2011

HALF-YEAR FINANCIAL REPORT

SAFRAN
AEROSPACE · DEFENCE · SECURITY

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STATEMENT OF THE PERSON RESPONSIBLE

"I certify that, to the best of my knowledge, the condensed consolidated financial statements for the half-year have been prepared in accordance with the applicable accounting standards, and give true and fair view of the assets and liabilities, and of the financial position and results of the Company and all its consolidated subsidiaries, and that the half-year management report attached provides a fair view of the main events of the first six months of the year, their impact on the condensed consolidated financial statements, the significant transactions with related parties, and a description of the main risks and uncertainties for the next six months."

Paris, July 27, 2011

Chairman and Chief Executive Officer,

Jean-Paul Herteman

01 HALF-YEAR 2011 ACTIVITY REPORT

KEY BUSINESS HIGHLIGHTS FOR FIRST-HALF 2011

- Following its April 21, 2011 Annual General Meeting, **the Company changed its management system** to adopt a governance structure with a Board of Directors, instead of a dual Executive Board and Supervisory Board structure.
- **CFM International has booked firm orders for 910 LEAP engines** to power 455 Airbus A320neo aircraft for a list price value of more than USD 11 billion: AirAsia (200 aircraft), CIT Aerospace (15), GECAS (60), ILFC (40), Republic Airways Holdings (80), SAS (30) and Virgin America (30).
- Pending confirmation at a board meeting, **Boeing is to launch a re-engined 737 featuring new more-efficient engines with CFM LEAP**. Furthermore, Boeing has indicated that American Airlines would be the first customer of this new variant.
- **In addition to LEAP orders, CFM International logged USD 4.2 billion in CFM56 engine orders** during the Paris Air Show with firm orders for 420 CFM56-5B and CFM56-7B engines: Air Lease Corporate, Malaysian Airlines, Hainan Airlines, Utair Aviation and others.
- **Safran successfully completed two strategic acquisitions**: L-1 Identity Solutions and SNPE Matériaux Énergétiques.
- **Morpho's explosives detection system approved for use by EU airports**: high speed CTX 9800/9400™ DSi and medium speed CTX 5800™ hold baggage explosives detection system have been evaluated by the European Civil Aviation Conference (ECAC) as meeting European Union Standard 3 requirements, a major milestone towards implementation.

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 section 3.1, Note 1.f, "Accounting policies" in the 2010 registration document).

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

- purchase price allocations with respect to material business combinations. Since 2005, this adjustment concerns the amortization charged against intangible assets relating to aeronautical programs that were revalued at the time of the Sagem-Snecma merger. With effect from the 2010 interim consolidated financial statements, the Group decided to restate the impact of purchase price allocations for all material business combinations (and not only those relating to the Sagem-Snecma merger). 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;
  - the recognition of all mark-to-market changes on outstanding hedging instruments at the closing date – including the "ineffective" portion – is neutralized, given that the Group's hedging strategy includes optional hedging instruments and portfolio optimization measures combined with highly volatile market inputs used to mark to market.

RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT WITH THE ADJUSTED INCOME STATEMENT

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

		Currency hedging		Business combinations		
(in € millions)	**Consolidated data - First-half 2011**	Remeasurement of revenue (1)	Deferred hedging gains (losses) (2)	Amortization of intangible assets from Sagem-Snecma merger (3)	PPA impacts – other business combinations (4)	**Adjusted data - First-half 2011**
Revenue	**5,585**	**37**	**–**	**–**	**–**	**5,622**
Other recurring operating income and expenses	(5,229)	–	55	80	26	(5,068)
Recurring operating income	**356**	**37**	**55**	**80**	**26**	**554**
Other non-recurring operating income and expenses	(14)	–	–	–	–	(14)
Profit from operations	**342**	**37**	**55**	**80**	**26**	**540**
Cost of net debt	(17)	–	–	–	–	(17)
Foreign exchange gains (losses)	1,007	(37)	(1,008)	–	–	(38)
Other financial income and expense	(49)	–	–	–	–	(49)
Financial income (loss)	**941**	**(37)**	**(1,008)**	**–**	**–**	**(104)**
Share in profit from associates	6	–	–	–	–	6
Income tax benefit (expense)	(408)	1	328	(26)	(10)	(115)
Profit from continuing operations	**881**	**1**	**(625)**	**54**	**16**	**327**
Loss from discontinued operations	–	–	–	–	–	–
Attributable to non-controlling interests	**(7)**	–	**–**	**(2)**	**(1)**	**(10)**
Profit for the period attributable to owners of the parent	**874**	**1**	**(625)**	**52**	**15**	**317**

(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 €(1,008) million excluding deferred tax, and the impact of including hedges in the measurement of provisions for losses to completion for €55 million.

(3) Cancelation of amortization/impairment of intangible assets relating to the remeasurement of aircraft programs resulting from the application of IFRS 3 to the Sagem-Snecma merger.

(4) Cancelation of amortization of intangible assets identified at the time of recent acquisitions.

Readers are reminded that only the 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" in section 3, are subject to verification procedures applicable to all of the information provided in the interim activity report.

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1.1 FIRST-HALF 2011 RESULTS

All figures concerning first-half income statement and commented in sections 1.1 and 1.2 represent adjusted data, except when noted. Comments on interim consolidated income statement are provided in the section 1.3 of this report.

ADJUSTED INTERIM CONSOLIDATED INCOME STATEMENT

(in € millions)	First-half 2010 Adjusted data	First-half 2011 Adjusted data
Revenue	**5,197**	**5,622**
Other income	88	100
Income from operations	**5,285**	**5,722**
Change in inventories of finished goods and work-in-progress	16	121
Capitalized production	112	151
Raw materials and consumables used	(3,001)	(3,383)
Personnel costs	(1,786)	(1,839)
Taxes	(106)	(115)
Depreciation, amortization and increase in provisions net of use	(109)	(77)
Asset impairment	3	(35)
Other recurring operating income and expenses	14	9
Recurring operating income	**428**	**554**
Other non-recurring operating income and expenses	–	(14)
Profit from operations	**428**	**540**
Cost of net debt	(20)	(17)
Foreign exchange gains	(38)	(38)
Other financial income and expense	(78)	(49)
Financial income (loss)	**(136)**	**(104)**
Share in profit from associates	7	6
Profit before tax	**299**	**442**
Income tax expense	(70)	(115)
Profit from continuing operations	**229**	**327**
Profit (loss) from discontinued operations	–	–
Profit for the period	**229**	**327**
Attributable to:		
■ owners of the parent	223	317
■ non-controlling interests	6	10
Earnings per share attributable to owners of the parent (in €)		
Basic earnings per share	0.56	0.79
Diluted earnings per share	0.55	0.79
Earnings per share of continuing operations attributable to owners of the parent (in €)		
Basic earnings per share	0.56	0.79
Diluted earnings per share	0.55	0.79
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

Adjusted revenue

Solid growth in revenue. For first-half 2011, Safran's revenue was €5,622 million, compared to a €5,197 million in the same period a year ago, a 8.2% year-on-year increase. Group revenue increased by 7.1% organically.

First-half 2011 revenue increased by €425 million on a reported basis, highlighting solid performance across all businesses. On an organic basis, revenue increased by €370 million as a result of improving trends in civil aerospace aftermarket, continuing strength in the defence business (optronics) and growing momentum in security (biometry, e-Documents).

Organic revenue was determined by deducting from 2011 figures the contribution of activities acquired in 2010 and 2011 and activities newly consolidated when compared to 2010 scope of consolidation and by applying constant exchange rates. Hence, the following calculations were applied:

Reported growth				**8.2%**
	Impact of acquisitions & newly consolidated activities	€133 million	(2.6)%	
	Currency impact	€(78) million	1.5%	
Organic growth				**7.1%**

The unfavourable currency impact on revenue of €78 million for first-half 2011 reflected a global negative translation effect on the revenue exposed to foreign currencies, notably in USD, GBP and Canadian dollar. It was partly offset by a positive transaction impact with a significant improvement in the Group's hedged rate (USD1.38 to the Euro vs. USD1.45 in the year ago period).

Adjusted recurring operating income

Recurring operating margin up by 1.7 point. For first-half 2011, Safran's recurring operating income was €554 million (9.9% of revenue), up 29% compared to first-half 2010 figure of €428 million, 8.2% of revenue. After taking into account the positive currency impact (€64 million) and a slight positive impact of acquisitions and newly consolidated activities (€7 million), organic improvement was €55 million or 12.9% year-over-year.

This solid improvement was primarily driven by the aerospace activities benefiting from solid original equipment growth and accelerating trends in civil aftermarket while realizing the benefits of a leaner cost structure.

There were some one-off items during first-half 2011: a €(7) million impact from an adverse final court ruling in the defence activity and €(7) million M&A transaction costs mainly related to the L-1 Identity Solutions and SME acquisitions.

(in € million)	**H1 2010**	**H1 2011**
Recurring operating income	**428**	**554**
% of revenue	8.2%	9.9%
Total one-off items	**–**	**(14)**
Capital gain (loss) on disposals	–	–
Impairment reversal (charge)	–	–
Other infrequent & material non operational items	–	(14)
Profit from operations	**428**	**540**
% of revenue	8.2%	9.6%

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Adjusted Profit from operation

For first-half 2011, Safran's adjusted profit from operation was €540 million, up 26% compared to first-half 2010 figure of €428 million.

Adjusted financial income (loss)

The adjusted financial loss for the first half of 2011 amounted to €104 million compared to a loss of €136 million for the prior-year period. The cost of net debt came out at €17 million versus €20 million for first-half 2010.

Financial result arising on foreign currency translation for the first half of the year includes a positive impact of €34 million (versus a negative impact of €81 million in first-half 2010), relating to the foreign exchange valuation of provisions denominated in foreign currencies. It also includes a €(46) million change in the fair value of foreign currency derivatives set up within the scope of the acquisition of L-1 Identity Solutions and still outstanding as of June 30, 2011.

The financial result includes the unwinding effect on certain assets and liabilities in the amount of €(33) million for the first half of 2011, identical to the prior-year period. This item had no cash impact.

Adjusted net income – group share

Adjusted net income – group share grew by 42% year-over-year. The adjusted net income attributable to equity holders of the parent was €317 million or €0.79 per share, compared to €223 million (€0.56 per share) in first half-2010. In addition to the rise in recurring operating income, this improved performance includes net financial loss of €104 million and tax charge of €115 million (26% effective tax rate).

1.2 BUSINESS COMMENTARY

FIRST-HALF 2011 KEY FIGURES

Segment breakdown of revenue

(in € million)	H1 2010	H1 2011	% change reported	% change organic
Aerospace Propulsion	2,763	2,977	7.7%	6.0%
Aircraft Equipment	1,374	1,504	9.5%	9.0%
Defence	558	624	11.8%	10.2%
Security	479	509	6.3%	8.4%
Others	23	8	NA	NA
TOTAL GROUP	**5,197**	**5,622**	**8.2%**	**7.1%**

Segment breakdown of recurring operating income

(in € million)	H1 2010	H1 2011	% change
Aerospace Propulsion	**311**	**424**	**36%**
% of revenue	11.3%	14.2%	
Aircraft Equipment	**68**	**99**	**46%**
% of revenue	4.9%	6.6%	
Defence	**28**	**31**	**11%**
% of revenue	5.0%	5.0%	
Security	**61**	**59**	**(3)%**
% of revenue	12.7%	11.6%	
Others	(40)	(59)	**NA**
TOTAL GROUP	**428**	**554**	**29%**
% of revenue	**8.2%**	**9.9%**	

2011 revenue by quarter

(in € million)	Q1 2011	Q2 2011	H1 2011
Aerospace Propulsion	1,423	1,554	2,977
Aircraft Equipment	729	775	1,504
Defence	292	332	624
Security	233	276	509
Others	4	4	8
TOTAL REVENUE	**2,681**	**2,941**	**5,622**

SEGMENT OPERATIONS REVIEW

Aerospace Propulsion

First-half 2011 revenue grew by 7.7% at €2,977 million, or 6.0% on an organic basis, compared to the year-ago period revenue at €2,763 million. Revenue evolution resulted from strengthening recovery in aftermarket activity in CFM, helicopter and continuing growth in recent high-thrust civil engines, as well as growth in OEM deliveries.

