CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

JUNE 30, 2012

SAFRAN
AEROSPACE · DEFENCE · SECURITY

The Board of Directors' meeting of July 30, 2012 approved and authorized the publication of Safran's condensed interim consolidated financial statements and adjusted income statement for the six-month period ended June 30, 2012.

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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 condensed interim 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 in section 3.1, "Accounting policies", in the 2011 Registration Document).

Accordingly, Safran's interim 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 aeronautical 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
  - the mark-to-market of unsettled hedging instruments at the closing date is 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)	Consolidated data – First-half 2012	Currency hedging		Business combinations		Adjusted data – First-half 2012
		Remeasurement of revenue (1)	Deferred hedging gains (losses) (2)	Amortization of intangible assets from Sagem-Snecma merger (3)	PPA impacts – other business combinations (4)	
Revenue	**6,441**	**(28)**				**6,413**
Other recurring operating income and expenses	**(5,844)**	**1**	**(18)**	**79**	**50**	**(5,732)**
Recurring operating income	**597**	**(27)**	**(18)**	**79**	**50**	**681**
Other non-recurring operating income and expenses	(19)	-	-	-	-	(19)
Profit from operations	**578**	**(27)**	**(18)**	**79**	**50**	**662**
Cost of net debt	**(28)**	-	-	-	-	**(28)**
Foreign exchange gains (losses)	**(52)**	27	42	-	-	**17**
Other financial income and expense	**(68)**	-	-	-	-	**(68)**
Financial loss	**(148)**	**27**	**42**	-	-	**(79)**
Share in profit from associates	**11**	-	-	-	-	**11**
Income tax expense	**(115)**	-	(8)	(28)	(19)	**(170)**
Profit from continuing operations	**326**	-	**16**	**51**	**31**	**424**
Profit (loss) from discontinued operations	-	-	-	-	-	-
Profit for the period attributable to non-controlling interests	**(11)**		1	(1)	(2)	**(13)**
Profit for the period attributable to owners of the parent	**315**	-	**17**	**50**	**29**	**411**

(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 for €42 million excluding deferred tax, and the impact of including hedges in the measurement of provisions for losses to completion for €(18) 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 and amortization of property, plant and equipment and intangible assets identified at the time of recent acquisitions.

Readers are reminded that only the interim consolidated financial statements are reviewed by the Group's statutory auditors. The interim consolidated financial statements include revenue and operating profit indicators set out in the adjusted data section of 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 interim activity report.

Comparative adjusted interim consolidated income statement and segment information

Adjusted interim consolidated income statement

(in € millions)	First-half 2011 Adjusted data	First-half 2012 Adjusted data
Revenue	**5,622**	**6,413**
Other income	100	102
Income from operations	**5,722**	**6,515**
Change in inventories of finished goods and work-in-progress	121	452
Capitalized production	151	262
Raw materials and consumables used	(3,383)	(3,988)
Personnel costs	(1,839)	(2,127)
Taxes	(115)	(137)
Depreciation, amortization and increase in provisions, net of use	(77)	(269)
Asset impairment	(35)	(36)
Other recurring operating income and expenses	9	9
Recurring operating income	**554**	**681**
Other non-recurring operating income and expenses	(14)	(19)
Profit from operations	**540**	**662**
Cost of net debt	(17)	(28)
Foreign exchange gains (losses)	(38)	17
Other financial income and expense	(49)	(68)
Financial loss	**(104)**	**(79)**
Share in profit from associates	6	11
Profit before tax	**442**	**594**
Income tax expense	(115)	(170)
Profit from continuing operations	**327**	**424**
Profit (loss) from discontinued operations	-	-
Profit for the period	**327**	**424**
Attributable to:		
owners of the parent	317	411
non-controlling interests	10	13
Earnings per share attributable to owners of the parent (in €)		
Basic earnings per share	0.79	0.99
Diluted earnings per share	0.79	0.99
Earnings per share of continuing operations attributable to owners of the parent (in €)		
Basic earnings per share	0.79	0.99
Diluted earnings per share	0.79	0.99
Earnings per share of discontinued operations attributable to owners of the parent (in €)		
Basic earnings per share	0.00	0.00
Diluted earnings per share	0.00	0.00

Segment information

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

First-half 2012

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Amortization of intangible assets	**Total consolidated data**
Revenue	**3,266**	**1,787**	**640**	**719**	**6,412**	**1**	**6,413**	**28**		**6,441**
Recurring operating income (expense)	**512**	**134**	**45**	**66**	**757**	**(76)**	**681**	**45**	**(129)**	**597**
Other non-recurring operating income and expenses	-	(7)	-	(10)	(17)	(2)	**(19)**	-	-	(19)
Profit (loss) from operations	**512**	**127**	**45**	**56**	**740**	**(78)**	**662**	**45**	**(129)**	**578**
Free cash flow	**119**	**(15)**	**(41)**	**(54)**	**9**	**95**	**104**			**104**

First-half 2011

(in € millions)	Aerospace Propulsion	Aircraft Equipment	Defence	Security	**Total operating segments**	Holding company and other	**Total adjusted data**	Currency hedges	Amortization of intangible assets	**Total consolidated data**
Revenue	**2,977**	**1,504**	**624**	**509**	**5,614**	**8**	**5,622**	**(37)**		**5,585**
Recurring operating income (expense)	**424**	**99**	**31**	**59**	**613**	**(59)**	**554**	**(92)**	**(106)**	**356**
Other non-recurring operating income and expenses	-	-	(7)	(3)	**(10)**	(4)	**(14)**	-	-	**(14)**
Profit (loss) from operations	**424**	**99**	**24**	**56**	**603**	**(63)**	**540**	**(92)**	**(106)**	**342**
Free cash flow	**331**	**14**	**(135)**	**(49)**	**161**	**(4)**	**157**			**157**

Revenue (adjusted data)

(in € millions)		First-half 2011	First-half 2012
Aerospace Propulsion			
Original equipment and related products and services		1,352	1,545
Services		1,484	1,544
Sales of studies		102	150
Other		39	27
	Sub-total	2,977	3,266
Aircraft Equipment			
Original equipment and related products and services		974	1,178
Services		474	499
Sales of studies		25	40
Other		31	70
	Sub-total	1,504	1,787
Defence			
Sales of equipment		424	466
Services		111	119
Sales of studies		85	49
Other		4	6
	Sub-total	624	640
Security			
Sales of equipment		371	559
Services		129	142
Sales of studies		2	7
Other		7	11
	Sub-total	509	719
Holding company and other			
Sales of equipment		6	-
Other		2	1
	Sub-total	8	1
Total		**5,622**	**6,413**

Information by geographic area (adjusted data)

First-half 2012

(in € millions)		France	Europe (excl. France)	North America	Asia	Rest of the world	**Total**
Revenue by location of customers		1,444	1,534	1,989	952	494	**6,413**
	%	22%	24%	31%	15%	8%	

First-half 2011

(in € millions)		France	Europe (excl. France)	North America	Asia	Rest of the world	**Total**
Revenue by location of customers		1,449	1,334	1,577	795	467	**5,622**
	%	26%	24%	28%	14%	8%	

