

Half-yearly financial report 2016

Report on business activity

Consolidated financial statements



Half-yearly financial report 2016

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The English language version of this report is a free translation from the original, which was prepared and filed with the AMF in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the report in French take precedence over the translation.



Declaration by person responsible for the half-yearly financial report

"I certify that, to the best of my knowledge, the condensed financial statements at 30 June 2016 have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the company and of all the entities taken as a whole included in the consolidation, and that the attached half-yearly business report presents a fair view of the significant events that occurred during the first six months of the financial year, their impact on the financial statements, the main related party transactions as well as a description of the main risks and uncertainties for the remaining six months of the financial year."

Paris La Défense, 21 July 2016

Patrice Caine
Chairman & Chief Executive Officer



REPORT ON 2016 FIRST HALF BUSINESS ACTIVITY AND RESULTS

KEY FIGURES (ADJUSTED)¹

	H1 2016	H1 2015	Total change	Organic change
<i>in millions of euros except income per share (in euros)</i>				
Order intake	5,423	6,224	-13%	-12%
Order book at end of period	30,374	32,292²	-6%	-4%
Sales	6,846	6,347	+7.9%	+8.9%
EBIT³	551	473	+17%	+19%
<i>in % of sales</i>	<i>8.1%</i>	<i>7.5%</i>	<i>+0.6 pts</i>	<i>+0.7 pts</i>
Adjusted net income, Group share²	367	313	+17%	
Adjusted net income, Group share, per share²	1.74	1.51	+15%	
Consolidated net income, Group share	384	266	+44%	
Free operating cash flow²	45	(304)	NM	
Net cash at end of period	1,439	1,978²	-27%	

¹ In order to enable better monitoring and benchmarking of its financial and operating performance, Thales presents adjusted data, including EBIT and adjusted net income, non-GAAP measures, which exclude non-operating and non-recurring items. Details of the adjustments are given in the "Presentation of financial information" in this report.

² At 31 December 2015

³ Non-GAAP measures, see definitions in the appendix, page 4.

PRESENTATION OF FINANCIAL INFORMATION

Accounting policies

The condensed interim consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 “Interim financial reporting” and with the International Financial Reporting Standards (IFRS) as adopted by the European Union at 30 June 2016¹.

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2015, as detailed in the Registration Document 2015 (see notes 1 and 14 of the consolidated financial statements). In particular, the new mandatory standards applicable as from 1 January 2016 (annual improvements for 2010-2012, then 2012-2014 cycles, amendments to IAS 16 and IAS 38, amendments to IFRS 11 and amendments to IAS 19) have no impact on the Group’s financial statements.

Adjusted income statement

In order to facilitate better monitoring of its financial and operating performance, the Group’s executives regularly consider two main non-GAAP indicators determined as follows:

- The **EBIT** corresponds to income from operations, plus the share in net income of equity affiliates, before the amortisation of intangible assets acquired (purchase price allocation, “PPA”) recorded as part of business combinations. From 1 January 2016, it also excludes other expenses recorded in the income from operations, and directly related to these business combinations, which by their nature are unusual (expenses of € 7.1 million of first half of 2016, nil in 2015).
- The **adjusted net income**, considered as relevant by the Group because it enables non-recurring items to be excluded, corresponds to the consolidated net income attributable to shareholders of the parent company, excluding the following items, net of the corresponding tax effects:
 - amortisation of acquired intangible assets (PPA) recorded as part of business combinations ;
 - other expenses recognised in the income from operations, that are directly related to these business combinations, which by their nature are unusual;
 - disposal of assets, changes in scope of consolidation and other ;
 - changes in fair value of foreign exchange derivatives, recorded in « other financial income » ;
 - actuarial gains and losses on long-term employee benefits, included in « financial income on pensions and other employee benefits ».

It is reminded that only the consolidated financial statements were audited by the statutory auditors at 30 June. The consolidated financial statements include the EBIT provided in Note 2 “Segment information” to the consolidated financial statements. Adjusted financial information other than that provided in Note 2 “Segment information” is subject to the verification procedures applicable to all information included in this report.

The impact of these adjustments on the income statement at 30 June 2016 and at 30 June 2015 is as follows:

¹ Available at the following internet address : http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

- for H1 2016:

	Consolidated income statement H1 2016	Adjustments				Adjusted income statement H1 2016
		Amort. of intangible assets (PPA), related charges*	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences, long-term benefits	
<i>€ million</i>						
Sales	6,846					6,846
Cost of sales	(5,212)					(5,212)
R&D costs	(327)	2				(325)
Marketing and selling expenses	(528)	2				(526)
General and administrative expenses	(270)	3				(268)
Restructuring costs	(34)					(34)
Amortisation of acquired intangible assets (PPA)	(40)	40				0
Income from operations	435					N/A
Impairment of non-current operating assets**	0					-
Income from disposals, changes in scope and others	95		(95)			0
Share of income (loss) in equity affiliates	56	13				69
Income from operating activities after impact of equity affiliates	586					-
EBIT	N/A					551
Impairment of non-current operating assets**	-					0
Cost of net financial debt	1					1
Other financial income (expense)	(49)			46		(4)
Finance costs on pensions and other long-term benefits	(48)				15	(34)
Income tax	(80)	(16)	0	(16)	(5)	(117)
Net income	410	44	(95)	30	10	398
Non-controlling interests	(26)	(5)		(1)		(31)
Net income, Group share	384	39	(95)	29	10	367
<i>Average number of shares (thousands)</i>	<i>210,547</i>					<i>210,547</i>
Net income, Group share, per share (in euros)	1.82					1.74

(*) Including expenses related to acquisitions recorded in the income from operations. See definitions of EBIT and adjusted net income, page 8.

(**) Included in "Income from operating activities after impact of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

- for H1 2015:

	Consolidated income statement H1 2015	Adjustments				Adjusted income statement H1 2015
		Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences, long-term benefits	
<i>€ million</i>						
Sales	6,347					6,347
Cost of sales	(4,827)					(4,827)
R&D costs	(310)					(310)
Marketing and selling expenses	(495)					(495)
General and administrative expenses	(259)					(259)
Restructuring costs	(43)					(43)
Amortisation of acquired intangible assets (PPA)	(53)	53				0
Income from operations	360					N/A
Impairment of non-current operating assets	0					-
Income from disposals, changes in scope and others	(3)		3			0
Share of income (loss) in equity affiliates	47	13				60
Income from operating activities after impact of equity affiliates	404					-
EBIT	N/A					473
Impairment of non-current operating assets	-					-
Cost of net financial debt	5					5
Other financial income (expense)	(13)			15		2
Finance costs on pensions and other long-term benefits	(25)				(10)	(35)
Income tax	(88)	(18)	(1)	(5)	3	(109)
Net income	282	48	2	10	(7)	336
Non-controlling interests	(16)	(6)		(1)	1	(23)
Net income, Group share	266	42	2	9	(6)	313
<i>Average number of shares (thousands)</i>	<i>207,141</i>					<i>207,141</i>
Net income, Group share, per share (in euros)	1.28					1.51

ORDER INTAKE

€ million	H1 2016	H1 2015	Total change	Organic change
Aerospace	2,218	1,851	+20%	+21%
Transport	507	1,197	-58%	-56%
Defence & Security	2,665	3,150	-15%	-15%
Total – operating segments	5,391	6,198	-13%	-12%
Other	33	26		
Total	5,423	6,224	-13%	-12%
Of which mature markets ¹	3,806	3,732	+2%	+3%
Of which emerging markets ¹	1,617	2,492	-35%	-34%

New orders booked over the first half of 2016 amounted to **€5,423 million**, representing a **fall of 13%** compared to the first half of 2015 (-12% at constant scope and exchange rates²). The **book-to-bill** ratio amounted to **0.8** over the first half-year, and **1.2** over 12 months.

In the first half of 2016, Thales received **three large orders** (with a unit value over €100 million), for a total amount of €521 million: a support contract for Watchkeeper unmanned air vehicles for the British army, a contract covering the security of 170 Ministry of Defence sites in the Netherlands, and the production of a military satellite for a client in the Middle East. The first half of 2015 had benefited from an exceptional volume of large orders, specifically the order of Rafale fighter jets by Egypt and signalling contracts for the Doha and Hong Kong metro systems, for a total amount of €1,733 million.

Orders with a unit value of less than €100 million remained dynamic, posting growth of 9%.

From a geographical point of view³, orders were, quite naturally, down in emerging markets (€1,617 million, -35%), where the clients behind the three major orders quoted above were located. Mature markets posted a slight growth (€3,806 million, organic growth of +3%, led by Europe, +9%).

Order intake for the **Aerospace** segment rose sharply to **€2,218 million** compared to €1,851 million in the first half of 2015 (+20%). Avionics orders rose, sustained in particular by military avionics. In-flight entertainment (IFE) remained dynamic, but no large orders were placed during the half-year. The Space segment is still benefiting from good sales momentum, particularly with the placing of an order for a military satellite for a client in the Middle East, as quoted above.

At **€507 million**, order intake in the **Transport** segment is down 58% compared to the first half of 2015, when the Group won two large urban rail signalling contracts in Doha and Hong Kong.

Order intake in the **Defence & Security** segment stood at **€2,665 million** compared to €3,150 million for the first half of 2015 (-15%). It is logically lower since in the first half of 2015, a “jumbo” contract (with a unit value over €500 million) was placed: the contract for systems and equipment as part of the order of 24 Rafale fighter jets by Egypt. Excluding this contract, orders in this segment are on the increase, confirming the Group’s continuing sound commercial momentum.

¹ Mature markets: Europe, North America, Australia, New Zealand; emerging markets: all other countries. See page 13

² Given a negative exchange rate effect of €103 million and a net positive scope effect of €35 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment).

