CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

DECEMBER 31, 2011

SAFRAN

AEROSPACE · DEFENCE · SECURITY

The Board of Directors' meeting of February 22, 2012 approved and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the year ended December 31, 2011.

Table of contents

Foreword 3

Comparative adjusted income statement and segment information 5

Consolidated financial statements 10

Consolidated income statement 11
Consolidated statement of comprehensive income 12
Consolidated balance sheet 13
Consolidated statement of changes in shareholders' equity 14
Consolidated statement of cash flows 15

Notes to the Safran Group consolidated financial statements 16
Note 1 - Accounting policies *17*
Note 2 - Main sources of estimates *31*
Note 3 - Scope of consolidation *33*
Note 4 - Segment information *36*
Note 5 - Breakdown of the main components of profit from operations *38*
Note 6 - Financial income (loss) *40*
Note 7 - Income tax *41*
Note 8 - Discontinued operations *42*
Note 9 - Earnings per share *43*
Note 10 - Dividend distribution *43*
Note 11 - Goodwill *44*
Note 12 - Intangible assets *45*
Note 13 - Property, plant and equipment *47*
Note 14 - Current and non-current financial assets *48*
Note 15 - Investments in associates *49*
Note 16 - Inventories and work-in-progress *50*
Note 17 - Trade and other receivables *50*
Note 18 - Other non-current assets *50*
Note 19 - Cash and cash equivalents *51*
Note 20 - Summary of financial assets *52*
Note 21 - Consolidated shareholders' equity *54*
Note 22 - Provisions *57*
Note 23 - Post-employment benefits *58*
Note 24 - Borrowings subject to specific conditions *65*
Note 25 - Interest-bearing liabilities *65*
Note 26 - Trade and other payables *68*
Note 27 - Other current and non-current liabilities *69*
Note 28 - Summary of financial liabilities *69*
Note 29 - Interests in joint ventures *70*
Note 30 - Related parties *71*
Note 31 - Management of market risks and financial derivatives *73*
Note 32 - Off-balance sheet commitments and contractual obligations *77*
Note 33 - Disputes and litigation *78*
Note 34 - Subsequent events *80*
Note 35 - List of consolidated companies ***81***

Foreword

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

Readers are reminded that 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 consolidated financial statements;

- recognizes, as of July 1, 2005, all changes in the fair value of its foreign currency derivatives in "Financial income (loss)", in accordance with the provisions of IAS 39 applicable to transactions not qualifying for hedge accounting (see "Accounting policies", Note 1.f).

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

- purchase price allocations with respect to business combinations. Since 2005, this adjustment concerns the amortization charged against intangible assets relating to aeronautical programs that were revalued at the time of the Sagem-Snecma merger. With effect from the 2010 interim financial statements, the Group decided to restate the impact of purchase price allocations for business combinations. In particular, this concerns the amortization of intangible assets recognized at the time of the acquisition, and amortized over extended periods due to the length of the Group's business cycles;

- 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 exchange rate for the period, i.e., including the costs of the hedging strategy, and
  - all mark-to-market changes on outstanding hedging instruments at the closing date are neutralized.

RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT WITH THE ADJUSTED INCOME STATEMENT

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

(in € millions)	2011 consolidated data	Currency hedging		Business combinations		2011 adjusted data
		Remeasurement of revenue (1)	Deferred hedging gains (losses) (2)	Amortization of intangible assets from Sagem-Snecma merger (3)	PPA impacts – other business combinations (4)	
Revenue	**11,658**	**78**				**11,736**
Other recurring operating income and expenses	**(10,794)**	**(2)**	**20**	**158**	**71**	**(10,547)**
Recurring operating income	**864**	**76**	**20**	**158**	**71**	**1,189**
Other non-recurring operating income and expenses	(29)	-	-	-	-	(29)
Profit from operations	**835**	**76**	**20**	**158**	**71**	**1,160**
Cost of net debt	**(42)**					**(42)**
Foreign exchange gains (losses)	**19**	**(76)**	**11**			**(46)**
Other financial income and expense	**(127)**					**(127)**
Financial loss	**(150)**	**(76)**	**11**	-	-	**(215)**
Share in profit from associates	**10**					**10**
Income tax expense	**(201)**		(11)	(52)	(25)	**(289)**
Profit from continuing operations	**494**	-	**20**	**106**	**46**	**666**
Profit from discontinued operations	**3**	-	-	-	-	**3**
Attributable to non-controlling interests	**(19)**			(3)	(3)	**(25)**
Profit for the period attributable to owners of the parent	**478**	-	**20**	**103**	**43**	**644**

(1) Remeasurement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options) by reclassifying changes in the fair value of instruments hedging cash flows for the period.
(2) Changes in the fair value of instruments hedging future cash flows (€11 million excluding tax) deferred until the instruments are unwound, and the impact of including hedges in the measurement of provisions for losses on completion for €20 million.
(3) Cancelation of amortization/impairment of intangible assets relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger.
(4) Cancelation of amortization of intangible assets identified at the time of recent acquisitions.

Readers are reminded that only the consolidated financial statements are audited by the Group's statutory auditors. The consolidated financial statements include revenue and operating profit indicators set out in the adjusted data in Note 4, "Segment information".
Adjusted financial data other than the data provided in Note 4, "Segment information", are subject to verification procedures applicable to all of the information provided in the Registration Document.

The audit procedures on the consolidated financial statements have been completed. An audit opinion will be issued after the Board of Directors' meeting of April 11, 2012, once specific verifications and a review of events subsequent to February 22, 2012 have been performed**.**

Comparative adjusted consolidated income statement and segment information

Comparative adjusted consolidated income statement

(in € millions)	2010 Adjusted data	2011 Adjusted data
Revenue	**10,760**	**11,736**
Other income	200	216
Income from operations	**10,960**	**11,952**
Change in inventories of finished goods and work-in-progress	(42)	134
Capitalized production	243	371
Raw materials and consumables used	(6,218)	(6,836)
Personnel costs	(3,476)	(3,808)
Taxes	(217)	(235)
Depreciation, amortization, and increase in provisions, net of use	(387)	(342)
Asset impairment	6	(62)
Other recurring operating income and expenses	9	15
Recurring operating income	**878**	**1,189**
Other non-recurring operating income and expenses	(13)	(29)
Profit from operations	**865**	**1,160**
Cost of net debt	(36)	(42)
Foreign exchange gains (losses)	4	(46)
Other financial income and expense	(136)	(127)
Financial income (loss)	**(168)**	**(215)**
Share in profit from associates	9	10
Profit before tax	**706**	**955**
Income tax expense	(173)	(289)
Profit from continuing operations	**533**	**666**
Profit (loss) from discontinued operations	(5)	3
Profit for the period	**528**	**669**
Attributable to:		
owners of the parent	508	644
non-controlling interests	20	25
Earnings per share attributable to owners of the parent (in €)		
Basic earnings per share	1.27	1.59
Diluted earnings per share	1.26	1.58
Earnings per share of continuing operations attributable to owners of the parent (in €)		
Basic earnings per share	1.28	1.58
Diluted earnings per share	1.27	1.57
Earnings (loss) per share of discontinued operations attributable to owners of the parent (in €)		
Basic earnings (loss) per share	(0.01)	0.01
Diluted earnings (loss) per share	(0.01)	0.01

Segment information

The operating segments and key indicators shown are defined in Note 4.

2011

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Amortization of intangible assets	**Total consolidated data**
Revenue	**6,110**	**3,097**	**1,264**	**1,249**	**11,720**	**16**	**11,736**	**(78)**		**11,658**
Recurring operating income(expense) (1)	**909**	**202**	**58**	**139**	**1,308**	**(119)**	**1,189**	**(96)**	**(229)**	**864**
Other non-recurring operating income and expenses	22		(7)	(23)	**(8)**	(21)	**(29)**			**(29)**
Profit (loss) from operations	**931**	**202**	**51**	**116**	**1,300**	**(140)**	**1,160**	**(96)**	**(229)**	**835**
Free cash flow	**692**	**(19)**	**(80)**	**(61)**	**532**	**0**	**532**			**532**
Gross working capital requirement	**(1,201)**	**854**	**438**	**280**	**371**	**715**	**1,086**			**1,086**
Segment assets	**9,054**	**4,243**	**1,632**	**2,640**	**17,569**	**737**	**18,306**			**18,306**
(1) of which depreciation, amortization and increase in provisions net of use	(130)	(129)	(32)	(34)	**(325)**	(17)	**(342)**	(18)	(219)	**(579)**
of which impairment	(16)	(37)	(1)	(3)	**(57)**	(5)	**(62)**	(2)	(1)	**(65)**

2010

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Amortization of intangible assets	**Total consolidated data**
Revenue	**5,604**	**2,834**	**1,240**	**1,041**	**10,719**	**41**	**10,760**	**268**		**11,028**
Recurring operating income (expense) (1)	**663**	**127**	**55**	**128**	**973**	**(95)**	**878**	**275**	**(202)**	**951**
Other non-recurring operating income and expenses		(2)		(4)	**(6)**	(7)	**(13)**			**(13)**
Profit (loss) from operations	**663**	**125**	**55**	**124**	**967**	**(102)**	**865**	**275**	**(202)**	**938**
Free cash flow	**620**	**163**	**(53)**	**51**	**781**	**153**	**934**			**934**
Gross working capital requirement	**(903)**	**785**	**389**	**172**	**443**	**650**	**1,093**			**1,093**
Segment assets	**8,010**	**3,908**	**1,645**	**1,504**	**15,067**	**592**	**15,659**			**15,659**
(1) of which depreciation, amortization and increase in provisions net of use	(154)	(147)	(25)	(47)	**(373)**	(14)	**(387)**	14	(202)	**(575)**
of which impairment	8	4	5	(2)	**15**	(9)	**6**	1		**7**

Revenue (adjusted data)

(in € millions) *Aerospace Propulsion*		2010	2011
Original equipment and related products and services		2,517	2,834
Services		2,809	2,992
Sales of studies		196	221
Other		82	63
	Sub-total	5,604	6,110
Aircraft Equipment			
Original equipment and related products and services		1,756	1,988
Services		887	959
Sales of studies		77	70
Other		114	80
	Sub-total	2,834	3,097
Defence			
Sales of equipment		852	859
Services		203	212
Sales of studies		178	183
Other		7	10
	Sub-total	1,240	1,264
Security			
Sales of equipment		750	947
Services		262	280
Sales of studies		6	8
Other		23	14
	Sub-total	1,041	1,249
Holding company and other			
Sales of equipment		25	12
Other		16	4
	Sub-total	41	16
Total		**10,760**	**11,736**

Information by geographic area

2011

(in € millions)		France	Europe (excl. France)	North America	Asia	Rest of the world	**Total**
Revenue by location of customers (adjusted data)		2,909	2,768	3,216	1,821	1,022	**11,736**
	%	25%	24%	27%	15%	9%	
Segment assets by location		13,058	1,790	2,967	110	381	**18,306**
	%	71%	10%	16%	1%	2%	

2010

(in € millions)		France	Europe (excl. France)	North America	Asia	Rest of the world	**Total**
Revenue by location of customers (adjusted data)		2,798	2,811	2,739	1,332	1,080	**10,760**
	%	26%	26%	26%	12%	10%	
Segment assets by location		11,670	1,744	1,855	96	294	**15,659**
	%	74%	11%	12%	1%	2%	

No individual customer accounted for more than 10% of Group revenue in 2011 or 2010.

Safran Group

Consolidated financial statements

Consolidated income statement

(in € millions)	*Note*	**2010**	**2011**
Revenue	*5*	**11,028**	**11,658**
Other income	*5*	200	216
Income from operations		**11,228**	**11,874**
Change in inventories of finished goods and work-in-progress		(43)	125
Capitalized production		243	371
Raw materials and consumables used	*5*	(6,225)	(6,834)
Personnel costs	*5*	(3,476)	(3,808)
Taxes		(217)	(235)
Depreciation, amortization, and increase in provisions net of use	*5*	(575)	(579)
Asset impairment	*5*	7	(65)
Other recurring operating income and expenses	*5*	9	15
Recurring operating income		**951**	**864**
Other non-recurring operating income and expenses	*5*	(13)	(29)
Profit from operations		**938**	**835**
Cost of net debt		(36)	(42)
Foreign exchange gains (losses)		(531)	19
Other financial income and expense		(136)	(127)
Financial loss	*6*	**(703)**	**(150)**
Share in profit from associates	*15*	9	10
Profit before tax		**244**	**695**
Income tax expense	*7*	(14)	(201)
Profit from continuing operations		**230**	**494**
Profit (loss) from discontinued operations	*8*	(5)	3
Profit for the period		**225**	**497**
Attributable to:			
owners of the parent		207	478
non-controlling interests		18	19
Earnings per share attributable to owners of the parent (in €)	*9*		
Basic earnings per share		0.52	1.18
Diluted earnings per share		0.51	1.18
Earnings per share of continuing operations attributable to owners of the parent (in €)	*9*		
Basic earnings per share		0.53	1.17
Diluted earnings per share		0.52	1.17
Earnings (loss) per share of discontinued operations attributable to owners of the parent (in €)	*9*		
Basic earnings (loss) per share		(0.01)	0.01
Diluted earnings (loss) per share		(0.01)	0.01

Consolidated statement of comprehensive income

	2010	2011
Profit for the period	**225**	**497**
Other comprehensive income		
Items to be reclassified to profit	**106**	**80**
Available-for-sale financial assets	16	(6)
Translation adjustments	114	115
Income tax related to components of other comprehensive income	(24)	(29)
Items not reclassified to profit	-	-
Other comprehensive income for the period	**106**	**80**
Total comprehensive income for the period	**331**	**577**
Attributable to:		
- owners of the parent	310	558
- non-controlling interests	21	19

At December 31, 2011, translation adjustments include exchange differences arising on long-term financing for foreign subsidiaries in an amount of €79 million in 2011 and €71 million in 2010.
This financing is considered as a net investment in a foreign operation and is treated in accordance with IAS 21 (see Note 1.f).

Consolidated balance sheet

ASSETS *(in € millions)*	*Note*	**Dec. 31, 2010**	**Dec. 31, 2011**
Goodwill	*11*	2,298	3,126
Intangible assets	*12*	3,130	3,498
Property, plant and equipment	*13*	2,253	2,486
Non-current financial assets	*14*	215	246
Investments in associates	*15*	236	253
Deferred tax assets	*7*	194	251
Other non-current assets	*18*	12	12
Non-current assets		**8,338**	**9,872**
Current financial assets	*14*	110	101
Fair value of financial instruments and derivatives	*32*	230	279
Inventories and work-in-progress	*16*	3,508	3,799
Trade and other receivables	*17*	4,219	5,005
Tax assets	*7*	146	215
Cash and cash equivalents	*19*	2,062	1,431
Current assets		**10,275**	**10,830**
Assets held for sale		-	-
Total assets		**18,613**	**20,702**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	**Dec. 31, 2010**	**Dec. 31, 2011**
Share capital		83	83
Consolidated retained earnings	*21-c*	4,214	4,387
Net unrealized gains on available-for-sale financial assets		26	20
Profit for the period		207	478
Equity attributable to owners of the parent		**4,530**	**4,968**
Non-controlling interests		**175**	**154**
Total equity		**4,705**	**5,122**
Provisions	*22*	1,310	1,374
Borrowings subject to specific conditions	*24*	701	682
Interest-bearing non-current liabilities	*25*	1,483	1,447
Deferred tax liabilities	*7*	685	718
Other non-current liabilities	*27*	186	199
Non-current liabilities		**4,365**	**4,420**
Provisions	*22*	1,114	1,064
Interest-bearing current liabilities	*25*	568	998
Trade and other payables	*26*	7,236	8,348
Tax liabilities	*7*	72	92
Fair value of financial instruments and derivatives	*31*	553	658
Current liabilities		**9,543**	**11,160**
Liabilities held for sale		-	-
Total equity and liabilities		**18,613**	**20,702**

Consolidated statement of changes in shareholders' equity

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Cumulative translation adjustments	Consolidated retained earnings	Profit for the period	Other	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
At Dec. 31, 2009	**83**	**3,360**	**(247)**	**10**	**(64)**	**558**	**641**	**12**	**4,353**	**148**	**4,501**
Comprehensive income for the period				16	111		207	(24)	**310**	21	**331**
Acquisitions/disposals of treasury shares											
Dividends						(152)			**(152)**	(9)	**(161)**
Other movements						641	(641)	19	**19**	15	**34**
At Dec. 31, 2010	**83**	**3,360**	**(247)**	**26**	**47**	**1,047**	**207**	**7**	**4,530**	**175**	**4,705**
Comprehensive income for the period				(6)	115		478	(29) **	**558**	19	**577**
Acquisitions/disposals of treasury shares			135			29			**164**		**164**
Dividends						(202)			**(202)**	(13)	**(215)**
2011 interim dividend						(102)			**(102)**		**(102)**
Other movements						207	(207)	20 *	**20**	(27)	**(7)**
At Dec. 31, 2011	**83**	**3,360**	**(112)**	**20**	**162**	**979**	**478**	**(2)**	**4,968**	**154**	**5,122**

* Of which €6 million in share grants (€12 million in 2010) and €8 million in relation to the leveraged fund plan (see Notes 5 and 21)

** A negative €29 million tax impact on foreign exchange differences relating to net investments in foreign operations (negative €24 million in 2010).

Consolidated statement of cash flows

(in € millions)		2010	2011
I. Cash flow from operating activities			
Profit attributable to owners of the parent		**207**	**478**
Current taxes		133	158
Deferred taxes		(119)	44
Consolidated profit before tax		**221**	**680**
Tax paid		(103)	(241)
Share in profit from associates (net of dividends received)		(9)	(10)
Income and expenses with no cash impact			
Depreciation and amortization		606	662
Asset impairment		(3)	62
Provisions		46	(29)
Fair value of financial instruments and derivatives		310	2
Expense related to share-based payment		12	14
Foreign exchange gains (losses)		(2)	13
Capital gains on asset disposals		31	16
Accrued interest		6	(3)
Other items		4	4
Profit (loss) before tax from discontinued operations		5	(4)
Profit attributable to non-controlling interests		18	19
Other income and expenses with no cash impact		**1,033**	**756**
Cash flow from operations, before changes in working capital		**1,142**	**1,185**
Change in inventories and work•in•progress		55	(134)
Change in operating receivables and payables		185	216
Change in other receivables and payables		77	(20)
Intercompany change in working capital from discontinued operations		-	-
Change in working capital		**317**	**62**
	TOTAL I	**1,459**	**1,247**
II. Cash flow from (used in) investing activities			
Payments for the purchase of intangible assets, net of proceeds		(254)	(363)
Payments for the purchase of property, plant and equipment, net of proceeds		(271)	(352)
Proceeds (payments) arising from the sale (acquisition) of investments		(122)	(1,176)
Proceeds (payments) arising from the sale (acquisition) of financial assets		(53)	(6)
Other movements		1	-
Cash flow from intercompany financing activities related to discontinued operations		-	-
	TOTAL II	**(699)**	**(1,897)**
III. Cash flow used in financing activities			
Change in share capital(*)		6	1
Acquisitions and disposals of treasury shares		-	180
Repayment of borrowings and long•term debt		(138)	(254)
Repayment of repayable advances		(35)	(28)
Increase in borrowings		324	32
Repayable advances received		17	13
Change in short-term borrowings		(802)	390
Cash flow from (used in) intercompany financing activities related to discontinued operations		28	11
Dividends paid to owners of the parent		(152)	(304)
Dividends paid to non-controlling interests		(9)	(13)
	TOTAL III	**(761)**	**28**
Cash flow used in operating activities related to discontinued operations	**TOTAL IV**	**(29)**	**(10)**
Cash flow used in investing activities related to discontinued operations	**TOTAL V**	-	**(2)**
Cash flow used in financing activities related to discontinued operations	**TOTAL VI**	-	-
Effect of changes in foreign exchange rates	**TOTAL VII**	**12**	**3**
Net decrease in cash and cash equivalents	**I+II+III+IV+ V+VI+VII**	**(18)**	**(631)**
Cash and cash equivalents at beginning of year		2,080	2,062
Cash and cash equivalents at end of year		2,062	1,431
Change in cash and cash equivalents (A)		(18)	(631)
Cash and cash equivalents of discontinued operations and assets held for sale, at end of year (B)		-	-
Cash and cash equivalents of discontinued operations and assets held for sale, at beginning of year (C)		-	-
Net decrease in cash and cash equivalents (D) = (A) + (B) - (C)		**(18)**	**(631)**
of which change in cash and cash equivalents from continuing operations		(17)	(631)
of which change in cash and cash equivalents from discontinued operations		(1)	-
of which change in cash and cash equivalents from assets held for sale		-	

(*) Corresponding to capital increases subscribed by non-controlling interests.

Notes to the Safran Group

consolidated financial statements

Safran SA (2, boulevard du Général Martial Valin – 75724 Paris Cedex 15, France) is a *société anonyme* (corporation) incorporated in France and permanently listed on Compartment A of the Euronext Paris Eurolist market.

The consolidated financial statements reflect the accounting position of Safran SA and the subsidiaries it controls, directly or indirectly and jointly or exclusively, as well as entities over which it exercises a significant influence (the "Group").
The consolidated financial statements are drawn up in euros and all amounts are rounded to the nearest million unless otherwise stated.

The Board of Directors' meeting of February 22, 2012 adopted and authorized the publication of the 2011 consolidated financial statements. The consolidated financial statements will be final once they have been approved by the General Shareholders' Meeting.

Note 1 - Accounting policies

The consolidated financial statements of Safran and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and adopted by the European Union (available from http://ec.europa.eu/internal_market/accounting/ias/index_en.htm) at the date the consolidated financial statements were approved by the Board of Directors. They include standards approved by the IASB, namely IFRS, International Accounting Standards (IAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee (SIC).