OEM CFM56 engine deliveries at 636 units were flat compared to the same period a year ago. After a successful Paris air show, total CFM56 and LEAP orders now stand at more than 7,500 engines, about 6 years of production. CFM International booked 63% of all A320neo orders to date. Revenue from OEM engines was up, notably thanks to favourable price mix for CFM56 and initial deliveries for SaM146. Excluding the contribution of SME, space & missile propulsion revenue was flat in the first half of the year.

On a first-half 2011 basis, service revenue share reached 49.8% of Aerospace Propulsion revenue, benefiting from a robust contribution from civil aftermarket. CFM International spare parts revenue was up 13.4% in USD terms, with more than 20% growth on second generation engines. In the second quarter 2011, CFM International spare parts revenue was up 20.9% year-over-year in USD terms (and up 8% when compared to first-quarter 2011). The estimated[*] total number of shop visits in first-half 2011 for CFM-equipped civil aircraft increased to 1,183 as compared to 1,082 in first-half 2010. The momentum continued to be strong in helicopter and recent high-thrust engines services.

First-half 2011 recurring operating income was €424 million (14.2% of revenue), up 36% compared to €311 million in the year-ago period (11.3% of revenue). This significant improvement resulted from strong activity in civil aftermarket and the ramp-up of recent Support-By-The-Hour maintenance contracts, primarily in helicopter engines, as well as from increased unit revenues on CFM56 original equipment. Profits were also driven by Safran+ cost reduction efforts, somewhat offset by higher R&D investments, primarily on LEAP and Silvercrest engines. The currency also had a positive impact on profitability.

The contribution of SNPE Materiaux Énergétiques (consolidated since April 5) was €66 million in revenue and €6 million in recurring operating income.

Aircraft Equipment

The Aircraft Equipment segment reported first-half 2011 revenue of €1,504 million, up 9.5% (9.0% on an organic basis), compared to the year-ago period.

The increase in revenue was primarily attributable to the nacelle and landing system businesses. The nacelle activity recorded a significant increase in small nacelles deliveries (up 47%), as well as higher deliveries of A380 nacelles (54 units in the first-half 2011 compared to 28 nacelles in the year-ago period). Other large nacelle business benefited from slightly higher deliveries, notably driven by the A320. The first-half 2011 saw a robust performance in civil aerospace services (landing gear, brakes, wheels).

On a first-half 2011 basis, service revenue grew by €26 million driven by higher civil aftermarket but its share of Aerospace Equipment revenue slightly decreased from 32.6% to 31.5% as a result of higher revenue growth in original equipment.

First-half 2011 recurring operating income was €99 million (6.6% of revenue), up 46% compared to €68 million in the year-ago period (4.9% of revenue). The improvement resulted from a robust contribution from civil aftermarket (carbon brakes and landing gear) and by the impact of better prices on OE landing systems. To a lesser extent, it was also driven by a turnaround in the nacelle activity, notably the effect of lower production costs on higher A380 volumes and a recovery in the small nacelle business. The currency also had a positive impact on profitability.

(*) shop visit numbers are estimates; these can be revised marginally in the future as airlines finalise reports.

The contribution of Labinal Salisbury (6 months) was €36 million in revenue and €4 million in recurring operating income.

Defence

First-half 2011 revenue was up 11.8% at €624 million, or up 10.2% on an organic basis, compared to the previous year. The performance was mainly driven by over 30% revenue growth in the Optronics activity on the basis of a robust order backlog (Felin soldier integrated equipment suites for French Army, long-range infra-red goggles on export markets). This trend was partly mitigated by a slowdown in Avionics revenue with low volume in aircraft modernisation programs and in infrared seekers.

First-half 2011 recurring operating income at €31 million (5.0% of revenue) was slightly up compared to €28 million (5.0% of revenue) in first-half 2010. Optronics delivered higher profits thanks to a favourable volume and mix while Avionics suffered from low volume. Safran Electronics reached operating breakeven for the first time after the initial costs incurred at its creation.

Security

The Security activity reported first-half 2011 revenue of €509 million, up 6.3% compared to the year-ago period. On an organic basis, it was up 8.4% driven by a strong quarter in e-Documents, notably in the telecommunication and banking market segments in Latin America, and by a good performance of identification activities that offset the impact of the end of the identification government contract in Ivory Coast. Apart from the Ivory Coast contract, revenue has increased organically by 13% in the first half 2011. Product mix, volume weakness and a one-time regulatory pricing adjustment in detection held revenue back.

First-half 2011 recurring operating income was €59 million (11.6% of revenue) compared to €61 million (12.7% of revenue) in the year-ago period. Excluding the currency translation which caused a €(2) million impact, the organic profitability was stable. Indeed, the temporary weakness in the detection business, notably in the US, was fully offset by the incremental contribution of identification solutions and e-Documents activity.

RESEARCH & DEVELOPMENT

The self-funded R&D effort before research tax credit was €382 million or 6.8% of revenue in first-half 2011, up €91 million compared to first-half 2010. It reflects the increasing spending on new developments (notably the LEAP and Silvercrest engines), while some programs are tailing off (A350 and A380). The impact on recurring operating income after tax credit was up by €71 million at €252 million compared to last year. Global R&D expenditures, including customer funded, reached €544 million.

HALF-YEAR 2011 ACTIVITY REPORT

1.3 HALF-YEAR 2011 CONSOLIDATED INCOME STATEMENT

(in € millions)	H1 2010	H1 2011	% change
Revenue	**5,367**	**5,585**	**+4.1%**
Other operating income and expenses	(4,817)	(5,229)	
Recurring operating income	**550**	**356**	**(35.2)%**
Other non-recurring operating income and expenses	–	(14)	
Profit from operations	**550**	**342**	**(37.8)%**
Financial income (loss)	(2,085)	941	
Share in profit from associates	7	6	
Income tax	559	(408)	
Profit from continuing operations	**(969)**	**881**	
Loss from discontinued operations	–	–	
Profit for the period attributable to non-controlling interests	**(4)**	**(7)**	
Profit for the period attributable to owners of the parent	**(973)**	**874**	

Consolidated revenue

For first-half 2011, consolidated revenue was €5,585 million, compared to a €5,367 million in the same period a year ago, a 4.1% year-on-year increase.

The difference between adjusted consolidated revenue and consolidated revenue is due to the exclusion of foreign currency hedging impact from the adjusted figures. Neutralizing the impact of foreign currency hedging removed €(37) million to first-half consolidated revenue in 2011 while it added €170 million to first-half consolidated revenue in 2010. This year-on-year change results from movements in average exchange rates with regard to the effective hedged rates for the period on the portion of foreign currency denominated flows hedged by the Group. For example, the hedged EUR/USD rate for half-year 2011 was 1.38, against a first-half average rate of 1.40, which explains why netting out the effect of foreign currency hedging gives a consolidated revenue figure that is lower than adjusted consolidated revenue. Year-on-year changes in revenue, excluding the impact of adjusting items is analyzed above (see sections 1.1 and 1.2).

Recurring operating income

Recurring operating income decreased 35.2%, from €550 million for first-half 2010 to €356 million for first-half 2011. The difference between recurring operating income and adjusted recurring operating income, which came in at €554 million, results from:

- amortization charged against intangible assets measured when allocating the purchase price for the May 2005 Sagem–Snecma business combination, in an amount of €(80) million for first-half 2011 (€(79) million for first-half 2010); and an expense of €(26) million (€(23) million for first-half 2010) in respect of other material business combinations;
- a negative €(92) million impact resulting from foreign currency transactions (compared to a positive impact of €224 million for first-half 2010).

Changes in recurring operating income, excluding the impact of adjusting items, are analyzed above (see sections 1.1 and 1.2).

Profit from operations

Profit from operations came in at €342 million for half-year 2011, compared to €550 million for first-half 2010, a 37.8% year-on-year decrease. Profit from operations includes recurring operating income of €356 million (€550 million in 2010) and non-recurring operating expense for €(14) million.

Changes in profit from operations, excluding the impact of adjusting items, are analyzed above (see section 1.1).

Financial income (loss)

The Group reported a financial income of €941 million for first-half 2011, compared to a financial loss of €(2,085) million for first-half 2010.

Two items account for the difference between the consolidated financial income for half-year 2011 and the adjusted financial loss:

- changes in the fair value of outstanding foreign currency hedging instruments which had a positive impact of €1,008 million[(1)] (compared to a negative impact of €(1,781) million for first-half 2010). This amount is recognized in full in financial income (loss) in the consolidated financial statements, whereas this impact is neutralized in the adjusted consolidated financial statements;
- the net positive impact of exchange rate hedging on the portion of foreign currency denominated flows hedged by the Group totaling €37 million for first-half 2011(compared to a €(168) million negative impact for first-half 2010. This impact is recognized in financial income (loss) in the consolidated financial statements, whereas it is recognized in profit from operations (mostly in revenue) in the adjusted income statement.

For first-half 2011, changes in the hedging portfolio fair value came to recognize an income of €1,008 million, thanks to a more favorable evolution in the USD exchange rate parity against EUR over the period. The consolidated financial income for first-half 2011 has been emphasized by favorable changes in the foreign currency hedging portfolio mark-to-market. These changes result from the high volatility in the USD exchange rate parity against EUR, the portfolio has indeed been marked to market using a closing rate of 1.45 at June 30, 2011 against a closing rate of 1.34 at December 31, 2010, unlike very unfavorable changes over the first-half 2010 (the portfolio was marked to market using a closing rate of 1.23 at June 30, 2010 against a rate of 1.44 at December 31, 2009).

Income tax

Income tax amounted to €(408) million for first-half 2011 compared to a €559 million profit for first-half 2010. The first-half 2011 income tax expense included, among others, a deferred tax expense of €(328) million arising on changes in fair value of foreign currency derivatives portfolio during the period. The first-half 2010 income tax benefit included, among others, a deferred tax income of €594 million arising on changes in fair value of foreign currency derivatives portfolio during the period.

Consolidated profit attributable to owners of the parent

This caption amounted to €874 million for first-half 2011 and €(973) million for first-half 2010.

(1) Excluding change in fair value of foreign currency derivatives dedicated to L-1 acquisition for €(46) million.