³ See table on page 13

SALES

€ million	H1 2016	H1 2015	Total change	Organic change
Aerospace	2,667	2,512	+6.2%	+6.8%
Transport	717	569	+26.1%	+29.2%
Defence & Security	3,421	3,228	+6.0%	+6.9%
Total – operating segments	6,806	6,309	+7.9%	+8.9%
Other	40	38		
Total	6,846	6,347	+7.9%	+8.9%
Of which mature markets	4,856	4,594	+5.7%	+6.8%
Of which emerging markets	1,990	1,753	+13.5%	+14.2%

Sales for the first half of 2016 stood at **€6,846 million**, compared to €6,347 million for the first half of 2015, up 7.9% on a reported basis¹, and up 8.9% at constant scope and exchange rates (“organic” change), driven by an excellent momentum in all segments.

From a geographical perspective², this good performance is explained both by continued strong growth in emerging markets (+14.2%, following on from +21.4% in the first half of 2015) and organic growth on mature markets (+6.8% after +0.6% in the first half of 2015).

Sales in the **Aerospace** segment totalled **€2,667 million**, an increase of 6.2% compared with the first half of 2015 (+6.8% at constant scope and exchange rates). The Avionics segment remained strong, particularly in commercial and military aircraft, while IFE returned to high growth in the second quarter following a first quarter impacted by a particularly high basis for comparison. Avionics sales for helicopters, which started to slow in the second quarter of 2015, were still down over the half-year. Sales in the Space segment were up sharply, thanks to contracts signed in 2014 and 2015, specifically in observation activities and in the field of telecom constellation.

In the **Transport** segment, sales amounted to **€717 million**, up 26.1% compared to the first half of 2015 (+29.2% at constant scope and exchange rates). This high growth reflects the start of invoicing on the three major projects won last year, combined with a recovery following a first half of 2015 affected by execution difficulties. Growth will nevertheless be significantly lower in the second half of 2016, given that the basis for comparison will be significantly higher (organic growth in H1 2015: -5%, in H2 2015: +11%).

Sales in the **Defence & Security** segment totalled **€3,421 million**, an increase of 6.0% compared with the first half of 2015 (+6.9% at constant scope and exchange rates). Almost all businesses contributed to this momentum. The Land & Air Systems segment posted strong growth, specifically in air defence, civil and military radars, and air traffic management (ATM). The Defence Mission Systems segment benefited from high levels of business in fighter aircraft systems as well as surface ship systems. Only the Secure Communications and Information Systems segment witnessed a slowdown, following the delivery last year of several large projects, such as the new French Ministry of Defence site (“*Balard*”), in part offset by good momentum in radiocommunications.

¹ Taking into account a negative exchange rate effect of €88 million and a net positive scope effect of €32 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment).

² See table on page 14

ADJUSTED RESULTS

EBIT

EBIT, € million	H1 2016	H1 2015	Total change	Organic change
Aerospace	239	224	+7%	+8%
<i>in % of sales</i>	9.0%	8.9%		
Transport	-12	-39	-	-
<i>in % of sales</i>	-1.6%	-6.9%		
Defence & Security	335	301	+11%	+15%
<i>in % of sales</i>	9.8%	9.3%		
Total – operating segments	562	485	+16%	+18%
<i>in % of sales</i>	8.3%	7.7%		
Others – excluding DCNS	-30	-22		
Total – excluding DCNS	532	463	+15%	+17%
<i>in % of sales</i>	7.8%	7.3%		
DCNS (35% share)	20	10		
Total	551	473	+17%	+19%
<i>in % of sales</i>	8.1%	7.5%		

In the first half of 2016, the Group's **EBIT** was **€551 million**, or **8.1%** of sales, compared to €473 million (7.5% of sales) for the same period in 2015.

The **Aerospace** segment posted an EBIT of **€239 million (9.0% of sales)** compared to €224 million (8.9% of sales) for the same period in 2015. The moderate increase in the EBIT margin can be explained by a change in the rules to allocate shared marketing and selling expenses to the operating segments. This change of rule has a negative 0.2 point impact on the EBIT margin in this segment, offset by a non-material increase in the other segments.

EBIT in the **Transport** segment was up sharply, reaching **-€12 million (-1.6% of sales)**, compared to -€39 million (-6.9% of sales) for the first half of 2015. The operational recovery plan implemented by the new management team continued as expected, but low or zero margin contracts still weighed down on profitability. After 2016, which should see break-even achieved, the impact of the recovery plan should allow this business to gradually return to profitability in the coming years.

EBIT for the **Defence & Security** segment increased significantly, totalling **€335 million (9.8% of sales)** compared to €301 million in the first half of 2015 (9.3% of sales). In addition to the satisfactory execution of contracts, the increase in margins was driven by the good sales momentum, with the strengthening of R&D expenditure being offset by savings made on commercial and administrative costs, and a reduction in restructuring expenses.

The contribution made by **DCNS** to EBIT amounted to **€20 million** for the first half of 2016, compared to €10 million for the first half of 2015. The industrial transformation plan is continuing as expected. Over 2016, DCNS expects net profit to grow by around 10–15% in comparison to 2015.

Adjusted financial income

At **€1 million** for the first half of 2016 compared to €5 million for the first half of 2015, **net financial interest** remained very low, as did **other adjusted financial income (expense)** (**-€4 million** in H1 2016 compared to +€2 million in H1 2015). The **adjusted finance cost on pensions and other long-term benefits** is stable (**-€34 million** versus -€35 million for H1 2015), with the reduction in the deficit and changes in exchange rates offsetting the impact of lower discount rates.

Adjusted net income

The **adjusted net income, Group share** thus stood at **€367 million**, compared to €313 million in the first half of 2015, after an adjusted tax charge of -€117 million compared to -€109 million in the first half of 2015. The effective tax rate reached 26%, compared to 28% in H1 2015.

Adjusted net income, Group share, per share¹ stood at **€1.74**, up 15% compared to the first half of 2015 (€1.51).

CONSOLIDATED RESULTS

Income from operations

After accounting for the €40 million impact of purchase price allocation (PPA), compared to €53 million in the first half last year, reported **income from operations** was **€435 million**, compared to €360 million at 30 June 2015 (representing a 21% increase).

Income of operating activities before share in net income (loss) from equity affiliates was at **€530 million**, compared to €357 million at 30 June 2015, mainly due to the disposal of interests held in Thales Raytheon Systems LLC (€92 million).

Income of operating activities after share in net income (loss) of equity affiliates

The share in net income (loss) of equity affiliates comes to €56 million, compared to €47 million during the first half of 2015. **Income of operating activities after share in net income from equity affiliates** therefore comes to **€586million**, compared to €404 million for the same period last year.

Net financial income/(expense)

Net interest expense was a positive **€1 million** compared to €5 million in the first half of 2015. **Other financial expenses** were **-€49 million**, compared to -€13 million in the first half of 2015, mainly due to a negative impact of change in fair value of derivative exchange instruments (-€46 million against -€15 million). **Finance costs on pensions and other employee benefits** amounted to **-€48 million** compared to -€25 million for the first six months of 2015, essentially because of negative actuarial differences due to the decrease of long term rates in UK..

Net income (loss)

The first half of 2016 closed with **consolidated net earnings, Group share** of **€384 million**, after an income tax charge of -€80 million compared to -€88 million. **Net earnings per share** came to **€1.82** compared to €1.28 at the end of June 2015.

FINANCIAL POSITION AT 30 JUNE 2016

At **€45 million**, the **free operating cash flow** for the first half of 2016 is positive, driven by the solid performance achieved in terms of working capital requirements. At 30 June 2016, **net cash** stood at **€1,439 million**, down €539 million compared to 31 December 2015, but up €825 million over 12 months (€614 million at 30 June 2015).

€ million	H1 2016	H1 2015
Operating cash-flow before interest and tax	704	683
Changes in Working Capital Requirements and in reserves for contingencies	(337)	(697)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(52)	(60)
Net financial interest paid	(5)	10
Income tax paid	(39)	(42)
Net cash flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	271	(106)
Net operating investments	(226)	(198)
Free operating cash-flow	45	(304)
Net (acquisitions)/disposals	(281)	(20)
Contributions related to the reduction of the UK pension deficit	(45)	(46)
Dividends	(212)	(161)
Exchange rate and other	(46)	138
Change in net cash	(539)	(392)

At 30 June 2016, **net cash** amounted to **€1,439 million** compared to €614 million at 30 June 2015 and €1,978 million at 31 December 2015, after the distribution of €212 million in dividends during the half-year (€161 million in H1 2015), the acquisition of Vormetric, completed in March (€372 million), and the cash inflow in connection with the change in scope of the Thales Raytheon Systems joint venture (€81 million).

Shareholders' equity, Group share, stood at **€4,458 million**, compared to €4,646 million at 31 December 2015, with consolidated net income, Group share (€384 million) only partially offsetting the increase in net pension obligations and the distribution of dividends.

RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in note 14 of the consolidated financial statements included in the 2015 registration document.

Revenues with the French Ministry of Defence amounted to € 990.7 million in the first half of 2016 and € 937.2 million in the first half of 2015.

At 30 June 2016, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to € 34.9 million (€ 51.3 million at 30 June 2015 and € 178.3 million at 31 December 2015).

MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2016 FISCAL YEAR

There are no material changes in risks and uncertainties that are described in the Group management report for 2015 ("1.1.2 Risk Factors" pages 14-24 of the 2015 Registration Document filed with the Autorité des Marchés Financiers (AMF) on 31 March 2016).

OUTLOOK FOR THE CURRENT YEAR

The results for the first half of the year are in line with expectations. In this context, the Group confirms all its objectives, as set out below.

After the record level seen in 2015, new orders are expected to remain high in 2016, close to the level observed in 2013–2014¹. Sales should see a mid-single digit organic growth compared to 2015.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales posting an EBIT of between €1,300 and €1,330 million (based on exchange rates in February 2016), which will represent an increase of between 7% and 9% compared to 2015.

In this context, Thales targets a mid-single digit organic sales growth in 2017 and 2018, and an EBIT margin of 9.5–10% over the same time frame.