New IFRS standards, revised standards and interpretations

IFRS revisions, amendments and interpretations effective at January 1, 2011

The following revised and amended standards and interpretations effective January 1, 2011 and the annual improvements to IFRS issued in May 2010 did not have a material impact on the Group's consolidated financial statements at December 31, 2011:

- IAS 24 (revised), Related Party Disclosures, which simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party;
- Amendment to IAS 32, Financial Instruments: Presentation – Classification of Rights Issues;
- Amendments to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Pre-payments of a Minimum Funding Requirement;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments;
- Improvements to IFRS published in May 2010.

Amendment published by the IASB and early adopted by the Group

- Amendment to IAS 1, Presentation of Financial Statements – Presenting Comprehensive Income.

New IFRS standards, revised standards and interpretations published by the IASB but not yet applicable and not early adopted by the Group

- Amendments to IAS 12, Income Taxes – Deferred Tax: Recovery of Underlying Assets;
- Amendments to IAS 19, Employee Benefits – Defined Benefit Plans;
- Amendments to IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets;
- Amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities;
- IFRS 9, Financial Instruments: Classification and Measurement;
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosures of Interests in Other Entities;

- IFRS 13, Fair Value Measurement;
- IAS 27 (revised), Separate Financial Statements;
- IAS 28 (revised), Investments in Associates and Joint Ventures;
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

With the exception of the amendments to IFRS 7 regarding disclosures to be provided in respect of transfers of financial assets, these new standards, amendments and interpretations have not yet been adopted by the European Union and cannot therefore be early adopted even where this is permitted by the standard in question. The Group is currently considering the impact of applying these new standards, amendments and interpretations for the first time, in particular IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements (which abolishes proportionate consolidation for joint ventures); and the amended IAS 19, "Employee Benefits", which no longer allows use of the corridor method.

Based on a preliminary analysis, the application of IFRS 10 would not have a material impact on the consolidated financial statements. However, the analysis of the potential impact of IFRS 10 is still in progress.

The Group is currently analyzing its proportionately consolidated entities in light of IFRS 11, Joint Arrangements, to determine whether they should be classified as joint ventures or joint operations. However, as the contribution of these entities to the Group's main financial indicators is not material (see Note 29, "Interests in joint ventures"), the impact of applying this new standard on the consolidated financial statements should be limited.

Since the amended IAS 19 prohibits use of the corridor method for recognizing actuarial gains and losses through profit or loss (the current method applied by the Group), the standard will chiefly impact consolidated equity as of the date of first application. Under the amendment, all actuarial gains and losses are recognized directly in equity and not subsequently taken to profit or loss. At the present time, the Group does not consider this will have a material impact on its income statement.

On its transition to IFRS at December 31, 2005, the Group applied a number of options available under IFRS 1 and specific to first-time adopters. These options are set out in the sections below.

a) Basis of measurement used to prepare the consolidated financial statements

The consolidated financial statements are prepared on a historical cost basis except for certain assets and liabilities, as allowed by IFRS. The categories of assets and liabilities not measured at historical cost are disclosed in the sections below.

b) Consolidation

Basis of consolidation

Entities over which Safran directly or indirectly exercises permanent de facto or de jure control are fully consolidated.

Entities controlled jointly by Safran and another group are proportionately consolidated.

Entities over which Safran exercises significant influence, without having exclusive or joint control, are accounted for under the equity method. Significant influence is presumed to exist when the Group holds at least 20% of voting rights.

A company effectively enters into the scope of consolidation at the date on which control is acquired or significant influence is exercised.

The removal of a company from the scope of consolidation is effective as of the date control or significant influence is relinquished. If the loss of control occurs without any transfer of interest, for example due to dilution, the company’s removal from the scope of consolidation is simultaneous with the event that triggers such loss of control or significant influence.

Non-controlling interests represent the portion of profit and net assets not held by owners of the parent, and are presented separately from the owners' share in the income statement and in shareholders' equity.

IAS 27 (revised) states that any changes in the ownership interest that do not result in the loss or acquisition of control are to be recognized in equity attributable to owners of the parent. This will apply to acquisitions of additional shares in a subsidiary after control has been obtained in a previous acquisition or to sales of shares that do not result in a loss of control.
Sales of shares that result in a loss of control are to be recognized in income and the gain or loss on disposal is to be calculated on the entire ownership interest at the date of the transaction. Any residual interest is to be measured at fair value through income when control is relinquished.

Intragroup transactions

All material transactions between fully or proportionately consolidated companies are eliminated, as are internally generated Group profits.

Transactions between fully and proportionately consolidated companies are eliminated to the extent of the percentage held in the jointly controlled company, regardless of whether or not they have an impact on consolidated profit. As an exception to this general rule, transactions between fully and proportionately consolidated companies are not eliminated when the jointly held company acts solely as an intermediary or renders balanced services for the benefit of, or as a direct extension of, the businesses of its various shareholders.

c) Business combinations

The Group has applied IFRS 3 (revised) and IAS 27 (revised) since January 1, 2010. As the application of these revised standards is prospective, business combinations carried out prior to January 1, 2010 continue to be accounted for under the previous IFRS 3 and IAS 27.

Business combinations carried out after January 1, 2010

Acquisition method

Business combinations are accounted for using the acquisition method at the date on which control is obtained:
- Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value.
- Where applicable, non-controlling interests in the acquiree are measured either at fair value or at the Group's share in the acquiree's net identifiable assets (including fair value adjustments). This option is available for all business combinations based on a case-by-case analysis of each transaction.
- Acquisition-related costs (transaction fees) must be recognized separately from the combination as expenses in the period in which they are incurred.
- Adjustments to contingent consideration for a business combination are measured at fair value at the acquisition date, even if it is unlikely that an outflow of resources will be required to settle the obligation. After the acquisition date, any adjustments to the consideration are measured at fair value at the end of each reporting period. The cost of the combination, including where appropriate the estimated fair value of any contingent consideration, is finalized within the 12 months following the transaction. Any changes in the fair value of such consideration more than 12 months after the measurement period are recognized in profit or loss.

Any previously held interests in the acquiree are remeasured to fair value, with the resulting gain or loss recognized in profit or loss.

Goodwill

At the acquisition date, goodwill is measured as the difference between:

- the acquisition-date fair value of the consideration transferred, plus the amount of any non-controlling interest in the acquiree, measured based on the share in the net assets acquired (including fair value adjustments), or on the overall value of the acquiree; and
- the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

When goodwill arises on the acquisition of fully or proportionately consolidated companies, it is carried under assets in the balance sheet under the heading "Goodwill". Negative goodwill is recorded immediately in profit or loss. However, goodwill arising on the acquisition of equity-accounted companies is recorded on the line "Investments in associates", in accordance with IAS 28.

Goodwill may be adjusted within 12 months of the acquisition (measurement period) to take into account the definitive estimate of the fair value of the assets acquired and liabilities assumed. Beyond this period, adjustments are recorded in profit or loss.

Goodwill arising as part of a business combination is allocated to cash-generating units (CGUs), as described in Note 1.l. Goodwill is not amortized but is tested for impairment at least annually and whenever there are events or circumstances indicating that it may be impaired, as described in Note 1.l. Impairment charged against goodwill is taken to profit or loss and may not be reversed.

Business combinations carried out prior to January 1, 2010

The principles set out above were already applicable, except that:

- Acquisition-related costs were included in the cost of the combination.
- Non-controlling interests (previously known as minority interests) were recognized for each combination based on their share in the net identifiable assets of the acquiree (including fair value adjustments).
- Business combinations carried out in stages (step acquisitions) were recognized separately at the date of each transaction. Any additional interest acquired did not impact previously recognized goodwill, and the difference with respect to the fair value at the date control was acquired was recognized in equity.
- Partial sales led to recognition of a disposal gain or loss in proportion to the interest sold, and the assets and liabilities retained were not remeasured.
- Adjustments to contingent consideration were only recognized if they represented an obligation for the Group at the acquisition date, it was probable that an outflow of resources would be required to settle the obligation, and the obligation could be estimated reliably. Any adjustments to contingent consideration after the measurement period impacted goodwill rather than profit or loss.

Options used on the first-time adoption of IFRS

Business combinations prior to January 1, 2004 were not restated in accordance with IFRS 3, Business Combinations.

d) Discontinued operations and assets (or disposal groups) held for sale

A non-current asset or group of non-current assets and associated liabilities are classified as held for sale if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable. Non-current assets or disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and are presented on separate lines of the consolidated balance sheet.

A discontinued operation represents a separate major line of business or geographic area of operations for the Group that either has been disposed of, or is classified as held for sale. The results and cash flows attributable to the activities disposed of or held for sale are presented on separate lines of the consolidated financial statements for all periods presented.

e) Translation methods

The financial statements of subsidiaries with a different functional currency than that used by the Group are translated into euros as follows:

- assets and liabilities are translated at the year-end closing exchange rate, while income statement and cash flow items are translated at the average exchange rate for the year;
- translation gains and losses resulting from the difference between the closing exchange rate at the previous year-end and the closing exchange rate at the end of the current reporting period, and from the difference between the average and closing exchange rates for the period, are recorded in equity as translation adjustments.

On disposal of a foreign operation, cumulative foreign exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Options used on the first-time adoption of IFRS: All cumulative translation adjustments at January 1, 2004 were written off against equity. Accordingly, the gain or loss on any subsequent disposals of a foreign operation will be adjusted only by those cumulative translation differences arising after January 1, 2004.

f) Translation of foreign currency transactions and foreign currency derivatives

Transactions denominated in currencies other than the presentation currencies of Group entities are translated into euros at the exchange rate prevailing at the transaction date.
At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Foreign exchange gains and losses arising from this translation are recognized in income or expenses for the period, under "Financial income (loss)".

Long-term monetary assets held by a Group entity on a foreign subsidiary for which settlement is neither planned nor likely to occur in the foreseeable future, represent an investment in a foreign operation. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, exchange differences arising on these items are recorded in other comprehensive income (OCI) up to the date on which the investment is sold. If the transaction does not qualify as a net investment in a foreign operation, the corresponding exchange differences are recognized in the income statement.

The Group uses currency derivatives to manage and hedge its exposure to fluctuations in exchange rates which can impact revenue net of foreign currency purchases. The Group's forex hedging policy uses forward currency contracts and options. These are described in Note 33, "Management of market risks and financial derivatives".

Pursuant to IAS 39, these foreign currency derivatives are recognized in the balance sheet at their fair value at the end of the reporting period. In view of the constraints resulting from applying IFRS 3 to the Sagem-Snecma business combination, the Group decided that none of its foreign currency derivatives qualified for hedge accounting as of July 1, 2005. Accordingly, any changes in the fair value of these derivatives are recognized in "Financial income (loss)".
The amounts recorded in shareholders' equity as of June 30, 2005, corresponding to changes in the fair value of the effective portion of foreign currency derivatives documented as cash flow hedges until June 30, 2005, were transferred to profit from operations up to December 31, 2007 in line with the underlying cash flows.

g) Revenue

The main types of contracts identified in the Safran Group are standard product sales contracts, research and development contracts, and fleet maintenance and/or support contracts.

If a payment deferral has a material impact on the calculation of the fair value of the consideration to be received, it is taken into account by discounting future payments.

Standard sales contracts

Revenue is only recognized if the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and if it is probable that the economic benefits associated with the transaction will flow to the entity. If there is a risk that the transaction will be canceled or that the receivable identified at the inception of the contract cannot be collected, no revenue is recognized. When this is no longer the case, revenue is recorded.

Service contracts (including research and development, fleet maintenance and support contracts)

Under service contracts, revenue may only be recognized if:
- the stage of contract completion can be measured reliably; and
- the costs incurred in respect of the contract and the costs to complete the contract can be measured reliably.

Income from Group service contracts is recorded under the percentage-of-completion method, based on the technical objectives formally set down in such contracts.

If contract income cannot be measured reliably, revenue is only recognized to the extent of the contract costs incurred.

If revenue is representative of the contractual stage of completion, the costs to be recognized are measured on the basis of the margin set forth in the contract. If calculated costs are less than actual costs, the temporarily excess costs are maintained in inventories and work-in-progress. If calculated costs are greater than actual costs, a provision for services to be rendered is recognized for the difference.

Forecast contract margins are reviewed on a regular basis. A provision is set aside for any losses on completion as soon as such losses are foreseeable.

h) Current and deferred tax

Tax expense (tax income) is the aggregate of (i) current tax and (ii) deferred tax recorded in the income statement.

Current tax expense is the amount of income tax payable for a period, calculated in accordance with the rules established by the relevant tax authorities on the basis of taxable profit for the period. Current tax expense also includes any penalties recognized in respect of tax adjustments recorded in the period. The tax expense is recognized in profit or loss unless it relates to items recognized directly in equity, in which case the tax expense is recognized directly in equity.
Deferred tax assets and liabilities are calculated for each entity on temporary differences arising between the carrying amount of assets and liabilities and their corresponding tax base. The tax base depends on the tax regulations prevailing in the countries where the Group manages its activities. Tax losses and tax credits that can be carried forward are also taken into account.

Deferred tax assets are recognized in the balance sheet if it is more likely than not that they will be recovered in subsequent years. The value of deferred tax assets is reviewed at the end of each reporting period.
Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset when tax is levied by the same tax authority and offsetting is permitted by the local tax authorities.

The liability method is applied and the impact of changes in tax rates is recognized in profit or loss for the period in which the corresponding tax law was enacted and the change in tax rate decided, unless the transactions concerned are recognized directly in equity.

Research tax credits in France, or any similar tax arrangements in other jurisdictions, are considered as operating subsidies related to research and development expenses incurred during the period. Accordingly, they are classified under the heading "Other income" in the income statement, and not as a decrease in income tax expense. The recognition of all or part of research tax credit received in the year as revenue can be deferred over several periods.

i) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of ordinary shares issued and outstanding during the period, less the average number of ordinary shares purchased and held as treasury stock.

Diluted earnings per share is calculated by dividing profit by the weighted average number of shares issued or to be issued at the end of the reporting period, including the impact of all potentially dilutive ordinary shares and the dilutive impact of stock options but excluding treasury shares. The dilutive impact of stock options and free share grants is calculated using the treasury stock method taking into account the average share price for the period concerned.

j) Intangible assets

Intangible assets are recognized on the balance sheet at fair value, historical cost or production cost, depending on the method of acquisition. Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset are included in the cost of that asset. The initial amount recorded on the balance sheet is reduced by accumulated amortization and impairment losses, where appropriate.

Intangible assets acquired in a business combination

These assets are recognized at fair value at the date control was acquired and are amortized on a straight-line basis, as follows:

- aircraft programs (including the concepts of technology, backlogs and customer relations) are amortized over the residual life of the programs, not to exceed 20 years;
- other programs or activities (also including technologies, customer relations and other intangible assets acquired) are amortized over the estimated useful life of each identified intangible asset (3 to 16 years);
- other aircraft brand names with a finite life are amortized over 20 years.

Indefinite-lived brands are not amortized but are tested for impairment as described in Note 1.l.

Separately acquired intangible assets

Software is recognized at acquisition cost and amortized on a straight-line basis over its useful life (between one and five years).

Patents are capitalized at acquisition cost and amortized over their useful life, i.e., the shorter of the period of legal protection and their economic life.

Contributions paid to third parties in connection with aircraft programs (participation in certification costs, etc.) are capitalized if the Group can demonstrate the existence of identified economic benefits and its ability to control those benefits.

Research and development costs

Research and development costs are recognized as expenses in the period in which they are incurred. However, internally financed development expenditures are capitalized if the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset and the intention and ability (availability of technical, financial and other resources) to complete the intangible asset and use or sell it;
- the probability that future economic benefits will flow from the asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Where the payment of research and development contracts is contractually guaranteed by the customer (e.g., certain development contracts whose financing is included in the selling price of the deliverables), the expenditure incurred is recognized in "Inventories and work-in-progress".

Capitalized development expenditures are stated at production cost and amortized using the straight-line method as from the initial delivery of the product, over a useful life not exceeding 20 years.

Intangible assets are tested for impairment in accordance with the methods set out in Note 1.l.

k) Property, plant and equipment

Property, plant and equipment are recorded in the balance sheet at historical purchase cost or production cost less accumulated depreciation and impairment losses.
Borrowing costs directly attributable to the acquisition, construction or production of an item of property, plant and equipment are included in the cost of that item of property, plant and equipment.
Replacement and major overhaul costs are identified as components of property, plant and equipment. Other repair and maintenance costs are expensed as incurred.

For finance leases, the capitalized asset and the borrowing cost at the inception of the lease are stated at the lower of market value and the present value of minimum lease payments.
During the lease period, payments are apportioned between the finance cost and the amortization of the borrowing in order to produce a constant periodic rate of interest for the remaining balance of the liability for each period.

The gross amount of items of property, plant and equipment is depreciated over the expected useful life of their main components, mainly using the straight-line method.

If the transfer of ownership at the end of a finance lease term is certain, the item of property, plant and equipment is depreciated over its useful life. Otherwise, the item of property, plant and equipment is depreciated over the shorter of its useful life and the term of the lease.

The main useful lives applied are as follows:

Buildings	15 - 40 years
Capitalized engines	
- Frames	20 years
- Major overhauls	based on flying hours
Technical facilities	5 - 40 years
Equipment, tooling and other	5 - 15 years

Property, plant and equipment are tested for impairment in accordance with the methods set out in Note 1.l.

l) Impairment of non-current assets

Non-current assets, and particularly goodwill acquired in a business combination, are allocated to cash-generating units.[1] Two types of CGUs are defined within the Group:

- CGUs corresponding to programs, projects, or product families associated with specific assets: development expenditures, property, plant and equipment used in production;
- CGUs corresponding to the business segments monitored by Group management and relating chiefly to the Group's main subsidiaries.

In the event of a sale or restructuring of the Group's internal operations which affects the composition of one or more of the CGUs to which goodwill has been allocated, the allocations are revised using a method based on relative value. This method takes the proportion represented by the business sold or transferred in the cash flows and terminal value of the original CGU at the date of sale or transfer.

At the end of each reporting period, the Group's entities assess whether there are events or circumstances indicating that an asset may be impaired. Such events or circumstances notably include material adverse changes which in the long-term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) or the Group's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, disputes and litigation, etc.).

If such events or circumstances exist, the recoverable amount of the asset is estimated. If the carrying amount of the asset exceeds its recoverable amount, the asset is considered as impaired and its carrying amount is reduced to its recoverable amount by recognizing an impairment loss under "Profit from operations".

Recoverable amount is defined as the higher of an asset's or group of assets' fair value less costs to sell and value in use. Value in use is the present value of expected future cash flows, determined using a benchmark rate that reflects the Group's weighted average cost of capital. This discount rate is a post-tax rate applied to post-tax cash flows, which gives the same result as that which would have been obtained by applying a pre-tax rate to pre-tax cash flows, as required by IAS 36.

Future cash flows are calculated differently depending on the assets tested:

- (i) assets allocated to programs, projects or product families: expected future cash flows are projected over the life of the development programs or projects, capped at 40 years, and are discounted at the benchmark rate. Certain programs or projects are also subject to a specific risk premium. This long timeframe better reflects the characteristics of the Group's operating cycles (aircraft and defense), where assets tend to have a long useful life and slow product development;

- (ii) goodwill: expected future cash flows are calculated based on the medium-term plans established for the next four years and estimated cash flows for years five to ten, discounted at the benchmark rate. The value in use of the assets is the sum of the present value of these cash flows and the terminal value, calculated based on standardized flows representing long-term activities for years five to ten, taking into account a perpetual growth rate.

Should a test on a CGU's assets indicate an impairment loss, the Group first establishes the recoverable amount of the assets considered separately. Any impairment loss is initially allocated to goodwill and then to the assets of the CGU prorata to their carrying amount.

An impairment loss recognized against goodwill may not be reversed. For other assets, indications of impairment loss are analyzed at the end of each subsequent reporting period, and if there are favorable changes in the estimates which led to the recognition of the impairment, the impairment loss is reversed through profit or loss.

[1] A CGU is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

m) Equity investments, loans and receivables

In accordance with IAS 39, Financial Instruments, equity investments in non-consolidated companies are classified as available-for-sale and therefore measured at fair value. For listed securities, fair value corresponds to market price. If fair value cannot be measured reliably, investments are recognized at cost. Changes in fair value are recognized directly in equity, unless there is an objective indication that the financial asset is impaired (see below). In this case, an irreversible impairment loss is recognized in profit or loss. The impairment loss is reversed through profit or loss only upon the disposal of the investments.

Loans and receivables are carried at cost and may be written down if there is an objective indication of impairment. The impairment loss corresponds to the difference between the carrying amount and the recoverable amount, and is recognized in profit or loss. It may be reversed if the recoverable amount subsequently increases to above the carrying amount.

In the event of an objective indication of impairment (particularly a significant or prolonged reduction in the value of a financial asset), an impairment loss is recognized in profit or loss:

- for assets held for sale, an objective indication results from a significant drop in the estimated future cash flows associated with these assets, major difficulties of the issuer, a substantial drop in the expected return on these assets, or a significant or prolonged fall in the fair value of listed financial assets;
- for loans and receivables, an objective indication results from the Group's awareness that the debtor is in financial difficulty (payment default, liquidation, etc.).

n) Inventories and work-in-progress

Inventories and work-in-progress are measured at the lower of cost determined using the weighted average cost formula, and net realizable value.
Cost is calculated based on normal production capacity and therefore excludes any idle capacity costs.
Net realizable value represents the estimated selling price less the costs required to complete the asset or make the sale.

o) Cash and cash equivalents

Cash and cash equivalents include available funds (cash in hand, bank accounts, etc.), highly liquid short-term investments (less than three months) and term deposits with exit options exercisable at no penalty within less than three months that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

p) Treasury shares

All treasury shares held by the Group are deducted from consolidated shareholders' equity based on their acquisition price. Gains and losses on the disposal of treasury shares are recorded directly in equity and do not impact profit or loss for the period.

q) Share-based payment

The Group grants various share-based payments to its employees, including free share grants and leveraged savings plans.

