CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

DECEMBER 31, 2012

SAFRAN
AEROSPACE · DEFENCE · SECURITY

The Board of Directors' meeting of February 20, 2013 adopted and authorized the publication of Safran's consolidated financial statements and adjusted income statement for the year ended December 31, 2012.

Table of contents

Foreword 3

Comparative adjusted consolidated income statement and segment information 5

Safran Group 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 33
Note 3 - Scope of consolidation 35
Note 4 - Segment information 38
Note 5 - Breakdown of the main components of profit from operations 41
Note 6 - Financial income (loss) 44
Note 7 - Income tax 44
Note 8 - Discontinued operations 46
Note 9 - Earnings per share 46
Note 10 - Goodwill 47
Note 11 - Intangible assets 48
Note 12 - Property, plant and equipment 50
Note 13 - Current and non-current financial assets 51
Note 14 - Investments in associates 52
Note 15 - Inventories and work-in-progress 53
Note 16 - Trade and other receivables 53
Note 17 - Cash and cash equivalents 54
Note 18 - Summary of financial assets 55
Note 19 - Consolidated shareholders' equity 57
Note 20 - Provisions 61
Note 21 - Post-employment benefits 61
Note 22 - Borrowings subject to specific conditions 70
Note 23 - Interest-bearing financial liabilities 70
Note 24 - Trade and other payables 74
Note 25 - Other current and non-current financial liabilities 74
Note 26 - Summary of financial liabilities 75
Note 27 - Management of market risks and derivatives 76
Note 28 - Interests in joint ventures 83
Note 29 - Related parties 84
Note 30 - Off-balance sheet commitments 86
Note 31 - Disputes and litigation 88
Note 32 - Subsequent events 89
Note 33 - List of consolidated companies 90

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 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 restatement concerns the amortization charged against intangible assets relating to aircraft programs revalued at the time of the Sagem-Snecma merger. With effect from the 2010 interim consolidated financial statements, the Group decided to restate the impact of purchase price allocations for all 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 hedging rate, i.e., including the costs of the hedging strategy, and
  - all mark-to-market changes on non-settled 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)	2012 consolidated data	Currency hedges		Business combinations		2012 adjusted data
		Remeasurement of revenue (1)	Deferred hedging gain (loss) (2)	Amortization of intangible assets from Sagem-Snecma merger (3)	PPA impacts – other business combinations (4)	
Revenue	**13,615**	**(55)**	**-**	**-**	**-**	**13,560**
Other recurring operating income and expenses	(12,345)	-	3	156	97	(12,089)
Recurring operating income	**1,270**	**(55)**	**3**	**156**	**97**	**1,471**
Other non-recurring operating income and expenses	(56)	-	-	-	6	(50)
Profit from operations	**1,214**	**(55)**	**3**	**156**	**103**	**1,421**
Cost of debt	(54)	-	-	-	-	(54)
Foreign exchange gains	709	55	(742)	-	-	22
Other financial income and expense	(120)	-	-	-	-	(120)
Financial income (loss)	**535**	**55**	**(742)**	**-**	**-**	**(152)**
Share in profit from associates	19	-	-	-	-	19
Income tax expense	(442)	-	270	(54)	(37)	(263)
Profit from continuing operations	**1,326**	**-**	**(469)**	**102**	**66**	**1,025**
Profit from discontinued operations	-	-	-	-	-	-
Profit (loss) for the period attributable to non-controlling interests	**(24)**	**-**	**1**	**(3)**	**-**	**(26)**
Profit for the period attributable to owners of the parent	**1,302**	**-**	**(468)**	**99**	**66**	**999**

(1) Remeasurement of foreign-currency denominated revenue net of purchases (by currency) at the hedged rate (including premiums on unwound options) through the reclassification of 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 deferred until the instruments are unwound (representing a negative amount of €742 million excluding tax), and the impact of including hedges in the measurement of provisions for losses to completion (€3 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 depreciation/amortization/impairment of 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 on March 21, 2013, once specific verifications and a review of events subsequent to February 20, 2013 have been performed.

Comparative adjusted consolidated income statement and segment information

Adjusted income statement

(in € millions)	2011 Adjusted data	2012 Adjusted data
Revenue	**11,736**	**13,560**
Other income	216	209
Income from operations	**11,952**	**13,769**
Change in inventories of finished goods and work-in-progress	134	340
Capitalized production	371	642
Raw materials and consumables used	(6,836)	(8,226)
Personnel costs	(3,808)	(4,205)
Taxes	(235)	(270)
Depreciation, amortization, and increase in provisions, net of use	(342)	(574)
Asset impairment	(62)	(26)
Other recurring operating income and expenses	15	21
Recurring operating income	**1,189**	**1,471**
Other non-recurring operating income and expenses	(29)	(50)
Profit from operations	**1,160**	**1,421**
Cost of net debt	(42)	(54)
Foreign exchange gains (losses)	(46)	22
Other financial income and expense	(127)	(120)
Financial loss	**(215)**	**(152)**
Share in profit from associates	10	19
Profit before tax	**955**	**1,288**
Income tax expense	(289)	(263)
Profit from continuing operations	**666**	**1,025**
Profit from discontinued operations	3	-
Profit for the period	**669**	**1,025**
Attributable to:		
owners of the parent	644	999
non-controlling interests	25	26
Earnings per share attributable to owners of the parent (in €)		
Basic earnings per share	1.59	2.41
Diluted earnings per share	1.58	2.40
Earnings per share from continuing operations attributable to owners of the parent (in €)		
Basic earnings per share	1.58	2.41
Diluted earnings per share	1.57	2.40
Earnings per share from discontinued operations attributable to owners of the parent (in €)		
Basic earnings per share	0.01	-
Diluted earnings per share	0.01	-

Segment information

Operating segments and key indicators shown are defined in Note 4.

At December 31, 2012

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**Total consolidated data**
Revenue	**7,005**	**3,691**	**1,315**	**1,546**	**13,557**	**3**	**13,560**	**55**	**-**	**13,615**
Recurring operating income (expense) (1)	**1,099**	**287**	**81**	**145**	**1,612**	**(141)**	**1,471**	**52**	**(253)**	**1,270**
Other non-recurring operating income and expenses	1	(16)	-	(25)	**(40)**	(10)	**(50)**	-	(6)	**(56)**
Profit (loss) from operations	**1,100**	**271**	**81**	**120**	**1,572**	**(151)**	**1,421**	**52**	**(259)**	**1,214**
Free cash flow	**464**	**38**	**13**	**11**	**526**	**38**	**564**	**-**	**-**	**564**
Gross operating working capital	**(480)**	**1,059**	**442**	**118**	**1,139**	**(12)**	**1,127**	**-**	**-**	**1,127**
Segment assets	**9,616**	**4,480**	**1,746**	**2,649**	**18,491**	**1,074**	**19,565**	**-**	**-**	**19,565**
(1) of which depreciation, amortization and increase in provisions, net of use	(262)	(172)	(65)	(58)	**(557)**	(17)	**(574)**	-	(253)	**(827)**
of which impairment	(37)	2	5	4	**(26)**	-	**(26)**	(3)	-	**(29)**

At December 31, 2011

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Impacts of business combinations	**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**	**-**	**532**	**-**	**-**	**532**
Gross operating working capital	**(592)**	**1,037**	**404**	**265**	**1,114**	**(4)**	**1,110**	**-**	**-**	**1,110**
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)**

Revenue (adjusted data)

(in € millions)		2011	2012
Aerospace Propulsion			
Original equipment and related products and services		2,834	3,340
Services		2,992	3,287
Sales of studies		221	296
Other		63	82
	Sub-total	6,110	7,005
Aircraft Equipment			
Original equipment and related products and services		1,988	2,402
Services		959	1,054
Sales of studies		70	114
Other		80	121
	Sub-total	3,097	3,691
Defence			
Sales of equipment		915	939
Services		227	257
Sales of studies		112	107
Other		10	12
	Sub-total	1,264	1,315
Security			
Sales of equipment		947	1,212
Services		280	293
Sales of studies		8	13
Other		14	28
	Sub-total	1,249	1,546
Holding company and other			
Sales of equipment		12	-
Other		4	3
	Sub-total	16	3
Total		**11,736**	**13,560**

Information by geographic area

At December 31, 2012

(in € millions)	France	Europe (excl. France)	North America	Asia	Rest of the world	**Total adjusted data**	Currency hedges	**Total consolidated data**
Revenue by location of customers	3,069	3,139	4,103	2,149	1,100	**13,560**	55	**13,615**
%	23%	23%	30%	16%	8%			
Non-current assets by location	6,354	1,161	2,075	75	170			**9,835**
%	65%	11%	21%	1%	2%			

At December 31, 2011

(in € millions)	France	Europe (excl. France)	North America	Asia	Rest of the world	**Total adjusted data**	Currency hedges	**Total consolidated data**
Revenue by location of customers	2,909	2,768	3,216	1,821	1,022	**11,736**	(78)	**11,658**
%	25%	24%	27%	15%	9%			
Non-current assets by location	5,866	1,137	2,127	65	168			**9,363**
%	62%	12%	23%	1%	2%			

No individual customer accounted for more than 10% of Group revenue in 2012 or 2011.

Safran Group

consolidated financial statements

Consolidated income statement

(in € millions)	Note	2011	2012
Revenue	5	**11,658**	**13,615**
Other income	5	216	**209**
Income from operations		**11,874**	**13,824**
Change in inventories of finished goods and work-in-progress		125	340
Capitalized production		371	642
Raw materials and consumables used	5	(6,834)	(8,226)
Personnel costs	5	(3,808)	(4,205)
Taxes		(235)	(270)
Depreciation, amortization, and increase in provisions, net of use	5	(579)	(827)
Asset impairment	5	(65)	(29)
Other recurring operating income and expenses	5	15	21
Recurring operating income		**864**	**1,270**
Other non-recurring operating income and expenses	5	(29)	(56)
Profit from operations		**835**	**1,214**
Cost of net debt		(42)	(54)
Foreign exchange gains		19	709
Other financial income and expense		(127)	(120)
Financial income (loss)	6	**(150)**	**535**
Share in profit from associates	14	10	19
Profit before tax		**695**	**1,768**
Income tax expense	7	(201)	(442)
Profit from continuing operations		**494**	**1,326**
Profit from discontinued operations	8	3	-
Profit for the period		**497**	**1,326**
Attributable to:			
owners of the parent		478	1,302
non-controlling interests		19	24
Earnings per share attributable to owners of the parent (in €)	9		
Basic earnings per share		1.18	3.14
Diluted earnings per share		1.18	3.13
Earnings per share from continuing operations attributable to owners of the parent (in €)	9		
Basic earnings per share		1.17	3.14
Diluted earnings per share		1.17	3.13
Earnings per share from discontinued operations attributable to owners of the parent (in €)	9		
Basic earnings per share		0.01	-
Diluted earnings per share		0.01	-

Consolidated statement of comprehensive income

(in € millions)	2011	2012
Profit for the period	**497**	**1,326**
Other comprehensive income		
Items to be recycled to profit	**80**	**(29)**
Available-for-sale financial assets	(6)	5
Translation adjustments and net investment hedges (1)	115	(44)
Income tax related to components of other comprehensive income to be recycled to profit	(29)	10
Items not recycled to profit	-	-
Other comprehensive income (expense) for the period	**80**	**(29)**
Total comprehensive income for the period	**577**	**1,297**
Attributable to:		
- owners of the parent	558	1,275
- non-controlling interests	19	22

(1) Including €5 million in translation gains relating to associates (€5 million in translation losses in 2011).

In 2012, translation adjustments include losses of €22 million arising on long-term financing for foreign subsidiaries (gains of €79 million in 2011). This financing meets the criteria for classification as a net investment in a foreign operation and is treated in accordance with the applicable provisions of IAS 21. Translation adjustments also include losses of €6 million in 2012 corresponding to exchange differences arising on the February 2012 issue by Safran of USD 1.2 billion in senior unsecured notes on the US private placement market classified as a hedge of the net investment in some of the Group's US operations.

Consolidated balance sheet

ASSETS *(in € millions)*	*Note*	Dec. 31, 2011	Dec. 31, 2012
Goodwill	*10*	3,126	3,078
Intangible assets	*11*	3,498	3,872
Property, plant and equipment	*12*	2,486	2,604
Non-current financial assets	*13*	246	281
Investments in associates	*14*	253	281
Non-current derivatives	*27*	20	62
Deferred tax assets	*7*	251	193
Other non-current financial assets	*16*	12	33
Non-current assets		**9,892**	**10,404**
Current financial assets	*13*	101	176
Current derivatives	*27*	259	585
Inventories and work-in-progress	*15*	3,799	4,131
Trade and other receivables	*16*	5,005	5,025
Tax assets	*7*	215	421
Cash and cash equivalents	*17*	1,431	2,193
Current assets		**10,810**	**12,531**
Assets held for sale		-	-
Total assets		**20,702**	**22,935**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	Dec. 31, 2011	Dec. 31, 2012
Share capital	*19-a*	83	83
Consolidated retained earnings	*19-c*	4,387	4,653
Net unrealized gains on available-for-sale financial assets		20	25
Profit for the period		478	1,302
Equity attributable to owners of the parent		**4,968**	**6,063**
Non-controlling interests		**154**	**165**
Total equity		**5,122**	**6,228**
Provisions	*20*	1,374	1,515
Borrowings subject to specific conditions	*22*	682	670
Non-current interest-bearing financial liabilities	*23*	1,447	2,259
Non-current derivatives	*27*	5	12
Deferred tax liabilities	*7*	718	1,028
Other non-current financial liabilities	*25*	199	107
Non-current liabilities		**4,425**	**5,591**
Provisions	*20*	1,064	1,064
Interest-bearing current financial liabilities	*23*	998	916
Trade and other payables	*24*	8,348	8,767
Tax liabilities	*7*	92	156
Current derivatives	*27*	653	213
Current liabilities		**11,155**	**11,116**
Liabilities held for sale		-	-
Total equity and liabilities		**20,702**	**22,935**

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 and net investment hedges	Consolidated reserves and retained earnings	Profit for the period	Other	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
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)**
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**
Comprehensive income for the period	-	-	-	5	(42)	-	1,302	10**	**1,275**	22	**1,297**
Acquisitions/disposals of treasury shares	-	-	111	-	-	(13)	-	-	**98**	-	**98**
Dividends	-	-	-	-	-	(154)	-	-	**(154)**	(17)	**(171)**
Interim dividend ***	-	-	-	-	-	(133)	-	-	**(133)**	-	**(133)**
Other movements	-	-	-	-	-	478	(478)	9*	**9**	6	**15**
At Dec. 31, 2012	**83**	**3,360**	**(1)**	**25**	**120**	**1,157**	**1,302**	**17**	**6,063**	**165**	**6,228**

* Other movements include €0.9 million in share grants (€5.6 million in 2011) and €0.6 million in relation to the leveraged fund plan (€8.2 million in 2011) (see Notes 5 and 19).

** A positive tax impact of €8 million on foreign exchange differences relating to net investments in foreign operations (negative tax impact of €29 million in 2011) and of €2 million on foreign exchange differences relating to the issue by Safran of USD 1.2 billion in senior unsecured notes on the US private placement market.