¹ Average 2013–14 order intake: €13.6 billion

NOTES TO THE REPORT ON OPERATIONS AND RESULTS FOR THE FIRST HALF OF 2016

Operating segments

Aerospace	Avionics, Space
Transport	Ground Transportation Systems
Defence & Security	Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems

Order intake by destination – H1 2016

€ million	H1 2016	H1 2015	Total change	Organic change	H1 2016 weighting in %
France	1,201	1,225	-2%	-2%	22%
United Kingdom	463	513	-10%	-4%	9%
Rest of Europe	1,304	1,031	+27%	+27%	24%
Sub-total Europe	2,968	2,769	+7%	+9%	55%
United States and Canada	492	564	-13%	-18%	9%
Australia and New Zealand	346	399	-13%	-9%	6%
Total mature markets	3,806	3,732	+2%	+3%	70%
Asia	659	665	-1%	-1%	12%
Middle East	755	1,688	-55%	-55%	14%
Rest of the world	203	139	+46%	+52%	4%
Total emerging markets	1,617	2,492	-35%	-34%	30%
Total all markets	5,423	6,224	-13%	-12%	100%

Sales by destination – H1 2016

<i>€ million</i>	H1 2016	H1 2015	Total change	Organic change	H1 2016 weighting in %
France	1,661	1,569	+5.9%	+5.9%	24%
United-Kingdom	623	638	-2.4%	+4.1%	9%
Rest of Europe	1,417	1,263	+12.2%	+13.1%	21%
Sub-total Europe	3,701	3,470	+6.7%	+8.2%	54%
United States and Canada	780	759	+2.7%	-0.3%	11%
Australia and New Zealand	375	365	+2.8%	+8.1%	5%
Total mature markets	4,856	4,594	+5.7%	+6.8%	71%
Asia	953	842	+13.2%	+13.8%	14%
Middle East	804	647	+24.3%	+24.8%	12%
Rest of the world	233	265	-11.8%	-10.4%	3%
Total emerging markets	1,990	1,753	+13.5%	+14.2%	29%
Total all markets	6,846	6,347	+7.9%	+8.9%	100%

Order intake and sales - Q2 2016

€ million	Q2 2016	Q2 2015	Total change	Organic change
<u>Order intake</u>				
Aerospace	1,189	1,067	+11%	+12%
Transport	276	735	-62%	-61%
Defence & Security	1,636	1,586	+3%	+4%
Total – operating segments	3,101	3,388	-8%	-7%
Other	10	13		
Total	3,111	3,401	-9%	-7%
<u>Sales</u>				
Aerospace	1,600	1,431	+11.8%	+12.7%
Transport	457	335	+36.4%	+40.1%
Defence & Security	2,037	1,985	+2.6%	+3.0%
Total – operating segments	4,094	3,750	+9.2%	+10.0%
Other	20	20		
Total	4,113	3,770	+9.1%	+9.9%



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AT 30 JUNE 2016**

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INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)	Notes	First half 2016	First half 2015	Full Year 2015
Sales	note 2	6,845.6	6,346.6	14,063.2
Cost of sales		(5,211.9)	(4,827.0)	(10,688.1)
Research and development expenses		(326.7)	(310.4)	(692.0)
Marketing and selling expenses		(528.2)	(494.6)	(980.9)
General and administrative expenses		(270.0)	(259.0)	(531.8)
Restructuring costs		(34.0)	(42.5)	(94.3)
Amortisation of intangible assets acquired (PPA) *		(39.7)	(52.8)	(111.6)
Income from operations	note 2	435.1	360.3	964.5
Disposal of assets, change in scope of consolidation and other	note 3.2	95.3	(3.1)	53.4
Impairment of non-current operating assets	note 4	--	--	--
Income of operating activities before impact of equity affiliates		530.4	357.2	1,017.9
Share in net income (loss) of equity affiliates		56.0	46.5	112.8
of which, share in net income of joint-ventures	note 5.1	29.9	14.9	55.8
of which, share in net income of associates	note 5.2	26.1	31.6	57.0
Income of operating activities after impact of equity affiliates		586.4	403.7	1,130.7
Financial interests on gross debt		(6.5)	(8.7)	(15.5)
Financial income from cash at bank and equivalents		7.7	13.7	19.3
Financial interests, net		1.2	5.0	3.8
Other financial income (expense)	note 6.1	(49.3)	(13.2)	(41.8)
Finance costs on pensions and other employee benefits	note 8	(48.3)	(25.3)	(60.1)
Income tax	note 9	(80.4)	(87.9)	(219.9)
Net income (loss)		409.6	282.3	812.7
Attributable to:				
Shareholders of the parent company		383.8	266.0	765.1
Non-controlling interests		25.8	16.3	47.6
Basic earnings per share (in euros)	note 10.2	1.82	1.28	3.68
Diluted earnings per share (in euros)	note 10.2	1.80	1.28	3.63

* This line corresponds to acquired intangible assets amortisation (Purchase Price Allocation: PPA) of fully consolidated entities. The amortisation of PPA related to entities consolidated under equity method is included in the share in net income (loss) of equity affiliates and detailed in note 2.2.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ Million)	First half 2016			First half 2015			Full year 2015		
	Total attributable to:			Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
Net income (loss) for the period	383.8	25.8	409.6	266.0	16.3	282.3	765.1	47.6	812.7
Cumulative translation adjustment	1.0	(0.4)	0.6	10.4	0.8	11.2	9.6	1.3	10.9
Deferred tax	--	--	--	--	--	--	(1.3)	--	(1.3)
Joint -ventures	(6.4)	--	(6.4)	17.1	--	17.1	11.6	--	11.6
Associates	(34.9)	--	(34.9)	23.6	--	23.6	27.6	--	27.6
Net	(40.3)	(0.4)	(40.7)	51.1	0.8	51.9	47.5	1.3	48.8
Cash flow hedge	144.1	8.1	152.2	(144.3)	(8.3)	(152.6)	(186.9)	(4.1)	(191.0)
Deferred tax	(40.7)	(3.1)	(43.8)	52.2	3.3	55.5	44.3	1.4	45.7
Joint -ventures	(1.2)	--	(1.2)	(6.7)	--	(6.7)	0.8	--	0.8
Associates	1.8	--	1.8	(14.0)	--	(14.0)	(16.5)	--	(16.5)
Net	104.0	5.0	109.0	(112.8)	(5.0)	(117.8)	(158.3)	(2.7)	(161.0)
Financial assets available-for-sale	--	--	--	--	--	--	0.6	--	0.6
Net	--	--	--	--	--	--	0.6	--	0.6
Items to be subsequently reclassified to P&L	63.7	4.6	68.3	(61.7)	(4.2)	(65.9)	(110.2)	(1.4)	(111.6)
Actuarial gains (losses) on pensions: subsidiaries	(455.8)	(0.9)	(456.7)	301.9	1.2	303.1	268.9	2.6	271.5
Deferred tax	43.2	0.2	43.4	(61.7)	(0.5)	(62.2)	5.9	(0.8)	5.1
Joint -ventures	--	--	--	(1.1)	--	(1.1)	5.1	--	5.1
Associates	0.5	--	0.5	0.1	--	0.1	(1.9)	--	(1.9)
Net	(412.1)	(0.7)	(412.8)	239.2	0.7	239.9	278.0	1.8	279.8
Items that will not be reclassified to P&L	(348.4)	3.9	(344.5)	177.5	(3.5)	174.0	167.8	0.4	168.2
Other comprehensive income (loss) for the period net of tax									
Total comprehensive income (loss) for the period	35.4	29.7	65.1	443.5	12.8	456.3	932.9	48.0	980.9

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Number of shares outstanding (thousands)</i>	Share capital	Paid-in surplus	Retained earnings	Cash flow hedge	AFS investm ents	Cumulative translation adjustment	Treasury shares	Total attrib. to shareholders of the parent company	Non controlling interests	Total
<i>(€ Million)</i>											
At 1 January 2016	210,122	632.9	3,995.4	404.6	(276.8)	2.2	(87.2)	(25.2)	4,645.9	295.9	4,941.8
Net income (loss) of the period				383.8	--	--	--	--	383.8	25.8	409.6
Other comprehensive income (loss)				(412.1)	104.0	--	(40.3)	--	(348.4)	3.9	(344.5)
Total comprehensive income (loss) for first half 2016				(28.3)	104.0	--	(40.3)	--	35.4	29.7	65.1
Employee share issues	747	2.2	24.9	--	--	--	--	--	27.1	--	27.1
Parent company dividend distribution	--	--	--	(212.3)	--	--	--	--	(212.3)	--	(212.3)
Third party share in dividend distributions of subsidiaries	--	--	--	--	--	--	--	--	--	(47.5)	(47.5)
Share-based payments	--	--	--	7.9	--	--	--	--	7.9	--	7.9
Acquisitions/disposals of treasury shares	41	--	--	1.4	--	--	--	0.8	2.2	--	2.2
Acquisition of non-controlling interest in TRS SAS	--	--	--	(52.8)	--	--	--	--	(52.8)	(85.6)	(138.6)
Other	--	--	--	3.8	--	--	1.1	--	4.9	(1.5)	3.4
At 30 June 2016	210,910	635.1	4,020.3	124.3	(172.8)	2.2	(126.4)	(24.4)	4,458.3	190.8	4,649.1