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

Safran Group

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financial statements

Consolidated income statement

(in € millions)	*Note*	**First-half 2011**	**First-half 2012**
Revenue	*5*	**5,585**	**6,441**
Other income	*5*	100	102
Income from operations		**5,685**	**6,543**
Change in inventories of finished goods and work-in-progress		119	452
Capitalized production		151	262
Raw materials and consumables used	*5*	(3,384)	(3,989)
Personnel costs	*5*	(1,839)	(2,127)
Taxes		(115)	(137)
Depreciation, amortization and increase in provisions, net of use	*5*	(226)	(383)
Asset impairment	*5*	(44)	(33)
Other recurring operating income and expenses	*5*	9	9
Recurring operating income		**356**	**597**
Other non-recurring operating income and expenses	*5*	(14)	(19)
Profit from operations		**342**	**578**
Cost of net debt		(17)	(28)
Foreign exchange gains (losses)		1,007	(52)
Other financial income and expense		(49)	(68)
Financial income (loss)	*6*	**941**	**(148)**
Share in profit from associates	*14*	6	11
Profit before tax		**1,289**	**441**
Income tax expense	*7*	(408)	(115)
Profit from continuing operations		**881**	**326**
Profit (loss) from discontinued operations		-	-
Profit for the period		**881**	**326**
Attributable to:			
owners of the parent		874	315
non-controlling interests		7	11
Earnings per share attributable to owners of the parent (in €)	*8*		
Basic earnings per share		2.18	0.76
Diluted earnings per share		2.17	0.76
Earnings per share from continuing operations attributable to owners of the parent (in €)	*8*		
Basic earnings per share		2.18	0.76
Diluted earnings per share		2.17	0.76
Earnings per share from discontinued operations attributable to owners of the parent (in €)	*8*		
Basic earnings per share		0.00	0.00
Diluted earnings per share		0.00	0.00

Consolidated statement of comprehensive income

(in € millions)	First-half 2011	First-half 2012
Profit for the period	**881**	**326**
Other comprehensive income		
Items to be reclassified to profit	**(105)**	**33**
Available-for-sale financial assets	(3)	3
Translation adjustments*	(105)	22
Income tax related to components of other comprehensive income	3	8
Items not reclassified to profit	-	-
Other comprehensive income (expense) for the period	**(105)**	**33**
Total comprehensive income for the period	**776**	**359**
Attributable to:		
– owners of the parent	772	348
– non-controlling interests	4	11

* including €4 million from translation adjustments of associates (€1 million in the first half of 2011).

In first-half 2012, translation adjustments include a gain of €25 million for the six-month period ended June 30, 2012 (versus a loss of €8 million for first-half 2011) relating to long-term financing for foreign subsidiaries. This financing meets the criteria for classification as a net investment in a foreign operation and is treated in accordance with the applicable provisions, in this case IAS 21. Translation adjustments also include a loss of €50 million in first-half 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**	**June 30, 2012**
Goodwill	*10*	3,126	3,152
Intangible assets	*11*	3,498	3,690
Property, plant and equipment	*12*	2,486	2,544
Non-current financial assets	*13 and 16*	246	260
Investments in associates	*14*	253	272
Deferred tax assets		251	268
Other non-current assets		12	35
Non-current assets		**9,872**	**10,221**
Other current financial assets	*13 and 16*	101	122
Fair value of financial instruments and derivatives		279	256
Inventories and work-in-progress		3,799	4,322
Trade and other receivables		5,005	5,007
Tax assets		215	255
Cash and cash equivalents	*15*	1,431	1,904
Current assets		**10,830**	**11,866**
Assets held for sale		-	-
Total assets		**20,702**	**22,087**

EQUITY AND LIABILITIES *(in € millions)*	*Note*	**Dec. 31, 2011**	**June 30, 2012**
Share capital	*17.a*	83	83
Consolidated retained earnings	*17.c*	4,387	4,865
Net unrealized gains on available-for-sale financial assets		20	23
Profit for the period		478	315
Equity attributable to owners of the parent		**4,968**	**5,286**
Non-controlling interests		**154**	**157**
Total equity		**5,122**	**5,443**
Provisions	*18*	1,374	1,292
Borrowings subject to specific conditions	*19*	682	684
Interest-bearing non-current liabilities	*20*	1,447	2,375
Deferred tax liabilities		718	717
Other non-current liabilities		199	180
Non-current liabilities		**4,420**	**5,248**
Provisions	*18*	1,064	1,221
Interest-bearing current liabilities	*20*	998	711
Trade and other payables		8,348	8,669
Tax liabilities		92	173
Fair value of financial instruments and derivatives		658	622
Current liabilities		**11,160**	**11,396**
Liabilities held for sale		-	-
Total equity and liabilities		**20,702**	**22,087**

Consolidated statement of changes in shareholders’ equity

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Translation adjustment and net investment hedge	Consolidated reserves and retained earnings	Profit for the period	Other	**Equity attributable to owners of the parent**	Non-controlling interests	**Total**
At Dec. 31, 2010	**83**	**3,360**	**(247)**	**26**	**47**	**1,047**	**207**	**7**	**4,530**	**175**	**4,705**
Comprehensive income for the period				(3)	(102)		874	3	**772**	4	**776**
Acquisitions/disposals of treasury shares			46			(46)			**-**		**-**
Dividends						(202)			**(202)**	(12)	**(214)**
Other movements						207	(207)	9	**9**	5	**14**
At June 30, 2011	**83**	**3,360**	**(201)**	**23**	**(55)**	**1,006**	**874**	**19**	**5,109**	**172**	**5,281**
Comprehensive income for the period				(3)	217		(396)	(32)	**(214)**	15	**(199)**
Acquisitions/disposals of treasury shares			89			75			**164**		**164**
2011 interim dividend						(102)			**(102)**		**(102)**
Other movements								11	**11**	(33)	**(21)**
At Dec. 31, 2011	**83**	**3,360**	**(112)**	**20**	**162**	**979**	**478**	**(2)**	**4,968**	**154**	**5,122**
Comprehensive income for the period				3	22		315	8 *	**348**	11	**359**
Acquisitions/disposals of treasury shares			111			7			**118**		**118**
Dividends						(154)			**(154)**	(16)	**(170)**
Other movements						478	(478)	6	**6**	8	**14**
At June 30, 2012	**83**	**3,360**	**(1)**	**23**	**184**	**1,310**	**315**	**12**	**5,286**	**157**	**5,443**

* A negative €9 million tax impact on foreign exchange differences relating to net investments in foreign operations (negative €29 million in 2011) and a positive €17 million tax impact on foreign exchange differences relating to the USD 1.2 billion issue in February 2012 of senior unsecured notes on the US private placement market.