*** Including a €4 million expense related to the 3% dividend surtax introduced by the amending French Finance Act for 2012.

Consolidated statement of cash flows

(in € millions)		2011	2012
I. Cash flow from operating activities			
Profit attributable to owners of the parent		**478**	**1,302**
Depreciation, amortization, impairment and provisions (1)		695	933
Share in profit from associates (net of dividends received)		(10)	(19)
Change in fair value of derivatives		2	(779)
Capital gains on asset disposals		16	10
Profit (loss) before tax from discontinued operations		(4)	(1)
Profit attributable to non-controlling interests		19	24
Other		4	232
Cash flow from operations, before changes in working capital		**1,200**	**1,702**
Change in inventories and work-in-progress		(134)	(388)
Change in operating receivables and payables		216	228
Change in other receivables and payables		(35)	75
Intercompany change in working capital from discontinued operations		-	-
Change in working capital		**47**	**(85)**
	TOTAL I (2)	**1,247**	**1,617**
II. Cash flow used in investing activities			
Payments for the purchase of intangible assets, net of proceeds		(363)	(634)
Payments for the purchase of property, plant and equipment, net of proceeds		(352)	(419)
Proceeds (payments) arising from the sale (acquisition) of investments, net		(1,176)	(193)
Proceeds (payments) arising from the sale (acquisition) of financial assets, net		(6)	(86)
Cash flow from intercompany investing activities related to discontinued operations		-	-
	TOTAL II	**(1,897)**	**(1,332)**
III. Cash flow from financing activities			
Change in share capital (3)		1	-
Acquisitions and disposals of treasury shares		180	118
Repayment of borrowings and long-term debt		(254)	(119)
Increase in borrowings		32	917
Change in repayable advances		(15)	(9)
Change in short-term borrowings		390	(124)
Dividends paid to owners of the parent		(304)	(283)
Dividends paid to non-controlling interests		(13)	(17)
Cash flow from intercompany financing activities related to discontinued operations		11	2
	TOTAL III	**28**	**485**
Cash flow used in operating activities related to discontinued operations	**TOTAL IV**	**(10)**	**(1)**
Cash flow used in investing activities related to discontinued operations	**TOTAL V**	**(2)**	**-**
Cash flow from financing activities related to discontinued operations	**TOTAL VI**	**-**	**-**
Effect of changes in foreign exchange rates	**TOTAL VII**	**3**	**(7)**
Net increase (decrease) in cash and cash equivalents	**I+II+III+IV+V+ VI+VII**	**(631)**	**762**
Cash and cash equivalents at beginning of year		2,062	1,431
Cash and cash equivalents of discontinued operations and assets held for sale, at beginning of year		-	-
Cash and cash equivalents at end of year		1,431	2,193
Cash and cash equivalents of discontinued operations and assets held for sale, at end of year		-	-
Net increase (decrease) in cash and cash equivalents		**(631)**	**762**
of which change in cash and cash equivalents from continuing operations		(631)	762
of which change in cash and cash equivalents from discontinued operations		-	-
of which change in cash and cash equivalents from assets held for sale		-	-

(1) In 2011, this caption includes €662 million in depreciation and amortization, €62 million in impairment, and €29 million in reversals of provisions.
In 2012, this caption includes €721 million in depreciation and amortization, €54 million in impairment, and €158 million in provisions.

(2) Including €198 million in taxes paid in 2012 (€148 million in 2011).

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

Notes to the Safran Group

financial statements

Safran SA (2, boulevard du Général Martial Valin – 75724 Paris Cedex 15, France) is a *société anonyme* (joint-stock 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 20, 2013 adopted and authorized the publication of the 2012 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).

Changes in accounting policies

New IFRS standards, amendments and interpretations effective as of January 1, 2012

- Amendments to IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets.

The disclosures required by the amended IFRS 7 for reporting periods beginning on or after January 1, 2012 are provided in Note 16, "Trade and other receivables".

New published IFRS standards, amendments and interpretations early adopted by the Group as of January 1, 2012

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

New published IFRS standards, amendments and interpretations not yet applicable or not early adopted by the Group

- IFRS 9, Financial Instruments – Classification and Measurement of Financial Assets and Liabilities;
- 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 2011), Separate Financial Statements;
- IAS 28 (revised), Investments in Associates and Joint Ventures;
- Amendments to IFRS 9, Financial Instruments, regarding the deferral of the mandatory effective date of the standard;
- Amendments to IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; and IFRS 12, Disclosure of Interests in Other Entities, dealing with retrospective application;

- Amendments to IFRS 10, Consolidated Financial Statements; IFRS 12, Disclosure of Interests in Other Entities; and IAS 27 (revised 2011), Separate Financial Statements – Investment Entities;
- Amendments to IAS 12, Income Taxes – Deferred Tax: Recovery of Underlying Assets;
- Amendments to IAS 19, Employee Benefits – Defined Benefit Plans;
- Amendments to IAS 32, Financial Instruments: Presentation, and IFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;
- Improvements to IFRS published in May 2012;
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

The majority of these new standards, amendments and interpretations have been adopted by the European Union. Those texts not yet adopted (in particular IFRS 9) cannot be applied ahead of their effective date even if early adoption were permitted.
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.

The application of IFRS 10 – effective as of January 1, 2014 – in future reporting periods is not expected to have a material impact on the consolidated financial statements.

The Group is currently analyzing its proportionately consolidated entities in light of IFRS 11, Joint Arrangements – effective as of January 1, 2014 – to determine whether they should be classified as joint ventures or joint operations as defined by the new standard. However, as the contribution of these entities to the Group's main financial indicators is not material (see Note 28, "Interests in joint ventures"), the impact of applying this new standard on the consolidated financial statements should be limited.

Since the amended IAS 19, applicable to annual periods beginning on or after January 1, 2013, 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. The Group has estimated the impact of first-time application of the amended IAS 19 on the 2012 financial statements that will be presented for purposes of comparison with the year ended December 31, 2013. Cumulative actuarial gains and losses and past service costs not recognized pursuant to the corridor method represent €149 million before taking into account the related deferred tax effect (€109 million after deduction of deferred taxes). This amount will be recognized as a deduction from equity at January 1, 2012. Out of this amount, €129 million will be reported under actuarial gains and losses within other comprehensive income and the balance in consolidated retained earnings. The changes introduced by the amended IAS 19 to the measurement of recurring pension cost components (actuarial gains and losses no longer recognized against profit or loss and net interest cost calculated solely on the basis of the discount rate with no consideration of the expected return on plan assets) should not have a material impact on the consolidated 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 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 2008) 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 profit or loss 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 profit or loss 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. Such transactions 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 and IAS 27 (revised 2008) 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.I. 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.I. 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.

The Group has set up a net investment hedge of some of its foreign operations, as described in Note 1.w.

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. Any resulting foreign exchange gains and losses are recognized in "Financial income (loss)" for the period, except for translation differences relating to a financial instrument designated as a net investment hedge, which are reported in other comprehensive income (see Note 1.w).

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 along with the forward currency contracts and options it uses are described in Note 27, "Management of market risks and 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. Accordingly, any changes in the fair value of these derivatives are recognized in "Financial income (loss)".

g) Revenue

The main types of contracts identified in the Safran Group are standard product sales contracts, research and development contracts, and installed base 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, installed base 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 current tax and 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 credits received in the year as revenue can be deferred over several periods provided the tax credits relate to development expenditures capitalized in the Group's consolidated financial statements.

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 shares.

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 described below.

- Intangible assets recognized at the time of the 2005 Sagem–Snecma merger and classified under "Aircraft programs" are accounted for by program (the fair value of each recognized aircraft program, covering several types of intangible asset such as technologies, backlogs and customer relations) and are amortized over the residual useful life of the programs, not to exceed 20 years.
- Intangible assets acquired as part of a business combination carried out since the Group was established (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 considered as acquired intangible assets and are therefore capitalized unless the program proves unprofitable.

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.

In the Group's businesses, all criteria for capitalizing development expenditures are met when the decision to launch the development concerned is taken by management and program/project profitability as validated by relevant internal or external sources can be demonstrated. Development expenditures cannot be capitalized before this time.
Capitalization ceases as soon as the product to which the development expenditures relate is brought into service.

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.I.

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 (CGUs)[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.

Impairment tests are performed at least once a year (in the first half of the year) on assets with indefinite useful lives or on non-amortizable assets such as goodwill. Impairment tests are also carried out on amortizable assets, where the amortization/depreciation period has not yet begun. Impairment testing is carried out whenever there is an indication of impairment irrespective of whether the assets are amortizable/depreciable.

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

[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.

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 defence), 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.

m) Equity investments, loans and receivables

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, 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 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.

An objective indication of impairment is a significant or prolonged reduction in the value of the asset:
- 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.
Borrowing costs incurred during the production phase are included in the value of inventories when the eligibility conditions are met.

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 is determined by reference to the market value of the shares at the grant date, adjusted for future dividends and the cost of non-transferability, 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 specifically provide for spare part sales. Accordingly, the Group recognizes a provision for backlog losses when it 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 shown 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 defined benefit plans previously unrecognized as of January 1, 2004 were recognized in equity as of this date.

t) Borrowings subject to specific conditions

The Safran Group receives public financing in the form of repayable advances to develop aircraft and defence 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 any interest capitalized at the end of the reporting period, less repayments made. If as a result of this analysis the present value of estimated repayments is durably more or less than the carrying amount of the repayable advances over three consecutive years, that unrecognized portion of the present value of the advance which is higher or lower than the carrying amount is taken to 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. Besides the specific conditions applicable to hedge accounting (Note 1.w), borrowings are subsequently carried at amortized cost 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) Derivatives and hedge accounting

The Group uses derivative instruments to hedge potential risks arising from its operating and financial activities. These instruments are primarily used 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. The derivatives used can include forward currency contracts and

currency options or interest rate swaps. The Group's market risk management policy is described in Note 27, "Management of market risks and derivatives".

Most derivatives are traded over-the-counter and no quoted prices are available. Consequently, they are measured using pricing models commonly used by market participants.

For a derivative or non-derivative hedging 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 instrument.

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

The Group contracted a net investment hedge of some of its US operations using USD debt. Changes in the fair value of the debt attributable to the hedged foreign exchange risk are recognized within other comprehensive income for the effective portion of the hedge. Changes in fair value attributable to the ineffective portion of the hedge are taken to profit or loss. Amounts carried in equity are taken to profit or loss when the hedged investment is sold or unwound. The interest rate component of the hedging instrument is shown in "Financial income (loss)".

Certain derivatives used to hedge interest rate risk may be designated as hedging instruments in a fair value hedging relationship. 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 the fair value of hedged items 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 derivative 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 commodity price hedging strategy is described in Note 27, "Management of market risks and derivatives". Pursuant to IAS 39, these commodity 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 derivatives 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 generally realized or unwound within the scope of the operating cycle (inventories and work-in-progress, receivables, advances and downpayments received from customers, trade and other payables, and foreign currency and commodity derivatives, etc.) are presented 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 that continued to be defined by high volatility and a resulting lack of visibility at December 31, 2012, 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 (aircraft 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 expenditures**: The conditions for capitalizing development expenditures 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 the 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.

- **Profit (loss) on completion of contracts accounted for under the percentage-of-completion method**: To estimate profit (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 specifically provide for spare part sales. Accordingly, the Group recognizes a provision for backlog losses when it 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, described below.

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 acquisition (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 31, "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 2012

Acquisition of an additional 10% interest in Sofradir

On January 25, 2012, Safran and Thales acquired Areva's 20% stake in Sofradir, their jointly-owned subsidiary in infrared detector technology. As a result of this transaction, Thales and Safran each raised their stake in Sofradir from 40% to 50%.
Sofradir is proportionately consolidated in the Safran Group's financial statements in 2011 and 2012. The €14 million difference between the acquisition cost of the shares (€24 million) and the Group's share in the net assets acquired (€10 million) is recognized as goodwill.

Acquisition of the residual 19% non-controlling interest in Morpho Detection Inc. (MDI)

In December 2012, Safran acquired General Electric's residual 19% interest in Morpho Detection Inc. (MDI) for €90 million. This transaction results from the exercise of an option provided for in the September 2009 agreements concerning Safran's purchase from General Electric of an 81% stake in MDI. This latest acquisition gave Safran a 100% stake in Morpho Detection Inc. and was financed by Safran's available cash. In accordance with the policies set out in Note 1.v), the difference between the value of the commitment to purchase non-controlling interests and the price of the December 2012 transaction gave rise to a €45 million decrease in goodwill.

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 MorphoTrust) is listed on the NYSE and is 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 were consolidated by Morpho (Security branch) with effect from the acquisition date.
A significant portion of these activities is 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 allocation of the definitive purchase price at December 31, 2012 is summarized below:

(in USD millions)	**Provisional allocation**	**Definitive allocation**
Acquisition price	1,094	1,094
Acquisition cost of shares	**1,094**	**1,094**
Fair value of net assets:		
Net assets at acquisition date	(42)	(105)
Fair value of technology	63	92
Fair value of customer relationships	255	309
Deferred tax assets recognized on tax losses	100	88
Deferred tax liabilities on remeasurements	(118)	(153)
Fair value of assets acquired and liabilities assumed	**258**	**231**
Goodwill	**836**	**863**

Finalization of the purchase price allocation led to a USD 27 million increase in the goodwill recognized at December 31, 2011.

SME and its subsidiaries were consolidated at the date control was acquired by the Group and their contribution to the Group's performance is set out below:

	2011		**2012**	
(in € millions)	First-half	Second-half	**First-half**	**Second-half**
Revenue		134	**160**	**175**
Recurring operating income (1)		4	**13**	**12**

(1) Excluding depreciation and amortization charged against property, plant and equipment and intangible assets identified in connection with the definitive allocation of the purchase price. This expense was €35 million in 2012 (including €32 million in respect of 2012 and a €3 million adjustment in respect of 2011) and €7 million in 2011.

Acquisition of SME

On April 5, 2011, Safran finalized the acquisition of SNPE Matériaux Énergétiques (SME) and its subsidiaries from SNPE group. SME designs, develops and produces propelling charges and energetic equipment for the defence 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 joint venture and 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 during operations, including €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. The plan was jointly drawn up by Safran and SNPE within 18 months of the acquisition date in order to define, reduce and/or restrict the sources of ammonium perchlorate pollution, and must come into effect within five years. These guarantees granted by SNPE to Safran are counter-guaranteed by the French State for €216 million. When preparing the opening balance sheet and calculating goodwill, environmental studies were conducted in order to assess these environmental liabilities and contingent environmental liabilities as well as the abovementioned guarantees.

The share transfer agreement also provides for other guarantees granted by the seller which are capped at €25 million and have time limits of 3 to 10 years depending on their nature.