	<i>Number of shares outstanding (thousands)</i>	Share capital	Paid-in surplus	Retained earnings	Cash flow hedge	AFS invest ments	Cumulative translation adjustment	Treasury shares	Total attrib. to shareholders of the parent company	Non controlling interests	Total
<i>(€ Million)</i>											
At 1 January 2015	205,964	623.5	3,899.9	(421.2)	(118.5)	1.6	(134.7)	(58.9)	3,781.7	299.1	4,080.8
Net income (loss) of the period	--	--	--	266.0	--	--	--	--	266.0	16.3	282.3
Other comprehensive income (loss)	--	--	--	239.2	(112.8)	--	51.1	--	177.5	(3.5)	174.0
Total comprehensive income (loss) for first half 2015				505.2	(112.8)	--	51.1	--	443.5	12.8	456.3
Employee share issue	2,322	7.0	77.8	--	--	--	--	--	84.8	--	84.8
Parent company dividend distribution	--	--	--	(160.7)	--	--	--	--	(160.7)	--	(160.7)
Third party share in dividend distributions of subsidiaries	--	--	--	--	--	--	--	--	--	(51.2)	(51.2)
Share-based payments	--	--	--	7.5	--	--	--	--	7.5	--	7.5
Acquisitions / disposals of treasury shares	(43)	--	--	0.8	--	--	--	(3.0)	(2.2)	--	(2.2)
Other	--	--	--	1.3	--	--	--	--	1.3	0.2	1.5
At 30 June 2015	208,243	630.5	3,967.7	(67.1)	(231.3)	1.6	(83.6)	(61.9)	4,155.9	206.9	4,416.8

INTERIM CONSOLIDATED BALANCE SHEET

(€ Million)

ASSETS	Notes	30/06/16	31/12/15
Goodwill, net	note 4.1	3,576.5	3,215.9
Other intangible assets, net	note 4.2	802.3	862.9
Tangible assets, net	note 4.2	1,721.8	1,696.7
Total non-current operating assets		6,100.6	5,775.5
Investment in joint-ventures	note 5.1	1,108.5	1,126.4
Investment in associates	note 5.2	209.9	359.5
Non consolidated investments		69.0	71.1
Other non-current financial assets		129.2	131.2
Total non-current financial assets		1,516.6	1,688.2
Non-current derivatives - assets	note 6.2	33.4	36.2
Deferred tax assets		916.9	967.0
Non-current assets		8,567.5	8,466.9
Inventories and work in progress		2,723.2	2,560.8
Construction contracts assets		2,483.8	2,042.6
Advances to suppliers		377.8	383.0
Accounts, notes and other current receivables		4,366.4	4,404.2
Current derivatives - assets		160.1	154.2
Total current operating assets	note 7.1	10,111.3	9,544.8
Current tax receivables		61.0	70.8
Current financial assets		15.2	27.5
Current derivatives - assets		8.5	--
Cash at bank and equivalents		3,523.8	3,450.2
Total current financial assets	note 6.2	3,547.5	3,477.7
Current assets		13,719.8	13,093.3
TOTAL ASSETS		22,287.3	21,560.2
EQUITY AND LIABILITIES	Notes	30/06/16	31/12/15
Capital, paid-in surplus and other reserves		4,609.1	4,758.3
Cumulative translation adjustment		(126.4)	(87.2)
Treasury shares		(24.4)	(25.2)
Total attributable to shareholders of the parent company		4,458.3	4,645.9
Non-controlling interests		190.8	295.9
Total equity	note 10.1	4,649.1	4,941.8
Financial debt: long-term	note 6.2	1,440.3	837.6
Provisions for pensions and other employee benefits	note 8	2,643.5	2,318.9
Deferred tax liabilities		247.0	257.9
Non-current liabilities		4,330.8	3,414.4
Advances received from customers on contracts		4,701.5	4,317.2
Refundable grants		127.2	127.6
Construction contracts liabilities		1,075.2	1,021.0
Reserves for contingencies		996.6	1,022.9
Accounts, notes and other current payables		5,330.1	5,547.6
Current derivatives - liabilities		322.6	405.3
Total current operating liabilities	note 7.1	12,553.2	12,441.6
Current tax payables		52.3	63.7
Financial debt: short-term	note 6.2	701.9	698.7
Current liabilities		13,307.4	13,204.0
TOTAL EQUITY AND LIABILITIES		22,287.3	21,560.2

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(€ Million)	Notes	First half 2016	First half 2015	Full year 2015
Net income (loss)		409.6	282.3	812.7
Add (deduct)				
Income tax expense (gain)		80.4	87.9	219.9
Financial interests, net expense (gain)		(1.2)	(5.0)	(3.8)
Share in net (income) loss of equity affiliates		(56.0)	(46.5)	(112.8)
Dividends received from equity-accounted, joint-ventures	note 5.1	26.9	28.5	51.8
Dividends received from equity-accounted, associates	note 5.2	15.1	19.0	31.6
Depreciation and amortisation of tangible and intangible assets	note 4.2	228.2	236.7	492.9
Provisions for pensions and other employee benefits	note 8	95.4	79.2	165.9
Loss (gain) on disposals of assets and other		(95.3)	3.1	(53.4)
Net allowances to restructuring provisions		(13.3)	(13.2)	(16.8)
Other items		14.1	10.9	54.9
Operating cash flows before working capital changes, interests and tax		703.9	682.9	1,642.9
Change in working capital requirement and in reserves for contingencies	note 7.1	(337.3)	(696.5)	143.0
Payment of contributions / pensions benefits (defined benefit plans):		(96.9)	(105.8)	(225.1)
- related to reduction of the UK deficit		(45.2)	(45.9)	(101.0)
- related to future service (recurrent contributions)		(51.7)	(59.9)	(124.1)
Financial interests paid		(11.0)	(12.3)	(25.3)
Financial interests received		6.5	22.2	34.5
Income tax paid		(39.2)	(42.0)	(102.3)
Net cash flows from operating activities	- I -	226.0	(151.5)	1,467.7
Capital expenditure on tangible and intangible assets		(230.2)	(201.8)	(473.4)
Proceeds from disposal of tangible and intangible assets		4.1	3.9	15.1
Net operating investment	note 4.2	(226.1)	(197.9)	(458.3)
Acquisitions of subsidiaries, net	note 7.3	(367.8)	(32.3)	(51.2)
Disposals of subsidiaries, net	note 7.3	87.0	12.0	87.8
Decrease (increase) in loans and non-current financial assets		(14.3)	20.6	23.3
Decrease (increase) in other current financial assets		12.1	(1.2)	15.2
Net financial investment		(283.0)	(0.9)	75.1
Net cash flows from investing activities	- II -	(509.1)	(198.8)	(383.2)
Parent company dividend distribution	note 10	(212.3)	(160.7)	(234.0)
Third party share in dividend distributions of subsidiaries		(47.5)	(51.2)	(51.3)
Increase in equity (exercise of subscription options)		27.4	74.6	116.2
Purchase / sale of treasury shares		11.6	(2.4)	9.2
Increase in financial debt		622.8	63.6	40.4
Repayment of financial debt		(50.2)	(17.5)	(2.5)
Net cash flows from financing activities	- III -	351.8	(93.6)	(122.0)
Effect of exchange rate changes and other	- IV -	4.9	15.6	6.3
Total increase (decrease) in cash at bank and equivalents	I+II+III+IV	73.6	(428.3)	968.8
Cash at bank and equivalents at beginning of period		3,450.2	2,481.4	2,481.4
Cash at bank and equivalent at end of period		3,523.8	2,053.1	3,450.2

The Group's net cash positions and variations are presented in notes 6.2 and 7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All monetary amounts included in these notes are expressed in € million.

1. ACCOUNTING POLICIES

On July 21st 2016, the Board of Directors approved and authorised for issue Thales' condensed interim consolidated financial statements for the six months ended 30 June 2016.

Thales Parent Company is a listed French *société anonyme*, registered with the Nanterre commercial registry (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552 059 024.

1.1 BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 "Interim financial reporting" and with the International Financial Reporting Standards (IFRS) as adopted by the European Union at 30 June 2016¹.

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2015, as detailed in the Registration Document 2015 (see notes 1 and 14 of the consolidated financial statements). In particular, the new mandatory standards applicable as from 1 January 2016 (annual improvements for 2010-2012, then 2012-2014 cycles, amendments to IAS 16 and IAS 38, amendments to IFRS 11 and amendments to IAS 19) have no impact on the Group's financial statements. The specific provisions relating to the preparation of interim financial statements are described hereafter.

a) Measurement procedures used for the condensed interim consolidated financial statements

Pensions and other long-term benefits

Pension costs for interim periods are recognized based on the actuarial valuations performed at the end of the prior year. When appropriate, these valuations are adjusted to take into account curtailments, settlements or other major non-recurring events that occurred during the period. In addition, pensions and other long-term benefits liabilities are updated in order to reflect material changes impacting the yield on investment-grade corporate bonds in the concerned geographic area (the benchmark used to determine the discount rate), the inflation rate and the actual return on plan assets.

Income taxes

Current and deferred income tax expense for interim periods is calculated at each tax entity level by applying the average estimated annual effective tax rate for the current year to the income for the period. When required, this amount is adjusted to take into account the tax effects of specific events of the period.

Goodwill

Impairment tests are performed for each annual closing, and whenever there is an indication of impairment (note 4.1). Impairment that would be recognised in the first half of the year is not reversible.

b) Seasonality of business

In accordance with accounting policies, revenues are recognised, as at year end, over the period of their realisation. In previous years the level of business has been higher in the last quarter, and particularly in December. Revenues and income from operations have been generally lower in the first half of the year due to the seasonality of business. The company has noted that this phenomenon is of a recurring nature, even though its extent varies from year to year.

¹ Available at the following internet address : http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

c) Conversion rates

The main closing and average exchange rates for the periods used are the following:

	30 June 2016		30 June 2015		31 December 2015	
	Closing	Average	Closing	Average	Closing	Average
Euros						
Australian Dollar	1.4929	1.5116	1.4550	1.4349	1.4897	1.4837
Pound Sterling	0.8265	0.7850	0.7114	0.7272	0.7340	0.7242
Dollar U.S.	1.1102	1.1142	1.1189	1.1113	1.0887	1.1046

1.2 NEW IFRS STANDARDS MANDATORILY APPLICABLE AFTER 30 JUIN 2016

New standards and interpretations issued by the IASB, but not yet mandatorily applicable, are described in the “Accounting standards framework” note to the consolidated financial statements of the 2015 Registration Document. In addition, the following standards have been published during the first six months of 2016:

- amendment for clarification to IFRS 15 (revenue recognition) in April 2016;
- amendment to IAS 12 (income tax) in January 2016;
- amendment to IAS 7 (cash flow statement) in January 2016.