Consolidated statement of cash flows

(in € millions)		First-half 2011	First-half 2012
I. Cash flow from operating activities			
Profit attributable to owners of the parent		874	315
Current taxes		90	140
Deferred taxes		318	(25)
Consolidated profit before tax		**1,282**	**430**
Tax paid		(55)	(154)
Share in profit from associates (net of dividends received)		(6)	(11)
Income and expenses with no cash impact			
Depreciation and amortization		312	359
Asset impairment		58	43
Provisions		(108)	71
Fair value of financial instruments and derivatives		(962)	28
Capital gains on disposals of non-current assets		10	8
Accrued interest		(6)	29
Other items		3	61
Profit (loss) before tax from discontinued operations		-	-
Profit attributable to non-controlling interests		7	11
Other income and expenses with no cash impact		**(686)**	**610**
Cash flow from operations, before changes in working capital		**535**	**875**
Change in inventories and work-in-progress		(155)	(520)
Change in operating receivables and payables		114	181
Change in other receivables and payables		(38)	35
Intercompany change in working capital from discontinued operations		-	(1)
Change in working capital		**(79)**	**(305)**
	TOTAL I	**456**	**570**
II. Cash flow used in investing activities			
Payments for the purchase of intangible assets, net of proceeds		(151)	(267)
Payments for the purchase of property, plant and equipment, net of proceeds		(148)	(199)
Proceeds (payments) arising from the sale (acquisition) of investments		(277)	(53)
Proceeds (payments) arising from the sale (acquisition) of financial assets		(5)	(21)
Other movements		-	7
Cash flow from intercompany financing activities related to discontinued operations		-	-
	TOTAL II	**(581)**	**(533)**
III. Cash flow from (used in) financing activities			
Change in share capital		-	-
Acquisitions and disposals of treasury shares		-	118
Repayment of borrowings and long-term debt		(53)	(99)
Repayment of repayable advances		(15)	(20)
Increase in borrowings		11	905
Repayable advances received		6	5
Change in short-term borrowings		99	(309)
Cash flow from intercompany financing activities related to discontinued operations		8	1
Dividends paid to owners of the parent		(202)	(154)
Dividends paid to non-controlling interests		(10)	(14)
	TOTAL III	**(156)**	**433**
Cash flow used in operating activities related to discontinued operations	**TOTAL IV**	**(8)**	**(1)**
Cash flow used in investing activities related to discontinued operations	**TOTAL V**	**(1)**	**-**
Cash flow from (used in) financing activities related to discontinued operations	**TOTAL VI**	**-**	**-**
Effect of changes in foreign exchange rates	**TOTAL VII**	**(12)**	**4**
Net increase (decrease) in cash and cash equivalents	**I+II+III+IV +V+VI+VII**	**(302)**	**473**
Cash and cash equivalents at beginning of period		2,062	1,431
Cash and cash equivalents at end of period		1,760	1,904
Change in cash and cash equivalents (A)		(302)	473
Cash and cash equivalents of discontinued operations and assets held for sale, at end of period (B)			
Cash and cash equivalents of discontinued operations and assets held for sale, at beginning of period (C)		-	-
Net increase (decrease) in cash and cash equivalents (D) = (A) + (B) - (C)		**(302)**	**473**
of which change in cash and cash equivalents from continuing operations		(302)	473
of which change in cash and cash equivalents from discontinued operations		-	-
of which change in cash and cash equivalents from assets held for sale		-	-

Notes to the Safran Group

condensed interim consolidated financial statements

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

The condensed interim 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 condensed interim consolidated financial statements and accompanying notes are drawn up in euros and all amounts are rounded to the nearest million unless otherwise stated.

The Board of Directors' meeting of July 30, 2012 adopted and authorized the publication of the 2012 condensed interim consolidated financial statements.

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).

The condensed interim consolidated financial statements at June 30, 2012 have been prepared in accordance with IAS 34, Interim Financial Reporting and with all the standards and interpretations adopted by the European Union and applicable to accounting periods beginning on or after January 1, 2012.

In preparing these condensed interim consolidated financial statements at June 30, 2012, Safran applied the same accounting rules and methods as those applied in the preparation of its consolidated financial statements for the year ended December 31, 2011 (see Note 1, section 3.1 of the 2011 Registration Document), with the exception of the changes described below.

New IFRS standards, revised standards and interpretations

Revised and amended IFRS standards and interpretations applied at January 1, 2012

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

This amendment was effective as of January 1, 2012 but had no impact on the Group's condensed interim consolidated financial statements at June 30, 2012.

Amendment published by the IASB and early adopted by the Group

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

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

- Amendment 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;
- IFRS 9, Financial Instruments – Classification and Measurement;
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosures of Interests in Other Entities;

- IFRS 13, Fair Value Measurement;
- IAS 27 (revised), Separate Financial Statements;
- IAS 28 (revised), Investments in Associates and Joint Ventures;
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine;
- Improvements to IFRS published in May 2012.

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

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

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

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

Note 2 - Main sources of estimates

The preparation of condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) described above requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported at the date of preparation of the financial statements, as well as the income and expenses recognized for the period.
The Group formulates assumptions and, on this basis, regularly prepares estimates relating to its various activities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements. The Group regularly reviews these estimates and assumptions in light of actual experience and any other factors considered reasonable in determining the carrying amount of its assets and liabilities.
In a global economic climate which was characterized by persistently high volatility and a lack of visibility at June 30, 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 (aviation programs, development expenditures and property, plant and equipment used in production) are tested for impairment as described in Note 1.L, section 3.1 of the 2011 Registration Document. The recoverable

amount of goodwill, intangible assets and property, plant and equipment is generally determined using cash flow forecasts based on the key assumptions described above.

- **Capitalization of development costs:** The conditions for capitalizing development costs are set out in Note 1.J, section 3.1 of the 2011 Registration Document. 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.

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

- **Backlog losses:** In the aviation industry, standard sales contracts may be onerous when they do not provide for spare part sales. The Group recognizes a provision for backlog losses when 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.

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) Post-employment benefits

The expense recognized in the period in respect of post-employment benefits is based on the estimated expense for the year as a whole, pro rated over the period covered by the interim consolidated financial statements, and may be adjusted for any non-recurring events that occurred during the period (amendments, curtailments or settlements of benefits granted), less any benefits paid during the period. The measurement is based on actuarial calculations performed by independent actuaries using demographical (staff turnover rate, retirement date, mortality tables, etc.) and financial (salary increase rate, discount rate, expected return on plan assets, etc.) assumptions. The Group considers that the assumptions used to measure these commitments are appropriate and

justified. However, any change in these assumptions could have a material impact on the amounts reported in the balance sheet and, to a lesser extent, on the Group's future earnings due to the application of the corridor method.