In accordance with IFRS 2, Share-based Payment, free share grants and employee share issues are measured at fair value at their respective grant dates. These employee benefits are recognized as payroll costs for the Group with an offsetting entry to consolidated retained earnings. Total equity is not impacted.

Free share plan

In accordance with IFRS 2, the expense representing the fair value of these plans is recognized on a straight-line basis through profit or loss over the vesting period of the rights under the plans. The vesting period runs from the grant date to the final vesting date and spans two or four years, depending on the country. The fair value of

free share grants was determined by reference to the market value of the shares at the grant date adjusted for future dividends and the cost of the non-transferability clause, assessed using a forward purchase/sale approach.

Group leveraged savings plan

For its leveraged employee shareholding plan, the Group applies a calculation method which takes into account the cost of the five-year lock-up period for shares granted to employees and the opportunity gain which allows employees to enjoy the same market conditions as those of the Group (i.e., more attractive conditions than those they could obtain as retail investors). The cost booked in respect of this plan represents the difference between the fair value of the shares subscribed and the subscription price, and is expensed in full within profit or loss at the end of the subscription period.

Options used on the first-time adoption of IFRS: The Safran Group decided to apply the provisions of IFRS 2, Share-based Payment, solely to compensation settled in equity instruments granted after November 7, 2002 and that had not yet vested at January 1, 2004.

r) Provisions

The Group records provisions when it recognizes a present probable or potential (in the event of a business combination) legal or constructive obligation as a result of a past event for which an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of said obligation.

Provisions for losses on completion and backlog losses

A provision for losses on completion is recognized for contracts managed on a percentage-of-completion basis, and a provision for backlog losses is recognized for standard sales contracts when:

- it is highly probable that a contract will be onerous (the unavoidable costs of meeting the obligations under the contract exceed the associated economic benefits);
- the contract, signed before the end of the reporting period, gives rise to obligations for the Group in the form of the delivery of goods, the provision of services or the payment of some form of termination indemnities;
- a reliable estimate can be made of the Group’s obligation.

Unavoidable costs for which a provision is recognized represent the lower of the net cost of executing the contract (i.e., the forecast loss on the contract) and the cost of failing to execute the contract (e.g., withdrawal costs in the event of early termination).

In the aviation industry, standard sales contracts may be onerous when they do not provide for spare part sales. The Group recognizes a provision for backlog losses when the Group is firmly committed to delivering goods under an onerous contract.
The cash flows used in this analysis are discounted to take into account their spread over time.

Backlog losses under onerous contracts subject to a firm commitment are recognized primarily as a deduction from work-in-progress for the completed portion of the contract, and in provisions for work to be completed.

Provisions for financial guarantees on sales

As part of its civil engine sales campaigns, the Safran Group grants two types of guarantees to its customers:

- financial guarantees under which it provides a guarantee to the lending institutions that finance its customer;
- guarantees covering the value of assets, under which it grants the customer an option to return the aircraft at a given date for an agreed price.

These commitments are undertaken by Safran together with General Electric, and form part of financing packages proposed by aircraft manufacturers to airline companies. They correspond to the share represented by Group engines in the financing of the aircraft.

Financial commitments are generally granted on signature of the sales agreement, but do not actually take effect until the customer so requests.

These guarantees generate risks. However, the total gross amount of the guarantees does not reflect the net risk to which Safran is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, i.e., the aircraft pledged.

A provision is recognized in respect of these guarantees, reflecting events likely to generate a future outflow of resources for the Group.

Provisions for performance warranties

These provisions are recorded to cover the Group's share of probable future expenses with respect to operating and performance warranties on deliveries of engines and equipment. They generally cover operations for a period of one to three years depending on the type of equipment delivered, and are calculated as appropriate based on technical files or statistics, particularly with respect to the return of parts covered by a warranty.

s) Post-employment benefits

In compliance with the laws and practices of each country in which it operates, the Group grants its employees post-employment benefits (pensions, termination payments, medical cover, etc.) as well as other long-term benefits including long-service awards, jubilee benefits and loyalty premiums.

For its basic plans and other defined contribution plans, the contribution paid in the period is recognized in expenses. No provision is recorded since the Group has no obligation beyond the contributions paid into the plan.
Provisions recognized for obligations under defined benefit plans are valued using the projected unit credit method. This determines, for each employee, the present value of the benefits to which the employee's current and past services will grant entitlement on retirement. The actuarial calculations include demographic (retirement date, employee turnover rate, etc.) and financial (discount rate, salary increase rate, etc.) assumptions, and are performed at least annually.

When the assets belonging to a multi-employer defined benefit plan cannot be reliably allocated to each participating employer, the plan is accounted for as a defined contribution plan, in accordance with IAS 19.30.

When plans are funded, the plan assets are placed with entities that are responsible for paying the benefits in the countries concerned. These assets are measured at fair value. Provisions are recorded to cover shortfalls in the fair value of plan assets compared with the present value of the Group's obligations, taking account of any cumulative actuarial gains and losses and any past service costs not yet recognized in profit or loss.
An asset surplus is only recognized in the balance sheet when it represents future economic benefits effectively available to the Group.
Where appropriate, the impact of changes in actuarial assumptions regarding post-employment benefits is recognized over the expected average remaining working lives of employees in accordance with the corridor method.

The service cost for the period, the amortization of actuarial gains and losses, and the impact of plan curtailments and settlements are recognized in "Profit from operations".
The interest cost and expected return on plan assets are included in "Financial income (loss)".

Options used on the first-time adoption of IFRS: All actuarial gains and losses arising on post-employment benefits and other obligations previously unrecognized as of January 1, 2004 were recognized in equity as of this date.

t) Borrowings subject to specific terms and conditions

The Safran Group receives public financing in the form of repayable advances to develop aircraft and defense projects. These advances are repaid based on the revenue generated by future sales of engines or equipment.

Repayable advances are treated as sources of financing and are recognized in liabilities in the consolidated balance sheet under the heading "Borrowings subject to specific conditions".

At inception, they are measured at the amount of cash received or, when acquired, at the value of probable future cash flows discounted at market terms at the acquisition date. They are subsequently measured at amortized cost at the end of each reporting period, taking into account the most recent repayment estimations.

The present value of estimated repayments, based on management's best estimates, is regularly compared with the net carrying amount of repayable advances, defined as the sum of amounts received, plus interest capitalized at the end of the reporting period, if any, less repayments made. If as a result of this analysis the present value of estimated repayments is lower than the net carrying amount of repayable advances over three consecutive years, the estimated non-repayable portion of the advances is recognized in profit or loss.

For certain contracts, the Safran Group has to pay a fee based on replacement sales realized under the program once the advance has been fully repaid. This fee is not considered as repayment of an advance but as an operating expense.

u) Borrowings

On initial recognition, borrowings are measured at the fair value of the amount received, less any directly attributable transaction costs. Borrowings are subsequently carried at amortized cost, calculated using the effective interest rate method.

v) Commitments to purchase non-controlling interests

In accordance with IAS 32, commitments undertaken by the Group to purchase non-controlling (minority) interests in its subsidiaries as part of business combinations carried out prior to January 1, 2010 are recognized in financial liabilities for the present value of the purchase amount. The matching entry is a reduction in non-controlling interests. When the value of the commitment exceeds the amount of non-controlling interests, the Group recognizes the difference as goodwill, in the absence of any IFRS guidance. Similarly, any subsequent change in present value is recognized in financial liabilities and offset against goodwill, except for the impact of unwinding the discount, which is recognized in "Other financial income and expenses".
If the non-controlling interests have not been acquired by the time the commitment expires, the previously recognized entries are reversed. If the non-controlling interests have been purchased, the amount recognized in financial liabilities is closed out by the amount paid to purchase them.

w) Financial instruments

The Group uses derivative financial instruments primarily to hedge its exposure to the risk of fluctuations in exchange rates. Derivatives are also used to hedge changes in interest rates and to a lesser extent, changes in commodity prices, arising on its operating and financing activities. These derivatives can include forward currency contracts and currency options or interest rate swaps. The Group's risk management policy is described in Note 31, "Management of market risks and financial derivatives".

The accounting principles applicable to foreign currency derivatives are set out in Note 1.f.

For a financial instrument to be eligible for hedge accounting, the hedging relationship must be formally designated and documented at inception and its effectiveness must be demonstrated throughout the life of the hedging instrument.

Once these criteria are met, certain financial instruments used to hedge changes in interest rates may qualify as fair value hedges. In this case, the borrowings hedged by the interest rate swaps are adjusted to reflect the change in fair value attributable to the hedged risk. Changes in fair value are taken to profit or loss for the period and offset by symmetrical changes in the fair value of the interest rate swaps (effective portion).

The Group uses financial instruments to hedge the risk of fluctuations in the price of certain listed commodities. This price risk affects its purchases of semi-finished products with a high raw material component. The Group's hedging strategy is described in Note 31, "Management of market risks and financial derivatives". Pursuant to IAS 39, these foreign currency derivatives are recognized in the balance sheet at their fair value at the end of the reporting period. Given the difficulty in documenting hedging relationships between these financial instruments and purchases of semi-finished products including components other than hedged raw materials, the Group decided not to designate any of these commodity risk hedges as eligible for hedge accounting, and to recognize any changes in the fair value of these instruments in "Financial income (loss)".

x) Sale of receivables

Some Group subsidiaries sell their trade receivables. In the case of sales involving the transfer of substantially all of the risks and rewards associated with the asset (payment default, late-payment risk, etc.), the asset may be removed from the balance sheet.

y) Structure of the consolidated balance sheet

The Group is engaged in a variety of activities, most of which have long operating cycles. Consequently, assets and liabilities realized within the scope of the operating cycle (inventories and work-in-progress, receivables, advances and downpayments received from customers, trade and other payables, and hedging instruments, etc.), are presented on an aggregate basis with no separation between current and non-current portions. However, other financial assets and liabilities as well as provisions are considered as current if they mature within 12 months of the end of the reporting period. All other financial assets, liabilities and provisions are considered non-current.

z) Recurring operating income

To make the Group's operating performance more transparent, Safran includes an intermediate operating indicator known as "Recurring operating income" in its reporting.
This sub-total excludes income and expenses which are largely unpredictable because of their unusual, infrequent and/or material nature, such as:

- impairment losses recognized against goodwill, impairment losses or reversals of impairment losses recognized against intangible assets relating to programs, projects or product families as a result of an event that substantially alters the economic profitability of such programs, projects or product families (e.g., negotiated sales agreements, changes in production processes, etc.);
- capital gains and losses on disposals of operations;
- other unusual and/or material items not directly related to the Group's ordinary operations.

Note 2 - Main sources of estimates

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) described above requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported at the date of preparation of the financial statements, as well as the income and expenses recognized for the period.
The Group formulates assumptions and, on this basis, regularly prepares estimates relating to its various activities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements. The Group regularly reviews these estimates and assumptions in light of actual experience and any other factors considered reasonable in determining the carrying amount of its assets and liabilities.
In a global economic climate which was characterized by persistently high volatility and a lack of visibility at December 31, 2011, the final amounts recorded may differ significantly from these estimates as a result of different assumptions or circumstances.

a) Estimates relating to programs and contracts

The main estimates used by the Group to prepare its financial statements relate to forecasts of future cash flows under programs and contracts (business plans). Estimates relating to programs and contracts cover periods that are sometimes very long (up to several decades) and primarily draw on assumptions about the volumes and selling prices of products sold, associated production costs, exchange rates for foreign currency-denominated sales and purchases as well as normal uncertainties in respect of forecast cost overruns and, for discounted future cash flows, the discount rate adopted for each contract. Cash flow forecasts, which may or may not be discounted, are used to determine the following:

- Impairment of non-current assets: Goodwill and assets allocated to programs (aviation programs, development expenditures and property, plant and equipment used in production) are tested for impairment as described in Note 1.l. The recoverable amount of goodwill, intangible assets and property, plant and equipment is generally determined using cash flow forecasts based on the key assumptions described above.

- Capitalization of development costs: The conditions for capitalizing development costs are set out in Note 1.j. The Group must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Group.

- **Income (loss) on completion of contracts accounted for under the percentage-of-completion method**: To estimate income (loss) on completion, the Group takes into account factors inherent to the contract by using historical and/or forecast data, as well as contractual indexes. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within losses on completion.

- **Backlog losses:** In the aviation industry, standard sales contracts may be onerous when they do not provide for spare part sales. The Group recognizes a provision for backlog losses when the Group is firmly committed to delivering goods under an onerous contract. It uses estimates, notably as regards the term of the firm commitment and the estimated production cost.

- Repayable advances: The forecast repayment of advances received from the State is based on income from future sales of engines, equipment and spare parts, as appropriate. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions (as regards programs and fluctuations in exchange rates, particularly the US dollar) underlying these business plans are instrumental in determining the timing of these repayments.

Any changes in estimates and assumptions underlying cash flow forecasts for programs and contracts could have a material impact on the Group's future earnings and/or the amounts reported in its balance sheet. Consequently, the sensitivity of key estimates and assumptions to such changes is systematically tested and the results of these tests reviewed by management on a regular basis.

In addition to estimates and assumptions directly related to programs and contracts, the Group uses a number of other key estimates and assumptions.

b) Provisions

Provisions are determined using information and assumptions that reflect management's best estimates based on past experience and in some cases using estimates established by independent experts. Notably (but not solely), provisions relating to performance warranties and financial guarantees given in connection with sales take into account factors such as the estimated cost of repairs (risk based on a statistical analysis), the estimated value of the assets underlying financial guarantees, the probability that the customers concerned will default, and, where appropriate, the discount rate applied to cash flows.

The costs and penalties actually incurred or paid may differ significantly from these initial estimates, and this may have a material impact on the Group's future earnings.
At the date of this report, the Group has no information suggesting that these inputs are not appropriate taken as a whole, and is not aware of any situation that could materially impact the provisions recognized.

c) Allocation of the cost of business combinations

Business combinations are recorded using the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at fair value at the date control is acquired. One of the most important areas in which estimates are used in accounting for a business combination concerns the calculation of fair value and the underlying assumptions applied. The fair value of certain items acquired in a business combination can be measured reliably, for example property, plant and equipment using market price. However, the fair value of other items such as intangible assets or contingent liabilities may prove more difficult to establish. These complex measurements are usually performed by independent experts based on a series of assumptions. These experts are generally required to estimate the impact of future events that are uncertain at the date of the combination.

d) Disputes and litigation

Certain Group subsidiaries may be party to governmental, legal or arbitration proceedings that could have a material impact on the Group's financial position (see Note 33, "Disputes and litigation"). The Group's management regularly reviews the progress of these proceedings and decides whether to book a provision or adjust the amount of an existing provision if any events arise during the proceedings that require a reassessment of the risk involved. The Group consults legal experts both within and outside the Group in determining the costs that may be incurred.
The decision to book a provision in respect of a given risk and the amount of any such provisions are based on an assessment of the risk associated with each individual case, management's estimate of the likelihood that an unfavorable decision will be issued in the proceedings in question, and the Group's ability to estimate the amount of the provision reliably.

Note 3 - Scope of consolidation

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2011

Acquisition of L-1

On July 25, 2011, following approval from L-1's shareholders, the US antitrust authorities and the Committee on Foreign Investment in the United States (CFIUS), Safran finalized the acquisition of L-1 for a total cash amount of USD 1.09 billion. This company (since renamed Morpho Trust) was listed on the NYSE and was a leading identity management provider in the United States.
Prior to the transaction, L-1 sold its government consulting business to a third party in first-half 2011 for USD 0.3 billion. This business was therefore excluded from the transaction with Safran.
L-1's biometric and enterprise access solutions, secure credentialing solutions and enrollment services businesses have been consolidated by Morpho (Security branch) with effect from the acquisition date.
A significant portion of these activities will be managed within the framework of a proxy agreement entered into with the US Department of Defense in order to ensure appropriate protection for US security purposes.

The initial allocation of the purchase price can be summarized below:

(in USD millions)	**Provisional allocation**
Acquisition price	1,094
Acquisition cost of shares	**1,094**
Fair value of net assets:	
Net assets at acquisition date	(42)
Fair value of technology	63
Fair value of customer relationships	255
Deferred tax assets recognized on tax losses	100
Deferred tax liabilities on remeasurements	(118)
Fair value of assets acquired and liabilities assumed	**258**
Goodwill	**836**

The definitive allocation of the purchase price to the identifiable assets and liabilities will take place within the 12-month period following the acquisition.

The contribution of the L-1 businesses acquired to the Group's performance in 2011 (based on five months of operations) was as follows:

- €134 million in revenue;
- €4 million in recurring operating income excluding depreciation and amortization charged against intangible assets and property, plant and equipment identified in connection with the provisional allocation of the purchase price. This expense totaled €7 million for 2011.

Acquisition of SME

On April 5, 2011, Safran finalized the acquisition of SNPE Matériaux Energétiques (SME) and its subsidiaries from SNPE group. SME designs, develops and produces propelling charges and energetic equipment for the defense and aeronautical, space and automotive industries.

Its subsidiaries and their activities are as follows:

- Structil: composite materials;
- Pyroalliance: pyrotechnic equipment;
- Roxel: tactical propulsion, 50%-owned joint venture and proportionately consolidated;
- Regulus: space propulsion, 40%-owned and joint venture proportionately consolidated.

Under the terms of the share transfer agreement, SNPE granted Safran a specific guarantee for a period of 30 to 40 years concerning environmental liabilities due to past operations at eight sites. This guarantee is capped at €240 million for 15 years and at €200 million thereafter. Safran is liable for 10% of the costs. The agreement provides for specific guarantee sublimits totaling €91 million for cleanup of plants in operation and €40 million for pollution resulting from the use of ammonium and sodium perchlorates, which is to be managed within the framework of the Perchlorate Plan. Safran will be liable for 10% of the cleanup costs and 50% of the Perchlorate Plan costs. Safran and SNPE have a period of 18 months following the acquisition date to jointly define, reduce and/or restrict the sources of ammonium perchlorate pollution and the plan must come into effect within five years. These guarantees granted by SNPE to Safran are counter-guaranteed by the French State for €216 million. In preparing the opening balance sheet and determining the amount of goodwill, an initial estimate was made of the value of these environment-related liabilities and contingent liabilities, and of the guarantees given in this respect. The estimate will be fine-tuned in the first half of 2012 once the findings of certain environmental studies are known.

The share transfer agreement also provides for other guarantees granted by the seller which are capped at €25 million and have time limits of three to ten years depending on their nature.

The initial allocation of the purchase price can be summarized below:

(in € millions)	**Provisional allocation**
Initial acquisition price	348
Earnout	(7)
Acquisition cost of shares	**341**
Fair value of net assets:	
Net assets at acquisition date including gross cash and cash equivalents	119
Fair value of technologies	62
Fair value of other intangible assets	7
Remeasurement of property, plant and equipment	9
Remeasurement of inventories	7
Deferred taxes on remeasurements	(29)
Remeasurements – non-controlling interests	(2)
Net liabilities relating to environmental risks	(23)
Fair value of assets acquired and liabilities assumed	**150**
Goodwill	**191**

The definitive allocation of the purchase price to the identifiable assets and liabilities will take place within the 12-month period following the acquisition.

SME and its subsidiaries were consolidated at the date control was acquired by the Group and their contribution to the Group's performance based on nine months of operations, was:

- €202 million in revenue;
- €18 million in recurring operating income excluding depreciation and amortization charged against intangible assets and property, plant and equipment identified in connection with the provisional allocation of the purchase price and the impact of recognizing the inventories acquired and sold in the period at fair value. This expense totaled €12 million for 2011.

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION IN 2010

Acquisition of Harvard Custom Manufacturing

On November 22, 2010, Safran acquired 100% of Harvard Custom Manufacturing Inc. for an amount of USD 136 million. Contingent consideration of USD 2 million was paid in 2011, bringing the purchase price to USD 138 million. This company, since renamed Labinal Salisbury, manufactures electrical wiring systems for major civil and military aviation firms.

The definitive calculation of goodwill and the fair value of the assets acquired and liabilities assumed was completed in 2011.

The definitive allocation of the purchase price can be summarized below:

(in USD millions)	
Initial acquisition price	136
Earnout	2
Acquisition cost of shares	**138**
Fair value of net assets:	
Net assets at acquisition date	28
Fair value of customer relationships	39
Fair value of backlog	21
Remeasurement of property, plant and equipment	2
Remeasurement of inventories	2
Fair value of assets acquired and liabilities assumed	**92**
Goodwill	**46**

Labinal Salisbury was fully consolidated as of the acquisition date.

Its contribution to the Group's 2010 performance, based on one month of operations, was not material.

Its contribution to the Group's 2011 performance was:

- €79 million in revenue;
- €9 million in recurring operating income excluding depreciation and amortization charged against intangible assets and property, plant and equipment identified in connection with the provisional allocation of the purchase price and the impact of recognizing the inventories acquired and sold in the period at fair value. This expense totaled €10 million for 2011.

Note 4 - Segment information

Segments presented

In accordance with IFRS 8, Operating Segments, segment information reflects Safran's different businesses.

The Group's operating segments reflect the organization of subsidiaries around tier-one entities ("consolidation sub-groups"). These consolidation sub-groups are organized based on the type of products and services they sell.

Four operating segments have been identified based on these criteria.

Aerospace Propulsion

The Group designs, develops, produces and markets propulsion systems for commercial aircraft, military transport, training and combat aircraft, rocket engines, civil and military helicopters, tactical missiles and drones. This segment also includes maintenance, repair and overhaul (MRO) activities and the sale of spare parts.