2. SEGMENT INFORMATION

Operating segments

The operating segments presented by the Group are the following:

- The *Aerospace* operating segment combines the “Avionics” and “Space” Global Business Units that develop on-board systems, solutions and services both with governmental (States, Civil Security Organisations, Space agencies) and non-governmental (aircraft manufacturers, airlines, satellite operators) customer bases;
- The *Transport* operating segment comprises the “Ground Transportation Systems” Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- The *Defence and Security* operating segment combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively governmental customer base (States, public agencies);

Adjusted income

In order to facilitate better monitoring of its financial and operating performance, the Group’s executives regularly consider two main non-GAAP indicators determined as follows:

- The *EBIT* corresponds to income from operations, plus the share in net income of equity affiliates, before the amortisation of intangible assets acquired (purchase price allocation, “PPA”) recorded as part of business combinations. From 1 January 2016, it also excludes other expenses recorded in the income from operations, and directly related to these business combinations, which by their nature are unusual (expenses of € 7.1 million of first half of 2016, nil in 2015).
- The *adjusted net income*, considered as relevant by the Group because it enables non-recurring items to be excluded, corresponds to the consolidated net income attributable to shareholders of the parent company, excluding the following items, net of the corresponding tax effects:
 - amortisation of acquired intangible assets (PPA) recorded as part of business combinations ;
 - other expenses recognised in the income from operations, that are directly related to these business combinations, which by their nature are unusual;
 - disposal of assets, changes in scope of consolidation and other ;
 - changes in fair value of foreign exchange derivatives, recorded in « other financial income » ;
 - actuarial gains and losses on long-term employee benefits, included in « financial income on pensions and other employee benefits ».

Reconciliation of these indicators with published financial statements is presented in note 2.2.

2.1 INFORMATION BY BUSINESS SEGMENT

2016 First half	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	9,280.8	4,489.5	16,528.9	74.9	30,374.1
Consolidated new orders	2,218.3	507.1	2,665.2	32.7	5,423.3
Consolidated sales	2,667.3	717.3	3,421.0	40.0	6,845.6
Inter-segment sales	43.8	3.4	137.6	(184.8)	--
Total sales	2,711.1	720.7	3,558.6	(144.8)	6,845.6
EBIT	238.7	(11.7)	335.2	(11.0)	551.2
<i>of which share in DCNS</i>	--	--	--	19.6	19.6
<i>of which DCNS excluded</i>	238.7	(11.7)	335.2	(30.6)	531.6

2015 First half restated	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	8,200.3	4,333.0	15,070.6	64.4	27,668.3
Consolidated new orders	1,850.6	1,197.0	3,150.4	26.0	6,224.0
Consolidated sales	2,512.4	568.9	3,227.7	37.6	6,346.6
Inter-segment sales	44.7	3.6	117.1	(165.4)	--
Total sales	2,557.1	572.5	3,344.8	(127.8)	6,346.6
EBIT	223.6	(39.2)	301.0	(12.4)	473.0
<i>of which share in DCNS</i>	--	--	--	9.6	9.6
<i>of which DCNS excluded</i>	223.6	(39.2)	301.0	(22.0)	463.4

2015 restated	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	9,778.6	4,841.5	17,598.9	73.1	32,292.1
Consolidated new orders	6,281.3	2,826.0	9,701.2	71.4	18,879.9
Consolidated sales	5,387.2	1,519.2	7,078.5	78.3	14,063.2
Inter-segment sales	81.9	10.4	252.9	(345.2)	--
Total sales	5,469.1	1,529.6	7,331.4	(266.9)	14,063.2
EBIT	517.8	(36.9)	760.1	(25.3)	1,215.7
<i>of which share in DCNS</i>	--	--	--	21.9	21.9
<i>of which DCNS excluded</i>	517.8	(36.9)	760.1	(47.2)	1,193.8

2015 figures have been restated to take into account activity transfer between two business segments.

Backlog, Order intake and Sales included in "Other, elim and non allocated" column relate to corporate activities (Thales parent company, Thales Global Services, Group R&D centers, facilities management), and to the elimination of transactions between the business segments.

The non-allocated EBIT includes Group's share (35%) in the net income of DCNS, Corporate income from operations which is not charged back to the segments and the cost of vacant premises. Other costs (mainly results from foreign holding companies which are not charged back and the share-based payments cost) are reallocated to business segments proportionally to their respective ex-Group sales.

2.2 ADJUSTED RESULTS

	2016 first half published	Amort. of acquired intangible assets	Oth. expenses directly related to business combinations (note 3.1)	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2016 first half adjusted
Income from operations	435.1	39.7	7.1	--	--	--	481.9
Share in net income (loss) of equity affiliates	56.0	13.3	--	--	--	--	69.3
EBIT							551.2
Disposal of assets and other	95.3	--	--	(95.3)	--	--	--
Net financial interests	1.2	--	--	--	--	--	1.2
Other financial income (expense)	(49.3)	--	--	--	45.7	--	(3.6)
Finance costs / pension & oth.employee benefits	(48.3)	--	--	--	--	14.7	(33.6)
Income tax	(80.4)	(13.5)	(2.5)	0.1	(15.7)	(5.0)	(117.0)
<i>Effective tax rate</i>							26.2%
Less, non-controlling interests' income	(25.8)	(4.8)	--	--	(0.6)	--	(31.2)
Net income (expense), Group	383.8	34.7	4.6	(95.2)	29.4	9.7	367.0
<i>Average number of shares outstanding</i>	210,547						210,547
Net income (expense) per share, Group	1.82						1.74

	2015 first half published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2015 first half adjusted	
Income from operations	360.3	52.8	--	--	--	413.1	
Share in net income (loss) of equity affiliates	46.5	13.4	--	--	--	59.9	
EBIT						473.0	
Disposal of assets and other	(3.1)	--	3.1	--	--	--	
Net financial interests	5.0	--	--	--	--	5.0	
Other financial income (expense)	(13.2)	--	--	14.9	--	1.7	
Finance costs / pension & oth.employee benefits	(25.3)	--	--	--	(10.0)	(35.3)	
Income tax	(87.9)	(17.9)	(1.1)	(5.1)	3.4	(108.6)	
Effective tax rate						28.3%	
Less, non-controlling interests' income	(16.3)	(6.2)	--	(0.7)	0.5	(22.7)	
Net income (expense), Group	266.0	42.1	2.0	9.1	(6.1)	313.1	
Average number of shares outstanding	207,141						207,141
Net income (expense) per share, Group	1.28						1.51

	2015 published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long- term benefits	2015 adjusted
Income from operations	964.5	111.6	--	--	--	1,076.1
Share in net income (loss) of equity affiliates	112.8	26.8	--	--	--	139.6
EBIT						1,215.7
Disposal of assets and other	53.4	--	(53.4)	--	--	--
Net financial interests	3.8	--	--	--	--	3.8
Other financial income (expense)	(41.8)	--	--	32.2	--	(9.6)
Finance costs / pension & oth.employee benefits	(60.1)	--	--	--	(12.4)	(72.5)
Income tax	(219.9)	(38.0)	(1.4)	(11.1)	4.0	(266.4)
<i>Effective tax rate</i>						26.7%
Less, non-controlling interests' income	(47.6)	(12.4)	--	(1.7)	--	(61.7)
Net income (expense), Group	765.1	88.0	(54.8)	19.4	(8.4)	809.3
<i>Average number of shares outstanding</i>	208,112					208,112
Net income (expense) per share, Group	3.68					3.89

2.3 INFORMATION BY COUNTRY/REGION OF DESTINATION

Consolidated new orders (direct and indirect) by country/region of destination	2016 first half	2015 first half	2015
France	1,200.7	1,224.9	4,101.9
United Kingdom	463.3	513.4	2,226.6
Rest of Europe	1,304.2	1,030.8	3,483.2
Europe	2,968.2	2,769.1	9,811.7
North America	492.0	563.7	1,364.0
Australia and New Zealand	346.3	399.2	1,525.2
Near and Middle East	755.4	1,687.8	3,726.4
Asia	658.6	665.3	1,982.3
Rest of the world	202.8	138.9	470.3
Emerging markets	1,616.8	2,492.0	6,179.0
Total	5,423.3	6,224.0	18,879.9

Sales (direct and indirect) by country / region of destination	2016 first half	2015 first half	2015
France	1,660.7	1,568.7	3,420.5
United Kingdom	623.2	638.2	1,382.1
Rest of Europe	1,416.8	1,262.6	3,039.8
Europe	3,700.7	3,469.5	7,842.4
North America	779.7	759.3	1,533.4
Australia and New Zealand	375.2	364.9	725.6
Near and Middle East	803.7	646.6	1,430.6
Asia	952.8	841.8	1,898.3
Rest of the world	233.5	264.5	632.9
Emerging markets	1,990.0	1,752.9	3,961.8
Total	6,845.6	6,346.6	14,063.2

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

a) Main events in 2016 first half

Mid-March 2016, Thales completed the acquisition of Vormetric, a leading provider of data protection solutions, for an amount of \$ 408 million (€ 372.4 million). The company is fully consolidated in the Group accounts, and the provisionnal goodwill amounts to \$ 409.9 million (€ 374.1 million). The final purchase price allocation will be carried out during 2016 second half, with the assistance of an independent expert. In the context of this transaction, Thales has set up key managers compensation agreements, with service conditions until 2020. These amounts are amortized using the graded vesting method. Corresponding amounts are recognised in income from operations, but excluded from EBIT and from adjusted net income, as they relate to an unusual event by nature (note 2).