A 1% decrease in discount rates (assuming all other inputs remain unchanged) would have an impact of around €130 million on the projected benefit obligation at June 30, 2012.
The discount rates are determined by reference to the yield on private investment grade bonds (AA), using the Iboxx index. In the first six months of 2012, changes in the Iboxx led to a decrease in the discount rates, from 4.5% at end-December 2011 to 3.25% at June 30, 2012 for the eurozone, and from 5% to 4.5% over the same period for the GBP zone.
The impact of these lower discount rates on consolidated profit for first-half 2012 and on the provision at end-June 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.

d) Allocation of the cost of business combinations

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

e) 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 24, "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 FIRST-HALF 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 have each raised their stake in Sofradir to 50%, compared to 40% previously.
Sofradir was proportionately consolidated in Safran'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) was recognized as 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) was listed on the NYSE and was a leading identity management provider in the United States.
Prior to the transaction, L-1 sold its government consulting business to a third party in first-half 2011 for USD 0.3 billion. This business was therefore excluded from the transaction with Safran.
L-1's biometric and enterprise access solutions, secure credentialing solutions and enrollment services businesses have been consolidated by Morpho (Security branch) with effect from the acquisition date.
A significant portion of these activities 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 initial allocation of the purchase price at June 30, 2012 is summarized below:

(in USD millions)	**Provisional allocation**
Acquisition price	1,094
Acquisition cost of shares	**1,094**
Fair value of net assets:	
Net assets at acquisition date	(107)
Fair value of technology	92
Fair value of customer relationships	309
Deferred tax assets recognized on tax losses	100
Deferred tax liabilities on remeasurements	(149)
Fair value of assets acquired and liabilities assumed	**245**
Goodwill	**849**

Further work on the purchase price allocation led to a USD 13 million increase in the goodwill recognized at December 31, 2011.
The definitive allocation of the purchase price to identifiable assets and liabilities will be completed within the 12 months following the acquisition.

In view of the date of the combination, the businesses acquired from L-1 did not make any contribution to the Group's first-half 2011 performance.

Their contribution to the Group's performance in first-half 2012 was as follows:

- €160 million in revenue;
- €13 million in recurring operating income excluding depreciation and amortization charged against property, plant and equipment and intangible assets identified in connection with the provisional allocation of the purchase price. This expense totaled €19 million for first-half 2012.

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. Safran and SNPE have a period of 18 months following the acquisition date to jointly define, reduce and/or restrict the sources of ammonium perchlorate pollution and the plan must come into effect within five years. These guarantees granted by SNPE to Safran are counter-guaranteed by the French State for €216 million. 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 non-current assets	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 property assets 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 was:

(in € millions)	First-half 2011		**First-half 2012**	
	First-quarter	Second-quarter	**First-quarter**	**Second-quarter**
Revenue		67	**71**	**64**
Recurring operating income		6	**9** (1)	**5** (1)

(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 at June 30, 2012 (including €6 million in respect of first-half 2012 and €4 million 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.

Note 4 - Segment information

Segments presented

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

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

Aerospace Propulsion

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

Aircraft Equipment

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

Defence

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

Security

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

Holding company and other

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

Business segment performance indicators

The segment information presented in the tables on 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, section 3.1 of the 2011 Registration Document), 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.

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

REVENUE

(in € millions)	**First-half 2011**	**First-half 2012**
Original equipment and related products and services	2,309	2,738
Sales of defense and security equipment	798	1,025
Services	2,183	2,316
Sales of studies	214	246
Other	81	116
Total	**5,585**	**6,441**

OTHER INCOME

Other income mainly comprises research tax credits and operating subsidies.

(in € millions)	**First-half 2011**	**First-half 2012**
Research tax credit*	59	57
Other operating subsidies	37	33
Other operating income	4	12
Total	**100**	**102**

* Of which €4 million in connection with additional research tax credits in respect of 2011, included in first-half 2012 income (€7 million in respect of 2010 included in first-half 2011 income).

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	**First-half 2011**	**First-half 2012**
Raw materials, supplies and other	(1,125)	(1,296)
Bought-in goods	(114)	(153)
Changes in inventories	35	69
Sub-contracting	(1,182)	(1,394)
Purchases not held in inventory	(138)	(199)
External service expenses	(860)	(1,016)
Total	**(3,384)**	**(3,989)**

PERSONNEL COSTS

(in € millions)	**First-half 2011**	**First-half 2012**
Wages and salaries	(1,175)	(1,392)
Social security contributions	(531)	(571)
Statutory employee profit•sharing	(19)	(33)
Optional employee-profit sharing	(54)	(66)
Additional contributions	(12)	(21)
Other employee costs	(48)	(44)
Total	**(1,839)**	**(2,127)**

The increase in wages and salaries is broadly attributable to the rise in headcount resulting from changes in the scope of consolidation between first-half 2011 and first-half 2012 (see Note 3) and new hires recruited in response to higher business levels.

The increase in the profit-sharing expense reflects the rise in the Group's earnings and the new groupwide profit-sharing agreement signed in first-half 2012 and applicable as from the 2012 financial year.

The rise in additional contributions between first-half 2011 and first-half 2012 is essentially attributable 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 amounts paid in to be invested in the plan.

DEPRECIATION, AMORTIZATION, AND INCREASE IN PROVISIONS, NET OF USE

(in € millions)	First-half 2011	First-half 2012
Net depreciation and amortization expense		
- intangible assets	(160)	(192)
- property, plant and equipment	(152)	(167)
Total net depreciation and amortization expense(*)	**(312)**	**(359)**
Net increase (decrease) in provisions	**86**	**(24)**
Depreciation, amortization and increase in provisions, net of use	**(226)**	**(383)**

(*) Of which depreciation and amortization of assets measured at fair value on the acquisition of the Snecma group, in the amounts of €79 million at June 30, 2012 versus €80 million at June 30, 2011 and during recent acquisitions:
€50 million at June 30, 2012 versus €24 million at June 30, 2011.

ASSET IMPAIRMENT

	Impairment expense		Reversals	
(in € millions)	First-half 2011	First-half 2012	First-half 2011	First-half 2012
Property, plant and equipment and intangible assets	(26)	(13)	2	5
Financial assets	(1)	-	2	-
Inventories and work-in-progress	(133)	(136)	109	117
Receivables	(13)	(17)	16	11
Total	**(173)**	**(166)**	**129**	**133**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2011	First-half 2012
Capital gains and losses on asset disposals	(10)	(8)
Royalties, patents and licenses	(10)	(8)
Losses on irrecoverable receivables	(3)	(6)
Other operating income and expenses	32	31
Total	**9**	**9**

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2011	First-half 2012
Other non-recurring items	(14)	(19)
Total	(14)	(19)

At June 30, 2012, other non-recurring items correspond mainly to the write-down of receivables arising before Group customer Hawker Beechcraft filed for Chapter 11 bankruptcy protection (€7 million), and to transaction-related costs and other costs incurred in connection with recent business combinations (€12 million).
At June 30, 2011, other non-recurring items corresponded mainly to transaction-related costs in connection with business combinations carried out during the period or currently in progress (€7 million), as well as the impact of an unfavorable decision handed down in a dispute with a supplier (€7 million).

Note 6 - Financial income (loss)

(in € millions)	**First-half 2011**	**First-half 2012**
Financial expense on interest-bearing liabilities	(35)	(49)
Financial income on cash and cash equivalents	18	21
Cost of net debt	**(17)**	**(28)**
Gain or loss on foreign currency hedging instruments	962	(42)
Foreign exchange gains and losses	11	3
Net foreign exchange gains (losses) on provisions	34	(13)
Financial income (expense) arising on foreign currency translation	**1,007**	**(52)**
Gain or loss on interest rate and commodity hedging instruments	-	(4)
Impairment of available-for-sale financial assets	(9)	(2)
Write•downs of loans and other financial receivables	1	(1)
Dividends received	-	1
Other financial provisions	-	4
Interest component of IAS 19 expense	(9)	(11)
Impact of discounting	(33)	(54)
Other	1	(1)
Other financial income and expense	**(49)**	**(68)**
Financial income (loss)	**941**	**(148)**
of which financial expense	**(86)**	**(177)**
of which financial income	**1,027**	**29**

Note 7 - Income tax

The Group tax charge is calculated by using the projected annual rates in each of the Group's tax jurisdictions, adjusted for the main permanent differences identified.