1.4 BALANCE SHEET AND CASH FLOW

Balance sheet – Assets

(in € million)	Dec 31, 2010	June 30, 2011
Goodwill	2,298	2,431
Intangible assets and PPE	5,383	5,411
Other non-current assets	657	691
Financial instruments at fair value	230	965
Inventories and WIP	3,508	3,712
Trade and other receivables	4,219	4,643
Cash and cash equivalents	2,062	1,760
Other current assets	256	238
TOTAL ASSETS	**18,613**	**19,851**

Balance sheet – Liabilities

(in € million)	Dec 31, 2010	June 30, 2011
Equity	4,705	5,281
Provisions	2,424	2,256
Borrowings subject to sp. conditions	701	706
Interest bearing liabilities	2,051	2,098
Other non-current liabilities	871	1,138
Trade and other payables	7,236	7,886
Other current liabilities	625	486
TOTAL EQUITY & LIABILITIES	**18,613**	**19,851**

Cash Flow Highlights

(in € million)	H1 2010	FY 2010	H1 2011
Adjusted attributable net profit	**223**	**508**	**317**
Depreciation, amortization and provisions	212	462	103
Others	138	167	115
Elimination of discontinued operations	–	5	–
Cash flow from operations	**573**	**1,142**	**535**
Changes in working capital	(131)	317	(79)
Capex (tangible assets)	(122)	(271)	(148)
Capex (intangible assets)	(132)	(254)	(151)
Free cash flow	**188**	**934**	**157**
Dividends paid	(158)	(161)	(202)
Divestments/acquisitions and others	(115)	(251)	(314)
Net change in cash and cash equivalents	**(75)**	**(522)**	**(359)**
Net debt at beginning of period	**(498)**	**(498)**	**24**
Net debt at end of period	**(573)**	**24**	**(335)**

Low net debt. The net debt position was €335 million as of June 30, 2011 compared to a net cash position of €24 million as of December 31, 2010. Free cash flow generation of €157 million was driven by the high level of operating profitability (cash from operations of €535 million) partly offset by an expected increase in working capital needs of €79 million, as well as higher cash R&D investments. A dividend of €202 million (€0.50 per share) and the net impact of the acquisition of SME (€270 million) were paid in April.

As of June 30, 2011, Safran had cash and marketable securities of €1.8 billion and €2.4 billion of secured and undrawn facilities available.

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1.5 OUTLOOK AND CURRENCY HEDGES

OUTLOOK

The first-half 2011 performance together with the contribution of SME and the improved hedging rate lead the Group to upgrade its full-year 2011 outlook on sales and profitability.

- Revenue expected to increase at a rate in the mid to high single digits thanks to the contribution of SME and despite a less favourable estimated average spot rate of USD1.39 to the Euro.
- The increase in recurring operating income should be comfortably in the upper twenties thanks to the contribution of SME, the first-half performance and a better targeted hedge rate of USD1.37 to the Euro.
- Free cash flow expected to represent about a third of the recurring operating income taking into account the expected increase in working capital requirements and R&D investments.

The outlook is based on the following underlying assumptions:

- Civil aerospace aftermarket up 10-15%
- Healthy rise in aerospace OE deliveries
- Increased R&D effort (net incremental impact of around €80 million on P&L and over €200 million in cash vs. 2010, notably for LEAP engine development)
- Strong and profitable growth for the Security business
- On-going Safran+ plan to enhance profitability and reduce overheads.

The full-year 2011 outlook does not include any contribution from L-1 Identity Solutions.

The cost of the employee bonus linked to the dividend distribution (as per the new French regulation) is not included in the full-year 2011 outlook. Indeed, Safran has not yet started discussions with employee representatives on the terms of any such payment.

CURRENCY HEDGES

During the first half of 2011, the Group has improved by another cent its targeted hedge rate for 2011, 2012 and 2013 years and has started to hedge its 2015 exposure. At July 15, 2011, the firm hedge book amounted to USD14.7 billion.

Taking advantage of market opportunities, the hedge book has been optimized thus increasing operational tailwind:

- 2011: new target of USD1.37 to the Euro compared to USD1.38 previously
- 2012: new target of USD1.33 to the Euro compared to USD1.34 previously
- 2013: new target of USD1.29 to the Euro compared to USD1.30 previously

The 2014 hedging is well advanced with USD3.1 billion achieved at USD1.30 to rise to USD4.7 billion at USD1.28 as long as Euro/USD <1.52 for most of 2011 and 2012. The 2015 hedging has already begun with USD1.1 billion achieved at USD1.30 to rise to USD2.3 billion at USD1.29 as long as Euro/USD <1.52 from 2011 to first half of 2013.

1.6 TRANSACTIONS WITH RELATED PARTIES

Readers are invited to refer to Note 22 of section 3 of this document and section 6.1.4 of the 2010 Registration Document, ref. D.11-0202 filed with the AMF March 1, 2011.

During the first 2011 semester, two amendments to the agreement with the French State relating to strategic assets and subsidiaries were entered into.

The three-way agreement entered into with the French State, as described in the 2010 registration document (section 6.1.4) was amended as follows:

AMENDMENT NO. 1 TO THE THREE-WAY AGREEMENT IN LIEU OF A "GOLDEN SHARE" ENTERED INTO BY SAGEM, SNECMA AND THE FRENCH STATE ON DECEMBER 21, 2004

In the context of the acquisition by Safran, from SNPE, of 100% (except for one share held by the French State) of SNPE Matériaux Energétiques (SME) and of a 40% stake in Regulus, the State's contractual rights to protect national interests provided by the December 21, 2004 agreement were extended, by way of an Amendment no. 1 to this agreement, to cover Safran 40% stake in Regulus and strategic assets of Roxel France in which SME holds an indirect 50% stake (mainly the propellent chambers for statoreactor, located on the national territory, owned by Roxel France, and limited to rights that Safran holds deriving to its indirect 50% stake in Roxel France).

This amendment was authorized by the Supervisory Board on March 30, 2011. It was executed on March 31, 2011 and became effective on April 5, 2011.

AMENDMENT NO. 2 TO THE THREE-WAY AGREEMENT IN LIEU OF A "GOLDEN SHARE" ENTERED INTO BY SAGEM, SNECMA AND THE FRENCH STATE ON DECEMBER 21, 2004

Following its April 21, 2011 annual general meeting, Safran changed its management system to adopt a governance structure with a single Board of Directors instead of a dual Executive Board and Supervisory Board structure. Provisions of the December 21, 2004 agreement have been amended for the sole purpose of harmonizing same with Safran's new governance structure.

This amendment was authorized by the Board of Directors on May 26, 2001. It was executed and became effective on June 29, 2011.

02 RISK FACTORS

The risk factors identified and presented in the 2010 registration document remain applicable in the second half of 2011.

However, the Safran group has identified additional risks as a result of the acquisition in first-half 2011 of SNPE Matériaux Energétiques (SME) and a 40% interest in Regulus.

These additional risks are described hereafter and supplement the information set out in section 4 of the 2010 registration document (reference D.11-0202) filed with the AMF on March 31, 2011:

- **Commodity risks (section 4.1.4 of the 2010 registration document)**: further to the acquisition of SME, the Group's solid propulsion business has been exposed to availability risk in relation to ammonium perchlorate for its Toulouse facility. The Group manages this risk by applying the appropriate safety, environmental and preventive maintenance policies.
- **Certification (section 4.4.4 of the 2010 registration document)**: further to the acquisition of SME, the Safran group has identified nine additional ISO 14001-certified facilities: Bouchet Research Center, Saint Médard-en-Jalles, Toulouse, PyroAlliance Toulon and Les Mureaux, Structil, Roxel Saint-Médard-en-Jalles and Bourges (all France), and Roxel Summerfield (UK).
- **Seveso facilities (section 4.4.6.1 of the 2010 registration document)**: further to the acquisition of SME and of a 40% interest in Regulus, the Group has identified four additional facilities classified within the high-hazard threshold of the Seveso Directive: Saint Médard-en-Jalles, Toulouse, Bouchet Research Center and Regulus (all France).
- **Greenhouse gas emissions (section 4.4.6.2 of the 2010 registration document)**: further to the acquisition of SME, the Group has identified two additional sites classified as combustion facilities (boilers for industrial use and heating installations, cracking furnaces) with a rated thermal input exceeding 20 MW, concerned by the allocation of greenhouse gas emissions allowances for the period 2008-2012: Saint Médard-en-Jalles (France) and Roxel Summerfield (UK). The respective annual allowances for these two facilities are 17,370 and 19,489 metric tons. Reported emissions in 2010 were 17,042 and 5,700 metric tons, respectively.
- **Condition of soil and groundwater (section 4.4.6.4 of the 2010 registration document)**: in connection with the acquisition of SME, the Safran group entered into an environmental guarantee agreement with SNPE for the treatment of pollution resulting from past operations at the Bouchet Research Center, Saint Médard-en-Jalles and Toulouse facilities (all France). The agreement provides for two scoping and analysis phases over 18 months, and a five-year work phase.

  Readers are invited to refer to Note 3 of section 3 of this document for further information on the environmental guarantee agreement.

03 HALF-YEAR FINANCIAL STATEMENTS

The Board of Directors' meeting of July 27, 2011 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, 2011.

HALF-YEAR CONSOLIDATED INCOME STATEMENT

(in € millions)	*Note*	**First-half 2010**	**First-half 2011**
Revenue	*5*	**5,367**	**5,585**
Other income	*5*	88	100
Income from operations		**5,455**	**5,685**
Change in inventories of finished goods and work-in-progress		15	119
Capitalized production		112	151
Raw materials and consumables used	*5*	(3,003)	(3,384)
Personnel costs	*5*	(1,786)	(1,839)
Taxes		(106)	(115)
Depreciation, amortization and increase in provisions net of use	*5*	(163)	(226)
Asset impairment	*5*	12	(44)
Other recurring operating income and expenses	*5*	14	9
Recurring operating income	*5*	**550**	**356**
Other non-recurring operating income and expenses	*5*	–	(14)
Profit from operations	*5*	**550**	**342**
Cost of net debt		(20)	(17)
Foreign exchange gains (losses)		(1,987)	1,007
Other financial income and expense		(78)	(49)
Financial income (loss)	*6*	**(2,085)**	**941**
Share in profit from associates	*16*	7	6
Profit (loss) before tax		**(1,528)**	**1,289**
Income tax benefit (expense)		559	(408)
Profit (loss) from continuing operations		**(969)**	**881**
Profit (loss) from discontinued operations	*8*	–	–
Profit (loss) for the period		**(969)**	**881**
Attributable to:			
owners of the parent		(973)	874
non-controlling interests		4	7
Earnings per share attributable to owners of the parent (in €)	*9*		
Basic earnings (loss) per share		(2.44)	2.18
Diluted earnings (loss) per share		(2.44)	2.17
Earnings per share of continuing operations attributable to owners of the parent (in €)	*9*		
Basic earnings (loss) per share		(2.44)	2.18
Diluted earnings (loss) per share		(2.44)	2.17
Earnings per share of discontinued operations attributable to owners of the parent (in €)	*9*		
Basic earnings (loss) per share		0.00	0.00
Diluted earnings (loss) per share		0.00	0.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	First-half 2010	First-half 2011
Profit (loss) for the period	**(969)**	**881**
Other comprehensive income		
Available-for-sale financial assets	4	(3)
Unrealized gains and losses recognized in other comprehensive income	*4*	*(3)*
Reclassified to profit for the period following impairment	–	–
Translation adjustments	177	(105)
Unrealized foreign exchange gains and losses recognized in other comprehensive income	*177*	*(105)*
Income tax related to components of other comprehensive income	–	3
Other comprehensive income (expense) for the period	**181**	**(105)**
Of which transferred to profit for the period	–	–
Total comprehensive income (expense) for the period	**(788)**	**776**
Attributable to:		
– owners of the parent	(797)	772
– non-controlling interests	9	4

At June 30, 2011, translation adjustments include a loss of €8 million for the six-month period ended June 30, 2011 and a gain of €80 million for the six-month period ended June 30, 2010, relating to long-term financing for foreign subsidiaries.

This financing is considered as a net investment in a foreign operation and is treated in accordance with IAS 21.