Aircraft Equipment

The Group is also present in mechanical, hydromechanical and electromechanical equipment, including landing gear, wheels, brakes and associated systems, thrust reversers and nacelles, composite material parts, engine control systems and associated equipment, transmission systems, wiring, electrical connection systems, ventilation systems and hydraulic filters. Aircraft Equipment also includes maintenance, repair and related services and the sale of spare parts.

Defence

Defence includes all businesses serving naval, land and aviation defense industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defense applications.
Safran develops inertial navigation systems for aviation, naval and land applications, flight commands for helicopters, tactical optronic systems and drones (gyrostabilized optronic pods, periscopes, infrared cameras, multifunction binoculars, air surveillance systems), and defense equipment and systems.

Security

The Security businesses include a suite of solutions developed by the Group to increase the safety and security of travel, critical infrastructure, electronic transactions and individuals. Its solutions meet emerging needs for the safety and security of people, companies, critical facilities and countries. The Security business offers biometric technologies for fingerprint, iris and face recognition, identity management solutions, access management and transaction security (smart cards), as well as tomographic systems for the detection of dangerous or illicit substances in baggage.

Holding company and other

In "Holding company and other", the Group includes Safran SA's activities and holding companies in various countries as well as residual activities resulting from businesses sold by the Group and not included in any of the previous segments.

Business segment performance indicators

The segment information presented in the tables on pages 7 to 9 below is identical to that presented to the Executive Management, which has been identified as the "Chief Operating Decision Maker" for the assessment of the performance of business segments and the allocation of resources between the different businesses. Until the April 21, 2011 Shareholders' Meeting that approved the change in corporate governance, now comprising a structure solely based on a Board of Directors, the "Chief Operating Decision Maker" was the Executive Board. This change in corporate governance had no impact on the indicators shown or on their calculation method.

The assessment of each business segment's performance by Executive Management is based on adjusted contribution figures as explained in the Foreword (see page 3).

Data for each business segment are prepared in accordance with the same accounting principles as those used for the consolidated financial statements (see Note 1), except for the two restatements made in respect of adjusted data (see Foreword).

Inter-segment sales are performed on an arm's length basis.

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

Working capital represents the gross balance of trade receivables, inventories and trade payables.

Segment assets represent the sum of goodwill, intangible assets, property, plant and equipment, and all current assets except cash and cash equivalents and tax assets.

Data for each segment in 2010 and 2011 are presented on pages 7 to 9.

Note 5 - Breakdown of the main components of profit from operations

REVENUE

(in € millions)	2010	2011
Original equipment and related products and services	4,409	4,879
Sales of equipment of defence and security	1,626	1,715
Services	4,279	4,415
Sales of studies	466	478
Other	248	171
Total	**11,028**	**11,658**

OTHER INCOME

Other income mainly comprises research tax credits and operating subsidies.

(in € millions)	2010	2011
Research tax credit*	124	121
Other operating subsidies	67	79
Other operating income	9	16
Total	**200**	**216**

* Of which €7 million in 2011 in connection with additional research tax credits in respect of 2010 (€11 million in 2010 in respect of 2009).

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	2010	2011
Raw materials, supplies and other	(1,918)	(2,171)
Bought-in goods	(162)	(257)
Changes in inventories	(12)	9
Sub-contracting	(2,264)	(2,323)
Purchases not held in inventory	(290)	(318)
External service expenses	(1,579)	(1,774)
Total	**(6,225)**	**(6,834)**

PERSONNEL COSTS

(in € millions)	2010	2011
Wages and salaries	(2,264)	(2,432)
Social security contributions	(951)	(1,067)
Share grants and leverage plan	(12)	(14)
Statutory employee profit-sharing*	(49)	(45)
Optional employee-profit sharing	(89)	(109)
Additional contributions	(18)	(24)
Profit-sharing bonus for employees	-	(20)
Other employee costs	(93)	(97)
Total	**(3,476)**	**(3,808)**

(*) Profit-sharing expense for 2010 includes additional profit-sharing contribution in respect of 2009, in the amount of €7.5 million.

Under recent French legislation, companies paying a per-share dividend in 2011 which exceeds the average per-share dividend they paid in the previous two years are required to pay a bonus or other equivalent benefit to all employees. Pursuant to these regulations and following discussions with employee representative bodies, Safran is to pay a bonus of €500 to each employee, representing a total expense of €20 million. This expense is only representative of the benefit agreed and granted in respect of dividends paid in 2011 out of 2010 earnings, as approved by the Shareholders' Meeting on April 21, 2011.

The Group also decided to launch a new leveraged employee shareholding plan entitling employees to purchase Safran shares with the offer of a capital guarantee and large potential gains. The plan will first be open to French employees and subsequently to employees in other countries. In accordance with IFRS 2, the expense recognized in respect of this plan in 2011 was €8.2 million (see Note 21d).

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS NET OF USE

(in € millions)	2010	2011
Net depreciation and amortization expense		
- intangible assets	(315)	(341)
- property, plant and equipment	(291)	(321)
Total net depreciation and amortization expense*	**(606)**	**(662)**
Net increase in provisions	**31**	**83**
Depreciation, amortization, and increase in provisions, net of use	**(575)**	**(579)**

(*) Of which depreciation and amortization of assets measured at fair value on the acquisition of the Snecma group, in the amounts of €158 million in 2011 versus €159 million in 2010 and during recent acquisitions: €61 million in 2011 versus €43 million in 2010.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	2010	2011	2010	2011
Property, plant and equipment and intangible assets	(45)	(61)	11	7
Financial assets	(5)	(2)	3	2
Inventories and work-in-progress	(334)	(309)	371	313
Receivables	(35)	(43)	41	28
Total	**(419)**	**(415)**	**426**	**350**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2010	2011
Capital gains and losses on asset disposals	(23)	(16)
Royalties, patents and licenses	(12)	(16)
Cost of financial guarantees	(15) *	-
Losses on irrecoverable receivables	(10)	(5)
Other operating income and expenses**	69	52
Total	**9**	**15**

(*) Offset by a reversal of provisions for contingencies and losses.
(**) Of which income relating to the review of the probability of reimbursement of borrowings subject to specific conditions in the amount of €44 million in 2011 (€31 million in 2010).

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2010	2011
Impairment net of reversals on intangible assets	-	23
Other non-recurring items	(13)	(52)
Total	**(13)**	**(29)**

In 2011, other non-recurring items include transaction and integration costs relating to business combinations completed in the period or currently in progress (€37 million), as well as a net charge to the provision for outstanding claims and disputes not directly linked to recurring operating activities (€15 million).
An impairment loss taken against capitalized development expenditure regarding an Aerospace Propulsion program was also written back for €23 million (see Note 12).

In 2010, other non-recurring items corresponded mainly to acquisition-related costs in connection with business combinations carried out or in progress during that period.

Note 6 - Financial income (loss)

(in € millions)	2010	2011
Financial expense on interest-bearing liabilities	(60)	(71)
Financial income on cash and cash equivalents	24	29
Cost of net debt	**(36)**	**(42)**
Gain or loss on foreign currency hedging instruments	(275)	(11)
Foreign exchange gains and losses	(220)	45
Net foreign exchange gains (losses) on provisions	(36)	(15)
Financial income (expense) arising on foreign currency translation	**(531)**	**19**
Gain or loss on interest rate and commodity hedging instruments	(19)	(9)
Net expense incurred on disposal of financial assets	(1)	-
Impairment of available-for-sale financial assets	(6)	(9)
Write-downs of loans and other financial receivables	(12)	-
Dividends received	3	3
Other financial provisions	(1)	(7)
Interest component of IAS 19 expense	(20)	(17)
Impact of discounting	(74)	(69)
Other	(6)	(19)
Other financial income and expense	**(136)**	**(127)**
Financial loss	**(703)**	**(150)**
of which financial expense	**(730)**	**(227)**
of which financial income	**27**	**77**

Note 7 - Income tax

INCOME TAX EXPENSE

Income tax expense breaks down as follows:

(in € millions)	2010	2011
Current income tax expense	(133)	(159)
Deferred tax income (expense)	119	(42)
Total tax expense	**(14)**	**(201)**

A number of the Group's companies underwent tax inspections in France relating to the period 2007-2009. These inspections resulted in non-material tax adjustment proposals that have been disputed by the Group. As part of the inspections, the tax authorities have signaled their intention to disallow a portion of a Group subsidiary's tax deductible research and development expenditure relating to 2007, in an amount of €20.8 million. This tax adjustment is being disputed by the company.

EFFECTIVE TAX RATE

The effective tax rate breaks down as follows:

(in € millions)	2010	2011
Profit before tax	244	695
Standard tax rate applicable to the parent company	34.43%	34.43%
Tax expense at standard rate	**(84)**	**(239)**
Impact of permanent differences	(7)	(12)
Impact of research tax credit	46	42
Impact of reduced tax rates	31	15
Impact of unrecognized tax	16	(13)
Impact of tax adjustments	(16)	(1)
Impact of tax credits and other items	-	7
Current income tax expense recognized in profit or loss	**(14)**	**(201)**
Effective tax rate	5.74%	28.92%

The fourth amending French Finance Law adopted at the end of 2011 established a one-off, temporary tax increase for 2011 and 2012 for French companies with revenue over €250 million.
Accordingly, the Group's companies included in the French tax consolidation group underwent an increase in current tax expenses in 2011 and an additional deferred tax expense was included in "Impact of reduced tax rates" in the tax proof. Its impact on this line item was not material.

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets (liabilities) in the balance sheet

(in € millions)	Assets	Liabilities	Net
Net deferred tax assets (liabilities) at December 31, 2010	**194**	**685**	**(491)**
Deferred tax income (expense)	(20)	22	(42)
Deferred taxes recognized directly in equity	-	-	-
Reclassifications	3	-	3
Translation adjustments	2	4	(2)
Changes in scope of consolidation	72	7	65
Net deferred tax assets (liabilities) at December 31, 2011	**251**	**718**	**(467)**

Deferred tax asset bases

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Deferred tax asset bases		
Property, plant and equipment and intangible assets	(3,109)	(3,423)
Inventories	105	133
Current assets/liabilities	65	187
Financial assets/liabilities	466	476
Provisions	1,195	1,310
Tax adjustments	(380)	(538)
Losses carried forward and tax credits	275	576
Total deferred tax asset bases	**(1,383)**	**(1,279)**
Total gross deferred tax balance (a)	**(448)**	**(405)**
Total unrecognized deferred tax (b)	**43**	**62**
Total net deferred taxes recognized (a) - (b)	**(491)**	**(467)**

Current tax assets and liabilities

Current tax assets and liabilities break down as follows:

(in € millions)	Assets	Liabilities	Net
Net tax assets at December 31, 2010	**146**	**72**	**74**
Movements during the period*	52	10	42
Changes in scope of consolidation	15	8	7
Translation adjustments	2	2	-
Net tax assets at December 31, 2011	**215**	**92**	**123**

(*) Of which a negative €159 million impact in the income statement.

Note 8 - Discontinued operations

The following table presents a breakdown of discontinued operations:

(in € millions)	2010	2011
Revenue	-	-
Raw materials and consumables used	(14)	(7)
Personnel costs	-	-
Depreciation, amortization, impairment and provisions	12	11
Other operating income and expenses	(3)	1
Profit (loss) from operations	**(5)**	**5**
Financial loss	**-**	**(1)**
Income tax expense (benefit) on discontinued operations	**-**	**(1)**
Profit (loss) from discontinued operations	**(5)**	**3**

In 2010 and 2011, profit (loss) from discontinued operations represents additional price considerations for the Communication sector businesses sold in 2008.

Note 9 - Earnings per share

The Group's potentially dilutive ordinary shares correspond to free share grants.
The Executive Board approved a free share plan on April 3, 2009 (see Note 21d).

Earnings per share break down as follows:

	Index	2010	2011
Numerator (in €millions)			
Profit for the period attributable to owners of the parent	(a)	207	478
Profit from continuing operations attributable to owners of the parent	(i)	212	475
Profit (loss) from discontinued operations attributable to owners of the parent	(j)	(5)	3
Denominator (in shares)			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	17,455,168	7,758,797
Number of shares excluding treasury shares	(d) = (b - c)	399,574,417	409,270,788
Weighted average number of shares (excluding treasury shares)	(d')	399,552,920	404,735,461
Potentially dilutive ordinary shares:			
Dilutive impact of share grants and the leveraged plan	(e)	3,979,642	1,604,157
Weighted average number of shares after dilution	(f) = (d' + e)	403,532,562	406,339,618
Ratio: earnings per share (in €)			
Basic earnings per share	(g)=(a x 1million)/(d')	0.52	1.18
Diluted earnings per share	(h) = (a x 1million)/(f)	0.51	1.18
Ratio: earnings per share from continuing operations (in €)			
Basic earnings per share	(k) = (i x 1million)/(d')	0.53	1.17
Diluted earnings per share	(l) = (i x 1million)/(f)	0.52	1.17
Ratio: earnings (loss) per share from discontinued operations (in €)			
Basic earnings (loss) per share	(m) = (j x 1million)/(d')	(0.01)	0.01
Diluted earnings (loss) per share	(n) = (j x 1million)/(f)	(0.01)	0.01

Note 10 - Dividend distribution

In 2010, a dividend of €0.50 was paid in respect of first-half 2011, corresponding to a total payout of €202 million.

The Board of Directors' meeting of December 15, 2011 approved payment of an interim dividend of €0.25 per share in respect of 2011, representing a payout of €104 million which was reduced to €102 million after deducting the dividend related to treasury shares held at the ex-dividend date

At the Shareholders' Meeting of May 31, 2012 to be called to approve the financial statements for the year ended December 31, 2011, the Board of Directors will recommend payment of a dividend of €0.62 per share in respect of 2011, representing a total payout of €258 million. Taking account of the interim dividend already paid, the amount still to be distributed totals €154 million.

Note 11 - Goodwill

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2010 Net	Changes in scope of consolidation	Transfers	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments	Dec. 31, 2011 Net
Snecma – Aircraft engines	416					1	417
Turbomeca (incl. Microturbo) – Helicopter engines	237						237
Techspace Aero – Aircraft engine components	47						47
Snecma Propulsion Solide/SME – Aerospace and strategic propulsion	66	191					257
Other	1						1
Total Propulsion	**767**	**191**	**-**	**-**	**-**	**1**	**959**
Aircelle – Nacelles and aerostructures	213						213
Labinal – Electrical wiring	265	4			(44)		225
Safran Engineering Services – Engineering	78						78
Messier Dowty – Landing gear	94		(94)				-
Messier Bugatti (incl. Sofrance) – Braking systems	77		(77)				-
Messier Bugatti Dowty (incl. Sofrance) – Landing and braking systems			171				171
Technofan – Ventilation systems	10						10
Globe Motors Inc.	10						10
Total Aircraft Equipment	**747**	**4**	**-**	**-**	**(44)**	**-**	**707**
Sagem – Defence	102						102
Total Defence	**102**	**-**	**-**	**-**	**-**	**-**	**102**
Morpho – Identification	299	625				25	949
Morpho – Cards	48	4					52
Morpho – Detection	335	15			(4)	11	357
Total Security	**682**	**644**	**-**	**-**	**(4)**	**36**	**1,358**
Total	**2,298**	**839**	-	-	**(48)**	**37**	**3,126**

Movements in the period

The main movements in this caption during the period under review concern:

- the acquisition of SME and its subsidiaries, which resulted in the recognition of provisional goodwill of €191 million (see Note 3);
- the definitive allocation of the purchase price for Labinal Salisbury (formerly Harvard Custom Manufacturing), which resulted in a €44 million decrease in goodwill for the “Labinal” CGU (see Note 3);
- the creation of Messier Bugatti-Dowty which combines the aircraft landing and braking businesses, and resulted in the aggregation of goodwill, with no impact on the Group’s consolidated financial statements;
- the initial purchase price allocation for L-1, which resulted in a €625 million increase in goodwill for the “Identification” CGU (see Note 3);
- the acquisition of Syagen Technology Inc., which resulted in a €15 million increase in goodwill for the "Detection systems" CGU;
- the acquisition of Valores Plasticar (Colombia and Peru), which resulted in a €4 million increase in goodwill for the "Cards" CGU.

Annual impairment tests

As from 2011, the Group carries out annual impairment tests on goodwill during the first half of the year in order to bring this procedure into line with the internal medium- and long-term forecasting timetable.

The Group performed annual impairment tests on the cash-generating units presented above, by comparing their value in use with their carrying amount.

The main assumptions used in determining the value in use of cash-generating units are described below:

- Operating forecasts take into account general economic data, specific inflation rates for each geographic area, a USD exchange rate based on available market information and mid- to long-term macro-economic assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next four years and standardized cash flows are based on long-term plans for years five to ten. The average USD exchange rate adopted is 1.33 for years 2012 to 2015 and 1.35 thereafter (2010: 1.36 for years 2011 to 2014 and 1.35 thereafter). These exchange rate assumptions were used for medium- and long-term forecasting during the first half of the year.
- Terminal values are based on a growth rate of 1.5%, with the exception of the Aerospace Propulsion CGUs, for which a growth rate of 2% was adopted (unchanged from 2010).
- The benchmark post-tax discount rate used is 8% (unchanged from 2010) and is applied to post-tax cash flows. However, a post-tax discount rate of 9.5% is used for Security CGUs (unchanged from 2010).

Based on these tests, no impairment was deemed necessary in addition to that already recognized against individual assets. Furthermore, the recoverable amount of each CGU wholly justifies the goodwill balances recorded in Group assets. No impairment of goodwill was recognized further to the annual impairment tests in 2010.

A sensitivity analysis was carried out in respect of the Group's main goodwill balances, by introducing the following changes to the main assumptions:

- a 5% increase or decrease in the USD/EUR exchange rate;
- a 0.5% increase in the benchmark discount rate;
- a 0.5% decrease in the perpetual growth rate.

In 2011, as in 2010, the above changes in the main assumptions, taken individually, do not result in values lower than the carrying amounts of goodwill balances.

Note 12 - Intangible assets

Intangible assets break down as follows:

	Dec. 31, 2010			Dec. 31, 2011		
(in € millions)	Gross	Amortization/ impairment	Net	Gross	Amortization/ impairment	Net
Programs	2,670	(1,105)	1,565	2,670	(1,273)	1,397
Development expenditures	1,256	(339)	917	1,540	(402)	1,138
Commercial concessions	156	(73)	83	191	(102)	89
Software	309	(263)	46	361	(313)	48
Brands	147	(8)	139	147	(9)	138
Commercial relationships	280	(66)	214	526	(112)	414
Technology	131	(22)	109	256	(42)	214
Other	92	(35)	57	106	(46)	60
Total	**5,041**	**(1,911)**	**3,130**	**5,797**	**(2,299)**	**3,498**

Brands with indefinite useful lives are valued at €119 million and comprise the Snecma (€85 million) and Turbomeca (€34 million) brands.

The weighted average remaining amortization period for the programs is approximately seven years.

Movements in intangible assets break down as follows:

(in € millions)	**Gross**	**Amortization/ impairment**	**Net**
At December 31, 2010	**5,041**	**(1,911)**	**3,130**
Internally produced assets	318	-	316
Separate acquisitions	46	-	48
Disposals and retirements	(11)	5	(6)
Amortization	-	(341)	(341)
Impairment losses recognized in profit or loss	-	(28)	(28)
Adjustments and allocation to identifiable assets and liabilities	44	-	44
Reclassifications	(9)	(1)	(10)
Changes in scope of consolidation	342	(14)	328
Translation adjustments	26	(9)	17
At December 31, 2011	**5,797**	**(2,299)**	**3,498**

Research and development costs recognized in recurring operating income for the period totaled €616 million including amortization (€530 million in 2010).

Development expenditures capitalized in 2011 totaled €282 million (€179 million in 2010).
Amortization charged against development expenditures in the period totaled €54 million (€48 million in 2010).

Amortization was also recognized in respect of revalued assets for €219 million (allocation of the cost of the Snecma group business combination for €158 million and other recent acquisitions for €61 million).

The recoverable amount of programs, projects and product families is determined based on estimated future cash flows for the term over which the program is expected to be marketed, which may span several decades.

<u>2011 impairment tests</u>

The main assumptions used to determine the recoverable amount of intangible assets relating to programs, projects and product families are as follows:

- The average USD exchange rate adopted is 1.30 for years 2012 to 2014 and 1.35 thereafter (2010: 1.36 for years 2011 to 2014 and 1.35 thereafter). These exchange rate assumptions correspond to the assumptions updated during the second half of the year.
- The benchmark discount rate used is 8% (unchanged from 2010). Depending on the intangible asset concerned, the discount rate may be increased by a specific risk premium to take account of any technological or product/market risks. Discount rates therefore range from 8% to 11%, as in 2010.

As a result of the impairment tests carried out in 2011, development expenditure for the TP400/A400M program was written down by a further €14 million, including €9 million for Aerospace Propulsion assets, €5 million for Aircraft Equipment assets, and €4 million for assets belonging to various Aircraft Equipment programs. These write-downs are included in recurring operating expenses for the period.
Impairment losses taken against the GP7200 program were reversed in the period for an amount of €23 million. This reversal is shown within non-recurring operating income (see Note 5).

2010 impairment tests

As a result of the impairment tests carried out in 2010, the Group recognized additional impairment losses for €5.9 million against development expenditure relating to the GP7200 program in the Aerospace Propulsion branch. These impairment losses were treated as recurring operating expenses.
The Group also recognized impairment losses for €6 million against development expenditure relating to various aircraft programs in the Aircraft Equipment business, as well as €7.5 million against Defence programs.