The effective tax rate for continuing operations comes out at 26.1% at June 30, 2012.
The difference compared to the standard tax rate of 36.1% is mainly attributable to the impact of research tax credits and also to differences between tax rates applicable within and outside France.

Income tax expense for the first half of 2012 amounts to €115 million and includes current tax expense of €140 million and deferred tax income of €25 million.

Note 8 - Earnings per share

The Group’s potentially dilutive ordinary shares correspond to the free share plan and leveraged savings plan (see Note 17d).

Earnings per share break down as follows:

	Index	First-half 2011	First-half 2012
Numerator (in €millions)			
Profit for the period attributable to owners of the parent	(a)	874	315
Profit from continuing operations attributable to owners of the parent	(i)	874	315
Profit (loss) from discontinued operations attributable to owners of the parent	(j)	-	-
Denominator (in shares)			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	13,953,268	1,124,804
Number of shares excluding treasury shares	(d)=(b-c)	403,076,317	415,904,781
Weighted average number of shares (excluding treasury shares)	(d')	401,277,095	414,658,530
Potentially dilutive ordinary shares:			
Dilutive impact of share grants and the leveraged plan	(e)	2,164,339	1,454,118
Weighted average number of shares after dilution	(f)=(d'+e)	403,441,434	416,112,648
Ratio: earnings per share (in €)			
Basic earnings per share	(g)=(a*1million)/(d')	2.18	0.76
Diluted earnings per share	(h)=(a*1million)/(f)	2.17	0.76
Ratio: earnings per share from continuing operations (in €)			
Basic earnings per share	(k)=(i*1million)/(d')	2.18	0.76
Diluted earnings per share	(l)=(i*1million)/(f)	2.17	0.76
Ratio: earnings per share from discontinued operations (in €)			
Basic earnings per share	0	0.00	0.00
Diluted earnings per share	(n)=(j*1million)/(f)	0.00	0.00

Note 9 - Dividends paid

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 for €0.25 per share, representing a total of €102 million. The remaining €0.37 dividend per share, representing a total of €154 million, was paid in first-half 2012.

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

Note 10 - Goodwill

Goodwill breaks down as follows:

	Dec. 31, 2011						June 30, 2012
(in € millions)	Net	Changes in scope of consolidation	Transfers	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments	**Net**
Snecma – Aircraft engines	417					1	418
Turbomeca (incl. Microturbo) – Helicopter engines	237						237
Techspace Aero – Aircraft engine components	47						47
Herakles – Aerospace and strategic propulsion	257				(27)		230
Other	1						1
Total Propulsion	**959**				**(27)**	**1**	**933**
Aircelle – Nacelles and aerostructures	213						213
Labinal – Electrical wiring	225					1	226
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**	**-**	**-**	**-**	**-**	**1**	**708**
Sagem – Defence	102	18					120
Total Defence	**102**	**18**	**-**	**-**	**-**	**-**	**120**
Morpho – Identification	949				10	22	981
Morpho – Cards	52				(1)		51
Morpho – Detection	357				(8)	10	359
Total Security	**1,358**	**-**	**-**	**-**	**1**	**32**	**1,391**
Total	**3,126**	18	-	-	**(26)**	**34**	**3,152**

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);
- additional work on the purchase price allocation for L-1, which resulted in a €10 million increase in goodwill for the "Identification" 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).

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			**June 30, 2012**		
(in € millions)	Gross	Amortization/ impairment	Net	Gross	Depreciation/ impairment	Net
Programs	2,670	(1,273)	1,397	2,670	(1,359)	1,311
Development expenditures	1,540	(402)	1,138	1,760	(430)	1,330
Commercial concessions	191	(102)	89	205	(113)	92
Software	361	(313)	48	380	(324)	56
Brands	147	(9)	138	147	(10)	137
Customer relationships	526	(112)	414	584	(149)	435
Technology	256	(42)	214	295	(60)	235
Other	106	(46)	60	150	(56)	94
Total	**5,797**	**(2,299)**	**3,498**	**6,191**	**(2,501)**	**3,690**

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

The weighted average remaining amortization period for the programs is approximately 6.5 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	241	-	241
Separate acquisitions	27	-	27
Disposals and retirements	(2)	2	-
Amortization	-	(192)	(192)
Impairment losses recognized in profit or loss	-	(2)	(2)
Adjustments to purchase price allocation	97		97
Reclassifications	-	2	2
Changes in scope of consolidation	4	(2)	2
Translation adjustments	27	(10)	17
At June 30, 2012	**6,191**	**(2,501)**	**3,690**

Research and development costs recognized in recurring operating income for the period totaled €294 million including amortization (€309 million in first-half 2011).

Development expenditures capitalized in first-half 2012 totaled €216 million (€120 million in first-half 2011). Amortization charged against development expenditures in the same period totaled €30 million (€26 million for first-half 2011).

Amortization was also recognized in respect of revalued assets for €128 million (allocation of the cost of the Snecma group business combination for €79 million and other recent acquisitions for €49 million).

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

No impairment losses were recognized as a result of the impairment tests carried out at June 30, 2012. As a result of the impairment tests carried out on certain programs at June 30, 2011, the Group recognized additional impairment losses of €9 million against development expenditures relating to the TP400 program in the Aerospace Propulsion branch. These impairment losses were treated as recurring operating expenses.

Note 12 - Property, plant and equipment

Property, plant and equipment break down as follows:

	Dec. 31, 2011			June 30, 2012		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	228	-	228	232		232
Buildings	1,279	(663)	616	1,324	(696)	628
Technical facilities, equipment and tooling	4,108	(2,858)	1,250	4,202	(2,968)	1,234
Assets in progress, advances	220	(5)	215	282	(5)	277
Site development and preparation costs	46	(25)	21	47	(26)	21
Buildings on land owned by third parties	92	(42)	50	98	(47)	51
Computer hardware and other equipment	461	(355)	106	477	(376)	101
Total	**6,434**	**(3,948)**	**2,486**	**6,662**	**(4,118)**	**2,544**

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	21	-	21
Additions	179	-	179
Disposals and retirements	(67)	48	(19)
Depreciation	-	(167)	(167)
Impairment losses recognized in profit or loss	-	(6)	(6)
Reclassifications	11	(17)	(6)
Adjustments to purchase price allocation	11	-	11
Changes in scope of consolidation	25	(6)	19
Translation adjustments	48	(22)	26
At June 30, 2012	**6,662**	**(4,118)**	**2,544**

Note 13 - Current and non-current financial assets

Financial assets include:

(in € millions)	Dec. 31, 2011			June 30, 2012		
	Gross	Impairment	Net	Gross	Impairment	Net
Non•consolidated investments*	316	(145)	171	332	(147)	185
Other financial assets	265	(89)	176	287	(90)	197
Total	**581**	**(234)**	**347**	**619**	**(237)**	**382**

* Of which listed securities for €51 million at June 30, 2012 and €50 million at December 31, 2011.