CONSOLIDATED BALANCE SHEET

Assets

(in € millions)	*Note*	**Dec. 31, 2010**	**June 30, 2011**
Goodwill	*11*	2,298	2,431
Intangible assets	*12*	3,130	3,111
Property, plant and equipment	*13*	2,253	2,300
Non-current financial assets	*14 and 17*	215	199
Investments in associates	*15*	236	246
Deferred tax assets		194	234
Other non-current assets		12	12
Non-current assets		**8,338**	**8,533**
Current financial assets	*14 and 17*	110	82
Fair value of financial instruments and derivatives		230	965
Inventories and work-in-progress		3,508	3,712
Trade and other receivables		4,219	4,643
Tax assets		146	155
Other current assets		–	1
Cash and cash equivalents	*16*	2,062	1,760
Current assets		**10,275**	**11,318**
Assets held for sale		–	–
TOTAL ASSETS		**18,613**	**19,851**

Equity and liabilities

(in € millions)	*Note*	**Dec. 31, 2010**	**June 30, 2011**
Share capital		83	83
Consolidated retained earnings	*18.c*	4,214	4,129
Net unrealized gains on available-for-sale financial assets		26	23
Profit for the period		207	874
Equity attributable to owners of the parent		**4,530**	**5,109**
Non-controlling interests		**175**	**172**
Total equity		**4,705**	**5,281**
Provisions	*19*	1,310	1,201
Borrowings subject to specific conditions	*20*	701	706
Interest-bearing non-current liabilities	*21*	1,483	1,443
Deferred tax liabilities		685	977
Other non-current liabilities		186	161
Non-current liabilities		**4,365**	**4,488**
Provisions	*19*	1,114	1,055
Interest-bearing current liabilities	*21*	568	655
Trade and other payables		7,236	7,886
Tax liabilities		72	127
Fair value of financial instruments and derivatives		553	359
Other current liabilities		–	–
Current liabilities		**9,543**	**10,082**
Liabilities held for sale		–	–
TOTAL EQUITY AND LIABILITIES		**18,613**	**19,851**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in € millions)	Share capital	Additional paid-in capital	Treasury shares	Available-for-sale financial assets	Cumulative translation adjustments	Consolidated retained earnings	Profit (loss) for the period	Other	Equity attributable to owners of the parent	Non-controlling interests	TOTAL EQUITY
At Jan. 1, 2010	**83**	**3,360**	**(247)**	**10**	**(64)**	**558**	**641**	**12**	**4,353**	**148**	**4,501**
Comprehensive income (expense) for the period				4	172		(973)		**(797)**	9	**(788)**
Acquisitions/disposals of treasury shares			(1)						**(1)**		**(1)**
Dividends						(152)			**(152)**	(6)	**(158)**
Other movements						641	(641)	14 *	**14**		**14**
At June 30, 2010	**83**	**3,360**	**(248)**	**14**	**108**	**1,047**	**(973)**	**26**	**3,417**	**151**	**3,568**
Comprehensive income (expense) for the period				12	(61)		1,180	(24)	**1,107**	12	**1,119**
Acquisitions/disposals of treasury shares			1						**1**		**1**
Dividends									**–**	(3)	**(3)**
Other movements								5 *	**5**	15	**20**
At Dec. 31, 2010	**83**	**3,360**	**(247)**	**26**	**47**	**1,047**	**207**	**7**	**4,530**	**175**	**4,705**
Comprehensive income (expense) 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**

* *Of which €5 million in share grants in first-half 2011 (€6 million each in first- and second-half 2010).*

** *The historical value of treasury shares in the amount of €46 million corresponds to shares delivered to employees of French Group entities participating in the share grant plan.*

CONSOLIDATED STATEMENT OF CASH FLOWS

(in € millions)		First-half 2010	First-half 2011
I. Cash flow from operating activities			
Profit (loss) attributable to owners of the parent		(973)	874
Current taxes		23	90
Deferred taxes		(582)	318
Consolidated profit (loss) before tax		**(1,532)**	**1,282**
Tax paid		46	(73)
Share in profit from associates (net of dividends received)		(7)	(6)
Income and expenses with no cash impact			
Depreciation and amortization		302	312
Asset impairment		(2)	58
Provisions		(43)	(108)
Fair value of financial instruments and derivatives		1,781	(962)
Expense related to share grants		6	5
Foreign exchange gains (losses)		10	–
Capital gains (losses) on disposals of non-current assets		(10)	10
Investment subsidies recognised in profit or loss		(2)	(1)
Accrued interest		2	(6)
Other items		18	17
Profit (loss) before tax from discontinued operations		–	–
Profit or loss attributable to non-controlling interests		4	7
Other income and expenses with no cash impact		**2,066**	**(668)**
Cash flow from operations, before changes in working capital		**573**	**535**
Change in inventories and work-in-progress		(14)	(155)
Change in operating receivables and payables		(122)	114
Change in other receivables and payables		5	(38)
Intercompany change in working capital from discontinued operations		–	–
Change in working capital		**(131)**	**(79)**
	TOTAL I	**442**	**456**
II. Cash flow used in investing activities			
Payments for the purchase of intangible assets, net of proceeds		(132)	(151)
Payments for the purchase of property, plant and equipment, net of proceeds		(122)	(148)
Proceeds (payments) arising from the sale (acquisition) of investments		8	(277)
Proceeds (payments) arising from the sale (acquisition) of financial assets		(31)	(5)
Cash flow from (used in) intercompany investing activities related to discontinued operations		–	–
	TOTAL II	**(277)**	**(581)**
III. Cash flow used in financing activities			
Change in share capital		–	–
Acquisitions and disposals of treasury shares		(1)	–
Repayment of borrowings and long-term debt		(91)	(53)
Repayment of repayable advances		(16)	(15)
Increase in borrowings		1	11
Repayable advances received		2	6
Change in short-term borrowings		(583)	99
Cash flow from (used in) intercompany financing activities related to discontinued operations		13	8
Dividends paid to owners of the parent		(152)	(202)
Dividends paid to non-controlling interests		(6)	(10)
	TOTAL III	**(833)**	**(156)**
Cash flow from (used in) operating activites related to discontinued operations	**TOTAL IV**	**(12)**	**(8)**
Cash flow from (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**	**16**	**(12)**
Net increase (decrease) in cash and cash equivalents	**I+II+III+IV+V+VI+VII**	**(664)**	**(302)**
Cash and cash equivalents at beginning of period		2,080	2,062
Cash and cash equivalents at end of period		1,416	1,760
Change in cash and cash equivalents (A)		(664)	(302)
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)		**(664)**	**(302)**
of which change in cash and cash equivalents from continuing operations		(663)	(302)
of which change in cash and cash equivalents from discontinued operations		(1)	–
of which change in cash and cash equivalents from assets held for sale		–	–

NOTES TO THE SAFRAN GROUP CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

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 27, 2011 adopted and authorized the publication of the 2011 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) as 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, 2011 have been prepared in accordance with IAS 34, Interim Financial Reporting, together with all the standards and interpretations adopted by the European Union and applicable to accounting periods beginning on or after January 1, 2011.

In preparing these condensed interim consolidated financial statements at June 30, 2011, 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, 2010 (see Note 1 in section 3.1 of the 2010 registration document), with the exception of the changes described below.

NEW AND REVISED STANDARDS AND AMENDMENTS APPLIED AT JANUARY 1, 2011

The following new and revised standards and interpretations effective January 1, 2011 and the annual improvements to IFRS issued in May 2010 did not have a material impact on the Group's condensed interim consolidated financial statements at June 30, 2011:

- IAS 24 (revised), Related Party Disclosures – Definition of Related Party Transactions – Clarification;
- Amendment to IAS 32, Financial Instruments: Presentation – Classification of Rights Issues;
- Amendment to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Pre-payments of a Minimum Funding Requirement;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments;
- Improvements to IFRS published in May 2010.

NEW AND REVISED STANDARDS AND AMENDMENTS PUBLISHED BY THE IASB NOT APPLICABLE AT JUNE 30, 2011 AND NOT EARLY ADOPTED BY THE GROUP:

- IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets;
- IAS 12, Income Taxes – Recovery of Underlying Assets;
- IFRS 9, Financial Instruments – Classification and Measurement;
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosures of Interests in Other Entities;
- IAS 27 (revised), Separate Financial Statements;

- IAS 28 (revised), Investments in Associates and Joint Ventures;
- IFRS 13, Fair Value Measurement;
- IAS 19 (revised), Employee Benefits;
- Amendment to IAS 1, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income.

Safran is currently assessing the impact that the adoption of these new standards will have on the Group's performance and financial position.

NOTE 2 – MAIN SOURCES OF ESTIMATES

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) described above requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported at the date of preparation of the financial statements, as well as the income and expenses recognized for the period.

The Group formulates assumptions and, on this basis, regularly prepares estimates relating to its various activities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements. The Group regularly reviews these estimates and assumptions in light of actual experience and any other factors considered reasonable in determining the carrying amount of its assets and liabilities. However, 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 and, for discounted future cash flows, the discount rate adopted for each contract. Cash flow forecasts, which may or may not be discounted, are used to determine the following:

- **Impairment of non-current assets:** Goodwill and assets allocated to programs (aircraft programs, development expenditures and property, plant and equipment used in production) are tested for impairment as described in Note 1.l, section 3.1 of the 2010 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 2010 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 to 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 any such orders which is calculated using a number of estimates, notably as regards the term of the firm commitment and the estimated production costs.
- **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. These concern the items described below.

b) Provisions

Provisions are determined using information and assumptions that reflect management's best estimates based on past experience. 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 client companies 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 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.

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 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 26, "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 provision 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

CHANGES IN THE SCOPE OF CONSOLIDATION IN FIRST-HALF 2011

Acquisition of SME

On April 5, 2011, Safran finalized the acquisition from SNPE Group of SNPE Matériaux Energétiques (SME) and its subsidiaries. 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 proportionally consolidated;
- **Regulus:** space propulsion, 40%-owned and joint venture proportionally consolidated.

Under the terms of the share transfer agreement, SNPE granted Safran a specific guarantee for a period of 30-40 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 in the amount of €91 million for cleanup during operations and in the amount of €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, special attention will be paid to the measurement of environmental liabilities and contingent 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 3-10 years depending on their nature.

Provisional goodwill (before allocation of the purchase price) at June 30, 2011 was calculated as follows:

Acquisition price	€348 million
Price adjustment for guarantees already in effect	€(7) million
Share in equity acquired	€(119) million including gross cash and cash equivalents
Provisional goodwill	€222 million

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

SME and its subsidiaries were consolidated at the date control was acquired by the Group and their contribution to its first-half 2011 performance, corresponding to three months of operations, was:

- €66 million in revenue,
- €6 million in operating income.

The other changes in the scope of consolidation during the period were not material.

CHANGES IN THE SCOPE OF CONSOLIDATION IN 2010

Incorporation of CFM Materials LP

The restructuring of the aircraft spare parts trading business operated by a subsidiary of Snecma and General Electric (GEAM) culminated in an asset swap and the creation of CFM Materials LP, a 50-50 joint venture between the two historic partners, dedicated exclusively to trading CFM spare parts. This entity was proportionally consolidated in the financial statements as from June 1, 2010.

The creation of this joint venture led to the recognition of goodwill in an amount of USD 28 million (€21 million).

Acquisition of Harvard Custom Manufacturing

On November 22, 2010, Safran acquired Harvard Custom Manufacturing Inc. for an amount of USD 136 million. An additional USD 2 million earnout was paid during the first half of 2011, bringing the purchase price to a total of USD 138 million. This company, since renamed Labinal Salisbury, manufactures electrical wiring systems for major civil and military aviation firms.