Note 13 - *Property, plant and equipment*

Property, plant and equipment break down as follows:

	Dec. 31, 2010			Dec. 31, 2011		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	223	-	223	228	-	228
Buildings	1,108	(548)	560	1,279	(663)	616
Technical facilities, equipment and tooling	3,701	(2,572)	1,129	4,108	(2,858)	1,250
Assets in progress, advances	184	(3)	181	220	(5)	215
Site development and preparation costs	34	(19)	15	46	(25)	21
Buildings on land owned by third parties	69	(24)	45	92	(42)	50
Computer hardware and other equipment	431	(331)	100	461	(355)	106
Total	**5,750**	**(3,497)**	**2,253**	**6,434**	**(3,948)**	**2,486**

Movements in property, plant and equipment can be analyzed as follows:

(in € millions)	**Gross**	**Depreciation/ impairment**	**Net**
At December 31, 2010	**5,750**	**(3,497)**	**2,253**
Internally produced assets	53	-	53
Additions	322	-	322
Disposals and retirements	(153)	131	(22)
Depreciation	-	(321)	(321)
Impairment losses recognized in profit or loss	-	(3)	(3)
Reclassifications	(16)	8	(8)
Changes in scope of consolidation	451	(251)	200
Translation adjustments	27	(15)	12
At December 31, 2011	**6,434**	**(3,948)**	**2,486**

Assets held under finance leases and recognized in property, plant and equipment break down as follows:

	Dec. 31, 2010			Dec. 31, 2011		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	5	-	5	5	-	5
Buildings	156	(18)	138	156	(25)	131
Technical facilities, equipment and tooling	51	(31)	20	51	(33)	18
Computer hardware and other equipment	19	(18)	1	19	(18)	1
Total	**231**	**(67)**	**164**	**231**	**(76)**	**155**

Note 14 - Current and non-current financial assets

Financial assets include:

(in € millions)	Dec. 31, 2010 Gross	Dec. 31, 2010 Impairment	Dec. 31, 2010 Net	Dec. 31, 2011 Gross	Dec. 31, 2011 Impairment	Dec. 31, 2011 Net
Non-consolidated investments*	313	(149)	164	316	(145)	171
Other financial assets	242	(81)	161	265	(89)	176
Total	**555**	**(230)**	**325**	**581**	**(234)**	**347**

* Of which listed securities for €57 million in 2010 and €50 million in 2011

NON-CONSOLIDATED INVESTMENTS

Non-consolidated investments include Safran Group holdings in various non-consolidated companies, notably:

(in € millions)	Year end	Percentage control	Shareholders' equity including profit for the period	Profit (loss)	Carrying amount at Dec. 31, 2010	Carrying amount at Dec. 31, 2011
Sichuan Snecma Aero-Engine Maintenance	12/31/2010	20.00	43.2	5.9	9.7	10.0
Messier Dowty Singapore Pte	12/31/2010	100.00	6.1	0.0	6.4	6.3
Arianespace Participation	12/31/2010	10.60	17.9	(82.5)	10.6	1.9
Embraer*	12/31/2010	1.12	NA**	NA**	44.4	40.0
SMA	12/31/2011	100.00	(22.8)	(11.3)	0.0	0.0
Myriad Group*	12/31/2010	6.46	46.7	(24.8)	12.4	9.7

* Valuations of listed securities are based on market values.

** Data not available.

Non-consolidated equity investments are classified as available-for-sale and measured at fair value. Changes in fair value are recognized directly in equity. If there is an indication that the investments have suffered a prolonged decline in value, an impairment loss is recognized in "Other financial income and expenses".

The Group reviewed the value of each of its available-for-sale investments in order to determine whether any impairment loss needed to be recognized based on available information and the current market climate.

An €8.7 million impairment loss against the Group's interest in Arianespace Participation was recognized in the income statement in 2011.

No impairment loss was recognized in 2010.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Loans to non-consolidated companies	90	85
Loans to employees	25	26
Deposits and guarantees	13	12
Sales-financing loans	1	-
Other	32	53 *
Total	**161**	**176**
o/w non-current	51	75
o/w current	110	101

* Of which €35 million received for warranties in relation to the recent acquisition of SME (see Note 3).

Loans and advances to non-consolidated companies correspond to revolving credit account agreements.

The table below shows movements in other financial assets:

(in € millions)	
At December 31, 2010	**161**
Increase	71
Decrease	(12)
Impairment	(9)
Reclassifications	(3)
Changes in scope of consolidation	(32)
At December 31, 2011	**176**

Note 15 - Investments in associates

The Group's share in the net equity and profit or loss of associates breaks down as follows:

	Dec. 31, 2010	**Dec. 31, 2011**			
(in € millions)	Net	% interest	Shareholders' equity	Share in profit from associates	Net
Ingenico[(1)]	227	22.65%	234	10	244
Other[(2)]	9	N/A	9	-	9
Total	**236**		**243**	**10**	**253**

(1) Due to the lack of published data for Ingenico at the date of publication of this report, the share of profit or loss for second-half 2011 was determined based on consensus forecasts provided by analysts. The stock market value totaled €328 million at December 31, 2011 (11,773,146 shares with a par value of €27.90) versus €315 million at December 31, 2010 (11,630,206 shares with a par value of €27.095). The value of the securities includes goodwill in an amount of €73 million.
(2) Deconsolidated companies whose retained earnings have been frozen.

Ingenico has been accounted for under the equity method since March 31, 2008. An assessment of impairment indicators was performed on this investment and did not result in the recognition of impairment.

Movements in this caption during the period break down as follows:

(in € millions)	
At December 31, 2010	**236**
Share in profit from associates	10
Other movements*	7
At December 31, 2011	**253**

* Of which €7 million with respect to Ingenico.

Note 16 - Inventories and work-in-progress

Inventories and work-in-progress break down as follows:

(in € millions)	Dec. 31, 2010 Net	Dec. 31, 2011 Net
Raw materials and supplies	535	604
Finished goods	1,400	1,477
Work-in-progress	1,540	1,680
Bought-in goods	33	38
Total	**3,508**	**3,799**

Movements in inventories and work-in-progress can be analyzed as follows:

(in € millions)	Gross	Impairment	Net
At December 31, 2010	**4,024**	**(516)**	**3,508**
Movements during the period	134	-	134
Net impairment expense	-	4	4
Reclassifications	18	(6)	12
Changes in scope of consolidation	142	(12)	130
Translation adjustments	14	(3)	11
At December 31, 2011	**4,332**	**(533)**	**3,799**

Note 17 - Trade and other receivables

(in € millions)	Dec. 31, 2010 Net	Movements during the period	Impairment/ Reversal	Changes in scope of consolidation	Reclassifications	Translation adjustments	Dec. 31, 2011 Net
Operating receivables	**3,921**	**422**	**(15)**	**232**	**(1)**	**7**	**4,566**
Debit balances on trade payables/advance payments to suppliers	246	50	-	3	2	-	301
Trade receivables	3,659	386	(15)	191	(4)	8	4,225
Current operating accounts	2	(10)	-	37	1	-	30
Employee-related receivables	14	(4)	-	1	-	(1)	10
Other receivables	**298**	**106**	-	**33**	**2**	-	**439**
Prepaid expenses	48	(10)	-	12	2	1	53
VAT receivables	179	94	-	18	-	(1)	290
Other State receivables	13	2	-	1	-	(1)	15
Other receivables*	58	20	-	2	-	1	81
Total	**4,219**	**528**	**(15)**	**265**	**1**	**7**	**5,005**

* Of which €16 million (€4 million at December 31, 2010) in plan assets for defined benefit pension obligations (see Note 23)

Note 18 - Other non-current assets

This caption comprises receivables on disposals of property, plant and equipment.

Note 19 - *Cash and cash equivalents*

Cash and cash equivalents break down as follows at December 31, 2011:

(in € millions)	**Dec. 31, 2010**	**Dec. 31, 2011**
Negotiable debt securities	21	5
Money-market funds	26	11
Short-term investments	1,575	1,009
Sight deposits	440	406
Total	**2,062**	**1,431**

The table below presents changes in cash and cash equivalents:

(in € millions)	
At December 31, 2010	**2,062**
Movements during the period	(714)
Changes in scope of consolidation	80
Translation adjustments	3
At December 31, 2011	**1,431**

Note 20 - Summary of financial assets

FAIR VALUE OF FINANCIAL ASSETS

The table below presents the carrying amount of the Group's financial assets at December 31, 2010 and December 31, 2011:

At December 31, 2010 *(in € millions)*	Carrying amount				
	At amortized cost		At fair value		Total
	Loans and receivables (a)	Assets held to maturity (b)	Financial assets at fair value (through profit or loss) (c)	Financial assets available for sale (through equity) (d)	= a+b+c+d
Non-current financial assets					
Non-consolidated investments				164	164
Other non-current financial assets	51				51
Sub-total non-current financial assets	**51**	**-**	**-**	**164**	**215**
Current financial assets	110				110
Derivative instruments – assets			230		230
Trade receivables	3,659				3,659
Current operating accounts and other receivables	60				60
Cash and cash equivalents	2,062				2,062
Sub-total current financial assets	**5,891**	**-**	**230**	**-**	**6,121**
Total financial assets	**5,942**	**-**	**230**	**164**	**6,336**

At December 31, 2011 *(in € millions)*	Carrying amount				
	At amortized cost		At fair value		Total
	Loans and receivables (a)	Assets held to maturity (b)	Financial assets at fair value (through profit or loss) (c)	Financial assets available for sale (through equity) (d)	= a+b+c+d
Non-current financial assets					
Non-consolidated investments				171	171
Other non-current financial assets	75				75
Sub-total non-current financial assets	**75**	**-**	**-**	**171**	**246**
Current financial assets	101				101
Derivative instruments – assets			279		279
Trade receivables	4,225				4,225
Current operating accounts and other receivables	111				111
Cash and cash equivalents	1,431				1,431
Sub-total current financial assets	**5,868**		**279**		**6,147**
Total financial assets	**5,943**		**279**	**171**	**6,393**

The fair value of financial assets recorded at amortized cost is close to the carrying amount.

Safran uses the following hierarchy of inputs to determine the fair value of its financial assets:

- Level 1: inputs that reflect quoted prices for identical assets or liabilities in active markets;
- Level 2: directly or indirectly observable inputs other than quoted prices for identical assets or liabilities in active markets;
- Level 3: unobservable inputs.

The Group's financial assets at December 31, 2010 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments	57		107	**164**
Derivative instruments – assets		230		**230**
Total	**57**	**230**	**107**	**394**

The Group's financial assets at December 31, 2011 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments	50		121	**171**
Derivative instruments – assets		279		**279**
Total	**50**	**279**	**121**	**450**

In 2010 and 2011, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

MATURITY OF FINANCIAL ASSETS

The table below provides a breakdown of financial assets by maturity:

(in € millions)	**Carrying amount at December 31**	Neither past due nor impaired	Past due but not impaired (in days)					Total past due but not impaired	Past due and impaired
			<30	31-90	90-180	181-360	>360		
At December 31, 2010									
Current financial assets	**110**	110						-	-
Non-current financial assets[1]	**51**	51						-	-
Trade receivables	**3,659**	3,285	116	113	44	36	60	369	5
Current operating accounts and other receivables	**60**	52	1	5	-	1	1	8	-
At December 31, 2011									
Current financial assets	**101**	101						-	-
Non-current financial assets[1]	**75**	75						-	-
Trade receivables	**4,225**	3,821	178	102	41	26	55	402	2
Current operating accounts and other receivables	**111**	72	22	-	-	-	17	39	-

(1) Excluding non-consolidated investments.

Average interest rates paid on financial assets are as follows:

(in € millions)	**Dec. 31, 2010**		**Dec. 31, 2011**	
	Base	Average recorded interest rate	Base	Average recorded interest rate
Non-current financial assets[1]	51	1.12%	75	0.67%
Current financial assets	110	2.12%	101	2.12%
Financial assets	**161**	**1.78%**	**176**	**1.50%**
Cash and cash equivalents	**2,062**	**Euribor**	**1,431**	**Euribor**
Total	**2,223**		**1,607**	

(1) Excluding non-consolidated investments.

Note 21 - Consolidated shareholders' equity

21a - Share capital

At December 31, 2011, the share capital of Safran was fully paid up and comprised 417,029,585 shares, each with a par value of €0.20.

Safran's equity does not include any equity instruments issued other than its shares.

21b - Breakdown of share capital and voting rights

Changes in the breakdown of share capital and voting rights are as follows:

December 31, 2010

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights
Private investors	207,034,480	49.65%	223,725,614	44.22%
French State	125,940,227	30.20%	150,752,222	29.80%
Employee shareholders	66,599,710	15.96%	131,455,955	25.98%
Treasury shares	17,455,168	4.19%	-	-
Total	**417,029,585**	**100.00%**	**505,933,791**	**100.00%**

December 31, 2011

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights
Private investors	216,692,488	51.96%	226,748,673	44.78%
French State	125,940,227	30.20%	150,752,222	29.77%
Employee shareholders	66,638,073	15.98%	128,885,557	25.45%
Treasury shares	7,758,797	1.86%	-	-
Total	**417,029,585**	**100.00%**	**506,386,452**	**100.00%**

Each share carries entitlement to one vote. Shares held in registered form for over two years have double voting rights.

The 7,758,797 treasury shares have no voting rights.

Treasury shares

The number of treasury shares has declined since December 31, 2010, reflecting:
- the delivery of 3,502,100 shares to employees of French entities in April 2011 under the free share plan of April 3, 2009 (see Note 21.d);
- the sale of 6,500,000 shares on July 28, 2011 in connection with an accelerated book building procedure;
- the purchase of 305,729 shares under the liquidity agreement.

A total of 6,000,000 treasury shares were sold in January 2012 to settle the Group's obligations to its French employees under its leveraged employee shareholding plan launched in November 2011 (see Note 21d).

On May 27, 2010, the Shareholders' Meeting renewed the authorization granted to the Executive Board on May 28, 2009 to buy and sell shares in the Company.
On April 21, 2011, the Shareholders' Meeting authorized the Board of Directors to buy and sell shares in the Company in accordance with the applicable laws and regulations.

Pursuant to these authorizations, in 2011 the Company purchased 3,732,645 shares for €91 million, and sold 3,426,916 shares for €84 million. These transactions were carried out under a liquidity agreement.

In June 2011, the Group signed a new liquidity agreement with Kepler Capital Markets (replacing Rothschild & Cie), with the aim of enhancing the liquidity for the market in Safran shares. A total of €10 million was assigned to this agreement. At December 31, 2011, 305,729 shares were held in connection with the Group's liquidity agreement.

21c - CONSOLIDATED RETAINED EARNINGS

Movements in consolidated retained earnings are as follows:

	(in € millions)
Consolidated retained earnings at December 31, 2010	**4,214**
Appropriation of 2010 profit to consolidated retained earnings	207
- Dividend distribution	(202)
- 2011 interim dividend	(102)
- Translation adjustment	115
- Taxes on exchange differences recognized in equity (see Note 1f)	(29)
- Delivery and sale of treasury shares	180
- Taxes on disposals of treasury shares recognized in equity	(16)
- Free share grants	6
- Shares allocated under the leveraged plan	8
- OCEANE bond subscriptions	6
Consolidated retained earnings at December 31, 2011	**4,387**

21d - SHARE-BASED PAYMENT

Free share grants

Pursuant to the authorization granted by the Shareholders' Meeting of May 28, 2008, the Executive Board decided to implement a free share plan on April 3, 2009. The plan was intended for employees of Group companies based in the European Union and on the payroll at April 3, 2009. A total of 42,345 beneficiaries based in ten different countries each received 100 shares under the plan.

Terms and conditions of the share plan

Shares granted to employees of Group companies headquartered in France vest fully after a period of two years. The shares are also subject to a minimum two-year lock-up period, which begins on the date the shares fully vest. Shares granted to employees of Group companies headquartered outside France vest fully after a period of four years, but are not subject to a lock-up period.

These shares are not subject to any specific performance condition other than the employee’s effective presence in the company throughout the vesting period.

All shares granted by Safran under such plans are equity-settled.

Measurement of rights to share grants

Rights to shares were measured at their fair value at the grant date. The value of the shares at the grant date was reduced by (i) the estimated present value of future dividends forfeited by employees during the vesting period, and (ii) the cost to the Group’s French employees of the minimum lock-up period.

	France	Other countries (excl. France)
Grant date	4/3/2009	4/3/2009
Vesting date	4/3/2011	4/3/2013
Post vesting lock-up period	2 years	none
Number of employee beneficiaries at the grant date	36,785	5,560
Number of shares granted per employee	100	
Total number of shares granted	3,678,500	556,000
Expected dividend rate	3.17%	
Risk-free rate at the grant date	2.675%	
Market value of shares at the grant date	€7.54	
Fair value per share	€6.75	€6.64

The expense recognized in respect of these shares in 2011 was €5.6 million (€11.6 million in 2010).
Fully vested shares granted to employees of French companies were delivered at the beginning of April 2011 (3,502,100 shares).

Leveraged Group savings plan

In November 2011, the Group launched a leveraged employee shareholding plan allowing employees working in France to acquire Safran shares under preferential conditions. A total of 6 million Safran treasury shares were available for subscription under this plan.
The plan will be available to employees outside France in the first half of 2012.

Terms and conditions of the leveraged plan

Under this leveraged savings plan, employees can subscribe to Safran shares at a lower-than-market price (i.e., 20% less than the average of the closing share price between November 11 and December 8, 2011). These shares are subject to a five-year lock-up period.

For each share purchased by employees, a bank mandated by the Group contributes nine additional shares. Employees are guaranteed a return at least equal to the amount they invested. In addition, all amounts invested are indexed to the share price so that employees accrue a return on their investment if the share price rises above the undiscounted reference share price.

As consideration for the bank top-up and guarantees (capital and indexation) included in this plan, employees have waived their right to the 20% discount granted by Safran and to any dividends payable on the shares over the period.

All of the shares subscribed are held in a leveraged fund set up specifically for this purpose within the Group's employee savings plan.

Cost of the leveraged plan

The cost of this plan has been measured in accordance with the recommendation issued by the French Accounting Board (*Conseil National de la Comptabilité* – CNC), taking into account the applicable five-year lock-up period. This approach uses a replication strategy based on a market participant selling the share at the end of the five-year lock-up period, borrowing the amount needed to purchase the share immediately on the market, and financing the amount borrowed by a forward sale and by the dividends paid over the lock-up period. The cost of the leveraged plan also factors in the implicit opportunity gain whereby employees are able to access institutional rather than retail rates for derivative instruments.

The operation set up by the Group in 2011 represents a total cost of €8.2 million, which was recognized in personnel costs in the 2011 financial statements.

The table below shows the main terms and conditions of the 2011 leveraged plan, as well as the amounts subscribed, the valuation assumptions used, and the components of the calculation to determine the cost of the plan:

	2011	
	Value	**%**
Details of the plan and amounts subscribed		
Reference share price[1] *(in euros)*	21.65	
Subscription price *(in euros)*	17.32	
Discount - face value		20%
Total number of shares subscribed (*in millions of shares*)	6	
Total amount subscribed by employees (*in millions of euros*)	10.4	
Total amount subscribed (*in millions of euros*)	103.9	
Maturity of the plan (*in years*)	5	
Valuation assumptions		
Borrowing rate for market participants (bullet)		3.92%
5-year risk-free interest rate		1.92%
Annual dividend rate		2.02%
Annual borrowing rate for shares (repo)		1.00%
Retail/institutional volatility spread		5.00%
Valuation of IFRS 2 expense ***(in millions of euros)***		
Discount value (a)	26	20%
Value of the lock-up period for the market participant (b)	18.1	13.93%
Value of the opportunity gain (c)	0.3	0.29%
Overall cost for the Group (a-b+c)	**8.2**	**6.37%**

(1) The reference price is calculated based on Safran's average closing share price during the 20 trading days before the opening of the subscription period, i.e., November 11, 2011 to December 8, 2011.

Note 22 - *Provisions*

Provisions break down as follows:

			Reversals					
(in € millions)	**Dec. 31, 2010**	Additions	Utilizations	Reclassifi-cations	Surplus provisions	Changes in scope of consolidation	Other	**Dec. 31, 2011**
Performance warranties	507	228	(74)	(1)	(104)	2	12	570
Financial guarantees	47	15			(11)	1	(1)	51
Services to be rendered	482	347	(302)		(16)	2	(89) *	424
Post-employment benefits	366	64	(30)		(5)	17	6	418
Sales agreements and long-term receivables	164	43	(45)		(62)		4	104
Losses on completion and backlog losses	599	184	(117)	(146)	(13)	2	15	524
Disputes and litigation	65	8	(19)		(10)	12	(17)	39
Other	194	102	(51)		(24)	124 **	(37)	308
Total	**2,424**	991	(638)	(147)	(245)	160	(107)	**2,438**
Non-current	1,310							**1,374**
Current	1,114							**1,064**

* Of which reclassification of a provision to working capital in the amount of €81 million.

** Of which a provision of €90 million for environmental liabilities and contingent liabilities subject to a specific guarantee granted by SNPE to Safran as part of the acquisition of SME and its subsidiaries (see Note 3). The value of this provision will be adjusted during the first half of 2012 following the results of environmental studies currently in progress.

The Group makes a number of reclassifications when provisions initially recognized in liabilities – namely provisions for losses on completion and on the backlog (see Note 2a) – are subsequently recognized in assets, for example in provisions for the impairment of inventories and work-in-progress.

Note 23 - Post-employment benefits

The Group has various commitments in respect of defined benefit pension plans, retirement termination payments and other commitments within and outside France. The accounting treatment applied to these commitments is detailed in Note 1.s.

The Group's financial position with respect to these commitments is as follows:

(in € millions)	Dec. 31, 2010	**Dec. 31, 2011**	France	United Kingdom	Other European	Americas	Asia
Gross obligations	828	**908**	427	359	82	39	1
Fair value of plan assets	335	**358**	2	285	43	28	
Unrecognized past service cost and actuarial gains and losses	131	**149**	44	89	8	8	
Provision recognized in the accounts	**366**	**418**	382	1	31	3	1
Defined benefit retirement plans	*35*	***36***	*10*	*1*	*24*	*1*	
Retirement termination payments	*302*	***350***	*341*		*7*	*1*	*1*
Other employee benefits	*29*	***32***	*31*			*1*	
Recognized plan assets(*)	**(4)**	**(16)**		(16)			

(*) Recognized plan assets in respect of defined benefit pension obligations are recorded in "Other receivables" (see Note 17).