NON-CONSOLIDATED INVESTMENTS

Non-consolidated investments include Safran Group holdings in various non-consolidated companies.

(in € millions)	Year end	Percentage control	Shareholders' equity including profit for the period	Profit (loss)	Carrying amount at Dec. 31, 2011	Carrying amount at June 30, 2012
Sichuan Snecma Aero-Engine Maintenance	12/31/2011	20.00	51.4	4.3	10.0	10.3
Messier Dowty Singapore Pte	12/31/2011	100.00	6.4	0.1	6.3	6.3
Arianespace Participation	12/31/2011	10.60	19.7	1.7	1.9	2.1
Embraer*	12/31/2011	1.12	N/A**	N/A**	40.0	43.1
SMA	12/31/2011	100.00	(22.8)	(11.3)	0.0	0.0
Myriad Group*	12/31/2011	6.46	37.0	(11.4)	9.7	7.7

* Valuations of listed securities are based on market values.

** Data not available.

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

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

A €2 million impairment loss against the Group's interest in the Myriad group was recognized in profit and loss for first-half 2012.

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

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2011	June 30, 2012
Loans to non-consolidated companies	85	94
Loans to employees	26	26
Deposits and guarantees	12	11
Sales-financing loans	-	-
Other*	53	66
Total	**176**	**197**
o/w non-current	75	75
o/w current	101	122

* Of which a net receivable of €37 million at June 30, 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	27
Decrease	(5)
Impairment	-
Translation adjustments	1
Changes in scope of consolidation	(2)
At June 30, 2012	**197**

Note 14 - Investments in associates

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

	Dec. 31, 2011	**June 30, 2012**			
(in € millions)	Net	% interest	Shareholders' equity	Share in profit from associates	Net
Ingenico (1)	244	22.80%	252	11	263
Other (2)	9	N/A	9	-	9
Total	**253**		**261**	**11**	**272**

(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 first-half 2012 was determined based on consensus forecasts provided by analysts. The stock market value totaled €458 million at June 30, 2012 (11,950,583 shares with a par value of €38.32) 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 on 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	11
Other movements*	8
At June 30, 2012	**272**

* Of which €8 million with respect to Ingenico (see consolidated statement of comprehensive income and Note 17c)

Note 15 - Cash and cash equivalents

Cash and cash equivalents break down as follows at June 30, 2012:

(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Negotiable debt securities	5	-
Money-market funds	11	115
Short-term investments	1,009	1,368
Sight deposits	406	421
Total	**1,431**	**1,904**

The table below presents changes in cash and cash equivalents:

(in € millions)	
At December 31, 2011	**1,431**
Movements during the period	472
Changes in scope of consolidation	(3)
Translation adjustments	4
At June 30, 2012	**1,904**

Note 16 - Summary of financial assets

FINANCIAL ASSETS BY TYPE OF INTEREST RATE

The table below provides a breakdown of financial assets by type of interest rate (fixed or floating):

	Dec. 31, 2011		**June 30, 2012**	
(in € millions)	Base	Interest rate	Base	Interest rate
Non-current financial assets (1)	75	0.67%	75	0.50%
Current financial assets	101	2.12%	122	1.77%
Financial assets	**176**	**1.50%**	**197**	**1.43%**
Cash and cash equivalents	**1,431**	**Euribor**	**1,904**	**Euribor**
Total	**1,607**		**2,101**	

(1) Excluding non-consolidated investments.

Note 17 - Consolidated shareholders' equity

17a - Share capital

At June 30, 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.

17b - 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	44.8%
French State	125,940,227	30.20%	150,752,222	29.8%
Employee shareholders	66,638,073	15.98%	128,885,557	25.5%
Treasury shares	7,758,797	1.86%	-	-
Total	**417,029,585**	**100.00%**	**506,386,452**	**100.0%**

(*) Exercisable voting rights.

June 30, 2012

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights(*)
Private investors	221,131,055	53.03%	229,117,617	45.3%
French State	125,940,227	30.20%	150,752,222	29.8%
Employee shareholders	68,833,499	16.50%	126,518,606	25.0%
Treasury shares	1,124,804	0.27%	-	-
Total	**417,029,585**	**100.00%**	**506,388,445**	**100.0%**

(*) Exercisable voting rights.

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

The 1,124,804 treasury shares have no voting rights.

Treasury shares

The number of treasury shares has declined since December 31, 2011, reflecting:
- 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 17d);
- the delivery of 438,264 shares in May 2012 to settle obligations to non-French employees under the Group's leveraged employee shareholding plan launched in March 2012 (see Note 17d);
- the sale of 195,729 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 the first half of 2012 the Company purchased 2,300,648 shares for €60 million, and sold 2,496,377 shares for €63 million 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 June 30, 2012, 110,000 shares were held in connection with the liquidity agreement.

17c - 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)
- Translation adjustment and net investment hedge	22
- Taxes on exchange differences recognized in equity	8
- Delivery and sale of treasury shares	118
- Share of associates in changes in equity	5
- Other (see change in consolidated shareholders' equity)	1
Consolidated retained earnings at June 30, 2012	**4,865**

17d - SHARE-BASED PAYMENT

Free share grants

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

Terms and conditions of the share plan

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

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

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

Measurement of rights to 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	Outside 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 share grants in first-half 2012 was €0.4 million (€4.9 million in first-half 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 savings 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 and December 8, 2011 for employees of Group companies headquartered in France and between March 21 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 and was recorded in the first half of 2012.

Note 18 - Provisions

Provisions break down as follows:

(in € millions)	**Dec. 31, 2011**	Additions	Reversals			Changes in scope of consolidation	Other	**June 30, 2012**
			Utilizations	Reclassifications	Surplus			
Performance warranties	570	118	(45)		(27)	1	1	618
Financial guarantees	51	4	(10)		(4)			41
Services to be rendered	424	198	(139)		(10)			473
Post-employment benefits	418	28	(24)		-			422
Sales agreements and long-term receivables	104	10	(9)		(6)		1	100
Losses on completion and backlog losses	524	111	(43)	(73)	(2)		1	518
Disputes and litigation	39	7	(3)		(2)	2	(2)	41
Other*	308	45	(33)	(10)	(10)	9	(9)	300
Total	**2,438**	521	(306)	(83)	(61)	12	(8)	**2,513**
Non-current	1,374							**1,292**
Current	1,064							**1,221**

* Of which a provision of €92 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 on the backlog – are subsequently recognized in assets, for example in provisions for the impairment of inventories and work-in-progress.