Goodwill and the fair value of the assets and liabilities acquired were calculated during first-half 2011.

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

(in millions of USD)	
Initial acquisition price	136
Earnout	2
Acquisition cost of shares	**138**
Fair value of net assets based on a 100% interest:	
Net assets at acquisition date	28
Fair value of customer relationships	39
Fair value of backlog	21
Remeasurement of property, plant and equipment	2
Remeasurement of inventories	2
Total fair value of assets acquired and liabilities assumed	**92**
Goodwill	**46**

Labinal Salisbury was fully consolidated with effect from the date of its acquisition by the Group.

Its contribution to the Group's 2010 performance was not material, given that it covered only one month of operations.

Its contribution to the Group's first-half 2011 performance was:

- €36 million in revenue,
- €1 million in operating losses.

Profit from operations for first-half 2011 includes an expense of €5 million relating to (i) the amortization of intangible assets and the depreciation of property, plant and equipment identified as part of the purchase price allocation; and (ii) the impact of recognizing fair value adjustment to inventories purchased and sold during the period.

RECENT ACQUISITION

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 Identity Solutions Inc. for a total cash amount of USD 1.09 billion. L-1 is listed on the NYSE and is a leading identity management provider in the United States. Prior to this transaction, in the first half of 2011 L-1 sold its government consulting services business for USD 0.3 billion to a third party, and therefore this business is outside of the scope of the transaction with Safran.

L-1's biometric and enterprise access solutions, secure credentialing solutions and enrollment services businesses will be consolidated by Morpho (Security branch) with effect from the acquisition date.

A significant portion of these activities will be managed within the framework of a proxy agreement entered into with the US Department of Defense in order to ensure appropriate protection for US security purposes.

Taken together, these activities generated revenue of approximately USD 0.45 billion in 2010.

NOTE 4 – SEGMENT INFORMATION

SEGMENTS PRESENTED

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

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

Aerospace Propulsion

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

Aircraft Equipment

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

Defence

Defence includes all businesses serving naval, land and aviation defence industries. The Group designs, develops, manufactures and markets optronic, avionic and electronic solutions and services, and critical software for civil and defence applications.

Safran develops inertial navigation systems for aviation, naval and land applications, flight commands for helicopters, tactical optronic systems and unmanned aerial vehicles (gyrostabilized optronic pods, periscopes, infrared cameras, multifunction binoculars, air surveillance systems), and defence equipment and systems.

Security

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

Holding company and other

In “Holding company and other”, the Group includes Safran SA’s businesses and certain residual activities not included in previous items.

BUSINESS SEGMENT PERFORMANCE INDICATORS

The information presented below by business segment in the tables 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. Up 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 section 1 of this document).

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 2010 registration document), except for the restatements made in respect of adjusted data (see Foreword, section 1 of this document).

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.

SEGMENT INFORMATION

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

First-half 2011

(in € millions)	Aerospace Propulsion	Aircraft Equiment	Defence	Security	Total operating segments	Holding company and other	Total adjusted data	Currency hedging	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	**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**

First-half 2010

(in € millions)	Aerospace Propulsion	Aircraft Equiment	Defence	Security	Total operating segments	Holding company and other	Total adjusted data	Currency hedging	Amortization of intangible assets	Total consolidated data
Revenue	**2,763**	**1,374**	**558**	**479**	**5,174**	**23**	**5,197**	**170**		**5,367**
Recurring operating income	**311**	**68**	**28**	**61**	**468**	**(40)**	**428**	**224**	**(102)**	**550**
Other non-recurring operating income and expenses	–	–	–	–	–	–	–	–	–	–
Profit (loss) from operations	**311**	**68**	**28**	**61**	**468**	**(40)**	**428**	**224**	**(102)**	**550**
Free cash flow	**168**	**38**	**(151)**	**5**	**60**	**128**	**188**			**188**

REVENUE (ADJUSTED DATA)

(in € millions)		First-half 2010	First-half 2011
Aerospace Propulsion			
Original equipment and related products and services		1,274	1,352
Services		1,353	1,484
Sales of studies		102	102
Other		34	39
	Sub-total	**2,763**	**2,977**
Aircraft Equipment			
Original equipment and related products and services		833	974
Services		448	474
Sales of studies		38	25
Other		55	31
	Sub-total	**1,374**	**1,504**
Defence			
Sales of equipment		341	424
Services		107	111
Sales of studies		88	85
Other		22	4
	Sub-total	**558**	**624**
Security			
Sales of equipment		328	371
Services		138	129
Sales of studies		4	2
Other		9	7
	Sub-total	**479**	**509**
Holding company and other			
Sales of equipment		13	6
Other		10	2
	Sub-total	**23**	**8**
TOTAL		**5,197**	**5,622**

INFORMATION BY GEOGRAPHIC AREA (ADJUSTED DATA)

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%	

First-half 2010

(in € millions)		France	Europe (excl. France)	North America	Asia	Rest of the world	TOTAL
Revenue by location of customers		1,529	1,338	1,403	585	342	**5,197**
	%	29%	26%	27%	11%	7%	

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

NOTE 5 – BREAKDOWN OF THE MAIN COMPONENTS OF PROFIT FROM OPERATIONS

REVENUE

(in € millions)	First-half 2010	First-half 2011
Original equipment and related products and services	2,208	2,309
Sales of equipment	668	798
Services	2,119	2,183
Sales of studies	238	214
Other	134	81
TOTAL	**5,367**	**5,585**

OTHER INCOME

Other income mainly comprises research tax credits and operating subsidies.

(in € millions)	First-half 2010	First-half 2011
Research tax credit *	61	59
Other operating subsidies	19	37
Other operating income	8	4
TOTAL	**88**	**100**

* *Of which €7 million in connection with additional research tax credits in respect of 2010, included in first-half 2011 income (€11 million in respect of 2009 included in first-half 2010 income).*

RAW MATERIALS AND CONSUMABLES USED

This caption breaks down as follows for the period:

(in € millions)	First-half 2010	First-half 2011
Raw materials, supplies and other	(906)	(1,125)
Bought-in goods	(64)	(114)
Changes in inventories	(2)	35
Sub-contracting	(1,161)	(1,182)
Purchases not held in inventory	(123)	(138)
External service expenses	(747)	(860)
TOTAL	**(3,003)**	**(3,384)**

PERSONNEL COSTS AND WORKFORCE

Personnel costs:

(in € millions)	First-half 2010	First-half 2011
Wages and salaries	(1,159)	(1,175)
Social security contributions	(487)	(531)
Statutory employee profit-sharing *	(24)	(19)
Optional employee-profit sharing	(50)	(54)
Additional contributions	(9)	(12)
Other employee costs	(57)	(48)
TOTAL	**(1,786)**	**(1,839)**

* *Profit-sharing expense for first-half 2010 includes additional profit-sharing contribution in respect of 2009 in the amount of €7 million.*

The Group's average workforce over the period by business segment breaks down as follows:

	France	Other countries	TOTAL
Aerospace Propulsion	17,593	3,776	**21,369**
Aircraft Equipment	9,176	10,846	**20,022**
Defence	6,038	737	**6,775**
Security	1,276	4,264	**5,540**
Holding company and other	1,635	96	**1,731**
TOTAL	**35,718**	**19,719**	**55,437**

Headcount at discontinued operations is nil.

These figures do not include employees of equity-accounted associates.

DEPRECIATION, AMORTIZATION AND INCREASE IN PROVISIONS NET OF USE

(in € millions)	First-half 2010	First-half 2011
Net depreciation and amortization expense		
– intangible assets	(156)	(160)
– property, plant and equipment	(146)	(152)
Total net depreciation and amortization expense *	**(302)**	**(312)**
Net reversals of provisions for contingencies and losses	**139**	**86**
Depreciation, amortization and increase in provisions net of use	**(163)**	**(226)**

* *Of which depreciation and amortization of assets measured at fair value on the acquisition of the Snecma group, in the amounts of a negative €80 million in first-half 2011 and first-half 2010 and during recent acquisitions: a negative €24 million in first-half 2011 versus a negative €22 million in first-half 2010.*

ASSET IMPAIRMENT

	Impairment charges		Reversals	
(in € millions)	First-half 2010	First-half 2011	First-half 2010	First-half 2011
– property, plant and equipment and intangible assets	(16)	(26)	6	2
– financial assets	(1)	(1)	1	2
– inventories	(125)	(133)	146	109
– receivables	(15)	(13)	16	16
TOTAL	**(157)**	**(173)**	**169**	**129**

OTHER RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2010	First-half 2011
Capital gains and losses on asset disposals	(4)	(10)
Royalties, patents and licenses	(6)	(10)
Losses on irrecoverable receivables	(3)	(3)
Other operating income and expenses	27	32
TOTAL	**14**	**9**

OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € millions)	First-half 2010	First-half 2011
Other non-recurring items	–	(14)
TOTAL	**–**	**(14)**

No items of operating income or expense were treated as non-recurring in the first half of 2010.

At June 30, 2011, other non-recurring items correspond mainly to acquisition-related costs in connection with business combinations carried out during the period or currently in progress for an amount of €7 million, as well as the impact of an unfavorable decision in relation to a dispute with a supplier for an amount of €7 million (see Note 26).

NOTE 6 – FINANCIAL INCOME (LOSS)

(in € millions)	First-half 2010	First-half 2011
Financial expense on interest-bearing liabilities	(30)	(35)
Financial income on cash and cash equivalents	10	18
Cost of net debt	**(20)**	**(17)**
Gain or loss on foreign currency hedging instruments	(1,781)	962 *
Foreign exchange gains and losses	(125)	11
Net foreign exchange gains (losses) on provisions	(81)	34
Financial income (expense) arising on foreign currency translation	**(1,987)**	**1,007**
Gain or loss on interest rate and commodity hedging instruments	(28)	–
Net expense incurred on disposal of financial assets	2	–
Write-downs of loans and other financial receivables	–	1
Other financial provisions	(8)	(9)
Interest component of IAS 19 expense	(10)	(9)
Impact of discounting	(33)	(33)
Other	(1)	1
Other financial income and expense	**(78)**	**(49)**
Financial income (loss)	**(2,085)**	**941**
of which financial expense	**(2,089)**	**(86)**
of which financial income	**4**	**1,027**

* *Of which a negative €46 million in changes in fair value of financial instruments hedging share acquisitions (see Note 24).*

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 31.6%. The difference between the effective tax rate and the standard tax rate is primarily attributable to the impact of research tax credits.

Income tax expense for the first half of 2011 amounts to €408 million and includes deferred tax expense of €330 million arising on changes in fair value of foreign currency derivatives during the period.

NOTE 8 – DISCONTINUED OPERATIONS

The following table presents a breakdown of income and expenses relating to the Mobile Phone business, which has been sold.

(in € millions)	First-half 2010	First-half 2011
Revenue	–	1
Raw materials and consumables used	(9)	(6)
Personnel costs	–	–
Depreciation, amortization, impairment and provisions	16	5
Other operating income and expenses	(8)	–
Loss from operations	**(1)**	**–**
Financial income (loss)	**1**	**–**
Income tax expense (benefit) on discontinued operations	**–**	**–**
Gain (loss) on disposal of the Broadband activity	**–**	**–**
Profit (loss) from discontinued operations	**–**	**–**

In 2010 and 2011, profit from discontinued operations represents an additional price consideration for the Communication sector businesses sold in 2008.

Throughout the first half of 2011, headcount at discontinued operations was nil, compared with an average of 7 for the same year ago period.

NOTE 9 – EARNINGS PER SHARE

Diluted earnings per share only take into account share equivalents with a dilutive impact.