The definitive allocation of the purchase price is summarized below:

(in € millions)	**Provisional allocation**	**Definitive allocation**
Initial acquisition price	348	348
Earnout	(7)	(5)
Acquisition cost of shares	**341**	**343**
Fair value of net assets:		
Net assets at acquisition date including gross cash and cash equivalents	119	120
Fair value of technologies	62	72
Fair value of backlog	5	27
Fair value of other intangible assets	2	2
Remeasurement of property, plant and equipment and investment property	9	20
Remeasurement of inventories	7	7
Deferred taxes on remeasurements	(29)	(44)
Remeasurements – non-controlling interests	(2)	(2)
Net liabilities relating to environmental risks	(23)	(23)
Fair value of assets acquired and liabilities assumed	**150**	**179**
Goodwill	**191**	**164**

The fair value of the assets acquired and liabilities assumed was adjusted in an amount of €29 million in the definitive purchase price allocation after finalization of the work valuing the technologies, backlog and investment property acquired.
After a €2 million adjustment to the acquisition cost of shares, the remaining goodwill stands at €164 million, €27 million lower than in the initial allocation.

SME and its subsidiaries were consolidated at the date control was acquired by the Group and their contribution to the Group's performance is set out below:

(in € millions)	2011 First-half	2011 Second-half	**2012 First-half**	**2012 Second-half**
Revenue	67	135	**134**	**139**
Recurring operating income (1)	6	12	**14**	**10**

(1) Excluding depreciation and amortization charged against property, plant and equipment and intangible assets identified in connection with the definitive allocation of the purchase price. This expense was €10 million in 2012, including €8 million in respect of 2012 and a €2 million adjustment in respect of 2011.

On May 1, 2012, Snecma Propulsion Solide (SPS) was merged into SME with retroactive effect from January 1, 2012. The new group is now known as Herakles.
This merger between wholly-owned subsidiaries had no impact on the Group's consolidated financial statements.

AGREEMENT FOR A FUTURE ACQUISITION

Agreement with Goodrich for the acquisition of Goodrich Electrical Power Systems (GEPS)

In October 2012, Safran announced that it had entered into a definitive agreement with Goodrich Corporation, a subsidiary of United Technologies, to acquire Goodrich's electrical power systems activities (Goodrich Electric Power Systems – GEPS), a leading supplier of on-board aerospace electric power systems.
GEPS brings new capabilities to Safran's product offering, including the critical electrical power generation know-how and experience which is at the heart of electric power systems. The acquisition will allow Safran to continue to develop new leading-edge solutions for the electrification of aircraft equipment (including landing gear, nacelles and equipment linked to power transmissions) and achieve closer integration of electrical systems with aircraft engines.
The transaction represented a cash payment of around €310 million.
The acquisition, which is awaiting regulatory clearance and must meet other conditions usually applicable in such circumstances, should be finalized in the first half of 2013.

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 defence industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defence 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 defence 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. These solutions meet emerging needs for the safety and security of people, companies, critical facilities and countries. The Security businesses offer 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 page 7 is identical to that presented to 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 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.

Non-current assets comprise goodwill, property, plant and equipment, intangible assets and investments in associates.

Quantified segment information for 2011 and 2012 is presented on pages 7-9.

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

REVENUE

(in € millions)	2011	2012
Original equipment and related products and services	4,864	5,774
Sales of defence and security equipment	1,801	2,146
Services	4,415	4,917
Sales of studies	407	532
Other	171	246
Total	**11,658**	**13,615**

OTHER INCOME

Other income mainly comprises research tax credits and operating subsidies.

(in € millions)	2011	2012
Research tax credit *	121	124
Other operating subsidies	79	67
Other operating income	16	18
Total	**216**	**209**

* Of which €4 million in 2012 in connection with additional research tax credits in respect of 2011 (€7 million in 2011 in respect of 2010).

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	2011	2012
Raw materials, supplies and other	(2,171)	(2,495)
Bought-in goods	(257)	(361)
Changes in inventories	9	48
Sub-contracting	(2,323)	(2,915)
Purchases not held in inventory	(318)	(391)
External service expenses	(1,774)	(2,112)
Total	**(6,834)**	**(8,226)**

PERSONNEL COSTS

(in € millions)	2011	2012
Wages and salaries	(2,446)	(2,712)
Social security contributions	(1,052)	(1,105)
Share grants and leveraged savings plan	(14)	(2)
Statutory employee profit-sharing	(45)	(73)
Optional employee profit-sharing	(109)	(131)
Additional contributions	(24)	(31)
Profit-sharing bonus for employees	(19)	(8)
Corporate social contribution	(16)	(50)
Other employee costs	(83)	(93)
Total	**(3,808)**	**(4,205)**

The increase in wages and salaries is essentially attributable to the rise in headcount resulting from new hires recruited by Group companies in response to the growth in business and to changes in the scope of consolidation in 2011 (mainly SME and L-1, see Note 3).

In 2011, the Group launched a new leveraged employee shareholding plan entitling employees to purchase Safran shares with the offer of a capital guarantee and potential gains. The plan was first open to French employees and subsequently to employees in other countries. The share-based payment expense recognized in accordance with this plan (IFRS 2) amounted to €8.2 million in 2011 (leveraged plan in France) and €0.6 million in 2012 (leveraged plan outside France). Free shares vested by French employees under the April 2009 free share plan were delivered at the beginning of April 2011. The free shares awarded to employees outside France will be delivered in April 2013 (see Note 19e and the statement of changes in shareholders' equity).

The increase in the profit-sharing expense reflects the rise in the Group's earnings and the new Group-wide profit-sharing agreement applicable as of the 2012 financial year.

The rise in additional contributions between 2011 and 2012 is primarily due to the introduction of an employee retirement savings plan (PERCO) in early 2012. This plan provides for additional contributions payable by the employer on voluntary payments made or for a portion of the profit share to be invested in the plan.

In 2012, the Group paid its employees an individual profit-sharing bonus of €205 versus €500 in 2011 (the per-share dividend paid by Safran was up on the previous two years). The expense recognized in 2012 is only representative of the benefit agreed and granted in respect of dividends paid in 2012 out of 2011 earnings, as approved by the Shareholders' Meeting on May 31, 2012.

The second amending French Finance Law for 2012 increased the corporate social contribution (*forfait social*) to 20% for amounts paid out as of August 1, 2012, compared to the 8% applicable to payouts before this date. This contribution comprises employer taxes on certain ancillary components of salaries. It covers optional and statutory employee-profit sharing, additional employer contributions to the employee savings plan and employee retirement savings plan, pension top-up payments and the profit-sharing bonus. The rise in the corporate social contribution had a negative impact of around €29 million on the 2012 consolidated financial statements.

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS, NET OF USE

(in € millions)	2011	2012
Net depreciation and amortization expense		
- intangible assets	(341)	(381)
- property, plant and equipment	(321)	(340)
Total net depreciation and amortization expense *	**(662)**	**(721)**
Net increase (decrease) in provisions	**83**	**(106)**
Depreciation, amortization, and increase in provisions, net of use	**(579)**	**(827)**

(*) Of which depreciation and amortization of assets measured at fair value on the acquisition of the Snecma group, in the amounts of €156 million in 2012 and €158 million in 2011, and during recent acquisitions: €97 million in 2012 and €61 million in 2011.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	2011	2012	2011	2012
Property, plant and equipment and intangible assets	(61)	(16)	7	15
Financial assets	(2)	(6)	2	4
Inventories and work-in-progress	(309)	(319)	313	303
Receivables	(43)	(42)	28	32
Total	**(415)**	**(383)**	**350**	**354**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2011	2012
Capital gains and losses on asset disposals	(16)	(14)
Royalties, patents and licenses	(16)	(12)
Losses on irrecoverable receivables	(5)	(10)
Other operating income and expenses *	52	57
Total	**15**	**21**

* Of which income relating to the review of the probability of repayment of borrowings subject to specific conditions (€29 million in 2012 and €44 million in 2011).

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	2011	2012
Impairment net of reversals on intangible assets	23	(7)
Capital gains on asset disposals	-	1
Other non-recurring items	(52)	(50)
Total	**(29)**	**(56)**

In 2012, other non-recurring items correspond mainly to the net impairment loss taken against the Group's exposure after its customer Hawker Beechcraft filed for Chapter 11 bankruptcy protection (€16 million), and to transaction and integration costs relating to recent business combinations (€34 million).
An impairment loss of €7 million was recognized against intangible assets relating to a Security program (see Note 11).

In 2011, other non-recurring items included transaction and integration costs relating to business combinations completed in the period or in progress at that time (€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 written back for €23 million (see Note 11).

Note 6 - *Financial income (loss)*

(in € millions)	2011	2012
Financial expense on interest-bearing financial liabilities	(71)	(97)
Financial income on cash and cash equivalents	29	43
Cost of net debt	**(42)**	**(54)**
Gain or loss on foreign currency hedging instruments	(11)	742
Foreign exchange gains and losses	45	(42)
Net foreign exchange gains (losses) on provisions	(15)	9
Foreign exchange gains	**19**	**709**
Gain or loss on interest rate and commodity hedging instruments	(9)	(1)
Impairment of available-for-sale financial assets	(9)	(3)
Dividends received	3	2
Other financial provisions	(7)	-
Interest component of IAS 19 expense	(17)	(21)
Impact of discounting	(69)	(90)
Other	(19)	(7)
Other financial income and expense	**(127)**	**(120)**
Financial income (loss)	**(150)**	**535**
of which financial expense	**(227)**	**(261)**
of which financial income	**77**	**796**

Note 7 - *Income tax*

INCOME TAX EXPENSE

Income tax expense breaks down as follows:

(in € millions)	2011	2012
Current income tax expense	(159)	**(105)**
Deferred tax expense	(42)	**(337)**
Total tax expense	**(201)**	**(442)**

EFFECTIVE TAX RATE

The effective tax rate breaks down as follows:

(in € millions)	2011	2012
Profit before tax	695	1,768
Standard tax rate applicable to the parent company	36.10%	36.10%
Tax expense at standard rate	**(251)**	**(638)**
Impact of permanent differences	(12)	128
Impact of research tax credit	44	44
Impact of reduced tax rates	25	36
Impact of unrecognized tax	(13)	(17)
Impact of other items	6	5
Current income tax expense recognized in profit or loss	**(201)**	**(442)**
Effective tax rate	28.92%	25.00%

At the end of 2011, the fourth amending French Finance Law for 2011 established a one-off, temporary tax increase for the 2011 and 2012 financial years for French companies with revenue over €250 million. The French Finance Law for 2013, which was adopted in late 2012, extended this contribution for the 2013 and 2014 financial years.

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, 2011	**251**	**718**	**(467)**
Deferred taxes recognized in profit or loss	(29)	308	(337)
Deferred taxes recognized directly in equity	-	2	(2)
Reclassifications	-	(3)	3
Translation adjustments	(1)	(2)	1
Changes in scope of consolidation	(28)	5	(33)
Net deferred tax assets (liabilities) at December 31, 2012	**193**	**1,028**	**(835)**

Deferred tax asset bases

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Deferred tax asset bases		
Property, plant and equipment and intangible assets	(3,423)	(3,463)
Inventories	133	127
Current assets/liabilities	187	357
Financial assets/liabilities	476	(536)
Provisions	1,310	1,281
Tax adjustments	(538)	(376)
Losses carried forward and tax credits	576	611
Total deferred tax asset bases	**(1,279)**	**(1,999)**
Total gross deferred tax balance (a)	**(405)**	**(760)**
Total unrecognized deferred tax assets (b)	**62**	**75**
Total net deferred taxes recognized (a) - (b)	**(467)**	**(835)**

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, 2011	**215**	**92**	**123**
Movements during the period *	207	91	116
Changes in scope of consolidation	1	-	1
Translation adjustments	(3)	(3)	-
Other movements	1	(24)	25
Net tax assets at December 31, 2012	**421**	**156**	**265**

* Of which a negative €105 million impact in the income statement.

Note 8 - Discontinued operations

In 2011, "Profit (loss) from discontinued operations" represents an additional price consideration for the Communication sector businesses sold in 2008.

Note 9 - Earnings per share

The Group's potentially dilutive ordinary shares correspond to the free share plan and leveraged savings plan (see Note 19e).

Earnings per share break down as follows:

	Index	**2011**	**2012**
Numerator (in € millions)			
Profit for the period attributable to owners of the parent	(a)	478	1,302
Profit from continuing operations attributable to owners of the parent	(i)	475	1,302
Profit from discontinued operations attributable to owners of the parent	(j)	3	-
Denominator (in shares)			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	7,758,797	1,121,419
Number of shares excluding treasury shares	(d)=(b-c)	409,270,788	415,908,166
Weighted average number of shares (excluding treasury shares)	(d)	404,735,461	415,280,826
Potentially dilutive ordinary shares:			
Dilutive impact of share grants and leveraged savings plan	(e)	1,604,157	639,059
Weighted average number of shares after dilution	(f)=(d'+e)	406,339,618	415,919,885
Ratio: earnings per share (in €)			
Basic earnings per share	(g)=(a*1million)/(d')	1.18	3.14
Diluted earnings per share	(h)=(a*1million)/(f)	1.18	3.13
Ratio: earnings per share from continuing operations (in €)			
Basic earnings per share	(k)=(i*1million)/(d')	1.17	3.14
Diluted earnings per share	(l)=(i*1million)/(f)	1.17	3.13
Ratio: earnings per share from discontinued operations (in €)			
Basic earnings per share	(m)=(j*1million)/(d')	0.01	-
Diluted earnings per share	(n)=(j*1million)/(f)	0.01	-

Note 10 - Goodwill

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2011 Net	Changes in scope of consolidation	Transfers	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments and other	Dec. 31, 2012 Net
Snecma – Aircraft engines	417	-	-	-	-	-	417
Turbomeca (incl. Microturbo) – Helicopter engines	237	-	-	-	-	-	237
Techspace Aero – Aircraft engine components	47	-	-	-	-	-	47
Herakles – Aerospace and strategic propulsion	257	-	-	-	(27)	(2)	228
Other	1	-	-	-	-	-	1
Total Propulsion	**959**	**-**	**-**	**-**	**(27)**	**(2)**	**930**
Aircelle – Nacelles and aerostructures	213	-	-	-	-	-	213
Labinal – Electrical wiring	225	4	-	-	-	(1)	228
Safran Engineering Services - Engineering	78	-	-	-	-	-	78
Messier-Bugatti-Dowty (incl. Sofrance) – Landing and braking systems	171	-	-	-	-	-	171
Technofan – Ventilation systems	10	-	-	-	-	-	10
Globe Motors Inc.	10	-	-	-	-	-	10
Total Aircraft Equipment	**707**	**4**	**-**	**-**	**-**	**(1)**	**710**
Sagem – Defence	102	18	-	-	-	(1)	119
Total Defence	**102**	**18**	**-**	**-**	**-**	**(1)**	**119**
Morpho – Identification	949	-	-	-	20	(14)	955
Morpho – Cards	52	8	-	-	(2)	-	58
Morpho – Detection	357	(45)	-	-	-	(6)	306
Total Security	**1,358**	**(37)**	**-**	**-**	**18**	**(20)**	**1,319**
Total	**3,126**	**(15)**	**-**	**-**	**(9)**	**(24)**	**3,078**

Movements in the period

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

- the definitive allocation of the purchase price for SME and its subsidiaries, which resulted in a €27 million decrease in goodwill for the “Herakles” CGU (see Note 3);
- the acquisition of Areva’s interest in Sofradir, which resulted in a €14 million increase in goodwill for the “Defence” CGU (see Note 3);
- the definitive allocation of the purchase price for L-1, which resulted in a €20 million (USD 27 million) increase in goodwill for the “Morpho - Identification” CGU (see Note 3);
- the acquisition of the residual 19% minority stake in Morpho Detection Inc., which resulted in a €45 million decrease in goodwill for the “Morpho - Detection” CGU (see Note 3).