At the end of June 2016, Thales signed an agreement with Raytheon to reduce the scope of their joint-venture, Thales-Raytheon Systems, that specializes in air operation command and control systems, surveillance radars, and ground-based weapon-locating radars. As of 1 July 2016, the scope of this joint-venture will be focused solely on NATO customers / programs.

In this context, Thales acquired the non-controlling 50% interest of Raytheon in the French company TRS SAS, and sold to Raytheon its 50% interest in the US company, TRS LLC. Thales received a cash payment of \$ 90 million (€ 81 million), corresponding to the net balance of these transactions.

In the Thales financial statements, the acquisition of Raytheon's non-controlling interest in TRS SAS led to a reclassification within equity. The disposal of TRS LLC has resulted in a gain on disposal of € 91.8 million.

The company Thales-Raytheon Systems Air and Missile Defense Command remains jointly-owned and is consolidated under equity method in Group accounts.

b) Main events in 2015

In August 2015, Thales sold to Munich investment holding its 30% stake in ESG Elektroniksystem und Logistik GmbH, for an amount of € 75.2 million. In the consolidated financial statements, the gain on this disposal amounted to € 47.2 million.

3.2 DISPOSAL OF ASSETS, CHANGES IN SCOPE OF CONSOLIDATION AND OTHER

	First half 2016	First half 2015	Full year 2015
Disposal of investments :	91.6	(2.4)	42.3
Thales Raytheon Systems LLC (50%)	91.8	--	--
ESG Elektroniksystem-und Logistik GmbH (30%)	--	--	47.2
Other	(0.2)	(2.4)	(4.9)
Disposal of other assets :	3.7	(0.7)	1.0
Real estate assets	3.7	--	0.7
Equipments	--	(0.7)	0.3
Impact of curtailments and settlements of pensions plans and long-term benefits (note 8)	--	--	10.1
Total	95.3	(3.1)	53.4

4. TANGIBLE AND INTANGIBLE ASSETS

4.1 GOODWILL

Goodwill is allocated to cash generating units (CGU) or to aggregate CGUs corresponding to the Group's Global Business Units (GBU). The evolution of goodwill related to fully consolidated subsidiaries is presented hereafter:

	31/12/15	Acquisitions	Disposals	Impairment	Exchange rate changes and other	30/06/15
Avionics	472.0	--	--	--	(2.3)	469.7
Space	472.7	--	--	--	(1.7)	471.0
<i>Aerospace</i>	944.7	--	--	--	(4.0)	940.7
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	625.1	374.1*	--	--	(9.4)	989.8
Land and Air Systems	309.8	--	--	--	--	309.8
Defense Mission Systems	461.0	--	--	--	(0.1)	460.9
<i>Defense and Security</i>	1,395.9	374.1	--	--	(9.5)	1,760.5
Total	3,215.9	374.1	--	--	(13.5)	3,576.5

	31/12/14	Acquisitions	Disposals	Impairment	Exchange rate changes and other	31/12/15
Avionics	456.7	3.6	--	--	11.7	472.0
Space	467.0	5.2	--	--	0.5	472.7
<i>Aerospace</i>	923.7	8.8	--	--	12.2	944.7
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	642.5	(19.0)**	--	--	1.6	625.1
Land and Air Systems	309.9	--	--	--	(0.1)	309.8
Defense Mission Systems	461.2	--	--	--	(0.2)	461.0
<i>Defense and Security</i>	1,413.6	(19.0)	--	--	1.3	1,395.9
Total	3,212.6	(10.2)	--	--	13.5	3,215.9

* related to Vormetric, before purchase price allocation

** allocation related to Cyber security services and secure communications activities.

Goodwill is subject to annual impairment tests in accordance with the budget calendar of the Group. In the context of the interim closing, the cash generating units (CGU) for which there is an indication of impairment, in particular a decrease in activity and profitability forecasts against the budget, are subject to new tests including the effects of recent events known at the closing date.

On 30 June 2016, the Group conducted a review of impairment indications relating to goodwill allocated to cash-generating units (CGU) or group of CGU for which sensitivity tests were presented in the consolidated financial statements at 31 December 2015. This review confirmed the absence of impairment to be recognized at 30 June 2016.

4.2 TANGIBLE AND INTANGIBLE ASSETS

	31/12/15	Acquisitions & Activations	Disposals	Depreciation	Impairment	Exchange rate changes and other	30/06/16
Intangible assets acquired (PPA)	649.2	--	--	(39.7)	--	(3.7)	605.8
Development costs	123.3	4.1	--	(20.3)	--	(2.9)	104.2
Other	90.4	16.9	--	(18.6)	--	3.6	92.3
Intangible assets	862.9	21.0	--	(78.6)	--	(3.0)	802.3
Tangible assets	1,696.7	209.2	(4.1)	(149.6)	--	(30.4)	1,721.8
Total	2,559.6	230.2	(4.1)	(228.2)	--	(33.4)	2,524.1

	01/01/15	Acquisitions & Activations	Disposals	Depreciation	Impairment	Exchange rate changes and other	31/12/15
Intangible assets acquired (PPA)	715.5	--	--	(111.6)	--	45.3	649.2
Development costs	147.2	15.0	--	(42.0)	--	3.1	123.3
Other	83.5	54.9	--	(38.2)	--	(9.8)	90.4
Intangible assets	946.2	69.9	--	(191.8)	--	38.6	862.9
Tangible assets	1,557.0	403.5	(15.1)	(301.1)	--	52.4	1,696.7
Total	2,503.2	473.4	(15.1)	(492.9)	--	91.0	2,559.6

5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

5.1 JOINT VENTURES

a) Group's share in net equity and net income (loss) of joint ventures

	30/06/16	31/12/15	First half 2016	First half 2015	Full year 2015
DCNS (35%)	686.4	680.9	7.0	(3.0)	(3.5)
Other joint-ventures *	422.1	445.5	22.9	17.9	59.3
Total	1,108.5	1,126.4	29.9	14.9	55.8

* Separately not significant, the value of each investment representing less than 10% of the total value.

b) Change in investment in joint ventures

	30/06/16	31/12/15
Investment in joint ventures at opening	1,126.4	1,104.2
Share in net income (loss) of joint-ventures	29.9	55.8
Items of comprehensive income (loss) to be subsequently reclassified to P&L	(7.6)	12.4
Other items of comprehensive income (loss) that will not be reclassified to P&L	--	5.1
Total comprehensive income (loss)	22.3	73.3
Dividends paid	(26.9)	(51.8)
Effect exchange rate changes and other	(13.3)	0.7
Investment in joint venture at closing	1,108.5	1,126.4

c) DCNS summarized financial information

Summarized Balance Sheet at 100%*	30/06/16	31/12/15
Non-current assets	2,412.8	2,599.4
Current assets	7,385.6	7,527.4
Total asset	9,798.4	10,126.8

Restated equity, attrib. to the shareholders of the Company	1,126.7	1,111.2
Non-controlling interests	15.9	22.4
Non-current liabilities	708.6	710.7
Current liabilities	7,947.2	8,282.5
Total equity and liabilities	9,798.4	10,126.8

Net Cash	2,698.3	2,527.7
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Integration in Thales accounts:	30/06/16	31/12/15
Restated equity, attrib. to the shareholders of the Company	1 126.7	1,111.2
% of Thales' interests	35%	35%
Thales' share	394.4	388.9
Goodwill	292.0	292.0
Share in net assets of the joint venture	686.4	680.9

Summarized income statement at 100%*	First half 2016	First half 2015	Full year 2015
Sales	1,440.8	1,463.6	3,038.8
Income from operating activities after impact of equity affiliates*	(1.8)	(29.5)	(51.0)
Financial income, net	21.1	13.7	20.8
Tax	(6.2)	5.4	10.3
Restated net income	13.1	(10.4)	(19.9)
<i>Of which, attributable to the shareholders of the company</i>	<i>20.1</i>	<i>(8.6)</i>	<i>(9.9)</i>
<i>Of which, non-controlling interests</i>	<i>(7.0)</i>	<i>(1.8)</i>	<i>(10.0)</i>

Integration in Thales accounts:	First half 2016	First half 2015	Full year 2015
Restated net income, attrib. to the shareholders of the company	20.1	(8.6)	(9.9)
% of Thales' interest	35%	35%	35%
Share in net income of the joint venture	7.0	(3.0)	(3.5)
<i>Less PPA impact</i>	<i>12.6</i>	<i>12.6</i>	<i>25.4</i>
Share in net income before PPA	19.6	9.6	21.9
<i>Dividends received from the joint venture</i>	<i>--</i>	<i>--</i>	<i>--</i>

*After Thales restatements (mainly on acquired intangible assets)

5.2 INVESTMENTS IN ASSOCIATES

	30/06/16	31/12/15
Investment in associates at opening	359.5	385.5
Share in net income of associates	26.1	57.0
Items of comprehensive income (loss) to be subsequently reclassified to P&L	(33.1)	11.1
Other items of comprehensive income (loss) that will not be reclassified to P&L	0.5	(1.9)
Total comprehensive income (loss)	(6.5)	66.2
Dividends paid	(15.1)	(31.6)
Dividends voted, not yet paid	(0.2)	(2.2)
Changes in scope (TRS LLC in 2014 and Cloudwatt in 2015)	(127.8)	(58.5)
Others	--	0.1
Investment in associates at closing	209.9	359.5

6 FINANCING AND FINANCIAL INSTRUMENTS

6.1 OTHER FINANCIAL INCOME (EXPENSE)

	First half 2016	First half 2015	Full year 2015
Foreign exchange gains (losses)	(4.1)	5.9	4.4
Change in fair value of derivative exchange instruments *	(45.7)	(14.9)	(32.2)
Cash flow hedge inefficiency / foreign exchange instruments	0.7	(4.1)	(6.9)
Net foreign exchange gains (losses)	(49.1)	(13.1)	(34.7)
Dividends received	2.1	4.5	5.0
Net financial costs on operating loans / debts	0.4	0.3	1.8
Impairment of investments in shares	(0.4)	(0.6)	--
Depreciation of loans and financial assets	--	--	(7.9)
Expenses related to confirmed credit line, not used	(1.0)	(1.2)	(2.2)
Other	(1.3)	(3.1)	(3.8)
Total	(49.3)	(13.2)	(41.8)

* Includes the variation of forward points fair value (€ -30.6 million in first half 2016, € -11.4 million in first half 2015 and € -15.5 million in 2015) and the time value of the hedge accounting derivatives (€ -5,1 million in first half 2016, € -3.6 million in first half 2015 and € -6.3 million in 2015), and also includes the variation of the fair value of derivatives non qualified for hedge accounting.

