* *The data published for 2015 have been restated to reflect the impact of applying IFRS 5 (see Note 3, "Restatement of 2015 comparative information" and Note 28, "Discontinued operations and assets held for sale").*

INTEREST RATE RISK

The Group's exposure to fluctuations in interest rates covers two types of risk:

- price 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 general 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.).

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 2014 and maturing in April 2024 to a floating rate.

Exposure to euro interest rate risk is presented in section 3.1 (Note 27, "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 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 USD interest rate risk is presented in section 3.1 (Note 27, "Management of market risks and derivatives") of this Registration Document.

Sensitivity

A 1% (100 basis point) rise in interest rates would have a minimal impact on the cost of debt (versus an increase of €5 million in the cost of debt in 2015).

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 unwind all of its commodity hedges ahead of maturity at the end of 2016 as this risk was not deemed material for the Group.

EQUITY RISK

Safran is exposed to fluctuations in the stock market price of the Embraer share, which is the only listed security held by the Group.

A 5% decrease in the price of this share would have had a net negative impact of €2 million on equity at end-2016 (negative €3 million impact at end-2015).

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 16, "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 had an undrawn, confirmed liquidity line at December 31, 2015, 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, one of which was exercised in late 2016, extending maturity to 2021. This line is not subject to any financial covenants.

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 23, "Interest-bearing financial liabilities") of this Registration Document.

4.2.1.3 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.

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 31) and in the section on "Disputes and litigation" (see section 3.1, Note 32) 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 US. 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 been closed after investigation, without damages. Concerning embargoes and sanctions, particularly in the US, the Group ensures that it takes all adequate and necessary measures to comply with all such regimes affecting its operations.

4.2.2 Risks relating to Group business sectors

4.2.2.1 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 first-tier companies. In addition, dedicated progress plans, which include roll-out of the QRQC[1] method, allow quality issues to be dealt with close to source and remedied as quickly as possible.

DELAYS, PROGRAM DEVELOPMENT AND INDUSTRIALIZATION

Aircraft manufacturers may encounter difficulties in meeting their program schedules or even keeping programs going. 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.

(1) *Quick Response Quality Control.*

For example, the Silvercrest engine selected 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. Tests carried out on the engine revealed that further developments were needed, pushing the engine's certification schedule back to the second half of 2018, 18 months later than the previous schedule. Safran took a write-off on the full amount of the property, plant and equipment and intangible assets relating to this program. The Group has also booked provisions to cover all of its contractual commitments, especially the fines due in respect of the development phase (see section 3.1, Note 20).

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"[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 by 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 the measures 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 has been subject to this high-level oversight. It has been presented to the markets, and more recently at Safran's Capital Markets Day, held on March 14, 2016.

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 this risk, Safran has deployed a range of quality-focused initiatives, 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 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 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.

Since the end of 2014, for example, in order to reduce the risk of embargoes on titanium supplies from Russia, Safran has built up buffer stocks and systematic dual-source supply streams.

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 GE. In July 2008, Safran and GE signed an agreement to extend their civil Aerospace Propulsion partnership until 2040, which now includes operational maintenance services. They 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 (US) have two plants, one in Rochester (New Hampshire, US) and one in Commercy (Meuse, France), which manufacture composite parts for new-generation aircraft engines. A third plant has been built in Querétaro (Mexico) and is slated to start up production in 2017.

Safran is also involved in other partnerships, namely with Airbus Group for space launchers (Airbus Safran Launcher joint venture), NPO Saturn (PowerJet joint venture), Avic, MTU, Thales (Sofradir

(1) *Safran's program management framework.*

and Optrolead), and Rolls-Royce (Aero Gearbox International for power transmission systems for all future Rolls-Royce civil aircraft engines).

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. Due to its two Seveso facilities, the Group is also exposed to risks such as rehabilitation costs that could be quite high. 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.

Chapter 5 of this Registration Document on Corporate Social Responsibility presents a range of HSE programs and initiatives, enabling Safran to assess the carbon footprint of its activities and to develop more innovative products and processes with minimal impact on the environment. Moreover, based on the analyses carried out, all risks are appropriately managed, including as regards France's low-carbon strategy to which the Group contributes via recent eco-friendly industrial investments. By adhering to a digitalization policy, the Group also plays it part in cutting back on greenhouse gas emissions (by encouraging tele-commuting, limiting physical travel, optimizing its production resources and therefore its energy consumption).