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 in 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 1.29 for years 2013 to 2016 and 1.35 thereafter (2011: 1.33 for years 2012 to 2015 and 1.35 thereafter). These exchange rate assumptions were used for medium- and long-term forecasting during the first half of the year.

- The growth rate used to calculate terminal value was set at 1.5% for Aircraft Equipment and Defence CGUs and at 2% for Aerospace Propulsion and Security CGUs, compared to a growth rate of 1.5% in 2011 for all CGUs except Aerospace Propulsion (2%).
- The benchmark post-tax discount rate used is 8% (unchanged from 2011) and is applied to post-tax cash flows. However, a post-tax discount rate of 9.5% is used for the CGUs in the Security branch (unchanged from 2011).

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 2011.

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 2012 as in 2011, the above changes in the main assumptions taken individually do not result in values lower than the carrying amounts of goodwill balances.

Note 11 - Intangible assets

Intangible assets break down as follows:

	Dec. 31, 2011			Dec. 31, 2012		
(in € millions)	Gross	Amortization / impairment	Net	Gross	Amortization / impairment	Net
Aircraft programs (1)	2,670	(1,273)	1,397	2,670	(1,448)	1,222
Development expenditures	1,540	(402)	1,138	2,053	(455)	1,598
Commercial concessions	191	(102)	89	221	(123)	98
Software	361	(313)	48	416	(343)	73
Brands	147	(9)	138	147	(11)	136
Commercial relationships	526	(112)	414	569	(174)	395
Technology	256	(42)	214	298	(72)	226
Backlog	33	(19)	14	54	(25)	29
Other	73	(27)	46	125	(30)	95
Total	**5,797**	**(2,299)**	**3,498**	**6,553**	**(2,681)**	**3,872**

(1) Remeasured at fair value in connection with the Sagem/Snecma merger in 2005.

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 aircraft programs is approximately six years.

Movements in intangible assets break down as follows:

(in € millions)	Gross	Amortization/ impairment	Net
At December 31, 2011	**5,797**	**(2,299)**	**3,498**
Internally produced assets	569	-	569
Separate acquisitions	98	-	98
Disposals and retirements	(17)	4	(13)
Amortization	-	(381)	(381)
Impairment losses recognized in profit or loss	-	(5)	(5)
Adjustments to purchase price allocation	97	-	97
Reclassifications	2	1	3
Changes in scope of consolidation	20	(2)	18
Translation adjustments	(13)	1	(12)
At December 31, 2012	**6,553**	**(2,681)**	**3,872**

Research and development costs recognized in recurring operating income for the period totaled €667 million including amortization (€616 million in 2011).

Internally produced assets in the period (€569 million) include capitalized development expenditures amounting to €504 million (€282 million in 2011).
Amortization charged against development expenditures in the period totaled €62 million (€54 million in 2011).

Amortization was recognized in respect of revalued assets for €253 million (allocation of the cost of the Snecma group business combination for €156 million and other recent acquisitions for €97 million).

2012 Impairment tests

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 1.29 for years 2013 to 2016 and 1.35 thereafter (2011: 1.30 for years 2012 to 2015 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 2011). 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 2011.

As a result of the impairment tests carried out in 2012, intangible assets relating to a Security project were written down for a cumulative amount of €7 million. This write-down is shown within non-recurring operating expenses (see Note 5).

2011 Impairment tests

As a result of the impairment tests carried out in 2011, development expenditures relating to the TP400/A400M program were written down by a further €14 million, including €9 million against Aerospace Propulsion assets, €5 million against Aircraft Equipment assets, and €4 million against 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).

Note 12 - Property, plant and equipment

Property, plant and equipment break down as follows:

(in € millions)	Dec. 31, 2011			Dec. 31, 2012		
	Gross	Depreciation / impairment	Net	Gross	Depreciation / impairment	Net
Land	228	-	228	233	-	233
Buildings	1,279	(663)	616	1,333	(697)	636
Technical facilities, equipment and tooling	4,108	(2,858)	1,250	4,241	(3,008)	1,233
Assets in progress, advances	220	(5)	215	321	(4)	317
Site development and preparation costs	46	(25)	21	50	(27)	23
Buildings on land owned by third parties	92	(42)	50	96	(50)	46
Computer hardware and other equipment	461	(355)	106	495	(379)	116
Total	**6,434**	**(3,948)**	**2,486**	**6,769**	**(4,165)**	**2,604**

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

(in € millions)	**Gross**	**Depreciation/ impairment**	**Net**
At December 31, 2011	**6,434**	**(3,948)**	**2,486**
Internally produced assets	73	-	73
Additions	410	-	410
Disposals and retirements	(206)	161	(45)
Depreciation	-	(340)	(340)
Impairment losses recognized in profit or loss	-	(2)	(2)
Reclassifications	33	(37)	(4)
Adjustments to purchase price allocation	11	-	11
Changes in scope of consolidation	29	(7)	22
Translation adjustments	(15)	8	(7)
At December 31, 2012	**6,769**	**(4,165)**	**2,604**

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

(in € millions)	Dec. 31, 2011			Dec. 31, 2012		
	Gross	Depreciation / impairment	Net	Gross	Depreciation / impairment	Net
Land	5	-	5	5	-	5
Buildings	156	(25)	131	156	(31)	125
Technical facilities, equipment and tooling	51	(33)	18	50	(34)	16
Computer hardware and other equipment	19	(18)	1	21	(19)	2
Total	**231**	**(76)**	**155**	**232**	**(84)**	**148**

Note 13 - Current and non-current financial assets

Financial assets include:

(in € millions)	Dec. 31, 2011			Dec. 31, 2012		
	Gross	Impairment	Net	Gross	Impairment	Net
Non-consolidated investments *	316	(145)	171	359	(150)	209
Other financial assets	265	(89)	176	356	(108)	248
Total	**581**	**(234)**	**347**	**715**	**(258)**	**457**

* Of which listed securities for €50 million at December 31, 2012 and 2011 (Embraer and Myriad).

Non-consolidated equity investments are classified as available-for-sale and measured at fair value or at cost if fair value cannot be reliably measured.

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.

A €3.4 million impairment loss against the Group's interest in the Myriad group was recognized in profit and loss for 2012.

An €8.7 million impairment loss against the Group's interest in Arianespace Participation was recognized in profit and loss for 2011.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Loans to non-consolidated companies	85	148
Loans to employees	26	28
Deposits and guarantees	12	9
Other *	53	63
Total	**176**	**248**
Non-current	75	**72**
Current	101	**176**

(*) Of which a net receivable of €38 million at December 31, 2012 in respect of warranties received as part of the acquisition of SME (€35 million at December 31, 2011).

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, 2011	**176**
Increase	99
Decrease	(13)
Impairment	(3)
Reclassifications	(12)
Changes in scope of consolidation	1
At December 31, 2012	**248**

Note 14 - Investments in associates

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

	Dec. 31, 2011	**Dec. 31, 2012**			
(in € millions)	Net	% interest	Shareholders' equity	Share in profit from associates	Net
Ingenico (1)	244	22.80%	253	19	272
Other (2)	9	N/A	9	-	9
Total	**253**		**262**	**19**	**281**

(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 2012 was determined based on consensus forecasts provided by analysts. The stock market value totaled €514 million at December 31, 2012 (11,950,583 shares with a par value of €43.00) versus €328 million at December 31, 2011 (11,773,146 shares with a par value of €27.90).

(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 for this investment and did not result in the recognition of any impairment.

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

(in € millions)	
At December 31, 2011	**253**
Share in profit from associates	19
Other movements *	9
At December 31, 2012	**281**

(*) Of which €9 million with respect to Ingenico (see consolidated statement of comprehensive income and Note 19c).

Note 15 - Inventories and work-in-progress

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

(in € millions)	Dec. 31, 2011 Net	Dec. 31, 2012 Net
Raw materials and supplies	604	597
Finished goods	1,477	1,656
Work-in-progress	1,680	1,834
Bought-in goods	38	44
Total	**3,799**	**4,131**

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

(in € millions)	Gross	Impairment	Net
At December 31, 2011	**4,332**	**(533)**	**3,799**
Movements during the period	388	-	388
Net impairment expense	-	(23)	(23)
Reclassifications	(32)	4	(28)
Changes in scope of consolidation	1	(3)	(2)
Translation adjustments	(4)	1	(3)
At December 31, 2012	**4,685**	**(554)**	**4,131**

Note 16 -Trade and other receivables

(in € millions)	Dec. 31, 2011 Net	Movements during the period	Impairment/ Reversal	Changes in scope of consolidation	Reclassifications		Translation adjustments	Dec. 31, 2012 Net
Operating receivables	**4,566**	**7**	**(15)**	**(6)**	**(3)**		**(3)**	**4,546**
Debit balances on trade payables/advance payments to suppliers	301	(22)	-	-	(2)		2	279
Trade receivables	4,225	28	(15)	20	(1)		(5)	4,252
Current operating accounts	30	(1)	-	(26)	-		-	3
Employee-related receivables	10	2	-	-	-		-	12
Other receivables	**439**	**57**	**(1)**	**3**	**(17)**		(2)	**479**
Prepaid expenses	53	19	-	(1)	(4)		-	67
VAT receivables	290	46	-	-	3		(1)	338
Other State receivables	15	(2)	-	-	-		-	13
Other receivables	81	(6)	(1)	4	(16)	*	(1)	61
Total	**5,005**	**64**	**(16)**	**(3)**	**(20)**		**(5)**	**5,025**

* Of which €16 million in net plan assets for defined pension plans at December 31, 2011 (see Note 21), reclassified within other non-current financial assets at December 31, 2012.

In both 2012 and 2011, the Group sold trade receivables under three agreements requiring derecognition under IFRS. The terms and conditions of these agreements are presented in Note 23, "Interest-bearing financial liabilities".

Under the agreement with General Electric Capital Corp. regarding CFM Inc., the Group retains a continuing involvement in the form of a guarantee deposit pledged to protect the purchaser against the risks associated with the receivables sold. The carrying amount of this guarantee deposit at December 31, 2012 was USD 5.8 million compared to USD 3.9 million at December 31, 2011 (amounts based on a 50% interest).

The table below provides a breakdown of trade receivables by maturity:

(in € millions)	**Carrying amount at Dec. 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, 2011									
Trade receivables	**4,225**	3,821	178	102	41	26	55	402	2
At December 31, 2012									
Trade receivables	**4,252**	3,791	218	105	47	37	50	457	4

Note 17 - *Cash and cash equivalents*

Cash and cash equivalents break down as follows at December 31, 2012:

(in € millions)	**Dec. 31, 2011**	**Dec. 31, 2012**
Negotiable debt securities	5	3
Money-market funds	11	14
Short-term investments	1,009	1,350
Sight deposits	406	826
Total	**1,431**	**2,193**

The table below presents changes in cash and cash equivalents:

(in € millions)	
At December 31, 2011	**1,431**
Movements during the period	766
Changes in scope of consolidation	1
Translation adjustments	(7)
Other movements	2
At December 31, 2012	**2,193**

Note 18 - Summary of financial assets

The table below presents the carrying amount of the Group's financial assets at December 31, 2011 and December 31, 2012:

At December 31, 2011	Carrying amount				
	At amortized cost		At fair value		Total
(in € millions)	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
Non-current derivatives			20		20
Other non-current financial assets	75				75
Sub-total non-current financial assets	**75**	**-**	**20**	**171**	**266**
Other current financial assets	101				101
Current derivatives			259		259
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**	**-**	**259**	**-**	**6,127**
Total financial assets	**5,943**	**-**	**279**	**171**	**6,393**

At December 31, 2012	Carrying amount				
	At amortized cost		At fair value		Total
(in € millions)	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				209	209
Non-current derivatives			62		62
Other non-current financial assets	72				72
Sub-total non-current financial assets	**72**	**-**	**62**	**209**	**343**
Other current financial assets	176				176
Current derivatives			585		585
Trade receivables	4,252				4,252
Current operating accounts and other receivables	64				64
Cash and cash equivalents	2,193				2,193
Sub-total current financial assets	**6,685**	**-**	**585**	**-**	**7,270**
Total financial assets	**6,757**	**-**	**647**	**209**	**7,613**

The Group did not reclassify any financial assets between the amortized cost and fair value categories in 2011 or 2012.

FAIR VALUE OF FINANCIAL ASSETS

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 carried at fair value at December 31, 2011 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments *	50	-	-	50
Derivatives	-	279	-	279
Total	**50**	**279**	**-**	**329**

* Excluding investments at amortized cost.

The Group's financial assets carried at fair value at December 31, 2012 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Non-consolidated investments *	50	-	-	50
Derivatives	-	647	-	647
Total	**50**	**647**	**-**	**697**

* Excluding investments at amortized cost.

In 2011 and 2012, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

Note 19 - Consolidated shareholders' equity

19a – SHARE CAPITAL

At December 31, 2012, 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.

19b – BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

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

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%
Current and former 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%**

(*) Exercisable voting rights.

December 31, 2012

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights (*)
Private investors	225,492,451	54.07%	232,460,825	47.00%
French State	125,940,227	30.20%	143,752,222	29.07%
Current and former employee shareholders	64,475,488	15.46%	118,355,148	23.93%
Treasury shares	1,121,419	0.27%	-	-
Total	417,029,585	100.00%	494,568,195	100.00%

(*) Exercisable voting rights.

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

The 1,121,419 treasury shares have no voting rights.

Treasury shares

The number of treasury shares has declined since December 31, 2011 following:

- the delivery of six million shares sold in January 2012 to settle obligations to French employees under the Group's leveraged employee shareholding plan launched in November 2011 (see Note 19d);
- the delivery of 371,997 shares in May 2012 to settle obligations to employees outside France under the Group's leveraged employee shareholding plan launched in March 2012 (see Note 19d);
- the sale of 66,767 shares in connection with employee shareholding transactions;
- the sale of 198,614 shares under the liquidity agreement.

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.
This authorization was renewed by the Shareholders' Meeting held on May 31, 2012.

Pursuant to these authorizations, in 2012 the Company purchased 4,620,989 shares for €127 million, and sold 4,819,603 shares for €131 million. These transactions were carried out under a liquidity agreement.
In January 2012, the Group signed a new liquidity agreement with Oddo (replacing Kepler Capital Markets), 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, 2012, 107,115 shares were held in connection with the Group's liquidity agreement.