The Group's potentially dilutive ordinary shares correspond to share grants.

The Executive Board approved a share grant plan on April 3, 2009 (see Note 18.d).

Earnings per share break down as follows:

	Index	First-half 2010	First-half 2011
Numerator (in € millions)			
Profit (loss) for the period attributable to owners of the parent	(a)	(973)	874
Profit (loss) from continuing operations attributable to owners of the parent	(i)	(973)	874
Profit (loss) from discontinued operations attributable to owners of the parent	(j)	0	–
Denominator (in shares)			
Total number of shares	(b)	417,029,585	417,029,585
Number of treasury shares held	(c)	17,481,368	13,953,268
Number of shares excluding treasury shares	(d)=(b-c)	399,548,217	403,076,317
Weighted average number of shares (excluding treasury shares)	(d')	399,562,502	401,277,095
Potentially dilutive ordinary shares:			
Dilutive impact of share grants	(e)		2,164,339
Weighted average number of shares after dilution	(f)=(d'+e)	399,562,502	403,441,434
Ratio: earnings per share (in €)			
Basic earnings (loss) per share	(g)=(a*1 million)/(d')	(2.44)	2.18
Diluted earnings (loss) per share	(h)=(a*1 million)/(f)	(2.44)	2.17
Ratio: earnings per share from continuing operations (in €)			
Basic earnings (loss) per share	(k)=(i*1 million)/(d')	(2.44)	2.18
Diluted earnings (loss) per share	(l)=(i*1 million)/(f)	(2.44)	2.17
Ratio: earnings per share from discontinued operations (in €)			
Basic earnings (loss) per share	0	0.00	0.00
Diluted earnings (loss) per share	(n)=(j*1 million)/(f)	0.00	0.00

At June 30, 2010, potentially dilutive ordinary shares corresponding to share grants amounted to 3,483,360 shares and were not included in the calculation of diluted earnings per share as they did not have a dilutive impact.

NOTE 10 – DIVIDENDS PAID

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

In first-half 2010, a dividend of €0.38 was paid in respect of 2009, corresponding to a total payout of €152 million.

NOTE 11 – GOODWILL

Goodwill breaks down as follows:

(in € millions)	Dec. 31, 2010 Net	Changes in scope of consolidation	Transfers	Impairment	Price adjustments and allocation to identifiable assets and liabilities	Translation adjustments	June 30, 2011 Net
Snecma	395						395
Turbomeca SA	225						225
Snecma Propulsion Solide	66						66
Techspace Aero	47						47
CFM Materials LP	21					(1)	20
Microturbo SA	12						12
SME and subsidiaries	–	229			(7)		222
Other	1						1
Total Propulsion	**767**	**229**	**–**	**–**	**(7)**	**(1)**	**988**
Aircelle	213						213
Labinal	265				(44)	(5)	216
Messier Dowty SAS	94		(94)				–
Messier Bugatti-Dowty	73		94				167
Safran Engineering Services	78						78
Technofan	10						10
Globe Motors Inc.	10					(1)	9
Sofrance	4						4
Total Aircraft Equipment	**747**	**–**	**–**	**–**	**(44)**	**(6)**	**697**
Sagem Défense Sécurité	61						61
Vectronix	41					1	42
Total Defence	**102**	**–**	**–**	**–**	**–**	**1**	**103**
Identification	299					(9)	290
Cards	48						48
Detection	335				(6)	(24)	305
Total Security	**682**	**–**	**–**	**–**	**(6)**	**(33)**	**643**
TOTAL	**2,298**	**229**	**–**	**–**	**(57)**	**(39)**	**2,431**

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

1. The acquisition of SME and its subsidiaries, which resulted in the recognition of provisional goodwill of €222 million. The allocation of the purchase price will take place within the 12-month period following the acquisition.
2. The initial purchase price allocation of Labinal Salisbury (formerly Harvard Custom Manufacturing), which resulted in a €44 million decrease in goodwill for the "Labinal" CGU (see Note 3).
3. The creation of Messier Bugatti-Dowty which combines the aircraft landing and braking businesses, and resulted in the aggregation of goodwill. This had no impact on the Group's interim consolidated financial statements.

Annual impairment tests:

As from 2011, the Group will carry 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. This change has no impact on the interim consolidated financial statements.

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 5 to 10. The average USD exchange rate adopted is 1.33 for years 2012 to 2015 and 1.35 thereafter (2010: 1.36 for years 2011 to 2014 and 1.35 thereafter).
- Terminal values are based on a growth rate of 1.5%, with the exception of the main Aerospace Propulsion CGUs, for which a growth rate of 2% was adopted (unchanged from 2010).
- The benchmark post-tax discount rate used is 8% (unchanged from 2010) and is applied to post-tax cash flows. However, a post-tax discount rate of 9.5% is used for the CGUs in the Security branch (unchanged from 2010).

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

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

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

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

NOTE 12 – INTANGIBLE ASSETS

Intangible assets break down as follows:

(in € millions)	Dec. 31, 2010 Gross	Dec. 31, 2010 Amortization/ impairment	Dec. 31, 2010 Net	June 30, 2011 Gross	June 30, 2011 Amortization/ impairment	June 30, 2011 Net
Programs	2,670	(1,105)	1,565	2,671	(1,193)	1,478
Development expenditures	1,256	(339)	917	1,354	(367)	987
Commercial concessions	156	(73)	83	176	(90)	86
Software	309	(263)	46	339	(292)	47
Brands	147	(8)	139	147	(8)	139
Commercial relationships	280	(66)	214	302	(83)	219
Technology	131	(22)	109	123	(27)	96
Other	92	(35)	57	90	(31)	59
TOTAL	**5,041**	**(1,911)**	**3,130**	**5,202**	**(2,091)**	**3,111**

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 7.5 years.

Movements in intangible assets break down as follows:

(in € millions)	Gross	Amortization/ impairment	Net
At Dec. 31, 2010	**5,041**	**(1,911)**	**3,130**
Internally produced assets	132	–	132
Separate acquisitions	19	–	19
Disposals and retirements	(4)	3	(1)
Amortization	–	(160)	(160)
Impairment losses recognized in profit or loss	–	(23)	(23)
Reclassifications	30	3	33
Changes in scope of consolidation	18	(14)	4
Translation adjustments	(34)	11	(23)
At June 30, 2011	**5,202**	**(2,091)**	**3,111**

Research costs recognized in expenses for the six-month period ended June 30, 2011 totaled €252 million, including amortization (€181 million in first-half 2010 excluding discontinued operations and including amortization).

Development expenditures capitalized in the six-month period ended June 30, 2011 totaled €120 million (€84 million in first-half 2010).

Amortization charged against development expenditures in the same period totaled €26 million (€23 million for first-half 2010).

Amortization was also recognized in respect of revalued assets for €106 million (allocation of the cost of the Snecma group business combination and other recent acquisitions amounting to €79 million and €27 million, respectively).

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.

As a result of the impairment tests carried out on certain programs in first-half 2011, the Group recognized impairment losses for €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 13 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment break down as follows:

	Dec. 31, 2010			June 30, 2011		
(in € millions)	Gross	Depreciation/ impairment	Net	Gross	Depreciation/ impairment	Net
Land	223	–	223	226	–	226
Buildings	1,108	(548)	560	1,223	(636)	587
Technical facilities, equipment and tooling	3,701	(2,572)	1,129	3,870	(2,742)	1,128
Assets in progress, advances	184	(3)	181	205	(5)	200
Site development and preparation costs	34	(19)	15	40	(22)	18
Buildings on land owned by third parties	69	(24)	45	81	(38)	43
Computer hardware and other equipment	431	(331)	100	451	(353)	98
TOTAL	**5,750**	**(3,497)**	**2,253**	**6,096**	**(3,796)**	**2,300**

Movements in property, plant and equipment break down as follows:

(in € millions)	Gross	Depreciation/ impairment	Net
At Dec. 31, 2010	**5,750**	**(3,497)**	**2,253**
Internally produced assets	18		18
Additions	129		129
Disposals and retirements	(71)	59	(12)
Depreciation		(152)	(152)
Reclassifications	(5)	2	(3)
Changes in scope of consolidation	367	(250)	117
Translation adjustments	(92)	42	(50)
At June 30, 2011	**6,096**	**(3,796)**	**2,300**

During the first half of 2011, no new real estate projects were funded under finance leases.

NOTE 14 – CURRENT AND NON-CURRENT FINANCIAL ASSETS

Financial assets include:

	Dec. 31, 2010			June 30, 2011		
(in € millions)	**Gross**	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Non-consolidated investments *	313	(149)	164	282	(144)	138
Other financial assets	242	(81)	161	230	(87)	143
TOTAL	**555**	**(230)**	**325**	**512**	**(231)**	**281**

* *Of which listed securities for €53 million at June 30, 2011 (€57 million at December 31, 2010). The period-on-period change in this item is attributable to the consolidation of Messier-Dowty Mexico.*

HALF-YEAR NON-CONSOLIDATED INVESTMENTS

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

(in € millions)	Year end	Percentage control	Shareholders' equity including profit for the period	Profit (loss)	Carrying amount at Dec. 31, 2010	Carrying amount at June 30, 2011
Sichuan Snecma Aero-Engine Maintenance	Dec. 31, 2010	20.00	43.2	5.9	9.7	9.7
Messier Dowty Singapore Pte	Dec. 31, 2010	100.00	6.1	0.0	6.4	6.4
Arianespace Participation	Dec. 31, 2010	10.60	17.9	(82.5)	10.6	1.9
Embraer *	Dec. 31, 2010	1.12	NA **	NA **	44.4	43.5
SMA	Dec. 31, 2010	100.00	(11.4)	(13.6)	0.0	0.0
Myriad Group *	Dec. 31, 2010	6.46	46.7	(24.8)	12.4	9.6

* *Valuations of listed securities are based on market values.*

** *Data not available.*

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 material or 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 €8.7 million impairment loss against the Group's holding in the share capital of Arianespace Participation was recognized in profit or loss during first-half 2011.

OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € millions)	Dec. 31, 2010	June 30, 2011
Loans to non-consolidated companies	90	76
Loans to employees	25	26
Deposits and guarantees	13	14
Sales-financing loans	1	1
Other	32	26
TOTAL	**161**	**143**
o/w non-current	51	61
o/w current	110	82

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 Dec. 31, 2010	**161**
Increase	22
Decrease	(11)
Impairment	(6)
Translation adjustments	(1)
Changes in scope of consolidation *	(22)
At June 30, 2011	**143**

* *Including current accounts with Messier-Dowty Mexico (consolidated in 2011) and Roxel (acquired in 2011).*

NOTE 15 – INVESTMENTS IN ASSOCIATES

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

	Dec. 31, 2010	June 30, 2011			
(in € millions)	Net	% interest	Shareholders' equity	Share in profit from associates	Net
Ingenico [(1)]	227	22.66%	230	6	236
Other [(2)]	9	100.00%	10	–	10
Total	**236**		**240**	**6**	**246**

(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 2011 was determined based on consensus forecasts provided by analysts. The stock market value totaled €396 million at June 30, 2011 (11,773,146 shares with a par value of €33.62) versus €315 million at December 31, 2010 (11,630,206 shares with a par value of €27.095).

(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 indications was performed on this investment at June 30, 2011 and did not result in the recognition of any impairment.

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

(in € millions)	
At Dec. 31, 2010	**236**
Share in profit from associates	6
Other movements	4
At June 30, 2011	**246**

NOTE 16 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments maturing less than three months from the trade date with no interest rate risk, readily convertible into cash.