6.2 NET CASH (NET DEBT)

- Net cash (net debt) at closing

	30/06/16	31/12/15
Current financial assets	15.2	27.5
Cash at bank and equivalents	3,523.8	3,450.2
Cash and other short-term financial assets (I)	3,539.0	3,477.7
Long-term financial debt	1,440.3	837.6
Short-term financial debt	701.9	698.7
Fair value of interest rate derivatives - non current	(33.4)	(36.2)
Fair value of interest rate derivatives - current	(8.5)	--
Total gross financial debt (II)	2,100.3	1,500.1
Net cash (I – II)	1,438.7	1,977.6

- Gross financial debt

	30/06/16	31/12/15
Bond maturity June 2023*	600.0	--
Bond maturity March 2021	319.6	314.0
Bond maturity March 2018	504.5	504.3
Bond maturity October 2016	601.7	605.6
Other borrowings	74.5	76.2
Gross financial debt	2,100.3	1,500.1

* € 600 million fixed-rate bond with a 7-year maturity and a 0.75% coupon, of which € 400 million swapped at variable rate. This issue will be used to refinance the € 600 million bond maturing in October 2016. It forms part of the active Group liquidity management and enables to maintain Thales financial flexibility and extend the maturity of its financial resources.

6.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

a) Financial assets

At 30 June 2016:

At 30 June 2016:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	
Non-current financial assets:						
Available-for-sale investments	--	--	69.0	--	--	69.0
Loans and financial assets, non-current	109.8	19.4	--	--	--	129.2
Non-current derivatives, asset	--	--	--	33.4	--	33.4
Current financial assets:						
Current derivatives, asset: exchange	--	--	--	149.7	10.4	160.1
Current derivatives, asset: rate	--	--	--	8.5	--	8.5
Current financial assets	15.2	--	--	--	--	15.2
Cash at bank and equivalents	2,656.8	867.0	--	--	--	3,523.8
Total financial assets		886.4	69.0	191.6	10.4	

Methods used to measure fair value:

Valuation at cost	--	69.0	--	--	69.0
Quoted prices in active markets (level 1)	867.0	--	--	--	867.0
Based on observable market data (level 2)	19.4	--	191.6	10.4	221.4

At 31 December 2015:

At 31 December 2015:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting	
Non current financial assets:						
Available-for-sale investments	--	--	71.1	--	--	71.1
Loans and financial assets, non-current	111.8	19.4	--	--	--	131.2
Non-current derivatives, asset	--	--	--	36.2	--	36.2
Current financial assets:						
Current derivatives, asset	--	--	--	134.7	19.5	154.2
Current financial assets	27.5	--	--	--	--	27.5
Cash at bank and equivalents	2,260.1	1,190.1				3,450.2
Total financial assets			1,209.5	71.1	170.9	19.5

Methods used to measure fair value:

Valuation at cost	--	71.1	--	--	71.1
Quoted prices in active markets (level 1)	1,190.1	--	--	--	1,190.1
Based on observable market data (level 2)	19.4	--	170.9	19.5	209.8

b) Financial liabilities

At 30 June 2016:	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non-current financial liabilities:					
Financial debt-long-term	1,406.9	33.4	--	--	1,440.3
Current financial liabilities:					
Current derivatives, liability	--	--	308.4	14.2	322.6
Financial debt-short-term	693.4	8.5	--	--	701.9
Total financial liabilities		41.9	308.4	14.2	

Methods used to measure fair value

Valuation based on observable market data (level 2)	41.9	308.4	14.2	364.5
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At 31 December 2015:	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non-current financial liabilities:					
Financial debt-long-term	809.6	28.0	--	--	837.6
Current financial liabilities:					
Current derivatives, liability	--	--	392.7	12.6	405.3
Financial debt-short-term	690.5	8.2	--	--	698.7
Total financial liabilities		36.2	392.7	12.6	

Methods used to measure fair value

Valuation based on observable market data (level 2)	36.2	392.7	12.6	441.5
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The fair value of debt obligation is measured on the basis of prices quoted (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows with the Euribor interest rate at the balance sheet date, adjusted for the Group's credit risk (Level 2). On this basis, the fair value of the financial debt amounts to € 2,157.6 million at 30 June 2016 and € 1,545.2 million at 31 December 2015.

7. CHANGE IN NET CASH (NET DEBT)

	First half 2016	First half 2015	Full year 2015
Net cash (debt) at 1 January	1,977.6	1,006.3	1,006.3
Operating cash-flow before WCR, interest and taxes	703.9	682.9	1,642.9
Changes in WCR and reserves for contingencies	(337.3)	(696.5)	143.0
Pensions recurrent contributions, interests and tax paid	(95.4)	(92.0)	(217.2)
Net operating investments	(226.1)	(197.9)	(458.3)
Free operating cash-flow	45.1	(303.5)	1,110.4
Acquisitions of subsidiaries and shares	(367.8)	(32.3)	(51.2)
Disposals of subsidiaries and shares	87.0	12.0	87.8
Reduction of UK pension deficits	(45.2)	(45.9)	(101.0)
Variation of loans	(14.3)	20.6	23.3
Dividends paid	(212.3)	(160.7)	(234.0)
Third party share in dividend distributions of subsidiaries	(47.5)	(51.2)	(51.3)
Treasury shares and exercise of subscription options	39.0	72.2	125.4
Exchange rate changes: translation and financing operations	(30.1)	61.8	26.6
Debt / investments in shares (available-for-sale) and other	7.2	34.2	35.3
Net cash (debt) at closing	1,438.7	613.5	1,977.6

7.1 CHANGES IN WORKING CAPITAL REQUIREMENTS

Current operating assets and liabilities include the elements of working capital requirements (WCR) and reserves for contingencies. Their evolution is presented below.

Contracts under IAS 11 are subject to a specific classification in the consolidated balance sheet: for each contract, the balances of unbilled sales, work-in-progress, and provisions for risk and charges are presented in the assets or liabilities in the "Construction Contracts" caption.

The Group may sell trade receivables, mainly from the French State and commercial paper. At 30 June 2016, the sold receivables amounted to € 124.8 million (€ 103.7 million at 31 December 2015).

	31/12/15	Changes in WCR and provisions	Scope impacts, exch. rate changes and reclass.	30/06/16
Inventories and work in progress	2,560.8	181.8	(19.4)	2,723.2
Construction contracts assets	2,042.6	457.4	(16.2)	2,483.8
Advances to suppliers	383.0	(3.5)	(1.7)	377.8
Accounts, notes and other receivables	4,404.2	(19.3)	(18.5)	4,366.4
Current derivatives - assets	154.2	5.8	0.1	160.1
Current operating assets	9,544.8	622.2	(55.7)	10,111.3
Advances received from customers on contracts	(4,317.2)	(427.2)	42.9	(4,701.5)
Refundable grants	(127.6)	0.6	(0.2)	(127.2)
Construction contracts liabilities	(1,021.0)	(59.3)	5.1	(1,075.2)
Reserves for contingencies	(1,022.9)	13.8	12.5	(996.6)
Accounts, notes and other payables	(5,547.6)	200.5	17.0	(5,330.1)
Current derivatives - liabilities	(405.3)	--	82.7	(322.6)
Current operating liabilities	(12,441.6)	(271.6)	160.0	(12,553.2)
Restructuring provisions *	116.3	(13.3)	(5.7)	97.3
Increase (decrease) in WCR and reserves for contingencies		337.3		

* To be excluded from reserves for contingencies

7.2 RESERVES FOR CONTINGENCIES (EXCLUDING CONSTRUCTION CONTRACTS)

	31/12/15	Increase	Utilisation	Reversal	Scope, exch. rates changes and other	30/06/16
Restructuring	116.3	25.2	(37.5)	(1.0)	(5.7)	97.3
Litigations	127.7	9.9	(9.5)	(2.8)	1.3	126.6
Guarantees	239.7	34.5	(31.1)	(3.9)	(5.5)	233.7
Losses at completion	76.1	30.2	(9.6)	(1.9)	(2.8)	92.0
Provisions on contracts	147.4	11.8	(11.3)	(3.5)	2.6	147.0
Other *	315.7	22.3	(26.3)	(4.8)	(6.9)	300.0
Total	1,022.9	133.9	(125.3)	(17.9)	(17.0)	996.6

	31/12/14	Increase	Utilisation	Reversal	Scope, exch. rates changes and other	30/06/15
Restructuring	134.2	38.4	(50.2)	(1.4)	2.5	123.5
Litigations	142.5	8.9	(18.4)	(0.3)	5.4	138.1
Guarantees	230.9	34.7	(25.7)	(4.2)	5.3	241.0
Losses at completion	69.1	20.8	(15.7)	(0.6)	2.3	75.9
Provisions on contracts	171.6	14.2	(25.8)	(1.1)	(12.4)	146.5
Other *	289.7	23.0	(17.0)	(2.8)	9.1	302.0
Total	1,038.0	140.0	(152.8)	(10.4)	12.2	1,027.0

* Includes technical provisions of insurance companies, provisions for tax and social risks, liability guarantees, environment and other.