19c – CONSOLIDATED RETAINED EARNINGS

Movements in consolidated retained earnings are as follows:

	(in € millions)
Consolidated retained earnings at December 31, 2011	**4,387**
- Appropriation of 2011 profit to consolidated retained earnings	478
- Dividend distribution	(154)
- 2012 interim dividend and 3% tax on dividends	(133)
- Translation adjustment and net investment hedge	(42)
- Taxes on translation adjustments and net investment hedges recognized in equity	10
- Delivery and sale of treasury shares	118
- Taxes on disposals of treasury shares recognized in equity	(20)
- Other	9
Consolidated retained earnings at December 31, 2012	**4,653**

19d – DIVIDEND DISTRIBUTION

A dividend payout of €0.62 per share was approved in respect of 2011 and partially paid in that year in the form of an interim dividend of €0.25 per share, representing a total of €102 million. The remaining €0.37 dividend per share was paid in first-half 2012, representing a payout of €154 million.

The Board of Directors' meeting of December 12, 2012 approved payment of an interim dividend of €0.31 per share in respect of 2012, representing a payout of €129 million which was reduced to €128.9 million after deducting the dividend related to treasury shares held at the ex-dividend date.

At the Shareholders' Meeting to be called on May 28, 2013 in order to approve the financial statements for the year ended December 31, 2012, the Board of Directors will recommend payment of a dividend of €0.96 per share in respect of 2012, representing a total payout of €400 million. Taking account of the interim dividend already paid, the amount still to be distributed totals €271 million.

The amending French Finance Law for 2012 introduced a 3% tax on payouts made, including dividends. At December 31, 2012, Safran is liable for this tax on the interim dividend it paid in December in an amount of €4 million. The expense relating to this tax was recognized in equity.

19e – 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 grants

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 and are not subject to a lock-up period.

These shares are not subject to any specific performance conditions 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 free 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 2012 was €0.9 million (€5.6 million in 2011). 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 six million Safran treasury shares were available for subscription under this plan.
The plan was rolled out to Group employees working outside France in the first half of 2012.

Terms and conditions of the leveraged plan

Under the leveraged 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, 2011 and December 8, 2011 for employees of Group companies headquartered in France and between March 21, 2012 and April 19, 2012 for employees of Group companies headquartered outside France). 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 National 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 first part of the plan, launched by the Group in 2011, represented a total expense of €8.2 million which was recognized in personnel costs in second-half 2011. The second international part of the plan represented an expense of €0.6 million, recognized in the first half of 2012.

	2011		2012	
	Value	**%**	**Value**	**%**
Details of the plan and amounts subscribed				
Reference share price (1) *(in euros)*	21.65		26.77	
Subscription price *(in euros)*	17.32		21.42	
Discount – face value		20%		20%
Total number of shares subscribed *(in millions of shares)*	6		0.4	
Total amount subscribed by employees *(in millions of euros)*	10.4		0.8	
Total amount subscribed *(in millions of euros)*	103.9		7.7	
Maturity of the plan *(in years)*	5		5	
Valuation assumptions				
Borrowing rate for market participants (bullet)		3.92%		3.36%
5-year risk-free interest rate		1.92%		1.36%
Annual dividend rate		2.02%		2.40%
Annual borrowing rate for shares (repo)		1.00%		1.00%
Retail/institutional volatility spread		5.00%		4.00%
Valuation of IFRS 2 expense *(in millions of euros)*				
Discount value (a)	26	20%	1.9	20%
Value of the lock-up period for the market participant (b)	18.1	13.93%	1.3	13.93%
Value of the opportunity gain (c)	0.3	0.29%	-	0.41%
Overall cost for the Group (a-b+c)	**8.2**	**6.37%**	**0.6**	**6.48%**

(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 20 - Provisions

Provisions break down as follows:

(in € millions)	Dec. 31, 2011	Additions	Reversals: Utilizations	Reversals: Reclassifications	Reversals: Surplus	Changes in scope of consolidation	Other	Dec. 31, 2012
Performance warranties	570	247	(111)	-	(64)	1	(1)	642
Financial guarantees	51	18	(22)	-	(4)	-	(15)	28
Services to be rendered	424	473	(395)	-	(11)	-	(4)	487
Post-employment benefits	418	68	(56)	-	(1)	-	4	433
Sales agreements and long-term receivables	104	63	(18)	-	(20)	-	-	129
Losses on completion and backlog losses	524	211	(62)	(149)	(7)	-	1	518
Disputes and litigation	39	10	(6)	-	(7)	2	(3)	35
Other *	308	80	(54)	-	(25)	9	(11)	307
Total	**2,438**	1,170	(724)	(149)	(139)	12	(29)	**2,579**
Non-current	1,374							**1,515**
Current	1,064							**1,064**

* Of which a provision of €90 million (December 31, 2011: €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 Group makes a number of reclassifications when provisions initially recognized in liabilities – namely provisions for losses on completion and for backlog losses – are subsequently recognized in assets, for example write-downs of inventories and work-in-progress.

Note 21 - Post-employment benefits

The Group has various commitments in respect of defined benefit pension plans, retirement termination benefits 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, 2011	**Dec. 31, 2012**	France	United Kingdom	Other European countries	North America	Asia
Gross obligations	908	**1,146**	576	424	97	48	1
Fair value of plan assets	358	**407**	3	325	47	32	-
Unrecognized past service cost and actuarial gains and losses	149	**326**	176	119	17	14	-
Provision recognized in the accounts	**418**	**433**	397	-	33	2	1
- Defined benefit retirement plans	*36*	***34***	*9*	-	*25*	-	-
- Retirement termination benefits	*350*	***362***	*352*	-	*7*	*2*	*1*
- Other employee benefits	*32*	***37***	*36*	-	*1*	-	-
Recognized net plan assets (*)	**(16)**	**(20)**	-	(20)	-	-	-

(*) Recognized net plan assets in respect of defined benefit pension obligations were recorded in "Other receivables" at December 31, 2011 (see Note 16), and reclassified to "Other non-current financial assets" at December 31, 2012.

(in € millions)	Dec. 31, 2011	**Dec. 31, 2012**	Defined benefit retirement plans (see Note 21.a)	Retirement termination benefits (see Note 21.b)	Other employee benefits (see Note 21.c)
Gross obligations	908	**1,146**	596	513	37
Fair value of plan assets	358	**407**	175	151	0
Unrecognized past service cost and actuarial gains and losses	149	**326**	175	151	0
Provision recognized in the accounts	**418**	**433**	34	362	37
Recognized net plan assets	**(16)**	**(20)**	(20)	0	0

The €238 million increase in the gross obligation chiefly reflects the fall in the discount rates (down 1.25 points for the eurozone and 0.5 points for the United Kingdom) used to measure the present value of pensions and other employee benefit obligations. Since Safran applies the corridor method, the increase in the gross obligation has a limited impact on the provision recognized in the accounts at December 31, 2012, and most of the increase impacts the amount of unrecognized actuarial gains and losses.

The cost of the Group's pension obligations in 2011 and 2012 can be analyzed as follows:

(in € millions)	**Dec. 31, 2011**	**Dec. 31, 2012**
Pension expense		
Current service cost	(31)	(33)
Recognized actuarial gains and losses	(8)	(10)
Plan curtailments and modifications	1	-
Recognized past service cost	(15)	(3)
Total operating component of the pension expense	**(53)**	**(46)**
Interest cost	(38)	(41)
Expected return on plan assets	21	20
Total financing component of the pension expense	**(17)**	**(21)**
Total pension expense	**(70)**	**(67)**

Main assumptions used to calculate commitments:

(in € millions)		Eurozone	United Kingdom
Discount rate	*Dec. 31, 2011*	*4.50%*	*5.00%*
	Dec. 31, 2012	**3.25%**	**4.50%**
Inflation rate	*Dec. 31, 2011*	*2.00%*	*3.00%*
	Dec. 31, 2012	**2.00%**	**2.95%**
Expected return on plan assets	*Dec. 31, 2011*	*4.00%*	*6.13%*
	Dec. 31, 2012	**4.56%**	**5.72%**
Rate of future salary increases	*Dec. 31, 2011*	*1.50%-5.00%*	*3.75%*
	Dec. 31, 2012	**1.50%-5.00%**	**3.70%**
Retirement age	Dec. 31, 2011	*Managerial: 64/65 years* *Non-managerial: 62/65 years*	*65 years*
	Dec. 31, 2012	**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 was taken into account in measuring the retirement benefit obligation at December 31, 2011, although the impact was not material.

The discount rates are determined by reference to the yield on private 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, 2012:

Sensitivity (basis points)	-1%	+1%
Change in gross benefit obligation at December 31, 2012 (in € millions)	+177	-164

The impact of a 1% increase or decrease in the discount rates on consolidated profit for 2012 and on the provision at end-December 2012 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, 2012	Expected return on plan assets in 2013	% allocation at Dec. 31, 2012	Expected return on plan assets in 2013
Shares	48.90%	7.58%	16.36%	6.81%
Bonds and debt instruments	33.73%	3.07%	63.69%	3.97%
Property	6.92%	6.69%	11.91%	5.25%
Cash and cash equivalents	1.34%	0.87%	1.86%	3.15%
Other	9.11%	5.50%	6.18%	3.88%

	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 debt instruments	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%

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 2012:

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

21a - DEFINED BENEFIT PENSION PLANS

a) Description of benefits

- France

A supplementary 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 an insurance company which then manages payment of the pensions. At December 31, 2012, 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 supplementary defined contribution retirement plan. Group companies affected by this change were Safran (for Snecma employees), Snecma, Herakles, 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 in place at Messier-Dowty/Messier Services Ltd, Aircelle Ltd and Safran UK. These pension funds have been contracted out, which means they replace the mandatory supplementary 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.

  - North America

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, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	**Dec. 31, 2012**
Gross obligations	280	374	442	486	**596**
Fair value of plan assets	195	269	335	358	**407**
Provision recognized in the accounts	73	47	35	36	**34**
Recognized net plan assets	-	-	(4)	(16)	**(20)**
Experience adjustments	65	(25)	(7)	13	**(2)**
of which experience adjustments on the benefit obligation	(9)	2	(3)	(5)	**6**
of which experience adjustments on plan assets	74	(27)	(4)	18	**(8)**
as a % of obligations	*-3%*	*0%*	*-1%*	*-1%*	***1%***
as a % of plan assets	*38%*	*-10%*	*-1%*	*5%*	***-2%***

b) Financial position

(in € millions)	Dec. 31, 2011	**Dec. 31, 2012**	o/w France	o/w other countries (excl. France)
Gross obligations	486	**596**	35	561
Fair value of plan assets	358	**407**	3	404
Provision recognized in the accounts	36	**34**	9	25
Recognized net plan assets	(16)	**(20)**	-	(20)
Unrecognized items	109	**175**	23	152
- Actuarial gains and losses	*109*	***175***	*23*	*152*
- Past service cost	-	**-**	-	-
- Unrecognized net plan 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, 2012	**486**	**358**	**108**	**20**
A. Pension expense				
Current service cost	10	-	-	
Interest cost	24	-	-	
Expected return on plan assets	-	20	-	
Recognized actuarial gains and losses	-	-	(7)	
Plan curtailments and modifications	-	-	-	
Recognized past service cost	-	-	-	
Total pension expense	**34**	**20**	**(7)**	**21**
B. Employer expense				
Employer contributions	-	27	-	
Benefits paid	(16)	(16)	-	
Total employer expense	**(16)**	**11**	**-**	**(27)**
C. Other recognized items				
Unrecognized net plan assets	-	-	-	
Changes in scope of consolidation	-	-	-	
Other movements	-	-	-	
Translation adjustments	8	7	2	
Reclassification to assets held for sale	-	-	-	
Total other recognized items	**8**	**7**	**2**	**(1)**
Change in provision	**26**	**38**	**(5)**	**(7)**
D. Other unrecognized items				
Employee contributions	4	3	-	
Actuarial gains and losses for the period	80	8	72	
Past service cost for the period	-	-	-	
Total other unrecognized items	**84**	**11**	**72**	**1**
Amounts recognized at December 31, 2012	**596**	**407**	**175**	**14**
Provision recognized in the accounts				34
Recognized net plan assets				(20)

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 €28 million in 2012 and €4 million in 2011.

The Group expects to pay a total of €25 million into its defined benefit pension plans in 2013 (€27 million in 2012 and €25 million in 2011).

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. In 2011, Safran therefore chose to be taxed on its contributions. This taxation was recognized in actuarial gains and losses at December 31, 2011.

21b - RETIREMENT TERMINATION BENEFITS

a) Description of benefits

In France, this heading includes obligations in respect of statutory termination benefits due on retirement and supplementary payments required by the collective bargaining agreement for the metallurgy industry. It also includes obligations regarding employees eligible for the Group's 2010 and 2012 agreements on the increase of retirement termination benefits.
In 2010, the Group signed a triennial agreement related to the employment of the over 50s, 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.
Pending the implementation of the future provisions under the inter-generational agreement in France, at the end of 2012 the Group signed an amendment extending the agreement, except for the measure providing for an increase in end-of-career bonuses. The Group also signed a separate agreement renewing for a further three years the measure providing for an increase in retirement termination benefits initially set out in an agreement signed by the Group in 2010.

- Outside France, this heading includes obligations under early retirement plans at Morpho Cards GmbH and Snecma Services Brussels, as well as employee benefit obligations in respect of Mexico, Poland and India.

b) Financial position

(in € millions)	Dec. 31, 2011	**Dec. 31, 2012**	France	Other countries (excl. France)
Gross obligations	390	**513**	505	8
Fair value of plan assets				
Provision recognized in the accounts	350	**362**	352	10
Unrecognized items	40	**151**	153	(2)
- Actuarial gains and losses	*3*	***81***	*81*	
- Past service cost	*37*	***70***	*72*	*(2)*
- Unrecognized net plan assets				

(in € millions)	Gross obligations (a)	Fair value of plan assets (b)	Unrecognized items (c)	Provisions =(a)-(b)-(c)
Position at January 1, 2012	**390**		**40**	**350**
A. Pension expense				
Current service cost	20			
Interest cost	16			
Expected return on plan assets				
Recognized actuarial gains and losses				
Plan curtailments and modifications				
Recognized past service cost			(3)	
Total pension expense	**36**		**(3)**	**39**
B. Employer expense				
Employer contributions				
Benefits paid	(26)			
Total employer expense	**(26)**			**(26)**
C. Other recognized items				
Unrecognized net plan assets				
Changes in scope of consolidation	(1)			(1)
Other movements				
Translation adjustments				
Reclassification to assets held for sale				
Total other recognized items	**(1)**			**(1)**
Change in provision	**9**		**(3)**	**12**
D. Other unrecognized items				
Employee contributions				
Actuarial gains and losses for the period	78		78	
Past service cost for the period	36		36	
Total other unrecognized items	**114**	**-**	**114**	**-**
Position at December 31, 2012	**513**		**151**	**362**

21c - 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, Poland and the US.

b) Financial position

(in € millions)	Dec. 31, 2011	**Dec. 31, 2012**	France	Other countries (excl. France)
Gross obligations	32	**37**	36	1
Fair value of plan assets	-	**-**	-	-
Provision recognized in the accounts	32	**37**	36	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, 2012	**32**	**-**	**-**	**32**
A. Pension expense				
Current service cost	3			
Interest cost	1			
Expected return on plan assets				
Recognized actuarial gains and losses	3			
Plan curtailments and modifications				
Recognized past service cost				
Total pension expense	**7**			**7**
B. Employer expense				
Employer contributions				
Benefits paid	(3)			
Total employer expense	**(3)**			**(3)**
C. Other recognized items				
Unrecognized net plan 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	**5**			**5**
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, 2012	**37**			**37**

21D - CONTRIBUTIONS TO DEFINED CONTRIBUTION PLANS

The expense for 2012 in respect of defined contribution plans amounts to €313 million (€283 million in 2011).
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 United Kingdom (€1.3 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.