The cost of the Group's pension commitments in 2010 and 2011 can be analyzed as follows:

(in € millions)	**Dec. 31, 2010**	**Dec. 31, 2011**
Pension expense		
Current service cost	(32)	(31)
Recognized actuarial gains and losses	(1)	(8)
Plan curtailments and modifications	-	1
Recognized past service cost	(19)	(15)
Total operating component of the pension expense	**(52)**	**(53)**
Interest cost	(39)	(38)
Expected return on plan assets	19	21
Total financing component of the pension expense	**(20)**	**(17)**
Total pension expense	**(72)**	**(70)**

Main assumptions used to calculate commitments:

(in € millions)		Eurozone	United Kingdom
Discount rate	*Dec. 31, 2010*	*4.25%*	*5.25%*
	Dec. 31, 2011	**4.50%**	**5.00%**
Inflation rate	*Dec. 31, 2010*	*2.00%*	*3.20%*
	Dec. 31, 2011	**2.00%**	**3.00%**
Expected return on plan assets	*Dec. 31, 2010*	*4.00%*	*6.76%*
	Dec. 31, 2011	**4.00%**	**6.13%**
Rate of future salary increases	*Dec. 31, 2010*	*1.50%-5.00%*	*4.00%-4.20%*
	Dec. 31, 2011	**1.50%-5.00%**	*3.75%*
Retirement age	Dec. 31, 2010	Managerial: 64/65 years Non-managerial: 62/65 years	65 years
	Dec. 31, 2011	**Managerial: 64/65 years** **Non-managerial: 62/65 years**	**65 years**

The rise in the statutory retirement age in France as a result of pension reforms introduced in 2010 was taken into account in measuring the Company's retirement benefit obligations at December 31, 2010, although the impact was not material.

The discount rates are determined by reference to the yield on investment grade bonds (AA), using the Iboxx index.

A 1% increase or decrease in discount rates (assuming all other inputs remain unchanged) would have the following impacts on the value of the projected benefit obligation at December 31, 2011:

Sensitivity (basis points)	-1%	+1%
Change in gross benefit obligation at December 31, 2011 (in €millions)	+123	-125

The impact of a 1% increase or decrease in the discount rates on consolidated profit for 2011 and on the provision at end-December 2011 would not have been material. The change in the value of the gross benefit obligation would have mainly affected unrecognized actuarial gains and losses.

The allocation of plan assets and the expected return on these assets are shown below:

	United Kingdom		Other European countries	
	% allocation at Dec. 31, 2011	Expected return on plan assets in 2012	% allocation at Dec. 31, 2011	Expected return on plan assets in 2012
Shares	49.45%	7.52%	16.05%	6.78%
Bonds and borrowings	35.09%	3.59%	62.83%	3.71%
Property	8.27%	6.73%	11.64%	5.76%
Cash and cash equivalents	1.62%	1.28%	1.82%	3.17%
Other	5.57%	5.75%	7.66%	4.50%

	United Kingdom		Other European countries	
	% allocation at Dec. 31, 2010	Expected return on plan assets in 2011	% allocation at Dec. 31, 2010	Expected return on plan assets in 2011
Shares	51.96%	8.22%	16.70%	6.65%
Bonds and borrowings	33.85%	4.65%	50.74%	4.16%
Property	5.62%	8.37%	2.93%	4.50%
Cash and cash equivalents	2.70%	1.14%	7.74%	1.89%
Other	5.87%	7.00%	21.89%	4.52%

The expected long-term rates of return on plan assets are determined based on past performance and on the current and long-term outlook for these assets.

A 1% increase or decrease in the expected rate of return on plan assets (assuming all other inputs remain unchanged) would have the following impacts on consolidated profit for 2011:

Sensitivity (basis points)	-1%	+1%
Increase/(decrease) in expected return on plan assets (in €millions)	-3	+4

DEFINED BENEFIT PENSION PLANS

a) Description of benefits

- France

A supplemental defined benefit retirement plan was implemented by Snecma in 1985 and closed on June 30, 1995 using a step mechanism that allowed eligible employees present in the company at that date to maintain all or part of their benefits.
The plan is funded by contributions paid to the insurance company which then manages payment of the pensions. At December 31, 2011, around 230 claimants were still in active service and the last retirement is planned for 2015.
Following the closure of this plan, managerial-grade staff (*cadres*) were moved to a new supplemental defined contribution retirement plan. Group companies affected by this change were Safran (for Snecma employees), Snecma, Snecma Propulsion Solide, Hispano-Suiza, Messier-Bugatti-Dowty, Aircelle and Turbomeca. This type of plan did not exist within the Sagem group.

- Other countries

  - United Kingdom

There are three pension funds involving Messier-Dowty/Messier Services Ltd, Aircelle Ltd and Safran UK. These pension funds have been contracted out, which means they replace the mandatory supplemental retirement plan. The plans are managed by trusts. Employees participate in the funding through salary-based contributions. With the exception of the Safran UK pension fund, the average breakdown of contributions between the employer and the employee is 92% and 8%, respectively. The Safran UK pension fund only covers pensions for retired employees of Cinch UK, which was sold in 2009.

  - Other European countries

The Group's main commitments in continental Europe are in Belgium and Switzerland.

In Belgium, Techspace Aero took out a policy with an insurer in April 1997 guaranteeing employees the payment of a lump-sum or pension on death or retirement. The amount paid is based on the employee category, age, term of service and final salary. This benefit is funded in full by employer contributions.

In Switzerland, Vectronix AG set up a mutualized retirement plan with Leica, its former shareholder. This defined benefit plan was intended for retired and active employees of Vectronix AG. On June 30, 2006, Vectronix AG terminated its contract with Leica with effect from December 31, 2006. Vectronix's active employees were subsequently removed from the Leica fund, whose future had become uncertain, and transferred to another insurer, Gemini, which granted Vectronix full independence in managing its plan. At the time of the switch, Vectronix AG purchased retirement annuities from the new insurer.

  - Americas

The main commitments concern Canada. Two pension plans are in place within Messier-Dowty Inc. and Safran Electronics Canada (spin-off of Messier-Dowty Inc.): one plan for employees and a second plan for managerial-grade staff (*cadres*) and top management. These plans are financed by employer (88%) and employee (12%) contributions.

Five-year summary of obligations under defined benefit plans:

(in € millions)	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	**Dec. 31, 2011**
Gross obligations	366	280	374	442	486
Fair value of plan assets	293	195	269	335	358
Provision recognized in the accounts	86	73	47	35	36
Recognized plan assets				(4)	(16)
Experience adjustments	N/A	65	(25)	(7)	13
of which experience adjustments on the benefit obligation		(9)	2	(3)	(5)
of which experience adjustments on plan assets		74	(27)	(4)	18
as a % of obligations		*-3%*	*0%*	*-1%*	-1%
as a % of plan assets		*38%*	*-10%*	*-1%*	5%

b) Financial position

(in € millions)	Dec. 31, 2010	**Dec. 31, 2011**	o/w France	o/w other countries (excl. France)
Gross obligations	442	**486**	15	471
Fair value of plan assets	335	**358**	2	356
Provision recognized in the accounts	35	**36**	10	26
Recognized plan assets	**(4)**	**(16)**		(16)
Unrecognized items	76	**108**	3	105
- Actuarial gains and losses	*75*	***108***	*3*	*105*
- Past service cost	*1*	**-**		
- Unrecognized assets	**-**	**-**		

All pension plans are partially or fully funded.

(in € millions)	Gross obligations *(a)*	Fair value of plan assets *(b)*	Unrecognized items ***(c)***	Provisions *= (a)-(b)-(c)*
Position at January 1, 2011	**442**	**335**	**76**	**31**
A. Pension expense				
Current service cost	9			
Interest cost	21			
Expected return on plan assets		21		
Recognized actuarial gains and losses			(6)	
Plan curtailments and modifications	(1)			
Recognized past service cost				
Total pension expense	**29**	**21**	**(6)**	**14**
B. Employer expense				
Employer contributions		24		
Benefits paid	(17)	(17)		
Total employer expense	**(17)**	**7**	**-**	**(24)**
C. Other recognized items				
Net unrecognized assets				
Changes in scope of consolidation				
Other movements				
Translation adjustments	12	9	4	
Reclassification to assets held for sale				
Total other recognized items	**12**	**9**	**4**	**(1)**
Change in provision	**24**	**37**	**(2)**	**(11)**
D. Other unrecognized items				
Employee contributions	3	3		
Actuarial gains and losses for the period	17	(17)	34	
Past service cost for the period				
Total other unrecognized items	**20**	**(14)**	**34**	**-**
Amounts recognized at December 31, 2011	**486**	**358**	**108**	**20**
Provision recognized in the accounts				36
Recognized plan assets				(16)

The actual return on plan assets (the sum of the expected return on plan assets and actuarial gains and losses for the period) under defined benefit pension plans was €4 million in 2011 and €23 million in 2010.

The Group expects to pay a total of €26 million into its defined benefit pension plans in 2012 (€25 million in 2011 and €30 million in 2010).

In France, the Social Security Financing Act for 2011 abolished the exemption of the portion of annuities not exceeding one-third of the annual social security ceiling from the 16% levy on annuities paid and settled as of January 1, 2001. Employers having opted in 2004 to pay the tax on annuities were entitled to opt for an alternative regime in 2011. During the year, Safran therefore chose to be taxed on its contributions. This taxation was recognized in actuarial gains and losses at December 31, 2011.

RETIREMENT TERMINATION PAYMENTS

a) Description of benefits

- In France, this heading includes obligations in respect of statutory termination payments due on retirement and supplementary termination payments required by the collective bargaining agreement for the metallurgy industry. It also includes obligations regarding employees eligible for the Group's 2010-2012 agreement on the employment of seniors.
  On February 12, 2010, the Group signed a triennial agreement related to the employment of seniors, aimed notably at implementing measures to assist with the latter part of careers and at ensuring a smooth transition between working life and retirement. This agreement provides, inter alia, for an increase in contractual end-of-career bonuses subject to certain conditions.
  As from July 31, 2010, the rates used as a basis for calculating retirement bonuses applicable under the national collective bargaining agreement for engineers and managerial-grade staff in the metallurgy industry were raised, thereby increasing the Group's commitments accordingly.

- Outside France, this heading includes obligations under early retirement plans at Morpho Cards GmbH, Snecma Services Brussels and Vectronix AG. The Group also has employee benefit obligations in respect of Mexico, Poland and India.

b) Financial position

(in € millions)	Dec. 31, 2010	**Dec. 31, 2011**	France	Other countries (excl. France)
Gross obligations	357	**390**	381	9
Fair value of plan assets				
Provision recognized in the accounts	302	**350**	341	9
Unrecognized items	55	**40**	40	
- Actuarial gains and losses	*3*	***3***	*3*	
- Past service cost	*52*	***37***	*37*	
- Unrecognized assets				

(in € millions)	Gross obligations (a)	Fair value of plan assets (b)	Unrecognized items (c)	Provisions = (a)-(b)-(c)
Position at January 1, 2011	**357**		**55**	**302**
A. Pension expense				
Current service cost	19			
Interest cost	16			
Expected return on plan assets				
Recognized actuarial gains and losses				
Plan curtailments and modifications				
Recognized past service cost			(15)	
Total pension expense	**35**		**(15)**	**50**
B. Employer expense				
Employer contributions				
Benefits paid	(23)			
Total employer expense	**(23)**			**(23)**
C. Other recognized items				
Net unrecognized assets				
Changes in scope of consolidation	21			
Other movements				
Translation adjustments				
Reclassification to assets held for sale				
Total other recognized items	**21**			**21**
Change in provision	**33**		**(15)**	**48**
D. Other unrecognized items				
Employee contributions				
Actuarial gains and losses for the period				
Past service cost for the period				
Total other unrecognized items				
Position at December 31, 2011	**390**		**40**	**350**

The €21 million change in the financial position reflects end-of-career bonuses payable by SME and its subsidiaries, companies acquired in April 2011 (see Note 3).

OTHER EMPLOYEE BENEFITS

a) Description of benefits

- In France, this heading mainly comprises obligations in respect of long-service awards, loyalty premiums and executive bonuses granted at Sagem, Morpho and Sagem Industries.

- Outside France, benefits include jubilee awards under plans in the Netherlands and the US.

b) Financial position

(in € millions)	Dec. 31, 2010	**Dec. 31, 2011**	France	Other countries (excl. France)
Gross obligations	29	**32**	31	1
Fair value of plan assets				
Provision recognized in the accounts	29	**32**	31	1
Unrecognized items	N/A	**N/A**	N/A	N/A

(in € millions)	Gross obligations *(a)*	Fair value of plan assets *(b)*	Unrecognized items ***(c)***	Provisions *= (a)-(b)-(c)*
Position at January 1, 2011	**29**			**29**
A. Pension expense				
Current service cost	3			
Interest cost	1			
Expected return on plan assets				
Recognized actuarial gains and losses	2			
Plan curtailments and modifications				
Recognized past service cost				
Total pension expense	**6**			**6**
B. Employer expense				
Employer contributions				
Benefits paid	(4)			
Total employer expense	**(4)**			**(4)**
C. Other recognized items				
Net unrecognized assets				
Changes in scope of consolidation	1			
Other movements				
Translation adjustments				
Reclassification to assets held for sale				
Total other recognized items	**1**			**1**
Change in provision	**3**			**3**
D. Other unrecognized items				
Employee contributions				
Actuarial gains and losses for the period				
Past service cost for the period				
Total other unrecognized items				
Position at December 31, 2011	**32**			**32**

CONTRIBUTIONS TO DEFINED CONTRIBUTION PLANS

The expense for the year in respect of defined contribution plans amounts to €283 million (€269 million in 2010).
The expense is broken down into contributions paid into standard retirement plans and contributions paid into Art. 83 supplementary retirement plans which have been set up within the Group's main French companies. The expense for the period also includes contributions paid into a multi-employer plan in the UK (€1.4 million). The Group does not expect the contributions to be paid into this multi-employer plan to increase in the medium-term due to the net shortfall of the plan.

INDIVIDUAL TRAINING ENTITLEMENT

In accordance with French Law 2004-391 of May 4, 2004 governing professional training and with the industry-wide agreement of July 20, 2004, the Group’s French companies grant their employees the right to individual training. Employees are entitled to at least 20 training hours per calendar year, which can be carried forward and accumulated up to a maximum total of 120 hours.
This is taken into account in the French companies’ collective bargaining on in-service training and skills development.

Note 24 - Borrowings subject to specific conditions

This caption mainly includes repayable advances granted by the French State.

Movements in this caption break down as follows:

(in € millions)	
At December 31, 2010	**701**
New advances received	13
Advances repaid	(28)
Cost of borrowings	32
Translation adjustments	1
Other	7
Adjustments to the probability of repayment of advances	(44)
At December 31, 2011	**682**

Note 25 - Interest-bearing liabilities

Breakdown of interest-bearing liabilities

(in € millions)	**Dec. 31, 2010**	**Dec. 31, 2011**
Bond issue	763	763
Finance lease liabilities	175	163
Other long-term borrowings	545	521
Total interest-bearing non-current liabilities (portion maturing in more than 1 year at inception)	**1,483**	**1,447**
Finance lease liabilities	16	13
Other long-term borrowings	253	315
Accrued interest not yet due	5	4
Current interest bearing liabilities, long-term at inception	**274**	**332**
Commercial paper	201	558
Short-term bank facilities and equivalent	93	108
Current interest bearing liabilities, short-term at inception	**294**	**666**
Total interest-bearing current liabilities (less than 1 year)	**568**	**998**
Total interest-bearing liabilities	**2,051**	**2,445**

Movements in this caption break down as follows:

(in € millions)	
Total at December 31, 2010	**2,051**
Increase in borrowings	37
Decrease in borrowings	(259)
Movements in commercial paper	401
Changes in scope of consolidation	216
Foreign exchange differences	(3)
Reclassifications and other	2
Total at December 31, 2011	**2,445**

Main long-term borrowings at inception:

- Safran five-year bonds: €750 million issued to French and international investors on November 26, 2009 and maturing on November 26, 2014.
  The bonds' initial 4.0% fixed-rate interest came out at 2.91% after taking account of interest rate derivatives.

- European Investment Bank (EIB) borrowings: €317 million (€367 million at December 31, 2010).
  EIB €300 million loan repayable in equal six-monthly installments between December 17, 2013 and December 17, 2020. This loan pays floating-rate interest indexed to 3-month Euribor plus 0.73%.
  The outstanding €17 million payable on the EIB loan comprises a drawdown bearing fixed-rate interest of 2.80%, maturing at the end of July 2012 (i.e., in less than one year).

- Employee savings financing under the Group Employee Savings Plan: €394 million (€364 million at December 31, 2010).
  The maximum maturity is five years and the amount falling due within one year is €209 million.
  The interest rate is set annually and indexed to the five-year French Treasury bill rate (BTAN), i.e., 2.91% for 2011 and 3.37% for 2010. The interest rate adopted for 2012 is 3.56%.

- Messier-Bugatti USA Inc. real estate lease financing contract: USD 38 million (€29.5 million) [USD 45 million (€34 million) at December 31, 2010], bearing fixed-rate interest of 5.2%.
  This lease is guaranteed by the parent company, Messier-Bugatti-Dowty SA.

- Turbomeca real estate lease financing contract: €55 million (€59 million at December 31, 2010), of which €4 million was due within one year. The lease bears fixed-rate interest of 4.7% and expires in November 2021.

- Sagem real estate lease financing contract: €52 million (€56 million at December 31, 2010), bearing floating-rate interest indexed to 3-month Euribor. The lease expires in January 2022.

- L1 Identity Solutions convertible notes: €70 million (USD 91 million).
  These 3.75% convertible senior notes (originally amounting to USD 175 million) and maturing on May 15, 2027, were outstanding at L-1 when it was acquired by Safran in July 2011. The debt was reduced to USD 91 million in August 2011 following the exercise by certain noteholders of their options to require L-1 to purchase their notes (in the amount of USD 84 million) as a result of the change of control of L-1.
  L-1 has not provided all the necessary financial reports to the noteholders and the trustee as required under the Indenture agreement applicable to these convertible notes. Notwithstanding the absence of written notice from the noteholders and the trustee of such default, L-1 agreed to pay additional interest on the principal amount of the outstanding notes at a rate of 0.50% per annum accruing from March 17, 2012. According to the Indenture agreement, for a period of 365 days, the payment of additional interest is the sole remedy for failure to comply with the reporting obligation.
  In order to definitively resolve this matter, L-1 also notified the noteholders of its intention to exercise its right under the Indenture agreement to redeem for cash all outstanding notes on May 15, 2012.

The Group's other long- and medium-term borrowings are not material taken individually.

Main short-term borrowings:

- Commercial paper: €558 million (€201 million at December 31, 2010).
  This amount comprises several drawdowns made under market terms and conditions, mostly with maturities of less than three months.

- Financial current accounts with non-consolidated subsidiaries: €37 million (€33 million at December 31, 2010). Interest is indexed to Euribor.

Other short-term borrowings are not material taken individually.

Analysis by maturity

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Maturing in		
1 year or less	568	998
More than 1 year and less than 5 years	1,182	1,203
Beyond 5 years	301	244
Total	**2,051**	**2,445**

Analysis by currency:

	Dec. 31, 2010		Dec. 31, 2011	
(in millions of currency units)	**Currency**	**EUR**	**Currency**	**EUR**
EUR	1,922	1,922	2,264	2,264
USD	132	99	199	154
CAD	1	1	4	3
GBP	1	1	1	1
Other	N/A	28	N/A	23
Total		**2,051**		**2,445**

Analysis by type of interest rate (fixed/floating), before hedging:

	Non-current				Current			
	Dec. 31, 2010		**Dec. 31, 2011**		Dec. 31, 2010		**Dec. 31, 2011**	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	907	4.09%	884	4.08%	93	3.47%	114	3.67%
Floating rate	576	2.19%	563	2.42%	475	1.82%	884	1.81%
Total	**1,483**	**3.35%**	**1,447**	**3.44%**	**568**	**2.09%**	**998**	**2.02%**

Analysis by type of interest rate (fixed/floating), after hedging:

	Non-current				Current			
	Dec. 31, 2010		**Dec. 31, 2011**		Dec. 31, 2010		**Dec. 31, 2011**	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	145	4.54%	884	3.14%	93	3.47%	114	3.67%
Floating rate	1,338	2.32%	563	2.42%	475	1.82%	884	1.81%
Total	**1,483**	**2.53%**	**1,447**	**2.86%**	**568**	**2.09%**	**998**	**2.02%**

The Group's net debt position is as follows:

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Cash and cash equivalents (A)	2,062	1,431
Interest-bearing current and non-current liabilities (B)	2,051	2,445
Fair value of interest rate derivatives hedging borrowings (C)	13	17
Total (A) - (B) + (C)	**24**	**(997)**

Net debt at end-2011 does not include the following three assigned trade receivables without recourse:

- CFM Inc.:
  - confirmed 24-month facility for USD 200 million (with automatic renewal per 12-month period at the end of the first 24 months) granted in October 2009 by General Electric Capital Corp., on which USD 70.6 million (USD 35.8 million at 50%) had been drawn at the reporting date, versus USD 92.1 million (USD 46 million at 50%) at December 31, 2010;
  - confirmed 364-day facility for USD 950 million granted by a syndicate of eight banks led by Royal Bank of Scotland and renewed in December 2011, on which USD 788 million (USD 394 million at 50%) had been drawn at the reporting date, versus USD 822.2 million (USD 411 million at 50%) at December 31, 2010.
- CFM SA:
  - confirmed 24-month facility for an equivalent value of USD 110 million granted in July 2010 by Medio Factoring (Intesa San Paolo group), on which USD 39 million (USD 19.5 million at 50%) had been drawn at the reporting date, versus USD 48 million (USD 24 million at 50%) at December 31, 2010.