Note 19 - 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	5
Advances repaid	(20)
Cost of borrowings	14
Translation adjustments	3
At June 30, 2012	**684**

Note 20 - Interest-bearing liabilities

Breakdown of interest-bearing liabilities

(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Bond issue	763	760
Senior unsecured notes in USD	-	990
Finance lease liabilities	163	153
Other long-term borrowings	521	472
Total interest-bearing non-current liabilities (portion maturing in more than 1 year at inception)	**1,447**	**2,375**
Finance lease liabilities	13	15
Other long-term borrowings	315	322
Accrued interest not yet due	4	27
Current interest bearing liabilities, long-term at inception	**332**	**364**
Commercial paper	558	207
Short-term bank facilities and equivalent	108	140
Current interest bearing liabilities, short-term at inception	**666**	**347**
Total interest-bearing current liabilities (less than 1 year)	**998**	**711**
Total interest-bearing liabilities	**2,445**	**3,086**

Movements in this caption break down as follows:

(in € millions)	
Total at December 31, 2011	**2,445**
Increase in borrowings	905
Accrued interest	23
Decrease in borrowings	(99)
Change in short-term borrowings	(309)
Changes in scope of consolidation	15
Foreign exchange differences	70
Reclassifications and other	36
Total at June 30, 2012	**3,086**

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., €953 million at the June 30, 2012 exchange rate), 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 at 2.75% 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 at 3.11% after taking account of interest rate derivatives.

- European Investment Bank (EIB) borrowings: €308 million (€317 million at December 31, 2011).
  EIB €300 million loan repayable in equal six-monthly installments between December 17, 2013 and December 17, 2020. This loan bears floating-rate interest indexed to 3-month Euribor plus 0.73%.
  The outstanding €8 million payable on the EIB loan comprises a drawdown bearing fixed-rate interest of 2.80%, maturing on July 13th, 2012 (i.e., in less than one year).

- Employee savings financing under the Group employee savings plan: €418 million (€394 million at December 31, 2011).
  The maximum maturity is five years and the amount falling due within one year is €267 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.

- Messier Bugatti Dowty USA Inc. real estate lease financing contract: USD 38 million or €30 million (USD 38 million or €29.5 million at December 31, 2011), bearing fixed-rate interest of 5.2%.
  This lease is guaranteed by the parent company, Messier-Bugatti-Dowty SA.

- Turbomeca real estate lease financing contract: €52.5 million (€55 million at December 31, 2011), of which €4.6 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: €49 million (€52 million at December 31, 2011), bearing floating-rate interest indexed to 3-month Euribor. The lease expires in January 2022.

- L1 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: €207 million (€558 million at December 31, 2011).
  This amount comprises several drawdowns made under market terms and conditions, with maturities of less than one year.

- Financial current accounts with non-consolidated subsidiaries: €25 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**	**June 30, 2012**
Maturing in:		
Maturing in 1 year or less	998	711
More than 1 year and less than 5 years	1,203	1,151
Beyond 5 years	244	1,224
Total	**2,445**	**3,086**

Analysis by currency:

	Dec. 31, 2011		**June 30, 2012**	
(in millions of currency units)	**Currency**	**EUR**	**Currency**	**EUR**
EUR	2,264	2,264	1,931	1,931
USD	199	154	1,410	1,120
CAD	4	3	4	3
GBP	1	1	1	1
Other	NA	23	NA	31
Total		**2,445**		**3,086**

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

	Non-current				**Current**			
	Dec. 31, 2011		**June 30, 2012**		Dec. 31, 2011		**June 30, 2012**	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	884	4.08%	1855	4.18%	114	3.67%	101	2.33%
Floating rate	563	2.42%	520	2.22%	884	1.81%	610	2.07%
Total	**1,447**	**3.44%**	**2,375**	**3.75%**	**998**	**2.02%**	**711**	**2.11%**

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

	Non-current				**Current**			
	Dec. 31, 2011		**June 30, 2012**		Dec. 31, 2011		**June 30, 2012**	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	884	3.14%	987	3.34%	114	3.67%	101	2.33%
Floating rate	563	2.42%	1,388	2.46%	884	1.81%	610	2.07%
Total	**1,447**	**2.86%**	**2,375**	**2.83%**	**998**	**2.02%**	**711**	**2.11%**

The Group's net debt position is as follows:

(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Cash and cash equivalents (A)	1,431	1,904
Interest-bearing current and non-current liabilities (B)	2,445	3,086
Fair value of interest rate derivatives hedging borrowings (C)	17	53
Total (A)-(B)+(C)	**(997)**	**(1,129)**

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 €50 million on the Group's net debt at June 30, 2012.

Net debt at end-June 2012 does not include the following three assigned trade receivables without recourse:

CFM Inc.:

- confirmed 24-month facility for USD 200 million (with automatic renewal per 12-month period at the end of the first 24 months) granted in October 2009 by General Electric Capital Corp., on which USD 89 million (USD 45.5 million at 50%) had been drawn at June 30, 2012, versus USD 70.6 million (USD 35.3 million at 50%) at December 31, 2011;
- confirmed 364-day facility for USD 950 million granted by a syndicate of eight banks led by Royal Bank of Scotland, on which USD 949 million (USD 474.5 million at 50%) had been drawn at June 30, 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 by Medio Factoring (Intesa San Paolo group), on which USD 52 million (USD 26 million at 50%) had been drawn at June 30, 2012, versus USD 39 million (USD 19.5 million at 50%) at December 31, 2011.

(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Net debt	(997)	(1,129)
Total equity	5,122	5,443
Gearing ratio	**19.47%**	**20.74%**

Note 21 - 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)	**June 30, 2011**	**June 30, 2012**
Sales to related parties	1,649	1,707
Purchases from related parties	(103)	(86)
(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Receivables from related parties	1,670	1,602
Payables to related parties	1,904	1,957
(in € millions)	**Dec. 31, 2011**	**June 30, 2012**
Guarantees granted to related parties (off-balance sheet)	721	1,125

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

Note 22 - *Management of market risks and financial derivatives*

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

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

	Dec. 31, 2011		June 30, 2012	
(in € millions)	Assets	Liabilities	Assets	Liabilities
Interest rate risk management	***22***	***(5)***	***64***	***(11)***
Floating-for-fixed interest rate swaps		(5)		(11)
Fixed-for-floating interest rate swaps	22		64	
Foreign currency risk management	***257***	***(650)***	***192***	***(606)***
Currency swaps				
Buy and sell forward currency contracts	91	(326)	55	(394)
Currency option contracts	166	(324)	137	(212)
Commodity risk management		***(3)***		***(5)***
Forward purchases of commodities		(3)		(5)
Total	**279**	**(658)**	**256**	**(622)**

EXPOSURE TO FOREIGN CURRENCY RISK

Most Aerospace Propulsion and Aircraft Equipment revenue is denominated in US dollars, which is virtually the sole currency used in the civil aviation industry. The net excess of revenues over operating expenses for these activities totaled USD 2.25 billion for the first half of 2012 (USD 2.12 billion for the first half of 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:

(in millions of currency units)	Dec. 31, 2011				June 30, 2012			
	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)**				**(339)**			
Short USD position	(229)	13,374	5,872	7,502	(351)	13,003	6,310	6,693
Of which against EUR	*(199)*	*12,500*	*5,188*	*7,312*	*(340)*	*12,307*	*5,791*	*6,516*
Long USD position	14	(510)	(300)	(210)	21	(410)	(210)	(200)
Of which against EUR	*13*	*(400)*	*(200)*	*(200)*	*22*	*(400)*	*(200)*	*(200)*
Short GBP position against EUR	1	11	11	-	-	-	-	-
Long GBP position against EUR	-	(4)	(4)	-	-	-	-	-
Long PLN position against EUR	(11)	(81)	(39)	(42)	(9)	(87)	(37)	(50)
Long EUR position against CHF	(3)	(218)	(78)	(140)	(1)	(250)	(70)	(180)
Long MXN position against USD	(7)	(3,650)	(1,180)	(2,470)	1	(4,410)	(1,180)	(3,230)
Currency option contracts	**(158)**				**(75)**			
USD put purchased	36	1,000	-	1,000	11	750	-	750
USD put sold	(1)	(100)	(100)	-	-	(185)	(185)	-
USD call sold	(226)	6,798	1,774	5,024	(161)	7,304	2,359	4,945
USD call purchased	8	(250)	(250)	-	16	250	500	(250)
CAD put sold	-	-	-	-	-	(90)	(90)	-
CAD call purchased	-	-	-	-	1	(45)	(45)	-
Accumulators – sell USD (2)	(28)	12,199	4,752	7,448	7	9,510	3,795	5,716
Accumulators – buy USD (2)	63	(1,891)	(1,427)	(464)	52	(1,675)	(1,122)	(553)
Accumulators – sell GBP (2)	1	380	91	289	2	325	325	-
Accumulators – sell CAD (2)	(11)	845	306	539	(3)	626	201	425
Total	**(393)**				**(414)**			

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

The €21 million decrease in the fair value of foreign currency derivatives between December 31, 2011 and June 30, 2012 reflects the fall in the fair value of currency hedging instruments not yet settled at June 30, 2012.

In view of the constraints resulting from the application of IAS 39, the Group decided not to apply hedge accounting and to recognize all changes in the fair value of its financial instruments in “Financial income (loss)”. Accordingly, the net €21 million decrease in the fair value of hedging instruments not yet settled at the end of the reporting period has been recognized in “Financial income (loss)”: a decrease of €42 million was recognized in “Gain or loss on foreign currency hedging instruments” for derivatives hedging future revenue, while €3 million was recognized in “Foreign exchange gains and losses” for derivatives hedging balance sheet positions and €18 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 20).

INTEREST RATE RISK MANAGEMENT

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

- price risk in respect of fixed-rate financial assets and liabilities. Interest rate fluctuations impact the market value of these assets and liabilities;

- cash flow risk in respect of floating-rate financial assets and liabilities. Interest rate fluctuations have a direct impact on the Group's profit or loss.

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

The interest rate payable on the €750 million bond issue, which had been converted to a floating rate using floating-rate borrower/fixed-rate lender swaps, was converted back to a fixed rate 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.

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)".

	Dec. 31, 2011				June 30, 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	24	750	250	500
Floating-for-fixed	(5)	750	250	500	(11)	750	250	500
Total	**17**				**13**			

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 June 30, 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					June 30, 2012				
(in € millions)	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	Beyond 5 years	Fair value	Notional amount (USD)	Less than 1 year	1 to 5 years	Beyond 5 years
Interest rate swaps – USD										
Fixed-for-floating – fair value hedge	-	-	-	-	-	40	1,045	-	-	1,045
Total	**-**					**40**				

MANAGEMENT OF COMMODITY RISK

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

The notional amount of nickel forward purchase contracts at June 30, 2012 represented 2,950 tons of nickel, including contracts for 708 tons maturing in less than one year and 2,242 tons in one to five years. The fair value of these instruments was €5 million at June 30, 2012.

Note 23 - 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	June 30, 2012
Employee-related commitments	84	101
Commitments given to customers (completion warranties, performance bonds)	312	308
Commitments given to third parties	1,173	1,566
Commitments given to customs authorities	84	79
Vendor warranties given (1)	21	22
Actuarial differences and unrecognized past service cost	149	144
Other commitments given	192	165
Total	**2,015**	**2,385**

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

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

(in € millions)	Dec. 31, 2011	June 30, 2012
Commitments received from banks on behalf of suppliers	10	11
Completion warranties	18	26
Endorsements and guarantees received	54	55
Vendor warranties received (1)	162	151
Other commitments received	5	1
Total	**249**	**244**

(1) Vendor warranties received at June 30, 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:

	Dec. 31, 2011	June 30, 2012	Period to maturity		
(in € millions)	Total	**Total**	Less than 1 year	1 to 5 years	Beyond 5 years
Long-term borrowings at inception	770	**794**	322	320	152
Finance lease commitments	176	**168**	16	71	81
Operating lease commitments	233	**237**	53	141	43
Bond issue	833	**1,777**	26	760	991
Total	**2,012**	**2,976**	**417**	**1,292**	**1,267**

Lease payments recognized in profit or loss for the period amounted to €59 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 agreement 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 June 30, 2012, no other such warranties had been called, and no provisions were therefore recognized in this respect in the Group's consolidated financial statements.

CAPITAL EXPENDITURE COMMITMENTS

At June 30, 2012, capital expenditure commitments totaled €152 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 109 million at June 30, 2012. 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 18).

CONTINGENT LIABILITIES ARISING ON ORDINARY ACTIVITIES

Safran, its subsidiaries, joint undertakings and consortia in which Safran or its subsidiaries are shareholders or members, may receive customer claims which arise in the ordinary course of business. Such claims, which are above and beyond contractually agreed warranty obligations booked as a reserve or included in the cost of the contract (see notes 2 b and 18), usually involve demands for indemnity in connection with late deliveries and/or for additional work linked to the performance and the reliability of products. 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 are contingent liabilities, no provision is booked. 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 24.

Note 24 - Disputes and litigation

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

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

§ In a decision dated May 26, 2011, the Paris Court of Appeals upheld the ruling of the Commercial Court and ordered Sagem Défense Sécurité to pay €10 million in damages to a supplier. As the Court of Appeals' decision was enforceable, Sagem Défense Sécurité paid these damages in full. Sagem Défense Sécurité appealed this decision before the Court of Cassation. However, provisions set aside in previous periods provide full coverage for this risk.

- § 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.
  The agreements governing the acquisition of Herakles 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 former Snecma group's participation was approximately 10%. All the manufacturers concerned contested this claim. An agreement was signed whereby the manufacturers concerned by the request for arbitration waived their right to invoke the legal statute of limitations, and the claimant withdrew its request for arbitration in June 2003. However, it reserved the right to submit a new claim for a greater amount. Safran has not yet recognized a provision in this respect.

- § 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 and is currently under deliberation. A ruling is expected in September 2012. 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 with the tax authorities in 2011. This claim was rejected by the authorities on June 20, 2012. Safran is considering referring its case to the Administrative Court pending the outcome of the proceedings before the Correctional 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 handed down in favor of the Brazilian subsidiary. This ruling should be confirmed in the next few months.

Note 25 - Subsequent events

None

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