21E - 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 22 - 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, 2011	**682**
New advances received	18
Advances repaid	(27)
Cost of borrowings	26
Adjustments to the probability of repayment of advances	(29)
At December 31, 2012	**670**

Note 23 - Interest-bearing financial liabilities

Breakdown of interest-bearing financial liabilities

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Bond issue	763	759
Senior unsecured notes in USD	-	945
Finance lease liabilities	163	118
Other long-term borrowings	521	437
Total non-current interest-bearing financial liabilities (portion maturing in more than 1 year at inception)	**1,447**	**2,259**
Finance lease liabilities	13	45
Other long-term borrowings	315	346
Accrued interest not yet due	4	14
Current interest-bearing financial liabilities, long-term at inception	**332**	**405**
Commercial paper	558	407
Short-term bank facilities and equivalent	108	104
Current interest-bearing financial liabilities, short-term at inception	**666**	**511**
Total current interest-bearing financial liabilities (less than 1 year)	**998**	**916**
Total interest-bearing financial liabilities	**2,445**	**3,175**

Movements in this caption break down as follows:

(in € millions)	
Total at December 31, 2011	**2,445**
Increase in borrowings	917
Accrued interest	10
Decrease in borrowings	(119)
Change in short-term borrowings	(122)
Changes in scope of consolidation	15
Foreign exchange differences	6
Reclassifications and other	23
Total at December 31, 2012	**3,175**

MAIN LONG-TERM BORROWINGS AT INCEPTION

- On February 9, 2012, Safran issued USD 1.2 billion of senior unsecured notes on the US private placement market (i.e., €910 million in 2012), which included:
  - USD 155 million of 7-year notes due February 2019 at a 3.70% fixed-rate coupon (Tranche A);
  - USD 540 million of 10-year notes due February 2022 at a 4.28% fixed-rate coupon (Tranche B);
  - USD 505 million of 12-year notes due February 2024 at a 4.43% fixed-rate coupon (Tranche C).

  A USD interest rate hedge (floating-rate swap on 6-month US Libor) was taken out in respect of tranches B and C, issued at 10 and 12 years, respectively. Tranche A has been kept at a fixed rate.
  The issue's initial fixed-rate interest came out in 2012 at 2.70% after taking account of interest rate derivatives.

- 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 in 2012 at 3.09% after taking account of interest rate derivatives.

- European Investment Bank (EIB) borrowings: €300 million (€317 million at December 31, 2011). The loan bears floating-rate interest indexed to 3-month Euribor plus 0.73% and is repayable in equal six-monthly installments between December 17, 2013 and December 17, 2020.

- Employee savings financing under the Group employee savings plan: €430 million (€394 million at December 31, 2011).
  The maximum maturity is five years and the amount falling due within one year is €275 million. The interest rate is set annually and indexed to the five-year French Treasury bill rate (BTAN), i.e., 3.56% for 2012 and 2.91% for 2011.
  The interest rate used for 2013 is 1.62%. A fixed-rate borrower/floating-rate lender interest rate swap was taken out in respect of this financing for €75 million with the aim of fixing the interest rate over a period of four years from the end of 2012.

- Messier Bugatti Dowty USA Inc. real estate lease financing contract: USD 38 million, or €29 million (USD 38 million or €29.5 million at December 31, 2011), bearing fixed-rate interest of 5.2% and repayable in full in 2013.
  This lease is guaranteed by the parent company, Messier-Bugatti-Dowty SA.

- Turbomeca real estate lease financing contract: €50 million (€55 million at December 31, 2011), of which €5 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: €47 million (€52 million at December 31, 2011), bearing floating-rate interest indexed to 3-month Euribor. The lease expires in January 2022.

- L-1 Identity Solutions convertible notes: The Group exercised its call option on these notes on May 15, 2012 for USD 91 million, thereby redeeming the full amount of principal and associated interest.

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

MAIN SHORT-TERM BORROWINGS

- Commercial paper: €407 million (€558 million at December 31, 2011).
  This amount comprises several drawdowns made under market terms and conditions, mostly with maturities of less than one year.

- Financial current accounts with non-consolidated subsidiaries: €33 million (€37 million at December 31, 2011). Interest is indexed to Euribor.

Other short-term borrowings are not material taken individually.

ANALYSIS BY MATURITY

(in € millions)	**Dec. 31, 2011**	**Dec. 31, 2012**
Maturing in:		
1 year or less	998	916
More than 1 year and less than 5 years	1,203	1,139
Beyond 5 years	244	1,120
Total	**2,445**	**3,175**

Analysis by currency:

	Dec. 31, 2011		**Dec. 31, 2012**	
(in millions of currency units)	**Currency**	**EUR**	**Currency**	**EUR**
EUR	2,264	2,264	2,119	2,119
USD	199	154	1,354	1,026
CAD	4	3	1	-
GBP	1	1	3	4
Other	N/A	23	N/A	26
Total		**2,445**		**3,175**

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

	Total		**Non-current**				**Current**			
	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011		**Dec. 31, 2012**		Dec. 31, 2011		**Dec. 31, 2012**	
(in € millions)	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	998	1,873	884	4.08%	1,774	4.16%	114	3.67%	99	3.38%
Floating rate	1,447	1,302	563	2.42%	485	2.08%	884	1.81%	817	1.54%
Total	**2,445**	**3,175**	**1,447**	**3.44%**	**2,259**	**3.71%**	**998**	**2.02%**	**916**	**1.74%**

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

(in € millions)	Dec. 31, 2011	**Dec. 31, 2012**	Non-current				Current			
			Dec. 31, 2011		**Dec. 31, 2012**		Dec. 31, 2011		**Dec. 31, 2012**	
	Base	**Base**	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	998	**1,045**	884	3.14%	946	3.26%	114	3.67%	99	3.38%
Floating rate	1,447	**2,130**	563	2.42%	1,313	2.38%	884	1.81%	817	1.54%
Total	**2,445**	**3,175**	**1,447**	**2.86%**	**2,259**	**2.75%**	**998**	**2.02%**	**916**	**1.74%**

The Group's net debt position is as follows:

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Cash and cash equivalents (A)	1,431	2,193
Interest-bearing financial liabilities (B)	2,445	3,175
Fair value of interest rate derivatives hedging borrowings (C)	17	50
Total (A) - (B) + (C)	**(997)**	**(932)**

Safran's issue of USD 1.2 billion in senior unsecured notes on the US private placement market on February 9, 2012 was maintained in US dollars and no foreign exchange swaps were taken out in this respect. Changes in the euro value of this issue had a negative impact of €6 million on the Group's net debt at December 31, 2012.

Net debt at December 31, 2012 does not include the following three assigned trade receivables without recourse:

§ CFM Inc.:

- Confirmed 24-month facility for USD 200 million (automatically renewable for further 12-month periods at the end of the first 24 months) granted in October 2009 by General Electric Capital Corp., on which USD 105 million (USD 52.5 million at 50%) had been drawn at December 31, 2012, versus USD 70.6 million (USD 35.3 million at 50%) at December 31, 2011.
- Confirmed 364-day facility for USD 1,500 million, renewed in December 2012 by a syndicate of ten banks led by Royal Bank of Scotland (versus USD 950 million in 2011), on which USD 1,498 million (USD 749 million at 50%) had been drawn at December 31, 2012, versus USD 788 million (USD 394 million at 50%) at December 31, 2011.

§ CFM SA:

- Confirmed 24-month facility for an equivalent value of USD 110 million granted in July 2010 (automatically renewable for further 12-month periods at the end of the first 24 months) by Medio Factoring (Intesa San Paolo group), on which USD 48 million (USD 24 million at 50%) had been drawn at December 31, 2012, versus USD 39 million (USD 19.5 million at 50%) at December 31, 2011.

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Net debt	(997)	(932)
Total equity	5,122	6,228
Gearing ratio	**19.47%**	**14.96%**

Note 24 - Trade and other payables

(in € millions)	Dec. 31, 2011	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2012
Operating payables	**7,539**	**229**	**22**	**(7)**	**4**	**7,787**
Credit balances on trade receivables	1,062	120	-	-	-	1,182
Advance payments from customers	3,562	(54)	1	(1)	-	3,508
Trade payables	2,015	(14)	16	(5)	10	2,022
Current operating account	4	3	3	-	(7)	3
Employee-related liabilities	896	174	2	(1)	1	1,072
Other payables	**809**	**151**	**2**	**(3)**	**21**	**980**
State aid, accrued payables	16	3	-	-	-	19
State, other taxes and duties	171	7	-	-	2	180
Deferred income	479	140	-	(2)	-	617
Other	143	1	2	(1)	19	164
Total	**8,348**	**380**	**24**	**(10)**	**25**	**8,767**

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	7,567	220
Other payables	759	221
Total	**8,326**	**441**

Note 25 - Other current and non-current financial liabilities

(in € millions)	Dec. 31, 2011	Movements during the period	Changes in scope of consolidation	Foreign exchange differences	Reclassifications	Dec. 31, 2012
Payables on purchases of property, plant and equipment and intangible assets	45	48	-	1	(1)	**93**
Payables on purchases of investments *	154	(96)	(45)	-	1	**14**
Total	**199**	**(48)**	**(45)**	**1**	-	**107**
Non-current	199					**107**
Current	-					**-**

* Including a €90 million purchase cost for the 19% interest in Morpho Detection and a €45 million decrease in goodwill subsequent to this acquisition (see Notes 3 and 10).

Note 26 - 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, 2011 *(in € millions)*	Carrying amount			Fair value
	Financial liabilities at amortized cost	Financial liabilities at fair value	**Total**	
Borrowings subject to specific conditions	682		**682**	682
Non-current interest-bearing financial liabilities	1,447		**1,447**	1,467
Current interest-bearing financial liabilities	998		**998**	998
Trade payables	2,015		**2,015**	2,015
Payables on purchases of investments (1)	19	135	**154**	154
Payables on purchases of property, plant and equipment and intangible assets	45		**45**	45
Current operating accounts	4		**4**	4
Non-current derivatives		5	**5**	5
Current derivatives		653	**653**	653
Total financial liabilities	**5,210**	**793**	**6,003**	**6,023**

(1) Including €135 million relating to commitments to purchase non-controlling interests.

At December 31, 2012 *(in € millions)*	Carrying amount			Fair value
	Financial liabilities at amortized cost	Financial liabilities at fair value	**Total**	
Borrowings subject to specific conditions	670		**670**	670
Non-current interest-bearing financial liabilities	2,259		**2,259**	2,371
Current interest-bearing financial liabilities	916		**916**	916
Trade payables	2,022		**2,022**	2,022
Payables on purchases of investments	14	-	**14**	14
Payables on purchases of property, plant and equipment and intangible assets	93		**93**	93
Current operating accounts	3		**3**	3
Non-current derivatives		12	**12**	12
Current derivatives		213	**213**	213
Total financial liabilities	**5,977**	**225**	**6,202**	**6,314**

The Group uses the input hierarchy described in Note 18 to measure the fair value of its financial liabilities.

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**
Derivatives	-	658	-	658
Commitments to purchase non-controlling interests	-	-	135	135
Total	**-**	**658**	**135**	**793**

The Group's financial liabilities carried at fair value as of December 31, 2012 are shown below:

(in € millions)	Level 1	Level 2	Level 3	**Total**
Derivatives (negative fair value)	-	225	-	225
Total	**-**	**225**	**-**	**225**

In 2012 and 2011, no items were transferred between level 1 and level 2, and none were transferred to or from level 3.

Note 27 - Management of market risks and derivatives

The main market risks to which the Group is exposed are foreign currency risk, interest rate risk, listed commodity price risk, equity risk, counterparty risk and liquidity risk.

The carrying amount of derivatives used to manage market risks is shown below:

	Dec. 31, 2011		**Dec. 31, 2012**	
(in € millions)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate risk management	***22***	***(5)***	***62***	***(12)***
Floating-for-fixed interest rate swaps	-	(5)	-	(12)
Fixed-for-floating interest rate swaps	22	-	62	-
Foreign currency risk management	***257***	***(650)***	***585***	***(210)***
Currency swaps	-	-	-	-
Purchase and sale of forward currency contracts	91	(326)	311	(118)
Currency option contracts	166	(324)	274	(92)
Commodity risk management	***-***	***(3)***	-	***(3)***
Forward purchases of commodities	-	(3)	-	(3)
Total	**279**	**(658)**	**647**	**(225)**

FOREIGN CURRENCY RISK MANAGEMENT

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 5 billion for 2012 (USD 4.28 billion in 2011).

To protect its earnings, the Group implements a hedging policy (see below) with the aim of reducing uncertainty factors affecting operating 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 purchases and sales of options (USD call/EUR put).

FOREIGN CURRENCY DERIVATIVES

The portfolio of foreign currency derivatives breaks down as follows:

	Dec. 31, 2011				**Dec. 31, 2012**			
(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	**(235)**				**193**			
Short USD position	(229)	13,374	5,872	7,502	157	13,323	5,764	7,559
Of which against EUR	*(199)*	*12,500*	*5,188*	*7,312*	*157*	*12,979*	*5,560*	*7,419*
Long USD position	14	(510)	(300)	(210)	28	(700)	(250)	(450)
Of which against EUR	*13*	*(400)*	*(200)*	*(200)*	*28*	*(700)*	*(250)*	*(450)*
Short CAD position against CHF					5	81	81	-
Short GBP position against EUR	1	11	11	-	-	-	-	-
Long GBP position against EUR	-	(4)	(4)	-	-	-	-	-
Long EUR position against CHF	(11)	(81)	(39)	(42)	(7)	(78)	(28)	(50)
Long PLN position against EUR	(3)	(218)	(78)	(140)	2	(225)	(85)	(140)
Long MXN position against USD	(7)	(3,650)	(1,180)	(2,470)	8	(4,135)	(1,395)	(2,740)
Currency option contracts	**(158)**				**182**			
USD put purchased	36	1,000	-	1,000	75	2,750	2,350	400
USD put sold	(1)	(100)	(100)	-	(19)	(1,200)	(1,200)	-
USD call sold	(226)	6,798	1,774	5,024	(60)	9,607	5,224	4,383
USD call purchased	8	(250)	(250)	-	5	(350)	(350)	-
Accumulators – sell USD (2)	(28)	12,199	4,752	7,448	167	9,020	2,778	6,242
Accumulators – buy USD (2)	63	(1,891)	(1,427)	(464)	13	(1,132)	(965)	(167)
Accumulators – sell GBP (2)	1	380	91	289	3	219	219	-
Accumulators – sell CAD (2)	(11)	845	306	539	(2)	341	-	341
Total	**(393)**				**375**			

(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 until the instrument is unwound.