7.3 NET FINANCIAL INVESTMENT

Acquisitions of subsidiaries	First half 2016	First half 2015	Full year 2015
Vormetric	(372.4)	--	--
Visionix additional price	--	(12.9)	(12.9)
Tronics stake (19.7%)	--	(10.3)	(10.3)
Capital increase of a real estate company	--	--	(7.4)
Other	(2.4)	(9.1)	(20.6)
Gross investment	(374.8)	(32.3)	(51.2)
Less cash of acquired companies	7.0	--	--
Net investment	(367.8)	(32.3)	(51.2)

Disposals of subsidiaries	First half 2016	First half 2015	Full year 2015
Equalization payment / Thales-Raytheon Systems	81.0	--	--
ESG Eletroniksystem-und Logistik GmbH (30%)	--	--	75.2
Thales Geodis Freight & Logistics(50%)	5.7	--	--
Other	0.3	12.0	12.6
Gross disposals	87.0	12.0	87.8
Less cash of companies sold	--	--	--
Net disposals	87.0	12.0	87.8

8. PENSIONS AND OTHER LONG-TERM BENEFITS

a) Actuarial assumptions

At 30 June 2016, the plan assets market value and the discount and inflation rates assumptions for the main countries (representing 95% of both obligation and plan assets) have been updated. The assumptions used are as follows:

30 June 2016	United Kingdom	France	Germany
Inflation rate	2.83%	1.50%	1.50%
Discount rate	3.21%	1.16%	1.59%
30 June 2015	United Kingdom	France	Germany
Inflation rate	3.09%	1.60%	1.60%
Discount rate	3.98%	2.15%	2.62%
31 December 2015	United Kingdom	France	Germany
Inflation rate	3.02%	1.60%	1.60%
Discount rate	3.96%	2.03%	2.61%

b) Changes in provision for pensions and other long-term benefits

	First half 2016	First half 2015	Full year 2015
Provision at 1 January	(2,318.9)	(2,556.8)	(2,556.8)
Current service cost	(47.1)	(53.9)	(115.9)
Amendments and settlements	--	--	10.1
Net interest	(31.1)	(32.3)	(66.7)
Pension fund management cost	(2.5)	(3.0)	(5.8)
Actuarial gains & losses / other long-term benefits	(14.7)	10.0	12.4
Finance costs on pensions and other employee benefits	(48.3)	(25.3)	(60.1)
Total pensions cost of the period	(95.4)	(79.2)	(165.9)
Actuarial gains & losses (Other comprehensive income (loss) of the period)	(456.7)	303.1	271.5
Benefits and contributions paid	96.9	105.8	225.1
<i>of which, deficit payment in the UK</i>	<i>45.2</i>	<i>45.9</i>	<i>101.0</i>
<i>of which, other benefits & contribution</i>	<i>51.7</i>	<i>59.9</i>	<i>124.1</i>
Effect of exchange rates changes	128.3	(112.8)	(77.6)
Changes in scope of consolidation & other	2.3	(0.4)	(15.2)
Provision at closing	(2,643.5)	(2,340.3)	(2,318.9)

9. INCOME TAX

	First half 2016	First half 2015	Full year 2015
Net income (loss)	409.6	282.3	812.7
Less: income tax	80.4	87.9	219.9
Less: share in net income (loss) of equity affiliates	(56.0)	(46.5)	(112.8)
Less: gains and losses on disposals, changes in scope and other	(95.3)	3.1	(53.4)
Profit before tax, disposals and impact of equity affiliates	338.7	326.8	866.4
Income tax profit (loss) *	(80.4)	(87.9)	(219.9)
Effective tax rate	23.7%	26.9%	25.4%

* Excluding research tax credits which are included in the Income from operations (€ 77.9 million in the first half of 2016, € 74.2million in the first half of 2015 and € 153.5 million in 2015).

10. EQUITY AND EARNINGS PER SHARE

10.1 SHAREHOLDERS' EQUITY

a) Share capital

	At 30/06/2016			At 31/12/2015		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
T.S.A	54,786,654	25.88%	35.95%	54,786,654	25.97%	36.04%
French State (including one golden share)	2,060	--	--	2,060	--	--
Public sector (a)	54,788,714	25.88%	35.95%	54,788,714	25.97%	36.04%
Dassault Aviation (b)	52,531,431	24.81%	28.60%	52,531,431	24.90%	28.67%
Thales (c)	798,040	0.38%	--	839,254	0.40%	--
Employees	5,497,353	2.60%	3.15%	5,684,120	2.69%	3.24%
Other shareholders	98,093,026	46.33%	32.30%	97,117,885	46.04%	32.05%
Total (d)	211,708,564	100.00%	100.00%	210,961,404	100.00%	100.00%

- (a) Pursuant to the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" is represented by the company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State are registered shares for more than two years - therefore carrying double voting right at 30 June 2016.
- (b) Dassault Aviation has been holding 34,654,349 registered shares for more than two years - therefore all carrying double voting right at 30 June 2016, and 17,877,082 bearer shares.
- (c) Treasury shares include 24,000 bearer shares (as part of a liquidity contract) and 774,040 registered shares.
- (d) In the first half of 2016, 747,160 shares have been issued (carrying dividends rights as from 01-01-16) through the exercise of share subscription options.

b) Treasury shares

Thales Parent Company held 798,040 of its own shares at 30 June 2016. They are accounted for as a € 24.4 million decrease from the consolidated equity.

In accordance with the authorisations given to the board of Directors at the Annual General Meeting, the Company did the following operations:

	First half 2016	First half 2015	Full year 2015
Treasury shares at 1 January	839,254	1,876,732	1,876,732
Purchases as part of the liquidity contracts	182,561	604,183	807,144
Sales as part of the liquidity contracts	(167,561)	(541,183)	(822,144)
Transfer to employees as part of the employee share purchase offering	(41,714)	--	(457,596)
Delivery of free shares	(100)	(1,280)	(535,532)
Exercise of share purchase options	(14,400)	(18,500)	(29,350)
Treasury shares at closing	798,040	1,919,952	839,254

c) Parent Company dividend distribution

Dividends per share amounted respectively to € 1.12 and € 1.36 in 2014 and 2015. Dividends paid in 2015 and 2016 are described below:

Full year	Approved by	Description	Dividend per share (euros)	Payout date	Paid in	Total (millions of euros)
2016	Shareholders' meeting on 18 May 2016	Balance for 2015	€ 1.01	1 June 2016	Cash	212.3
	Total dividends paid in first half 2016					212.3
2015	Board of Directors meeting on 17 September 2015	2015 interim dividend	€ 0.35	11 December 2015	Cash	73.3
	Shareholders' meeting on 13 May 2015	Balance for 2014	€ 0.78	29 May 2015	Cash	160.7
	Total dividends paid in 2015					234.0

d) Non-controlling interests

This item principally includes Leonardo's (former Finmeccanica) share in the sub-group Thales Alenia Space (33%), as well as Siemens' and Philips Medical Systems International's interests in the company Trixell SAS (49%) and, up to 30 June 2016, Raytheon's interests in Thales-Raytheon Systems Company SAS (50%).

On 30 June 2016, considering the transaction described in note 3.1, Raytheon interests have been reclassified in equity, Group share.

The contribution of these minority shareholders in the main financial figures of the Group is individually not significant.

The treasury of these three companies is exclusively placed with the Corporate Treasury Department of Thales, without restriction of use.

10.2 EARNINGS PER SHARE

		First half 2016	First half 2015	Full year 2015
Numerator (in millions of euros):				
Net income (loss), attrib. to shareholders of the parent company	(a)	383.8	266.0	765.1
Denominator (in thousands) :				
Average number of outstanding shares	(b)	210,547	207,141	208,112
Share subscription and share purchase options *		1,131	1,431	1,403
Free shares and units plans **		1,271	1,351	1,421
Diluted average number of outstanding shares	(c)	212,949	209,923	210,936
Earnings per share (in euros)	(a) / (b)	1.82	1.28	3.68
Diluted earnings per share (in euros)	(a) / (c)	1.80	1.27	3.63
Average share price				
		€ 72.16	€ 52.72	€ 57.86

* Only options plans of which the exercise price is lower than the average share price are used for diluted earnings per share calculation.

** The shares / units subject to performance conditions are taken into account only when performance conditions are reached.

11. LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation. The litigations presented in the 2015 Registration Document did not progress.

12. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in note 14 of the consolidated financial statements included in the 2015 registration document.

Revenues with the French Ministry of Defence amounted to € 990.7 million in the first half of 2016 and € 937.2 million in the first half of 2015.

At 30 June 2016, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to € 34.9 million (€ 51.3 million at 30 June 2015 and € 178.3 million at 31 December 2015).

13. EVENTS AFTER REPORTING PERIOD

The Group is not aware of any significant post-closing events.

THALES

Statutory auditors' review report on the half-yearly financial information

For the period from January 1 to June 30, 2016

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and it 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.

ERNST & YOUNG Audit

MAZARS

ERNST & YOUNG Audit

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COMMISSAIRE AUX COMPTES – MEMBRE DE LA COMPAGNIE REGIONALE DE VERSAILLES

S.A.S. A CAPITAL VARIABLE – 344 366 315 NANTERRE

MAZARS

61, RUE HENRI REGNAULT – 92400 COURBEVOIE

SOCIETE ANONYME D'EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES

CAPITAL DE 8 320 000 EUROS – RCS NANTERRE B 784 84 153

THALES

Statutory auditors' review report on the half-yearly financial information

For the period from January 1 to June 30, 2016

ERNST & YOUNG Audit

MAZARS

Statutory auditors' review report on the half-yearly financial information

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings and in accordance with article L. 451-1-2 III of the French monetary and financial code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Thales, for the period from January 1 to June 30, 2016,
- the verification of the information presented in the half-yearly 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.

I - Conclusion on the financial statements

We conducted our review in accordance with 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 professional standards applicable in France and consequently does not enable us to obtain assurance that we would 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 cause us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, standard of the IFRS as adopted by the European Union applicable to interim financial information.

II - Specific verification

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

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

Paris-La Défense and Courbevoie, July 21, 2016

The statutory auditors

French original signed by

ERNST & YOUNG Audit

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