(in € millions)	**Dec. 31, 2010**	**Dec. 31, 2011**
Net debt	24	(997)
Total equity	4,705	5,122
Gearing	**N/A**	**19.47%**

Note 26 - Trade and other payables

(in € millions)	**Dec. 31, 2010**	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifi-cations	**Dec. 31, 2011**
Operating payables	**6,586**	**548**	**284**	**10**	**111**	**7,539**
Credit balances on trade receivables	828	151	2	-	81	1,062
Advance payments from customers	3,215	214	131	2	-	3,562
Amounts owed to fixed asset suppliers	1,744	133	107	8	23	2,015
Current operating account	5	(13)	12	-	-	4
Employee-related liabilities	794	63	32	-	7	896
Other payables	**650**	**120**	**37**	**2**	**-**	**809**
Miscellaneous payables	110	39	(7)	-	1	143
State aid, accrued payables	18	(2)	-	-	-	16
State, other taxes and duties	123	23	25	-	-	171
Deferred income	399	60	19	2	(1)	479
Total	**7,236**	**668**	**321**	**12**	**111**	**8,348**

Trade payables carry no interest and fall due in less than one year.
Deferred income primarily concerns revenue recognized under the percentage-of-completion method or revenue deferred.

Trade and other payables fall due as shown below:

(in € millions)	**< 12 months**	**> 12 months**
Operating payables	7,191	348
Other payables	620	189
Total	**7,811**	**537**

Note 27 - Other current and non-current liabilities

(in € millions)	Dec. 31, 2010	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2011
Payables on purchases of property, plant and equipment and intangible assets	39	2	4			**45**
Payables on purchases of investments	147	4	(1)	4		**154**
Total	**186**	**6**	**3**	**4**	**-**	**199**
Non-current	186					**199**
Current	-					-

Note 28 - Summary of financial liabilities

The fair value of financial liabilities is calculated based on the future cash flows associated with each borrowing, discounted at the market price at the end of the reporting period.

At December 31, 2010	Carrying amount			Fair value
(in € millions)	Financial liabilities at amortized cost	Financial liabilities at fair value	Total	
Borrowings subject to specific conditions	701		**701**	701
Interest-bearing non-current liabilities	1,483		**1,483**	1,483
Interest-bearing current liabilities	568		**568**	568
Trade and other operating payables	1,744		**1,744**	1,744
Minority put granted to non-controlling interests (1)		131	**131**	131
Current operating accounts	5		**5**	5
Derivative instruments - liabilities		553	**553**	553
Total financial liabilities	**4,501**	**684**	**5,185**	**5,185**

(1) Included in payables on purchases of investments.

At December 31, 2011	Carrying amount			Fair value
(in € millions)	Financial liabilities at amortized cost	Financial liabilities at fair value	Total	
Borrowings subject to specific conditions	682		**682**	682
Interest-bearing non-current liabilities	1,447		**1,447**	1,467
Interest-bearing current liabilities	998		**998**	998
Trade and other operating payables	2,015		**2,015**	2,015
Minority put granted to non-controlling interests (1)		135	**135**	135
Current operating accounts	4		**4**	4
Derivative instruments - liabilities		658	**658**	658
Total financial liabilities	**5,146**	**793**	**5,939**	**5,959**

The Group uses the input hierarchy described in Note 20 to measure the fair value of its financial liabilities.

The Group's financial liabilities carried at fair value as of December 31, 2010 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Derivative instruments - liabilities		553		553
Commitments to buy out non-controlling interests			131	131
Total	**-**	**553**	**131**	**684**

The Group's financial liabilities carried at fair value as of December 31, 2011 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Derivative instruments - liabilities		658		658
Commitments to buy out non-controlling interests			135	135
Total	**-**	**658**	**135**	**793**

In 2011 and 2010, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

Note 29 - Interests in joint ventures

The Group has interests in a number of joint ventures which are proportionately consolidated (their contribution is recognized line-by-line in the financial statements). The joint ventures are:

- CFM International Inc. and CFM International SA: coordination of the CFM56 engine program with General Electric and program marketing;
- Shannon Engine Support Ltd: leasing of CFM56 engines, modules, equipment and tooling to airline companies;
- Famat: manufacture of large casings subcontracted by Snecma and General Electric;
- Europropulsion: research, development, testing and manufacture of solid propellant propulsion systems;
- Ulis: manufacture of uncooled infrared detectors;
- Sofradir: manufacture of cooled infrared detectors;
- SEMMB: manufacture of ejectable seating;
- Matis: manufacture of aircraft wiring;
- CFAN: production of composite fan blades for turbo engines;
- Hydrep: repair of landing gear for regional and business jets;
- A-Pro: repair of landing gear for regional and business jets;
- CFM Materials LP: sale of used CFM56 parts.

New companies entering the scope of consolidation in 2011 following the acquisition of SME and subsidiaries (see Note 3):

- Regulus: aerospace propulsion;
- Roxel SAS: holding company;
- Roxel France SA: motors for tactical missiles;
- Roxel Ltd: motors for tactical missiles.

The sale of 1% of the Group's interest led to a change in the basis of consolidation (from full to proportionate consolidation) for the following companies in 2011:

- Propulsion Technologies International: engine repair and maintenance.

The table below shows the Group's share in the various financial indicators of these joint ventures, included in the consolidated financial statements:

(in € millions)	**Dec. 31, 2010**	**Dec. 31, 2011**
Current assets	378	553
Non-current assets	368	343
Current liabilities	395	543
Non-current liabilities	47	50
Operating income	342	432
Operating expenses	(287)	(376)
Financial loss	(3)	(3)
Income tax expense	(14)	(10)
Profit for the period	38	43
Cash flows from operating activities(1)	102	57
Cash flows from (used in) investing activities	(2)	2
Cash flows used in financing activities(1)	(30)	(31)

(1) See Note 25 on the sale of trade receivables by CFM Inc.

Note 30 - Related parties

In accordance with IAS 24, the Group's related parties are considered to be its shareholders (including the French State), companies controlled by these shareholders, proportionately consolidated and equity-accounted companies (associates), and management executives.

Transactions with equity-accounted companies were not material in 2011 or 2010, and they are not therefore included in the table below.

(in € millions)	**Dec. 31, 2010(*)**	**Dec. 31, 2011**
Sales to related parties	2,951	3,276
Purchases from related parties	(266)	(242)

(in € millions)	**Dec. 31, 2010(*)**	**Dec. 31, 2011**
Receivables from related parties	1,418	1,670
Payables to related parties	1,890	1,904

(in € millions)	**Dec. 31, 2010(*)**	**Dec. 31, 2011**
Guarantees granted to related parties (off-balance sheet)	729	721

(*) After taking into account proportionally consolidated companies.

Transactions with related parties primarily concern the delivery of aviation products to Airbus and the Directorate General of the French Armed Forces.

MANAGEMENT COMPENSATION

In 2010 and up to the change in corporate governance on April 21, 2011, management executives comprised the members of Safran's Supervisory Board and Executive Board and its executive management team. After the change in governance, management executives comprised members of the Board of Directors and the executive management team.

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Short-term benefits[1]	10.6	**10.7**
Post-employment benefits[2]	0.9	**0.4**
Other long-term benefits	-	**-**
Termination payments	0.6	**1.2**
Share-based payment	-	**-**

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.
(2) Accounting estimate of cost of pension obligations in accordance with IAS 19

All compensation and benefits awarded to members of the Supervisory Board/Board of Directors and to members of the Executive Board and executive management team are shown on a gross basis, including the fixed portion of compensation and the provision for the variable portion to be paid in the subsequent year.

The Group's total post-employment commitments in respect of management executives amounted to €2.1 million at December 31, 2011 and €3.4 million at December 31, 2010.

RELATIONS BETWEEN SAFRAN AND ITS SUBSIDIARIES

The main financial transactions between Safran and its subsidiaries are described below.

- Cash is pooled at the level of the Safran Group. Cash pooling agreements therefore exist between Safran and each of the Group companies. These govern the terms and conditions of advances and investments.

- A foreign currency risk management policy is also implemented centrally by the head company for the entire Safran Group. This policy seeks to protect the economic performance of operating subsidiaries from random foreign currency fluctuations (mainly USD) and optimize the quality of the hedges implemented via a portfolio of hedging instruments.

- A commodity risk management policy is defined centrally in the same manner as the policy for managing foreign currency risk. This policy is designed to reduce uncertainty factors regarding the volatility of commodity prices (mainly nickel and platinum) affecting the economic performance of operating subsidiaries.

- In France, Safran is liable for the entire income tax charge, additional income tax contributions and the annual minimum tax charge due by the tax group comprising itself and its tax-consolidated subsidiaries, pursuant to the provisions of article 223-A of the French Tax Code (*Code général des impôts*).
  In accordance with the tax consolidation agreement in France, tax-consolidated subsidiaries bear their own tax charge as if they were not members of the tax group, and pay the corresponding amounts to Safran as their contribution to the Group tax payment.

- Services rendered by the holding company to its subsidiaries are generally billed to beneficiaries based on assistance agreements.

Note 31 - Management of market risks and financial derivatives

The main risks arising on the Group's financial instruments are foreign currency risk, interest rate risk, listed commodity price risk, equity risk, counterparty risk and liquidity risk.

The carrying amount of derivative financial instruments used to manage the risks to which the Group is exposed is shown below:

	Dec. 31, 2010		Dec. 31, 2011	
(in € millions)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate risk management	***13***		***22***	***(5)***
Floating-for-fixed interest rate swaps				(5)
Fixed-for-floating interest rate swaps	13		22	
Foreign currency risk	***208***	***(553)***	***257***	***(650)***
Currency swaps				
Buy and sell forward currency contracts	101	(317)	91	(326)
Currency option contracts	107	(236)	166	(324)
Management of commodity risk	***9***			***(3)***
Forward purchases of commodities	9			(3)
Total	**230**	**(553)**	**279**	**(658)**

EXPOSURE TO FOREIGN CURRENCY RISK

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 4.28 billion for 2011 (USD 4.01 billion in 2010).

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 an unfavorable monetary environment.

HEDGING POLICY

Two basic principles underscore the foreign currency risk management policy defined by Safran SA for most of its subsidiaries:

§ to protect the Group's economic performance from random fluctuations in the US dollar;
§ to optimize the quality of hedging whenever possible, without jeopardizing the Group's economic performance (first principle).

Protecting economic performance means setting a minimum USD exchange rate parity over an applicable term. Minimum parity corresponds to a USD exchange rate that allows Safran to meet its operating profit targets. Hedging arrangements have been made accordingly, over a four-year timeframe.

MANAGEMENT POLICY

The hedging policy is based on managing the financial instrument portfolio so that the exchange rate parity does not fall below a pre-defined minimum threshold.

In building up its hedging portfolio, the Group primarily uses forward sales, accumulators and options (EUR call/USD put).

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 sales of options (USD call/EUR put).

FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

	Dec. 31, 2010				Dec. 31, 2011			
(in millions of currency units)	Fair value(1)	Notional amount(1)	Less than 1 year	1 to 5 years	Fair value(1)	Notional amount(1)	Less than 1 year	1 to 5 years
Forward exchange contracts	**(216)**				**(235)**			
Short USD position	(229)	10,737	6,467	4,270	(229)	13,374	5,872	7,502
Of which against EUR	*(198)*	*9,938*	*5,748*	*4,190*	*(199)*	*12,500*	*5,188*	*7,312*
Long USD position	5	(1,103)	(903)	(200)	14	(510)	(300)	(210)
Of which against EUR	*10*	*(800)*	*(600)*	*(200)*	*13*	*(400)*	*(200)*	*(200)*
Short GBP position against EUR	-	21	21	-	1	11	11	-
Long GBP position against EUR	-	(3)	(3)	-	-	(4)	(4)	-
Long EUR position against CHF	(11)	(83)	(56)	(27)	(11)	(81)	(39)	(42)
Long PLN position against EUR	3	(225)	(85)	(140)	(3)	(218)	(78)	(140)
Long MXN position against USD	16	(3,149)	(999)	(2,150)	(7)	(3,650)	(1,180)	(2,470)
Currency option contracts	**(128)**				**(158)**			
Puts purchased	69	1,500	1,500	-	36	1,000	-	1,000
Puts sold	(1)	(100)	(100)	-	(1)	(100)	(100)	-
Calls sold	(155)	7,222	4,174	3,048	(226)	6,798	1,774	5,024
Calls purchased	-	-	-	-	8	(250)	(250)	-
Accumulators – sell USD (2)	(55)	9,872	6,309	3,563	(28)	12,199	4,752	7,448
Accumulators – buy USD (2)	11	(1,702)	(1,702)	-	63	(1,891)	(1,427)	(464)
Accumulators – sell GBP (2)	3	302	302	-	1	380	91	289
Accumulators – sell GBP (2)	-	-	-	-	(11)	845	306	539
Total	**(344)**				**(393)**			

(1) Fair values are expressed in millions of euros; notional amounts are expressed in millions of currency units.
(2) Notional amounts for accumulators represent the maximum cumulative amount.

The €49 million decrease in the fair value of foreign currency derivatives between December 31, 2010 and December 31, 2011 reflects the fall in the fair value of currency hedging instruments not yet settled at December 31, 2011 (€2 million) and premiums received (€51 million).

In view of the constraints resulting from the application of IAS 39, the Group decided not to apply hedge accounting and to recognize all changes in the fair value of its financial instruments in “Financial income (loss)”. Accordingly, all changes in the fair value of hedging instruments not yet settled at the end of the reporting period (€2 million) have been recognized in “Financial income (loss)”: a decrease of €11 million was recognized in "Gain or loss on foreign currency hedging instruments" for derivatives hedging future revenue, while a negative €5 million was recognized in "Foreign exchange gains and losses" for derivatives hedging balance sheet positions and €18 million was recognized for premiums matured during the year (see Note 6).

In order to reflect the economic effects of its currency hedging policy, the Group also prepares adjusted financial statements in which gains or losses on the hedging instruments are presented for the same periods as the gains or losses on the items hedged (see Foreword).

BALANCE SHEET EXPOSURE AND SENSITIVITY TO FOREIGN CURRENCY RISK

The exposure of the Group's balance sheet to foreign currency risk can be summarized as follows:

	Dec. 31, 2010						Dec. 31, 2011					
(in millions of currency units)	USD/EUR	USD/GBP	USD/CAD	**TOTAL USD**	GBP/EUR	CAD/EUR	USD/EUR	USD/GBP	USD/CAD	**TOTAL USD**	GBP/EUR	CAD/EUR
Total assets excluding financial derivatives	1,232	4	21	**1,257**	54	86	1,404	75	39	**1,518**	42	70
Total liabilities excluding financial derivatives	1,581	7	17	**1,605**	26	1	1,757	70	38	**1,865**	34	4
Financial derivatives	(441)	(47)	12	**(476)**	1	-	(427)	(39)	(3)	**(469)**	-	-
Net balance sheet exposure after financial instruments	**(789)**	**(50)**	**16**	**(824)**	**28**	**85**	**(780)**	**(34)**	**(2)**	**(816)**	**8**	**66**

The above table is presented in foreign currencies.

The sensitivity of the balance sheet to a 5% increase or decrease in the EUR/USD exchange rate is as follows:

	Dec. 31, 2010		Dec. 31, 2011	
Impact on balance sheet positions (in € millions)	USD		USD	
Closing rate	1.34		1.29	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
EUR/USD exchange rate used for sensitivity analysis	1.27	1.40	1.23	1.35
Net impact of exposure after financial derivatives	(776)	544	(890)	667

INTEREST RATE RISK MANAGEMENT

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 profit or loss.

Within the framework of its interest rate risk management policy, the Group arbitrates between these two types of risk using financial instruments specific to fixed-income markets (interest rate swaps and options, etc.).

The interest rate payable on the €750 million bond issue, which had been converted to a floating rate using floating-rate borrower/fixed-rate lender swaps, was converted back to a fixed rate during the year. As a result, besides the floating-rate borrower/fixed-rate lender swaps for €750 million maturing in one to three years, the Group also held fixed-rate borrowing/floating-rate lender swaps for the same maturity and amount at December 31, 2011.
Changes in the value of old and new swaps are recognized in "Gain or loss on interest rate and commodity hedging instruments" under "Financial income (loss)" (see Note 6).

	Dec. 31, 2010				Dec. 31, 2011			
(in € millions)	Fair value	Notional amount	Less than 1 year	1 to 5 years	Fair value	Notional amount	Less than 1 year	1 to 5 years
Interest rate swaps								
Fixed-for-floating – fair value hedge	13	750	-	750	22	750	250	500
Floating-for-fixed – fair value hedge	-	-	-	-	(5)	750	250	500
Total	**13**				**17**			

Debt in respect of employee savings is at floating rates, but resets only yearly.

The Group's remaining long-term debt is mostly at fixed rates, reflecting the reconversion of the €750 million November 2009 bond issue back to a fixed rate.

A 1% rise in interest rates would therefore decrease the cost of debt by €4 million (versus an increase in the cost of debt by €8 million in 2010). The inversion of the trend is a result of interest on the €750 million bond being reconverted to a fixed rate in 2011 (floating rate in 2010).

MANAGEMENT OF COMMODITY RISK

Since 2009, the Group's policy has been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel and platinum). The policy seeks to protect the Group's economic performance from commodity price volatility.
Commodity hedges aiming to reduce uncertainty factors have been contracted for a term of five years. To hedge commodity prices, the Group uses forward sales of commodities on the London Metal Exchange (LME).
These forward purchases are then used to hedge highly probable flows arising in Group companies and resulting from purchases of semi-finished parts with a major commodity component. These cash flows are determined based on the backlog and budget forecasts.

The notional amount of nickel forward purchase contracts at December 31, 2011 represented 2,598 metric tons of nickel, including contracts for 755 tons maturing in less than one year and 1,843 tons in one to five years.
The notional amount of platinum forward purchase contracts at December 31, 2011 represented 7,944 ounces of platinum, including contracts for 876 ounces maturing in less than one year and 7,068 ounces in one to five years.
The fair value of these instruments was a negative €3 million at end-2011.

EQUITY RISK MANAGEMENT

Safran is exposed to fluctuations in the stock market price of Embraer and Myriad shares, the only listed shares it holds.

A 5% decrease in the price of these shares would have a net negative impact of €3 million on equity at end-2011 (€3 million at end-2010).

COUNTERPARTY RISK MANAGEMENT

The Group is exposed to counterparty risk on the following:

- short-term 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 traded over-the-counter with investment-grade counterparties.

Counterparty risk related to trade receivables is limited due to the large number of customers in the portfolio and their wide geographic spread.

The financial asset maturity schedule is set out in Note 20.

LIQUIDITY RISK MANAGEMENT

Treasury management is centralized within the Group. Where permitted by local legislation, all surplus cash is invested with, and financing requirements of subsidiaries met by, the parent company on an arm's length basis. The central cash team manages the Group's current and forecast financing requirements, and ensures it has the ability to meet its financial commitments while maintaining a level of available cash funds and confirmed credit facilities commensurate with its scale and debt repayment profile.
Since some of the Group's liquidity lines have not been used, Safran is relatively insensitive to liquidity risk.
A number of financial covenants apply to the EIB borrowings set up in 2003, 2005 and 2010 (see Note 25).

The following two ratios apply:

- Net debt/EBITDA < 2.5
- Net debt/total equity (gearing) < 1

Undrawn confirmed liquidity facilities at December 31, 2011 totaled €2,550 million and comprised two syndicated credit lines for €1,600 million and €950 million, maturing in December 2015 and October 2016, respectively. These two facilities are subject to a financial covenant (net debt/EBITDA of less than 2.5).

The terms "net debt", "EBITDA" and "total equity" used in connection with EIB borrowings and syndicated credit lines are defined as follows:

- net debt: borrowings (excluding borrowings subject to specific conditions) less marketable securities and cash and cash equivalents;
- EBITDA: the sum of profit (loss) from operations and the net charge to depreciation, amortization and provisions for impairment of assets (calculated based on adjusted data);
- total equity: equity attributable to owners of the parent and non-controlling interests.

Note 32 - Off-balance sheet commitments and contractual obligations

ENDORSEMENTS, GUARANTEES AND OTHER COMMITMENTS

COMMITMENTS IN RESPECT OF ORDINARY ACTIVITIES

The various commitments given by the Safran Group are as follows:

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Employee-related commitments	86	84
Commitments given to customers (completion warranties, performance bonds)	275	312
Commitments given to third parties	1,096	1,173
Commitments given to customs authorities	78	84
Vendor warranties received (1)	110	21
Actuarial differences and unrecognized past service cost	131	149
Other commitments given	164	192
Total	**1,940**	**2,015**

(1) Vendor warranties the amount of which is fixed or determinable.

The various commitments received by the Safran Group are as follows:

(in € millions)	Dec. 31, 2010	Dec. 31, 2011
Commitments received from banks on behalf of suppliers	15	10
Completion warranties	19	18
Endorsements and guarantees received	53	54
Vendor warranties received (1)	203	162
Other commitments received	3	5
Total	**293**	**249**

(1) Vendor warranties received at December 31, 2011 do not include those received as part of the acquisition of SME, which are described in Note 3.

No commitments were given or received in respect of discontinued operations.

OTHER CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Group also recognizes obligations or commitments to make future payments:

	Dec. 31, 2010	**Dec. 31, 2011**	Period to maturity		
(in € millions)	Total	**Total**	Less than 1 year	1 to 5 years	Beyond 5 years
Long•term borrowings at inception	**803**	**770**	249	369	152
Finance lease commitments	**191**	**176**	13	71	92
Operating lease commitments	**218**	**234**	62	126	46
Bond issue	**762**	**833**	70	763	-
Total	**1,974**	**2,012**	**394**	**1,329**	**290**

Lease payments recognized in profit or loss for the year amounted to €102 million.