The €768 million increase in the fair value of foreign currency derivatives between December 31, 2011 and December 31, 2012 reflects an increase of €788 million in the fair value of currency hedging instruments not yet settled at December 31, 2012 and premiums received (negative impact of €20 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 derivatives in "Financial income (loss)". Accordingly, the €788 million increase in the fair value of derivatives not yet settled at the end of the reporting period has been recognized in "Financial income (loss)". Of this amount €742 million was recognized in "Gain or loss on foreign currency hedging instruments" for derivatives hedging revenue net of future purchases; €8 million was recognized in "Foreign exchange gains and losses" for derivatives hedging balance sheet positions; and €38 million was recognized in the same caption for premiums matured during the year.

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).

In the first half of 2012, the Group hedged a portion of its US operations as part of a net investment hedge using the February 9, 2012 unsecured notes issue on the US private placement market (see Note 23).

EXPOSURE AND SENSITIVITY TO FOREIGN CURRENCY RISK

The exposure of the Group's financial instruments to EUR/USD foreign currency risk can be summarized as follows:

(in USD millions)	Dec. 31, 2011	Dec. 31, 2012
Total assets excluding derivatives	1,161	**1,298**
Total liabilities excluding derivatives	(969)	**(2,309)**
Derivatives hedging balance sheet positions *	(146)	**(170)**
Net exposure after the impact of derivatives hedging balance sheet positions	**46**	**(1,181)**

* Notional amount.

Assets and liabilities excluding derivatives primarily consist of operating receivables and payables denominated in USD in the balance sheets of Group subsidiaries whose functional currency is the euro, and unsecured notes issued by Safran on the US private placement market for USD 1.2 billion.

In addition to this exposure, Safran has EUR/USD currency derivatives hedging revenue net of future purchases. These have a fair value of USD 417 million, compared to a total fair value of USD 418 million of EUR/USD currency derivatives at December 31, 2012 (compared to a negative fair value of USD 421 million and USD 427 million, respectively, at December 31, 2011).

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

	Dec. 31, 2011		Dec. 31, 2012	
Impact on balance sheet positions (in € millions)	USD		USD	
Closing rate	**1.29**		**1.32**	
EUR/USD exchange rate change assumptions	-5%	+5%	-5%	+5%
EUR/USD exchange rate used for sensitivity analysis	1.23	1.35	1.25	1.39
Impact recognized through profit or loss (before tax)	(870)	649	(615)	463
Impact recognized through equity (before tax)	-	-	(50)	45

INTEREST RATE RISK MANAGEMENT

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

§ fair value 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 risks using financial instruments specific to fixed-income markets (interest rate swaps and options, etc.).

EXPOSURE TO EURO INTEREST RATE RISK

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 in 2011. As a result, besides the floating-rate borrower/fixed-rate lender swaps for €750 million with a residual maturity of one to three years, the Group also held fixed-rate borrower/floating-rate lender swaps for the same maturity and amount. Interest rate swaps with a residual maturity of less than one year expired in 2012. The notional amount of each leg of the swaps was €250 million.

Changes in the fair value of the old and new swaps are recognized in "Gain or loss on interest rate and commodity hedging instruments" under "Financial income (loss)".

In 2012, a fixed-rate borrower/floating-rate lender interest rate swap maturing in December 2016 was taken out for €75 million, with the aim of fixing as of January 1, 2013 the interest rate on a portion of the financing for the employee savings plan.

	Dec. 31, 2011				Dec. 31, 2012			
(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	22	750	250	500	22	500	-	500
Floating-for-fixed	(5)	750	250	500	(12)	575	-	575
Total	**17**				**10**			

Exposure to euro interest rate risk before and after hedging:

Dec. 31, 2011	Current		Non-current		Total	
(in € millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	34	840	839	551	**873**	**1,391**
Other financial assets	-	64	2	70	**2**	**134**
Cash and cash equivalents	10	1,074	-	-	**10**	**1,074**
Net exposure before hedging	**24**	**(298)**	**837**	**481**	**861**	**183**
Derivatives*	-	-	-	-	**-**	**-**
Net exposure after hedging	**24**	**(298)**	**837**	**481**	**861**	**183**

* Notional amount.

Dec. 31, 2012	Current		Non-current		Total	
(in € millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	24	793	824	478	**848**	**1,271**
Other financial assets	-	99	1	68	**1**	**167**
Cash and cash equivalents	33	1,828	**-**	**-**	**33**	**1,828**
Net exposure before hedging	**(9)**	**(1,134)**	**823**	**410**	**814**	**(724)**
Derivatives*	-	-	75	(75)	**75**	**(75)**
Net exposure after hedging	**(9)**	**(1,134)**	**898**	**335**	**889**	**(799)**

* Notional amount.

EXPOSURE TO USD INTEREST RATE RISK

The interest rate on the Group's February 9, 2012 issue of USD 1.2 billion in senior unsecured notes on the US private placement market has also been partially converted to a floating rate. At December 31, 2012, floating-rate borrower/fixed-rate lender USD swaps were set up on the 10-year and 12-year tranches, for USD 540 million and USD 505 million, respectively. The 7-year tranche for USD 155 million has been maintained at a fixed rate.

These swaps are eligible for fair value hedge accounting.

	Dec. 31, 2011				Dec. 31, 2012				
(in € millions)	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	More than 5 years
USD interest rate swaps									
Fixed-for-floating – fair value hedge	-	-	-	-	40	1,045	-	-	1,045
Floating-for-fixed – fair value hedge	-	-	-	-	-	-	-	-	-
Total	**-**				**40**				

Changes in the fair value of the hedging instrument and hedged item within the scope of this hedge are recognized in "Financial income (loss)" as follows:

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Change in fair value of hedging instrument	-	40
Change in fair value of hedged item	-	(40)
Impact of fair value interest rate hedges on profit	**-**	**-**

Exposure to USD interest rate risk before and after hedging:

Dec. 31, 2011	Current		Non-current		Total	
(in USD millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	96	31	57	15	**153**	**46**
Other financial assets	6	29	1	5	**7**	**34**
Cash and cash equivalents	17	252	-	-	**17**	**252**
Net exposure before hedging	**73**	**(250)**	**56**	**10**	**129**	**(240)**
Derivatives*	-	-	-	-	**-**	**-**
Net exposure after hedging	**73**	**(250)**	**56**	**10**	**129**	**(240)**

* Notional amount.

Dec. 31, 2012	Current		Non-current		Total	
(in USD millions)	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
Interest-bearing financial liabilities	65	28	1,251	10	**1,316**	**38**
Other financial assets	34	55	1	3	**35**	**58**
Cash and cash equivalents	62	134	-	-	**62**	**134**
Net exposure before hedging	**(31)**	**(161)**	**1,250**	**7**	**1,219**	**(154)**
Derivatives*	-	-	(1,045)	1,045	**(1,045)**	**1,045**
Net exposure after hedging	**(31)**	**(161)**	**205**	**1,052**	**174**	**891**

* Notional amount.

SENSITIVITY TO INTEREST RATE RISK

The aggregate sensitivity of net exposures to euro and USD interest rate risk after the impact of hedging is shown below:

Impact of changes in interest rates (in € millions)	**Dec. 31, 2011**	**Dec. 31, 2012**
Assumptions used	+1%	+1%
Impact on profit or loss (before tax)	-	1
Impact on equity (before tax)	-	-

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). Oil was included in the Group's commodity hedging policy in 2012. 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 to six years. To hedge commodity prices, the Group uses forward purchases 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, 2012 represented 2,783 tons of nickel (2,598 tons at December 31, 2011), including contracts for 755 tons maturing in less than one year (755 tons at end-2011) and 2,028 tons in one to five years (1,843 tons at end-2011).

The notional amount of platinum forward purchase contracts at December 31, 2012 represented 7,068 ounces (7,944 ounces at December 31, 2011), including contracts for 1,260 ounces maturing in

less than one year (876 ounces at end-2011) and 5,808 ounces in one to five years (7,068 ounces at end-2011).
The notional amount of oil forward purchase contracts at December 31, 2012 represented 532,000 barrels (nil at December 31, 2011), including contracts for 33,000 barrels maturing in less than one year, 350,000 barrels in one to five years and 149,000 in more than five years.

These instruments had a negative fair value of €3 million at end-2012.

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-2012 and end-2011.

COUNTERPARTY RISK MANAGEMENT

The Group is exposed to counterparty risk on the following:

- short-term financial investments;
- derivatives;
- trade receivables;
- financial guarantees granted to customers.

Financial investments are diversified and consist of blue-chip securities that are traded with top-tier banks.

The sole purpose of the Group's derivative transactions is to reduce the overall exposure to foreign currency, interest rate and commodity risks resulting from its ordinary business activities. Transactions are either carried out on organized markets or over-the-counter with 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 maturity schedule for trade and other receivables is set out in Note 16.

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 drawn, 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 23).
The following two ratios apply:

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

Undrawn confirmed liquidity facilities at December 31, 2012 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 must comply with a net debt/EBITDA ratio of less than 2.5.

This covenant also applies to the senior unsecured notes issued on the US private placement market (see Note 23).

The terms "net debt", "EBITDA" and "total equity" used in connection with EIB borrowings, the senior unsecured notes issued on the US private placement market 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 28 - 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;
- Regulus: aerospace propulsion;
- Roxel SAS: holding company;
- Roxel France SA: motors for tactical missiles;
- Roxel Ltd: motors for tactical missiles;
- Propulsion Technologies International: engine repair and maintenance;
- EIMASS: identification.

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, 2011	Dec. 31, 2012
Current assets	553	522
Non-current assets	343	354
Current liabilities	543	459
Non-current liabilities	50	38
Operating income	432	545
Operating expenses	(376)	(459)
Financial loss	(3)	(2)
Income tax expense	(10)	(15)
Profit for the period	43	70
Cash flows from operating activities (1)	57	42
Cash flows from (used in) investing activities	2	(32)
Cash flows used in financing activities (1)	(31)	(37)

(1) See Note 23 on the sale of trade receivables by CFM Inc.

Note 29 - Related parties

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

Transactions with equity-accounted companies were not material in 2012 or 2011, and they are not therefore included in the table below.

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Sales to related parties	3,276	3,577
Purchases from related parties	(242)	(199)

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Receivables from related parties	1,670	1,567
Payables to related parties	1,904	1,851

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Guarantees granted to related parties (off-balance sheet) (1)	721	954

(1) See Note 30.

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 2011 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 Executive Management. After the change in governance, management executives comprised members of the Board of Directors and Executive Management, as well as any persons with the power to take management decisions with regard to the Group's strategy and future development, or with regular access to privileged information directly or indirectly concerning the Group.

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Short-term benefits (1)	10.7	**11.1**
Post-employment benefits (2)	0.4	**0.2**
Other long-term benefits	-	**-**
Termination benefits	1.2	**-**
Share-based payment	-	**-**

(1) Compensation, social security contributions, attendance fees and benefit payments, where applicable.

(2) 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 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 €2.9 million at December 31, 2012 and €2.1 million at December 31, 2011.

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 30 - Off-balance sheet commitments

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, 2011	Dec. 31, 2012
Employee-related commitments	84	73
Commitments given to customers (completion warranties, performance bonds)	312	318
Commitments given to third parties	1,173	1,415
Commitments given to customs authorities	84	77
Vendor warranties given (1)	21	21
Actuarial differences and unrecognized past service cost	149	326
Other commitments given	192	204
Total	**2,015**	**2,434**

(1) Vendor warranties, the amount of which may be fixed or determinable.

Commitments given to third parties relate mainly to guarantees granted by Safran to customers and principals (essentially aircraft manufacturers), in which Safran provides a joint and several guarantee that its subsidiaries will perform their duties under their contractual obligations. These guarantees are given in respect of research, design, development, manufacturing, marketing and product support programs in place at Group subsidiaries. These guarantees are generally granted for the term of the program concerned, and are capped at a certain amount.
The amount of commitments granted to Airbus is shown within "Guarantees granted to related parties" in Note 29, "Related parties".

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

(in € millions)	Dec. 31, 2011	Dec. 31, 2012
Commitments received from banks on behalf of suppliers	10	11
Completion warranties	18	28
Endorsements and guarantees received	54	52
Vendor warranties received (1)	162	12
Other commitments received	5	5
Total	**249**	**108**

(1) Vendor warranties received at December 31, 2012 do not include those received within the scope 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:

(in € millions)	Dec. 31, 2011 Total	**Dec. 31, 2012 Total**	Period to maturity Less than 1 year	1 to 5 years	Beyond 5 years
Long-term borrowings at inception	**836**	**783**	346	322	115
Finance lease commitments	**176**	**163**	45	58	60
Operating lease commitments	**233**	**257**	71	151	35
Bond issue	**767**	**763**	4	759	-
Senior unsecured notes in USD	**-**	**955**	10	-	945
Total	**2,012**	**2,921**	**476**	**1,290**	**1,155**

Lease payments recognized in profit or loss for the period amounted to €125 million.

VENDOR WARRANTIES

Vendor warranties are given or received on the acquisition or sale of companies.
In the context of the Group's recent acquisition of SME, the environmental guarantee given to Safran by SNPE (see Note 3) is called upon an ongoing basis in proportion to the costs effectively incurred to treat pollution resulting from past operations.
At December 31, 2012, no other such warranties had been called, and no provisions were therefore recognized in the Group's consolidated financial statements.

CAPITAL EXPENDITURE COMMITMENTS

At December 31, 2012, capital expenditure commitments totaled €248 million versus €162 million at December 31, 2011.

FINANCIAL GUARANTEES GRANTED ON THE SALE OF GROUP PRODUCTS

These guarantees generate risks which represented a total gross amount of USD 92 million at December 31, 2012 (USD 143 million at December 31, 2011). 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, only the net risk as calculated using the valuation model is covered by a provision in the financial statements (see Note 20).

CONTINGENT LIABILITIES ARISING ON ORDINARY ACTIVITIES

As part of their ordinary activities, Safran, some of its subsidiaries, or certain joint arrangements or consortia in which they are shareholders or members, may be subject to various claims from customers. These claims usually consist of compensation requests for late completion and/or for additional work in connection with product performance and reliability falling outside the scope of the statutory performance warranties provisioned or included within contract costs (see Notes 2 b and 20). While the initial amount of any such claim is material in certain cases, it does not necessarily have any bearing on the costs that may be ultimately incurred to satisfy the customer. As these claims represent contingent liabilities, no provision has been recognized.
In the absence of an agreement between the parties, certain of these claims may give rise to litigation, the most significant of which is indicated in Note 31.

Note 31 - 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 and adjusted the amount of its provisions accordingly. Sagem Défense Sécurité appealed this decision before the Court of Cassation.
In a decision dated September 18, 2012, the Court of Cassation partially overturned the Court of Appeals' decision, ordering the supplier to reimburse Sagem Défense Sécurité in an amount of €9 million. The supplier has appealed this decision to the Court of Appeals. Sagem Défense Sécurité is currently taking all necessary steps to protect its interests.