Cash and cash equivalents break down as follows at June 30, 2011:

(in € millions)	Dec. 31, 2010	June 30, 2011
Negotiable debt securities	21	–
Money-market funds	26	24
Short-term investments	1,575	617
Sight deposits	440	1,119
TOTAL	**2,062**	**1,760**

The table below presents changes in cash and cash equivalents:

(in € millions)	
At Dec. 31, 2010	**2,062**
Movements during the period	(361)
Changes in scope of consolidation	71
Translation adjustments	(12)
At June 30, 2011	**1,760**

NOTE 17 – 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, 2010		June 30, 2011	
(in € millions)	Base	Interest rate	Base	Interest rate
Non-current financial assets [(1)]	51	1.12%	61	1.02%
Current financial assets	110	2.12%	82	2.38%
Financial assets	**161**	**1.78%**	**143**	**1.80%**
Cash and cash equivalents	**2,062**	**Euribor**	**1,760**	**Euribor**
TOTAL	**2,223**		**1,903**	

(1) Excluding non-consolidated investments.

NOTE 18 – CONSOLIDATED SHAREHOLDERS' EQUITY

A) SHARE CAPITAL

At June 30, 2011, the share capital of Safran was fully paid up and comprised 417,029,585 shares, each with a par value of €0.20.

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

B) BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

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

The 13,953,268 treasury shares have no voting rights.

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

December 31, 2010

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights *
Private investors	198,734,480	47.65%	207,125,614	40.94%
French State	125,940,227	30.20%	150,752,222	29.80%
Employee shareholders	66,599,710	15.97%	131,455,955	25.98%
Areva	8,300,000	1.99%	16,600,000	3.28%
Treasury shares	17,455,168	4.19%	–	–
TOTAL	**417,029,585**	**100.00%**	**505,933,791**	**100.00%**

* *Exercisable voting rights*

June 30, 2011

Shareholders	Number of shares	% share capital	Number of voting rights	% voting rights *
Private investors	202,352,686	48.52%	209,354,794	41.51%
French State	125,940,227	30.20%	150,752,222	29.89%
Employee shareholders	67,253,374	16.12%	130,323,450	25.84%
Areva	7,530,030	1.81%	13,930,030	2.76%
Treasury shares	13,953,268	3.35%	–	–
TOTAL	**417,029,585**	**100.00%**	**504,360,496**	**100.00%**

* *Exercisable voting rights*

C) CONSOLIDATED RETAINED EARNINGS

Movements in consolidated retained earnings are as follows:

(in € millions)	
Consolidated retained earnings at Dec. 31, 2010	**4,214**
– Allocation of 2010 profit to consolidated retained earnings	207
– Dividend distribution	(202)
– Translation adjustment	(102)
– Other	12
Consolidated retained earnings at June 30, 2011	**4,129**

D) SHARE-BASED PAYMENT

On May 27, 2010, the Shareholders' Meeting renewed the authorization granted to the Executive Board on May 28, 2009 to buy and sell shares in the Company.

On April 21, 2011, the Shareholders' Meeting authorized the Board of Directors to buy and sell shares in the Company in accordance with the applicable laws and regulations.

Pursuant to these authorizations, in the first half of 2011, the Company purchased 609,234 shares for €15 million, and sold 609,234 shares for €15 million. These transactions were carried out under the liquidity contract in force.

Share grants

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

- **Terms and conditions of the share plan**

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

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

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

- **Measurement of rights to share grants**

Rights to shares were measured at their fair value at the grant date. The value of the shares at the grant date was reduced by (i) the estimated present value of future dividends that are not paid to 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	Apr. 3, 2009		Apr. 3, 2009
Vesting date	Apr. 3, 2011		Apr. 3, 2013
Post vesting lock-up period	2 years		none
Number of employee beneficiaries at the grant date	36,785		5,560
Number of shares granted per employee		100	
Total number of shares granted	3,678,500		556,000
Expected dividend rate		3.17%	
Risk-free rate at the grant date		2.675%	
Market value of shares at the grant date		€7.54	
Fair value per share	€6.75		€6.64

The expense recognized in respect of these shares in first-half 2011 totaled €4.9 million (€5.8 million in first-half 2010).

Fully vested shares granted to employees of French companies were delivered at the beginning of April 2011 (3,502,100 shares).

NOTE 19 – PROVISIONS

Provisions for contingencies and losses break down as follows:

(in € millions)	Dec. 31, 2010	Additions	Reversals: Utilizations	Reversals: Transfers	Reversals: Unused	Other	June 30, 2011
Performance warranties	507	107	(57)		(68)	12	501
Financial guarantees	47	2			(6)	1	44
Services to be rendered	482	159	(141)		(8)	(95) *	397
Employee-related commitments	30	4	(10)			1	25
Post-employment benefits	366	31	(17)		(2)	22	400
Sales agreements and long-term receivables	164	14	(35)		(58)	2	87
Losses on completion and backlog losses	599	139	(68)	(72)	(14)	14	598
Disputes and litigation	65	5	(7)		(5)	(4)	54
Negative equity of non-consolidated companies	19	6	(1)				24
Other	145	16	(23)		(5)	(7)	126
TOTAL	**2,424**	**483**	**(359)**	**(72)**	**(166)**	**(54)**	**2,256**
Non-current	**1,310**						**1,201**
Current	**1,114**						**1,055**

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

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 20 – 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 Dec. 31, 2010	**701**
New advances received	5
Advances repaid	(16)
Cost of borrowings	18
Translation adjustments	(2)
At June 30, 2011	**706**

NOTE 21 – INTEREST-BEARING LIABILITIES

Breakdown of interest-bearing liabilities

(in € millions)	Dec. 31, 2010	June 30, 2011
Bond issue	763	751
Finance lease liabilities	175	163
Other long-term borrowings	545	529
Total interest-bearing non-current liabilities (portion maturing > 1 year at inception)	**1,483**	**1,443**
Finance lease commitments	16	15
Other long-term borrowings	253	267
Accrued interest not yet due	5	4
Current liabilities bearing long-term interest at inception	**274**	**286**
Treasury bills	201	285
Short-term bank facilities and equivalent	93	84
Current liabilities bearing short-term interest at inception	**294**	**369**
Total interest-bearing current liabilities (less than 1 year)	**568**	**655**
TOTAL INTEREST-BEARING LIABILITIES	**2,051**	**2,098**

Movements in this caption break down as follows:

(in € millions)	
Total at Dec. 31, 2010	**2,051**
Increase in borrowings	14
Decrease in borrowings	(57)
Movements in short-term bank facilities	107
Changes in scope of consolidation	13
Foreign exchange differences	(17)
Reclassifications and other	(13)
TOTAL AT JUNE 30, 2011	**2,098**

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

	Non-current				Current			
	Dec. 31, 2010		June 30, 2011		Dec. 31, 2010		June 30, 2011	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	907	4.09%	877	4.06%	93	3.47%	72	3.43%
Floating rate	576	2.19%	566	2.32%	475	1.82%	583	1.84%
TOTAL	**1,483**	**3.35%**	**1,443**	**3.38%**	**568**	**2.09%**	**655**	**2.02%**

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

	Non-current				Current			
	Dec. 31, 2010		June 30, 2011		Dec. 31, 2010		June 30, 2011	
(in € millions)	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed rate	145	4.54%	126	4.45%	93	3.47%	72	3.43%
Floating rate	1,338	2.32%	1,317	2.57%	475	1.82%	583	1.84%
TOTAL	**1,483**	**2.53%**	**1,443**	**2.73%**	**568**	**2.09%**	**655**	**2.02%**

The Group's net debt position is as follows:

(in € millions)	**Dec. 31, 2010**	**June 30, 2011**
Cash and cash equivalents	2,062	1,760
Interest-bearing current and non-current liabilities	2,051	2,098
Fair value of interest rate derivatives hedging borrowings	13	3
TOTAL	**24**	**(335)**

There are three assigned trade receivables without recourse:

- CFM Inc.:
  - Confirmed 24-month facility for USD 200 million granted in October 2009 by General Electric Capital Corp., on which USD 71.5 million (USD 35.8 million at 50%) had been drawn down at the reporting date, versus USD 92.1 million (USD 46 million at 50%) at December 31, 2010;
  - Confirmed 364-day facility for USD 870 million granted by a syndicate of five banks led by BNP Paribas and renewed in December 2010, on which USD 869 million (USD 434.5 million at 50%) had been drawn down at the reporting date, versus USD 822.2 million (USD 411 million at 50%) at December 31, 2010.
- CFM SA:
  - Confirmed 24-month facility for USD 110 million granted in July 2010 by Medio Factoring (Intesa San Paolo group), on which USD 45 million (USD 23 million at 50%) had been drawn down at the reporting date, versus USD 48 million (USD 24 million at 50%) at December 31, 2010.

NOTE 22 – RELATED PARTIES

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

(in € millions)	**June 30, 2010**	**June 30, 2011**
Sales to related parties	1,500	1,649
Purchases from related parties	(76)	(103)

(in € millions)	**Dec. 31, 2010**	**June 30, 2011**
Receivables from related parties	1,444	1,684
Payables to related parties	1,841	2,029

(in € millions)	**Dec. 31, 2010**	**June 30, 2011**
Guarantees granted to related parties (off-balance sheet)	729	683

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

NOTE 23 – CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the indirect method, which shows the adjustments made to profit in order to obtain cash flow from operating activities. The effect of changes in foreign exchange rates shows the impact of exchange rate fluctuations between the beginning and the end of the period and the impact of these fluctuations on cash and cash equivalents at January 1.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise term and sight deposits. They have a term of less than three months and are convertible into a known amount of cash.

These amounts are analyzed in Note 16.

PAYMENTS FOR THE PURCHASE OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET OF PROCEEDS

These items break down as follows:

(in € millions)	First-Half 2010	First-Half 2011
Acquisitions of intangible assets	(103)	(151)
Acquisitions of property, plant and equipment	(123)	(147)
Change in payables on purchases of intangible assets	(29)	-
Change in payables on purchases of property, plant and equipment	(10)	(12)
Change in receivables on disposals of property, plant and equipment	(1)	-
Proceeds from disposals of property, plant and equipment	12	11
TOTAL	**(254)**	**(299)**

MATERIAL NON-CASH TRANSACTIONS

Certain transactions carried out by the Group did not have any impact on cash and cash equivalents.

These mainly concern:

(in € millions)	
▪ depreciation, amortization, impairment and provision expenses	262
▪ impact of changes in the fair value of financial instruments not yet settled (1)	(962)
▪ capital gains (losses) on disposals of non-current assets	10
▪ other	22
TOTAL	**(668)**

(1) This impact is primarily the result of the Group's decision to apply so-called speculative accounting as of July 1, 2005 and therefore to recognize the change in fair value of its financial instruments from that date in "Financial income (loss)".

DIVIDENDS AND INTEREST

The Group classifies dividends received and interest paid or received in net debt, under operating activities.

NOTE 24 – MANAGEMENT OF MARKET RISKS AND FINANCIAL DERIVATIVES

EXPOSURE TO FOREIGN CURRENCY RISK

Most revenue in the Aerospace Propulsion and Aircraft Equipment branches 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 2.12 billion for the first half of 2011 (USD 2.04 billion for the first half of 2010).