VENDOR WARRANTIES

Vendor warranties are given or received on the acquisition or sale of companies. In 2011, one warranty was called in relation to the recent acquisition of SME (see Note 3). At December 31, 2011, no other such warranties had been called, thus making unnecessary the recognition of a provision in the Group's consolidated financial statements.

CAPITAL EXPENDITURE COMMITMENTS

At December 31, 2011, capital expenditure commitments totaled €162 million versus €108 million at end-2010.

FINANCIAL GUARANTEES GRANTED ON THE SALE OF GROUP PRODUCTS

These guarantees generate risks which represented a total gross amount of USD 143 million at December 31, 2011 (127 Million USD in 2010). This amount does not, however, reflect the actual risk to which Safran is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, consisting of the aircraft pledged. Accordingly, the full amount of the net risk as calculated using the valuation model is covered by a provision in the financial statements (see note 22).

Note 33 - Disputes and litigation

Except for the matters described below, neither Safran nor any of its subsidiaries are, or have been, notably during the last 12 months, parties to any governmental, legal or arbitration proceedings that are likely to have, or have had, in the recent past, a significant effect on the financial position or profitability of Safran and/or the Safran Group. A provision is only booked to cover the expenses that may result from such proceedings when the expenses are probable and their amount can be either quantified or reasonably estimated. The amount of the provisions booked is based on an evaluation of the level of risk for each case, and does not primarily depend on the status of the proceedings, although the occurrence of events during the proceedings can nonetheless lead to a reassessment of the risk. Safran believes that it has set aside adequate provisions to cover the risks of general or specific proceedings, either in progress or possible in the future.

- A number of civil and/or criminal lawsuits have been filed against certain Safran subsidiaries in connection with aviation accidents. The Group's insurance policy would cover any civil damages payable by Safran or its subsidiaries under these proceedings.

- In a decision dated May 26, 2011, the Paris Court of Appeals upheld the ruling of the Commercial Court and ordered Sagem Défense Sécurité to pay €10 million in damages to a supplier. As the Court of Appeals' decision was enforceable, Sagem Défense Sécurité paid these damages in full. Sagem Défense Sécurité appealed this decision before the Court of Cassation. Non-recurring operating expenses recognized in 2011 in this respect amounted to €7 million, after taking into account provisions previously set aside.

- SME, which was acquired by Safran from SNPE on April 5, 2011, received a formal notice from the prefecture of Haute Garonne in July 2010 ordering the company to cease contaminating surface water supplies with perchlorate ion. SME filed an application for annulment of this order. The proceedings are ongoing. A letter from the prefecture dated March 14, 2011 stated that an offense report would be drawn up for failure to comply with this order. However, SME has not received any further information on this matter. In relation to this contamination, two reports were drawn up against SME for failure to separate networks and disclose pollution information, in addition to an offense report for the unauthorized discharge of a harmful substance.

  Lyonnaise des Eaux, which holds the water management concession for the city of Bordeaux, as well as the urban community of Bordeaux (*Communauté Urbaine de Bordeaux* – CUB), have served SME with a writ of summons for summary proceedings before the Paris Large Claims Court (*Tribunal de Grande Instance*). In an order handed down on November 2, 2011, a legal expert was appointed in order to determine the original cause and impact of the perchlorate-contaminated drinking water supply.
  The SME purchasing agreements include environmental guarantees given by SNPE to Safran which provide for the carrying out by SME of additional analyses and the adoption of a plan of action for perchlorate management (see Note 3), the content of which must be validated by the authorities. The implementation of these measures should have a positive impact on these proceedings.

- At the end of 2002, a group of French manufacturers, including the former Snecma Group, was collectively the subject of a request for arbitration by a common customer, for a sum which, according to the claimant, would not be less than USD 260 million and for which the group of manufacturers may be jointly liable with regard to the claimant. This request related to the performance of past contracts entered into by these manufacturers and in which Snecma's participation was approximately 10%. All the manufacturers concerned contested this claim. An agreement was signed, whereby the manufacturers concerned by the request for arbitration waived their right to invoke the legal statute of limitations, and the claimant withdrew its request for arbitration in June 2003. However, it reserved the right to submit a new claim for a greater amount. Safran has not yet recognized a provision in this respect.

- EPI Europrop International, the joint company in which Snecma is shareholder and guarantor along with its fellow shareholders, develops engines for the A400M aircraft. Airbus Military, a client of EPI, brought a number of claims against the company in 2007 and 2008. Agreements signed in April 2011 put a definitive end to these claims.

- At the end of 2008, proceedings were brought against three employees of a Group subsidiary in connection with the alleged payment by Sagem SA of commissions to local intermediaries between 2000 and 2003. These payments were allegedly made in an attempt to corrupt employees of the Nigerian government with the aim of being awarded the State's electronic ID card contract. Safran was also placed under judicial investigation in connection with this case in February 2009. In a written statement dated January 18, 2011, the public prosecutor of Paris requested the partial dismissal of the claim in favor of Safran and one of the three employees indicted, and referral of the case of the other two employees to the Correctional Court. In an order dated February 28, 2011, the investigating judge decided to refer the case of Safran and the two employees to the Correctional Court. The third employee was acquitted. The proceedings are ongoing. In September 2009, a tax collection notice was issued for €11.7 million, further to a tax deficiency notice sent at the end of 2006. The amount of the tax adjustment was challenged and a claim was filed by Safran in 2011.

- In 2009 and 2010, Safran received several requests for information from the European Commission's Directorate General for Competition as part of an inquiry into activities previously carried out by Sagem SA. The activities concerned by the inquiry were sold to General Cable at the end of 2005. On July 5, 2011, Safran was served a statement of objections by the European Union. General Cable, which also received a statement of objections from the Commission in the same case, has filed a claim with Safran under the sale agreement in order to protect its rights in the event that an unfavorable decision against the entity sold is fully or partially covered by the vendor's warranty. Safran had access to the file and replied to the objections in October 2011. Based on an analysis of all aspects of this case known to date, the Group's exposure to this risk is not considered material.

Tax litigation and contingencies

- § The €14 million tax adjustment notified in respect of the rules governing the allocation of tax expense between the parent company Snecma and its consolidated subsidiaries up to the end of 2004 was contested in 2007 before the tax authorities who rejected this claim on June 24, 2011. Safran filed a statement of claim with the Administrative Court. No provision has been set aside yet in respect of this adjustment.

- § Two of the Group's subsidiaries in Brazil were served tax deficiency notices for €56.2 million and €19.3 million, respectively, chiefly in connection with unpaid import levies and duties. In light of existing legislation and case law with regard to the customs clearance for aviation products, along with information supplied by the subsidiaries, these tax adjustments have been challenged. In light of the observations made by one of these entities, at December 31, 2011, the initial amount concerned had been reduced from €19.3 million to €1.9 million.

Note 34 - Subsequent events

On February 9, 2012, Safran issued USD 1.2 billion of senior unsecured notes on the US private placement market, which included:

- USD 155 million notes due February 2019 at a 3.70% coupon
- USD 540 million notes due February 2022 at a 4.28 % coupon
- USD 505 million notes due February 2024 at a 4.43% coupon

This transaction enables Safran to diversify its financing sources at attractive conditions, to lengthen the maturity of its debt profile and to provide long term funding for the acquisitions made in the past 3 years.

Note 35 - List of consolidated companies

	Country	2010		2011	
		Consolidation method	% interest	Consolidation method	% interest
Safran SA	**France**	**Consolidating entity**			
Aerospace Propulsion					
Snecma - 75015 Paris	France	FC	100.0	FC	100.0
CFM International SA - 75105 Paris	France	PC	50.0	PC	50.0
CFM International Inc. - City of Dover, Co Kent - Delaware 19901	United States	PC	50.0	PC	50.0
Famat - 44614 Saint-Nazaire cedex	France	PC	50.0	PC	50.0
Snecma Participations SA	France	FC	100.0	FC	100.0
Fan Blade Associates	United States	FC	100.0	FC	100.0
Snecma Xinyi Airfoil Castings Co Ltd.	China	FC	90.0	FC	90.0
Snecma Suzhou	China	FC	100.0	FC	100.0
Snecma Services Brussels - 1200 Woluwé Saint Lambert	Belgium	FC	100.0	FC	100.0
Snecma Morocco Engine Services	Morocco	FC	51.0	FC	51.0
Snecma Participations Inc.	United States	FC	100.0	FC	100.0
Snecma America Engine Services	Mexico	FC	100.0	FC	100.0
Shannon Engine Support Ltd. - Shannon, Co Clare	Ireland	PC	50.0	PC	50.0
Propulsion Technologies International - Miami, Florida 33122[3]	United States	FC	51.0	PC	50.0
CFAN	United States	PC	50.0	PC	50.0
CFM Materials LP	United States	PC	50.0	PC	50.0
Techspace Aero - B4041 Milmort	Belgium	FC	55.78	FC	67.19
Techspace Aero Inc. - Cincinnati, Ohio 45246	United States	FC	55.78	FC	67.19
Cenco Inc. - Minnesota 55112	United States	FC	55.78	FC	67.19
Turbomeca SA - 64510 Bordes	France	FC	100.0	FC	100.0
Microturbo SA - 31200 Toulouse	France	FC	100.0	FC	100.0
Turbomeca Africa Pty. Ltd. - Bonaero Park 1622	South Africa	FC	51.0	FC	51.0
Turbomeca Australasia	Australia	FC	100.0	FC	100.0
Turbomeca Canada	Canada	FC	100.0	FC	100.0
Turbomeca do Brasil	Brazil	FC	100.0	FC	100.0
Turbomeca Germany	Germany	FC	100.0	FC	100.0
Turbomeca Asia Pacific	Singapore	FC	100.0	FC	100.0
Turbomeca Sud Americana	Uruguay	FC	100.0	FC	100.0
Turbomeca America Latina	Uruguay	FC	100.0	FC	100.0
Turbomeca Beijing Helicopter Engines Trading Cie Ltd.	China	FC	100.0	FC	100.0
Turbomeca Tianjing Helicopter Engines Trading Cie Ltd.(2)	China	-	-	FC	100.0
Turbomeca UK	United Kingdom	FC	100.0	FC	100.0
Turbomeca USA Inc. - Wilmington/Delaware 19808	United States	FC	100.0	FC	100.0
Turbomeca Manufacturing Inc. - Monroe/North Carolina	United States	FC	100.0	FC	100.0
Snecma Propulsion Solide - 33187 Le Haillan	France	FC	100.0	FC	100.0
Europropulsion SA - 92150 Suresnes	France	PC	50.0	PC	50.0
SME - 75015 Paris[1]	France	-	-	FC	100.0
Roxel SAS - 92350 Le Plessis Robinson[1]	France	-	-	PC	50.0
Pyroalliance - 78130 Les Mureaux[1]	France	-	-	FC	85.0
Structil - 91710 Vert Le Petit[1]	France	-	-	FC	80.0
Roxel France SA - 33160 Saint Medard en Jalles[1]	France	-	-	PC	50.0
Roxel Ltd.(1)	United Kingdom	-	-	PC	50.0
Regulus - 97 372 Kourou[1]	France	-	-	PC	40.0

FC: Full consolidation. PC: Proportional consolidation. EQ: Equity method.

(1) Acquired on April 5, 2011

(2) First-time consolidation in 2011

(3) Change in consolidation method

	Country	2010		2011	
		Consolidation method	% interest	Consolidation method	% interest
Aircraft Equipment					
Aircelle - Gonfreville l'Orcher - 76700 Harfleur	France	FC	100.0	FC	100.0
Aircelle Ltd. - Burnley, Lancashire	United Kingdom	FC	100.0	FC	100.0
SLCA - 57192 Floranges	France	FC	100.0	FC	100.0
Aircelle Maroc	Morocco	FC	100.0	FC	100.0
Messier-Bugatti-Dowty - 78141 Velizy (formerly Messier-Bugatti SA)	France	FC	100.0	FC	100.0
Messier-Dowty SA - 78142 Velizy(1)	France	FC	100.0	-	-
Messier Services International - 78140 Velizy(1)	France	FC	100.0	-	-
Messier Services SA - 78140 Velizy(2)	France	FC	100.0	-	-
Messier Services Inc. - Sterling Virginia 20166-8914	United States	FC	100.0	FC	100.0
Messier Services Pte Ltd. Singapore 508985	Singapore	FC	100.0	FC	100.0
Messier Services Ltd. - Gloucester GL2 9QH	United Kingdom	FC	100.0	FC	100.0
Messier Services Americas	Mexico	FC	100.0	FC	100.0
Messier Services Mexico	Mexico	FC	100.0	FC	100.0
Sofrance SA - 87800 Nexon	France	FC	100.0	FC	100.0
Messier Services Pte. Ltd. - Singapore 508985	Singapore	FC	60.0	FC	60.0
Hydrep - 35800 Saint-Lunaire	France	PC	50.0	PC	50.0
A-Pro Inc.- Tallahassee Florida 32301	United States	PC	50.0	PC	50.0
Messier-Dowty Ltd. - Gloucester GL2 9QH	United Kingdom	FC	100.0	FC	100.0
Messier-Dowty Inc. - Ajax Ontario	Canada	FC	100.0	FC	100.0
Messier Dowty Mexico SA de CV(3)	Mexico	-	-	FC	100.0
Suzhou II	China	FC	100.0	FC	100.0
Messier-Bugatti USA - Walton - Kentucky 41094	United States	FC	100.0	FC	100.0
Technofan SA - 31700 Blagnac	France	FC	93.91	FC	94.85
Technofan Inc. (3)	United States	-	-	FC	100.0
Labinal - 31700 Blagnac	France	FC	100.0	FC	100.0
Labinal GmbH - 21129 Hamburg	Germany	FC	100.0	FC	100.0
Labinal Maroc	Morocco	FC	74.92	FC	74.92
Matis Aerospace	Morocco	PC	33.33	PC	50.0
Safran Engineering Services - 78990 Elancourt	France	FC	100.0	FC	100.0
Labinal Inc. - Wilmington/Delaware 19808	United States	FC	100.0	FC	100.0
Labinal de Mexico SA de CV - Chihuahua	Mexico	FC	100.0	FC	100.0
Labinal Salisbury Inc. Maryland	United States	FC	100.0	FC	100.0
Labinal de Chihuahua, SA de CV	Mexico	FC	100.0	FC	100.0
Safran Engineering Services Maroc	Morocco	FC	100.0	FC	100.0
Safran Engineering Services India	India	FC	100.0	FC	100.0
Hispano-Suiza SA - 92707 Colombes	France	FC	100.0	FC	100.0
Hispano-Suiza Polska	Poland	FC	100.0	FC	100.0
SEM MB SA - 95815 Argenteuil	France	PC	50.0	PC	50.0
Globe Motors Inc. Wilmington/Delaware 19808	United States	FC	100.0	FC	100.0
Globe Motors Portugal - Modivas Vila do Conde 4485-595	Portugal	FC	100.0	FC	100.0
Globe Motors de Mexico, SA de CV	Mexico	FC	100.0	FC	100.0

FC: Full consolidation. PC: Proportional consolidation. EQ: Equity method.

(1) Merged with Messier Bugatti Dowty on January 1, 2011

(2) Merged with Messier Services International on January 1, 2011

(3) First-time consolidation in 2011

	Country	2010 Consolidation method	2010 % interest	2011 Consolidation method	2011 % interest
Defence					
Sagem Défense Sécurité - 75015 Paris	France	FC	100.0	FC	100.0
Sofradir	France	PC	40.0	PC	40.0
Vectronix AG	Switzerland	FC	100.0	FC	100.0
Safran Electronics Canada	Canada	FC	100.0	FC	100.0
Sagem Navigation GmbH	Germany	FC	100.0	FC	100.0
Safran Electronics Inc. (1)	United States	FC	100.0	-	-
Safran Electronics Asia Pte. Ltd.	Singapore	FC	51.0	FC	51.0
ULIS	France	PC	34.01	PC	34.01
Vectronix Inc.	United States	FC	100.0	FC	100.0
Optics1 Inc.	United States	FC	100.0	FC	100.0
Sagem Avionics Inc.	United States	FC	100.0	FC	100.0

FC: Full consolidation. PC: Proportional consolidation. EQ: Equity method.

(1) Merged with Technofan Inc.

	Country	2010 Consolidation method	2010 % interest	2011 Consolidation method	2011 % interest
Security					
Morpho - 75015 Paris	France	FC	100.0	FC	100.0
Morpho USA Inc.	United States	FC	100.0	FC	100.0
Morpho Cards GmbH (formerly Sagem Orga GmbH)	Germany	FC	100.0	FC	100.0
Ingenico	France	EQ	22.58	EQ	22.65
Morpho BV (formerly Sagem Identification BV)	Netherlands	FC	100.0	FC	100.0
Morpho Australasia Pty. Ltd.	Australia	FC	100.0	FC	100.0
Sagem Sécurité Maroc	Morocco	FC	100.0	FC	100.0
Aleat	Albania	FC	75.0	FC	75.0
Morpho UK Ltd.	United Kingdom	FC	100.0	FC	100.0
Morpho South Africa (Pty) Ltd.	South Africa	FC	100.0	FC	100.0
Orga Carte et Système	France	FC	100.0	FC	100.0
Morpho Cards Pte. Ltd. (formerly Sagem Orga Pte. Ltd.)	Singapore	FC	100.0	FC	100.0
Orga Zelenograd Smart Cards and Systems	Russia	FC	100.0	FC	100.0
Morpho Cards do Brasil (formerly Sagem Orga do Brasil)	Brazil	FC	100.0	FC	100.0
Orga Smart Chip Ltd.	India	FC	100.0	FC	100.0
Quantum Magnetics Inc.	United States	FC	81.0	FC	81.0
Morpho Detection GmbH	Germany	FC	81.0	FC	81.0
Morpho Detection UK	United Kingdom	FC	81.0	FC	81.0
Morpho Detection International Inc.	United States	FC	81.0	FC	81.0
Syagen Technology Inc. (1)	United States	-	-	FC	81.0
Morpho Detection Hong Kong	China	FC	81.0	FC	81.0
Orga Syscom Corporation Ltd.	India	FC	100.0	FC	100.0
Morpho Cards Colombia SAS(1)	Colombia	-	-	FC	100.0
Morpho Cards USA, Inc. (formerly Sagem Orga USA, Inc.)	United States	FC	100.0	FC	100.0
Morpho Cards UK Ltd. (formerly Sagem Orga UK Ltd.)	United Kingdom	FC	100.0	FC	100.0
Morpho Cards Portugal (formerly Orga Card Portugal)	Portugal	FC	100.0	FC	100.0
Morpho Cards de Peru SAC(1)	Peru	-	-	FC	100.0
Morpho South Africa Pty. Ltd. (formerly Sagem Orga SA Pty. Ltd.)	South Africa	FC	100.0	FC	100.0
Sagem Orga FZ LLC	United Arab Emirates	FC	100.0	FC	100.0
Morpho Cards Romania SRL (formerly Sagem Orga SRL)	Romania	FC	100.0	FC	100.0
Sagem Orga Mexico	Mexico	FC	100.0	FC	100.0
Morpho Cards Indonesia(1)	Indonesia	-	-	FC	100.0
MorphoTrak Inc.	United States	FC	100.0	FC	100.0
MorphoDetection Inc.	United States	FC	81.0	FC	81.0
Morpho Trust Inc. (2)	United States	-	-	FC	100.0
L1 Identity Solutions Inc. (2)	United States	-	-	FC	100.0
Integrated Biometric Technology LLC(2)	United States	-	-	FC	100.0
Integrated Biometric Technology Services LLC(2)	United States	-	-	FC	100.0
Bioscrypt US Inc. (2)	United States	-	-	FC	100.0
SecuriMetrics, Inc. (2)	United States	-	-	FC	100.0
Identix Incorporated(2)	United States	-	-	FC	100.0
ComnetiX, Inc. (2)	Canada	-	-	FC	100.0
Bioscrypt Canada Inc. (2)	Canada	-	-	FC	100.0
L-1 Secure Credentialing, Inc. (2)	United States	-	-	FC	100.0
L1 International Inc. (2)	United States	-	-	FC	100.0
Trans Digital Technologies LLC(2)	United States	-	-	FC	100.0

FC: Full consolidation. PC: Proportional consolidation. EQ: Equity method.

(1) First-time consolidation in 2011

(2) Acquired on July 25, 2011

	Country	2010		2011	
		Consolidation method	% interest	Consolidation method	% interest
Holding company and other					
Safran Informatique - 75015 Paris[1]	France	FC	100.0	-	-
Safran USA Inc. - Wilmington/Delaware 19808	United States	FC	100.0	FC	100.0
Etablissements Vallaroche SA - 75015 Paris	France	FC	100.0	FC	100.0
Soreval - L2633 Senningerberg	Luxembourg	FC	100.0	FC	100.0
Lexvall 2 - 75015 Paris	France	FC	100.0	FC	100.0
Lexvall 13 - 75015 Paris	France	FC	100.0	FC	100.0
Safran UK	United Kingdom	FC	100.0	FC	100.0
Safran Employment Services Inc. - Grand Prairie/Texas 75052	United States	FC	100.0	FC	100.0
Sagem Mobiles - 75015 Paris	France	FC	100.0	FC	100.0
Sagem Industries - 75015 Paris	France	FC	100.0	FC	100.0
Sagem Télécommunications - 75015 Paris	France	FC	100.0	FC	100.0
Labinal Investments Inc. - Grand Prairie/Texas 75052	United States	FC	100.0	FC	100.0

FC: Full consolidation. PC: Proportional consolidation. EQ: Equity method.

(1) Merged with Safran on January 1, 2011

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