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 network 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. 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.

4.2.2.2 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 300 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.

In spring 2015, Safran created Safran Corporate Ventures, 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.

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, 2016 totaled approximately €2.7 billion (see section 3.1, Note 11), and property, plant and equipment (mainly industrial investments) amounted to approximately €3.2 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 ever-stricter 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 2016, 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.

4.2.2.3 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. 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.

4.3 INSURANCE

The Risk and Insurance Department identifies the accident risks to which Group entities 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:

- 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 regulatory insurance requirements.

Delivery of the ***first LEAP-1A-powered A320neo*** *to Pegasus Airlines (July 2016).*

EMPLOYEES WORLDWIDE
at December 31, 2016
66,490 ☑

NEW HIRES WORLDWIDE IN 2016
More than **7,000** ☑

HOURS OF TRAINING IN 2016
More than **1.6** million

FREQUENCY RATE OF OCCUPATIONAL ACCIDENTS RESULTING IN LOST WORKTIME IN 2016
(down from 2015)
2.2

NUMBER OF OCCUPATIONAL ACCIDENTS RESULTING IN LOST WORKTIME PER 1,000 EMPLOYEES IN 2016
(down from 2015)
4

SAFRAN AND SIX OF ITS TIER-ONE COMPANIES
have received anti-corruption certification since 2012

NUMBER OF EMPLOYEES WHO RECEIVED ON-SITE TRAINING WORLDWIDE IN 2016
on Safran's compliance programs
More than **6,450**

SUPPLIER DEVELOPMENT PROJECTS
managed by Safran
104

CORPORATE SOCIAL RESPONSIBILITY

Safran's social responsibility program features six strategic focuses based on the main guidelines of the ISO 26000 standard:

- guaranteeing better relations with stakeholders;
- perpetuating the Group's integrity culture;
- involving suppliers and partners;
- developing human potential;
- always aiming for excellence in safety and the protection of individuals and property;
- developing innovative products and processes with a lower environmental impact.

ETHICAL AND SOCIAL ENGAGEMENT

Safran has a set of values and ethical standards that are embraced by all of its employees. The Group has a duty of vigilance that is integrated into all Company functions and guides the development of its businesses in accordance with the highest international standards of business ethics, integrity and professionalism. These values and ethical behavior are critically important and are intended to enable the Group to remain worthy of the trust placed in it by all of its stakeholders. This is reflected in the certifications obtained by Safran and its subsidiaries.

INVOLVING SUPPLIERS AND PARTNERS

With the understanding that its suppliers contribute to driving its success, the Group maintains enduring relationships with them built on trust, mutual expectations of high standards and a common quest for performance. Safran's purchasing policy guides them to grow, acquire skills and develop their innovative capacity. The Group has also introduced a Responsible Supplier Relations label for all of its subsidiaries.

SAFRAN'S HUMAN RESOURCES POLICY

The Group's human resources (HR) policy focuses on three strategic areas:

- nurturing the best talent to serve innovation;
- promoting social responsibility;
- driving the Group's international expansion and transformation.

The HR function has implemented major reforms to meet these goals and significantly boost its collective performance, offering managers and employees greater support, more solutions and a better understanding of the organization to which everyone contributes.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

Safran aims for excellence in HSE.

So as to achieve this, Safran applies a sustainable HSE policy and drives a culture of anticipation and prevention led from the highest level of the organization. This policy is in keeping with its approach to continuously improve performance and is structured into steadfast commitments: preserving health and safety for all, protecting the environment and integrating HSE requirements throughout the product life cycle in line with the sustainable development issues that apply to its business activities.

CSR REPORTING METHODOLOGY AND INDEPENDENT THIRD PARTY REPORT

Safran has elected to have the social, environmental and community involvement information presented in its report reviewed by one of its Statutory Auditors, Mazars, in accordance with Article 225 of the Grenelle 2 Act and its implementing legislation. The Statutory Auditors obtained reasonable assurance for 14 of the social indicators (identified by the symbol in this section) and limited assurance for a selection of 16 HSE indicators and one social indicator, as well as reviewing ten qualitative themes. The nature and scope of the work of the Statutory Auditors, and their conclusions, are presented in the report in section 5.7.2.