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. Contractual hedging arrangements (excluding sales of call options) 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. However, these measures 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, 2010				June 30, 2011			
	Fair value	Notional amount	Less than 1 year	1 to 5 years	Fair value	Notional amount	Less than 1 year	1 to 5 years
Forward exchange contracts	**(216)**				**302**			
Short USD position	(229)	10,737	6,467	4,270	362	11,441	5,270	6,171
Of which against EUR	*(198)*	*9,938*	*5,748*	*4,190*	*375*	*10,681*	*4,667*	*6,014*
Long USD position	5	(1,103)	(903)	(200)	(72)	(1,798)	(1,388)	(410)
Of which against EUR	*10*	*(800)*	*(600)*	*(200)*	*(65)*	*(1,678)*	*(1,278)*	*(400)*
Short GBP position against EUR	0.2	21	21	–	0.2	3	3	–
Long GBP position against EUR	(0.1)	(3)	(3)	–	–	–	–	–
Long PLN position against EUR	3	(225)	(85)	(140)	3.0	(250)	(70)	(180)
Short EUR position against CHF	(11.0)	(83)	(56)	(27)	(13)	(85)	(40)	(45)
Long MXN position against USD	16	(3,149)	(999)	(2,150)	23	(2,710)	(1,040)	(1,670)
Currency option contracts	**(128)**				**294**			
Puts purchased	69	1,500	1,500	–	212	2,885	1,360	1,525
Puts sold	(1)	(100)	(100)	–	(62)	(750)	(750)	–
Calls purchased	–	–	–	–	2	(1,500)	(1,500)	–
Calls sold	(155)	7,222	4,174	3,048	(97)	11,980	6,094	5,886
Accumulators – sell USD	(55)	9,872	6,309	3,563	234	13,032	1,951	11,081
Accumulators – buy USD	11	(1,702)	(1,702)	–	(2)	(2,415)	(1,114)	(1,301)
Accumulators – sell GBP	3	302	302	–	8	182	182	–
Accumulators – sell CAD	–	–	–	–	–	408	–	408
TOTAL	**(344)**				**596**			

Fair values are expressed in millions of euros; notional amounts are expressed in millions of currency units.

The €940 million increase in the fair value of foreign currency derivatives between December 31, 2010 and June 30, 2011 includes changes in the fair value of hedging instruments not yet settled at June 30, 2011 (€962 million), premiums received (€22 million), and premiums matured (€0.1 million).

In view of the constraints resulting from the application of IAS 39, the Group decided not to apply hedge accounting and to recognize all changes in the fair value of its financial instruments in "Financial income (loss)". Accordingly, all changes in the fair value of hedging instruments not yet settled at the end of the reporting period (€962 million) and premiums matured (€0.1 million) have been recognized in "Financial income (loss)".

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).

The acquisition of L-1, which was announced on September 20, 2010, was hedged for a notional amount of USD 1.08 billion. The fair value of forward purchases related to this transaction and not yet settled at June 30, 2011 was a negative €46 million. This fair value was recognized in "Financial income (loss)" in first-half 2011. These instruments were settled in July and ultimately resulted in a loss of €28 million.

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.).

At June 30, 2011, the Group had contracted "pay floating/received fixed" interest rate swaps for terms of three to five years for a total of €750 million. These swaps are intended as hedges of the coupon payable on bonds and are eligible for fair value hedge accounting.

	Dec. 31, 2010				June 30, 2011			
(in € millions)	Fair value	Notional amount	Less than 1 year	1 to 5 years	Fair value	Notional amount	Less than 1 year	1 to 5 years
Interest rate swaps								
Fixed-for-floating – fair value hedge	13	750	–	750	3	750	–	750
TOTAL	**13**	**750**	**–**	**750**	**3**	**750**	**–**	**750**

Debt in respect of employee savings is at floating rates, but resets only yearly. The Group's remaining long-term debt is mostly at floating rates and includes a €750 million swap hedging the fixed coupon payable on the November 2009 bonds, as well as the €300 million EIB loan which was fully drawn down at December 17, 2010. A 1% rise in interest rates would therefore increase the cost of net debt by €1.4 million, compared to €8 million in 2010.

MANAGEMENT OF COMMODITY RISK

Since 2009, the Group's policy has been to hedge its exposure to fluctuations in the price of certain listed commodities (nickel and platinum). The policy seeks to protect the Group's economic performance from commodity price volatility.

Commodity hedges aiming to reduce uncertainty factors have been contracted for a term of five years. To hedge commodity prices, the Group uses forward sales of commodities on the London Metal Exchange (LME).

These forward sales are then used to hedge highly probable cash 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, 2011 represented 2,612 tons of nickel, including contracts for 694 tons maturing in less than one year and 1,918 tons in one to five years. The fair value of these instruments was €7.2 million at June 30, 2011.

NOTE 25 – 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, 2010	June 30, 2011
Employee-related commitments	86	86
Commitments given to customers (completion warranties, performance bonds)	275	279
Commitments given to third parties	1,096	1,070
Commitments given to customs authorities	78	86
Vendor warranties given	110	24
Actuarial differences and unrecognized past service cost	131	118
Other commitments	164	178
TOTAL	**1,940**	**1,841**

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

(in € millions)	Dec. 31, 2010	June 30, 2011
Commitments received from banks on behalf of suppliers	15	8
Completion warranties	19	17
Endorsements and guarantees received	53	49
Vendor warranties received (1)	203	138
Other commitments received	3	7
TOTAL	**293**	**219**

(1) Vendor warranties received at June 30, 2011 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, 2010	June 30, 2011	Period to maturity		
(in € millions)	Total	Total	Less than 1 year	From 1 to 5 years	Beyond 5 years
Long-term borrowings at inception	803	799	270	339	190
Finance lease commitments	191	179	15	66	98
Operating lease commitments	218	189	41	113	35
Bond issue	762	751	–	751	–
TOTAL	**1,974**	**1,918**	**326**	**1,269**	**323**

Lease payments recognized in profit or loss for the year amounted to €48 million.

VENDOR WARRANTIES

Vendor warranties are given or received on the acquisition or sale of companies. At June 30, 2011, one warranty had been implemented in relation to the recent acquisition of SME (see Note 3).

CAPITAL EXPENDITURE COMMITMENTS

At June 30, 2011, capital expenditure commitments totaled €112 million, versus €108 million at December 31, 2010.

FINANCIAL GUARANTEES GRANTED ON THE SALE OF GROUP PRODUCTS

These guarantees generate risks which represented a total gross amount of USD 101.2 million at June 30, 2011. This amount does not, however, reflect the actual risk to which Safran is exposed, as the commitments are counter-guaranteed by the value of the underlying assets, consisting of the aircraft pledged. Accordingly, the full amount of the net risk as calculated using the valuation model is covered by a provision in the financial statements.

NOTE 26 – 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. To the best of the Company's knowledge, no such proceedings are contemplated by governmental authorities or third parties. 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 criminal and/or civil 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.
- A supplier filed legal action against Sagem Défense Sécurité for the alleged abrupt and wrongful termination of commercial relations, claiming compensation of €30 million. In a ruling dated July 23, 2008, Sagem Défense Sécurité was ordered to pay a total of €1 million in damages. The supplier has appealed this decision. 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 the supplier. As the Court of Appeals' decision was enforceable, Sagem Défense Sécurité paid these damages in full. Sagem Défense Sécurité appealed this decision before the Court of Cassation. Non-recurring operating expenses recognized in first-half 2011 in this respect amounted to €7 million, after taking into account provisions previously set aside.
- SME, which was acquired by Safran from SNPE on April 5, 2011, received a formal notice from the prefecture of Haute Garonne in July 2010 ordering the company to cease contaminating surface water supplies with perchlorate ion. SME filed an application for annulment of this order. However, 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.

  In relation to this contamination, two reports were drawn up against SME for failure to separate networks and disclose pollution information, in addition to an offense report for the unauthorized discharge of a harmful substance. The SME purchasing agreements include environmental guarantees given by SNPE to Safran which provide for the carrying out by SME of additional analyses and the adoption of a plan of action for perchlorate management (see Note 3), the content of which must be validated by the authorities. The implementation of these measures should have a positive impact on these proceedings.
- At the end of 2002, a group of French manufacturers, including the former Snecma Group, was collectively the subject of a request for arbitration by a common customer, for a sum which, according to the claimant, would not be less than USD 260 million and for which the group of manufacturers may be jointly liable with regard to the claimant. This request related to the performance of past contracts entered into by these manufacturers and in which Snecma's participation was approximately 10%. All the manufacturers concerned contested this claim. An agreement was signed, whereby the manufacturers concerned by the request for arbitration waived their right to invoke the legal statute of limitations, and the claimant withdrew its request for arbitration in June 2003. However, it reserved the right to submit a new claim for a greater amount. Safran has not yet recognized a provision in this respect.
- EPI Europrop International, the joint company in which Snecma is shareholder and guarantor along with its fellow shareholders, develops engines for the A400M aircraft. Airbus Military, a client of EPI, brought a number of claims against the company in 2007 and 2008. No adequate substantiation has been provided in respect of these claims – formally contested by EPI – enabling the Group to assess the relevance of the claims or any impact they may have on EPI. Agreements signed in April 2011 put a definitive end to these claims.
- At the end of 2008, proceedings were brought against three employees of a Group subsidiary in connection with the alleged payment by Sagem SA of commissions to local intermediaries between 2000 and 2003. These payments were allegedly made in an attempt to corrupt employees of the Nigerian government with the aim of being awarded the State's electronic ID card contract. Safran was also placed under judicial investigation in connection with this case in February 2009. In a written statement dated January 18, 2011, the public prosecutor of Paris requested the partial dismissal of the claim in favor of Safran and one of the three employees indicted, and referral of the case of the other two employees to the Correctional Court. In an order dated February 28, 2011, the investigating judge decided to refer the case of Safran and the two employees to the Correctional Court. The third employee was acquitted. The proceedings are ongoing. In September 2009, a tax collection notice was issued for €11.7 million, further to a tax deficiency notice sent at the end of 2006. The amount of the tax adjustment has been challenged.
- 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 and that are no longer part of the Safran group. On July 5, 2011, Safran received a statement of objections from the European Commission and requested access to the case file in order to reply to these objections. Safran does not currently have the information required to assess the risks related to a sanction.

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 will bring this dispute before the Administrative Court. No provision has been set aside yet in respect of this adjustment.
- Two of the Group's subsidiaries in Brazil were served tax deficiency notices for €56.2 million and €19.3 million, respectively, chiefly in connection with unpaid import levies and duties. In light of existing legislation and case law with regard to the customs clearance for aviation products, along with information supplied by the subsidiaries, these tax adjustments have been challenged.

NOTE 27 – SUBSEQUENT EVENTS

On July 25, 2011, Safran announced the finalization of the acquisition of L-1 (see Note 3).

04 STATUTORY AUDITOR'S REVIEW REPORT ON THE FIRST HALF-YEAR CONSOLIDATED FINANCIAL INFORMATION

This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Safran – Period from January 1st to June 30th, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in application of article L.451-1-2 III of the French monetary and financial code ("*code monétaire et financier*"), we hereby report to you on:

- our review of the accompanying condensed half-yearly consolidated financial statements of Safran, for the period from January 1st, 2011 to June 30th, 2011, and;
- the verification of information contained in the interim management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with the professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the professional standards applicable in France and consequently does not enable us to obtain assurance that we would not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed half-yearly consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

2. SPECIFIC VERIFICATION

We have also verified the information presented in the interim management report in respect of the condensed half-yearly financial statements subject to our review.

We have no matters to report as to its fair presentation and its consistency with the condensed half-yearly financial statements.

Courbevoie and Neuilly-sur-Seine, July 27th, 2011

The Statutory Auditors

French original signed by

MAZARS		**ERNST & YOUNG et Autres**	
Thierry Colin	Gaël Lamant	Vincent de La Bachelerie	Jean-Roch Varon

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