§ SME, which was acquired by Safran from SNPE on April 5, 2011 and has been trading as Herakles since May 1, 2012, 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. Herakles 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, Herakles has not received any further information on this matter. In relation to this contamination, two reports were drawn up against Herakles 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), served Herakles 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, which became null and void due to a failure to place in custody the amounts requested within the allotted timeframe, and in a subsequent order handed down on May 3, 2012, a legal expert was appointed in order to determine the original cause and impact of the perchlorate-contaminated drinking water supply. Several meetings were held at which the legal expert requested various documents from the different parties. The proceedings are ongoing.

The agreements governing the above-mentionned acquisition include environmental guarantees given by SNPE to Safran. Under these guarantees, Herakles is to carry out additional analyses and adopt a plan of action for perchlorate management (see Note 3), the content of which must be validated by the authorities. The implementation of the aforementioned plan 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%. An agreement was signed by the parties in June 2003,

whereby the claimant withdrew from the proceedings. In November 2012, the claimant filed a new request for arbitration on similar grounds to those invoked in 2002 and for a revised amount of €226 million. The parties are strongly challenging this claim. At the date of this report, it is not possible to evaluate any potential financial risk. Consequently, Safran has not recognized a provision.

§ 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 case was heard before the Paris Correctional Court in June 2012. In a ruling on September 5, 2012, the Court acquitted the two employees involved in the case but declared Sagem SA guilty of corrupting foreign government officials. As a result, Safran was ordered to pay a fine of €500,000. The Company has appealed this decision. The proceedings are pending before the Paris Court of Appeals and the procedural timetable has not yet been set. 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 contested in a claim filed by Safran SA with the tax authorities in 2011. This claim was rejected by the authorities on June 20, 2012. Safran referred the case to the Montreuil Administrative Court on August 3, 2012 and the dispute is currently pending before this Court.

§ 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 received a statement of objections from the European Commission. 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 case 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 has filed a statement of claim with the Administrative Court. No provision has yet been set aside in respect of this adjustment.

§ A Group subsidiary in Brazil was served a tax deficiency notice for €56.2 million 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, this tax adjustment was challenged, and in May 2012 a first ruling was handed down in favor of the subsidiary. This ruling should be confirmed in the next few months.

Note 32 - Subsequent events

None.

Note 33 - List of consolidated companies

	Country	2011 Consolidation method	2011 % interest	2012 Consolidation method	2012 % interest
Safran SA	**France**	**Parent company**			
Aerospace Propulsion					
Snecma	France	FC	100.00	FC	100.00
CFAN	United States	PC	50.00	PC	50.00
CFM International SA	France	PC	50.00	PC	50.00
CFM International Inc.	United States	PC	50.00	PC	50.00
CFM Materials LP	United States	PC	50.00	PC	50.00
Famat	France	PC	50.00	PC	50.00
Fan Blade Associates	United States	FC	100.00	FC	100.00
Shannon Engine Support Ltd	Ireland	PC	50.00	PC	50.00
Snecma America Engine Services	Mexico	FC	99.99	FC	99.99
Snecma Morocco Engine Services	Morocco	FC	51.00	FC	51.00
Snecma Participations SA	France	FC	100.00	FC	100.00
Snecma Participations Inc.	United States	FC	100.00	FC	100.00
Snecma Services Brussels	Belgium	FC	100.00	FC	100.00
Snecma Suzhou	China	FC	100.00	FC	100.00
Snecma Xinyi Airfoil Castings Co Ltd	China	FC	90.00	FC	90.00
Propulsion Technologies International	United States	PC	50.00	PC	50.00
Techspace Aero	Belgium	FC	67.19	FC	67.19
Cenco Inc.	United States	FC	67.19	FC	67.19
Techspace Aero Inc.	United States	FC	67.19	FC	67.19
Turbomeca SA	France	FC	100.00	FC	100.00
Microturbo SA	France	FC	100.00	FC	100.00
Turbomeca Africa Pty Ltd	South Africa	FC	51.00	FC	51.00
Turbomeca America Latina	Uruguay	FC	100.00	FC	100.00
Turbomeca Asia Pacific	Singapore	FC	100.00	FC	100.00
Turbomeca Australasia	Australia	FC	100.00	FC	100.00
Turbomeca Beijing Helicopter Engines Trading Cie Ltd	China	FC	100.00	FC	100.00
Turbomeca Canada	Canada	FC	100.00	FC	100.00
Turbomeca do Brasil	Brazil	FC	100.00	FC	100.00
Turbomeca Germany	Germany	FC	100.00	FC	100.00
Turbomeca Manufacturing Inc.	United States	FC	100.00	FC	100.00
Turbomeca Sud Americana	Uruguay	FC	100.00	FC	100.00
Turbomeca Tianjing Helicopter Engines Trading Cie Ltd	China	FC	100.00	FC	100.00
Turbomeca UK	United Kingdom	FC	100.00	FC	100.00
Turbomeca USA Inc.	United States	FC	100.00	FC	100.00
Herakles (formerly SME)	France	FC	100.00	FC	100.00
Snecma Propulsion Solide (1)	France	FC	100.00	-	-
Europropulsion SA	France	PC	50.00	PC	50.00
Pyroalliance	France	FC	85.00	FC	85.00
Regulus	France	PC	40.00	PC	40.00
Roxel France SA	France	PC	50.00	PC	50.00
Roxel Ltd	United Kingdom	PC	50.00	PC	50.00
Roxel SAS	France	PC	50.00	PC	50.00
Structil	France	FC	80.00	FC	80.00

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

(1) Merged into SME on January 1, 2012, since renamed Herakles.

	Country	2011 Consolidation method	2011 % interest	2012 Consolidation method	2012 % interest
Aircraft Equipment					
Aircelle	France	FC	100.00	FC	100.00
Aircelle Ltd	United Kingdom	FC	100.00	FC	100.00
Aircelle Maroc	Morocco	FC	100.00	FC	100.00
SLCA	France	FC	100.00	FC	100.00
Messier-Bugatti-Dowty	France	FC	100.00	FC	100.00
A-Pro Inc.	United States	PC	50.00	PC	50.00
Hydrep	France	PC	50.00	PC	50.00
Messier-Bugatti USA	United States	FC	100.00	FC	100.00
Messier-Bugatti-Dowty Malaysia (1)		-	-	FC	100.00
Messier-Dowty Inc.	Canada	FC	100.00	FC	100.00
Messier-Dowty Ltd	United Kingdom	FC	100.00	FC	100.00
Messier Dowty Mexico SA de CV	Mexico	FC	100.00	FC	100.00
Messier Services Americas	Mexico	FC	100.00	FC	100.00
Messier Services Asia Pte Ltd	Singapore	FC	60.00	FC	60.00
Messier Services Inc.	United States	FC	100.00	FC	100.00
Messier Services Ltd	United Kingdom	FC	100.00	FC	100.00
Messier Services Mexico	Mexico	FC	100.00	FC	100.00
Messier Services Pte Ltd	Singapore	FC	100.00	FC	100.00
Sofrance SA	France	FC	100.00	FC	100.00
Suzhou II	China	FC	100.00	FC	100.00
Technofan SA	France	FC	94.85	FC	95.15
Technofan Inc.	United States	FC	100.00	FC	100.00
Labinal	France	FC	100.00	FC	100.00
Labinal de Chihuahua, SA de CV	Mexico	FC	100.00	FC	100.00
Labinal GmbH	Germany	FC	100.00	FC	100.00
Labinal Inc.	United States	FC	100.00	FC	100.00
Labinal Maroc	Morocco	FC	74.92	FC	100.00
Labinal de Mexico SA de CV	Mexico	FC	100.00	FC	100.00
Labinal Salisbury Inc.	United States	FC	100.00	FC	100.00
Matis Aerospace	Morocco	PC	50.00	PC	50.00
Safran Engineering Services	France	FC	100.00	FC	100.00
Safran Engineering Services India	India	FC	100.00	FC	100.00
Safran Engineering Services Maroc	Morocco	FC	100.00	FC	100.00
Hispano-Suiza SA	France	FC	100.00	FC	100.00
Hispano-Suiza Polska	Poland	FC	100.00	FC	100.00
Globe Motors Inc.	United States	FC	100.00	FC	100.00
Globe Motors de Mexico, SA de CV	Mexico	FC	100.00	FC	100.00
Globe Motors Portugal	Portugal	FC	100.00	FC	100.00
SEM MB SA	France	PC	50.00	PC	50.00

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

(1) First-time consolidation in 2012.

	Country	2011 Consolidation method	2011 % interest	2012 Consolidation method	2012 % interest
Defence					
Sagem Défense Sécurité	France	FC	100.00	FC	100.00
Optics1 Inc.	United States	FC	100.00	FC	100.00
Safran Electronics Asia Pte Ltd	Singapore	FC	51.00	FC	51.00
Safran Electronics Canada	Canada	FC	100.00	FC	100.00
Sagem Avionics Inc.	United States	FC	100.00	FC	100.00
Sagem Navigation GmbH	Germany	FC	100.00	FC	100.00
Sofradir	France	PC	40.00	PC	50.00
ULIS	France	PC	34.01	PC	42.51
Vectronix AG	Switzerland	FC	100.00	FC	100.00
Vectronix Inc.	United States	FC	100.00	FC	100.00

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

	Country	2011 Consolidation method	2011 % interest	2012 Consolidation method	2012 % interest
Security					
Morpho	France	FC	100.00	FC	100.00
Aleat	Albania	FC	75.00	FC	75.00
Bioscrypt Canada Inc.	Canada	FC	100.00	FC	100.00
Bioscrypt US Inc. (2)	United States	FC	100.00	-	-
ComnetiX, Inc.	Canada	FC	100.00	FC	100.00
EIMASS (1)	United Arab Emirates	-	-	PC	40.00
Identix Incorporated	United States	FC	100.00	FC	100.00
Integrated Biometric Technology LLC	United States	FC	100.00	FC	100.00
Integrated Biometric Technology Services LLC	United States	FC	100.00	FC	100.00
L1 Identity Solutions Inc.	United States	FC	100.00	FC	100.00
L1 International Inc.	United States	FC	100.00	FC	100.00
L-1 Secure Credentialing, Inc.	United States	FC	100.00	FC	100.00
Morpho Australasia Pty Ltd	Australia	FC	100.00	FC	100.00
Morpho BV (formerly Sagem Identification BV)	Netherlands	FC	100.00	FC	100.00
Morpho Canada (1)	Canada	-	-	FC	100.00
Morpho Maroc	Morocco	FC	100.00	FC	100.00
Morpho South Africa (Pty) Ltd	South Africa	FC	100.00	FC	100.00
MorphoTrak Inc.	United States	FC	100.00	FC	100.00
Morpho Trust Inc.	United States	FC	100.00	FC	100.00
Morpho UK Ltd	United Kingdom	FC	100.00	FC	100.00
Morpho USA Inc.	United States	FC	100.00	FC	100.00
SecuriMetrics, Inc.	United States	FC	100.00	FC	100.00
Trans Digital Technologies LLC	United States	FC	100.00	FC	100.00
Morpho Cards GmbH (formerly Sagem Orga GmbH)	Germany	FC	100.00	FC	100.00
Cassis America Inc (1)	United States	-	-	FC	100.00
Cassis International Europe (1)	France	-	-	FC	100.00
Cassis International Korea Co. Ltd (1)	South Korea	-	-	FC	100.00
Cassis International Pte Ltd (1)	Singapore	-	-	FC	100.00
Cassis Services Sdn Bhd (1)	Malaysia	-	-	FC	100.00
Morpho Cards do Brasil (formerly Sagem Orga do Brasil)	Brazil	FC	100.00	FC	100.00
Morpho Cards Colombia SAS	Colombia	FC	100.00	FC	100.00
Morpho Cards Indonesia	Indonesia	FC	100.00	FC	100.00
Morpho Cards Pte Ltd (formerly Sagem Orga Pte Ltd)	Singapore	FC	100.00	FC	100.00
Morpho Cards de Peru SAC	Peru	FC	100.00	FC	100.00
Morpho Cards Portugal (formerly Orga Card Portugal)	Portugal	FC	100.00	FC	100.00
Morpho Cards Romania SRL (formerly Sagem Orga SRL)	Romania	FC	100.00	FC	100.00
Morpho Cards UK Ltd (formerly Sagem Orga UK Ltd)	United Kingdom	FC	100.00	FC	100.00
Morpho Cards USA, Inc. (formerly Sagem Orga USA, Inc.)	United States	FC	100.00	FC	100.00
Morpho South Africa Pty. Ltd (formerly Sagem Orga SA Pty Ltd)	South Africa	FC	100.00	FC	100.00
Orga Carte et Système	France	FC	100.00	FC	100.00
Orga Smart Chip Ltd	India	FC	100.00	FC	100.00
Orga Syscom Corporation Ltd	India	FC	100.00	FC	100.00
Orga Zelenograd Smart Cards and Systems	Russia	FC	100.00	FC	100.00
Sagem Orga FZ LLC	United Arab Emirates	FC	100.00	FC	100.00
Sagem Orga Mexico	Mexico	FC	100.00	FC	100.00
MorphoDetection Inc.	United States	FC	81.00	FC	100.00
Morpho Detection Hong Kong	China	FC	81.00	FC	100.00
Morpho Detection International Inc.	United States	FC	81.00	FC	100.00
Morpho Detection GmbH	Germany	FC	81.00	FC	100.00
Morpho Detection UK	United Kingdom	FC	81.00	FC	100.00
Quantum Magnetics Inc.	United States	FC	81.00	FC	100.00
Syagen Technology Inc.	United States	FC	81.00	FC	100.00
Ingenico	France	EQ	22.65	EQ	22.77

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

(1) First-time consolidation in 2012.

(2) Merged into Morphotrak on January 1, 2012.

	Country	2011 Consolidation method	2011 % interest	2012 Consolidation method	2012 % interest
Holding company and other					
Etablissements Vallaroche SA	France	FC	100.00	FC	100.00
Labinal Investments Inc.	United States	FC	100.00	FC	100.00
Lexvall 2	France	FC	100.00	FC	100.00
Lexvall 13	France	FC	100.00	FC	100.00
Safran Employment Services Inc. (1)	United States	FC	100.00	-	-
Safran UK	United Kingdom	FC	100.00	FC	100.00
Safran USA Inc.	United States	FC	100.00	FC	100.00
Sagem Mobiles	France	FC	100.00	FC	100.00
Sagem Industries (3)	France	FC	100.00	-	-
Sagem Télécommunications (2)	France	FC	100.00	-	-
Soreval	Luxembourg	FC	100.00	FC	100.00

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

(1) Merged into Safran USA Inc. on January 1, 2012.

(2) Full transfer of assets and liabilities to Safran SA on August 31, 2012.

(3) Merged into Sagem Défense Sécurité on January 1, 2012.

SAFRAN
2, boulevard du Général Martial-Valin
75724 Paris Cedex 15 - France
Tél. : +33 (0)1 40 60 80 80
www.safran-group.com

SAFRAN
AEROSPACE · DEFENCE · SECURITY