CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2021

THALES

Building a future we can all trust

7.1. Consolidated financial statements

7.1.1. Consolidated profit and loss account

(in € millions)	**Notes**	**2021**	**2020 (a)**
Sales	note 2	**16,192.0**	**15,371.0**
Cost of sales		(12,158.9)	(11,791.2)
Research and development expenses		(1,026.9)	(942.9)
Marketing and selling expenses		(1,225.9)	(1,210.9)
General and administrative expenses		(545.0)	(526.7)
Restructuring costs	note 10.3	(91.8)	(165.1)
Income from operations	note 2	**1,143.5**	**734.2**
Disposal of assets, changes in scope of consolidation and other	note 3.2	48.7	44.4
Impairment on non-current fixed assets	note 4.1	—	(135.4)
Income of operating activities before share in net income of equity affiliates		**1,192.2**	**643.2**
Share in net income of equity affiliates	note 5.1	103.6	45.0
Income of operating activities after share in net income of equity affiliates		**1,295.8**	**688.2**
Financial interests on gross debt		(54.1)	(62.3)
Financial interests on cash and cash equivalents		(2.5)	7.1
Interest expense, net	note 6.1	**(56.6)**	**(55.2)**
Other financial expenses	note 6.1	(52.8)	(77.4)
Finance costs on pensions and other employee benefits	note 9.3	(21.9)	(41.5)
Income tax	note 7.1	(147.7)	(64.5)
Net income relating to continued operations		**1,016.8**	**449.6**
Net income relating to discontinued operations	note 1.4	**117.6**	**42.3**
Net income		**1,134.4**	**491.9**
Attributable to:			
Shareholders of the parent company		**1,088.8**	**483.4**
Of which: net income relating to continued operations, Group share		971.1	440.6
Of which: net income relating to discontinued operations, Group share		117.7	42.8
Non-controlling interests		**45.6**	**8.5**
Basic earnings per share (in euros)	note 8.2	**5.12**	**2.27**
Diluted earnings per share (in euros)	note 8.2	**5.11**	**2.27**

(a) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations" (note1.4).

Segment information (including EBIT calculation) is detailed in Note 2.3.

7.1.2. Consolidated statement of comprehensive income

(in € millions)		2021			2020 (a)		
		Group share	Non-controlling interests	**Total**	Group share	Non-controlling interests	Total
Net income		**1,088.8**	**45.6**	**1,134.4**	**483.4**	**8.5**	**491.9**
Translation adjustments	note 8.1	54.0	1.3	55.3	(96.9)	(2.5)	(99.4)
Cash flow hedge	note 8.1	(101.8)	(4.6)	(106.4)	81.7	0.6	82.3
Equity affiliates	note 5.1	11.9	—	11.9	(10.3)	—	(10.3)
Discontinued operations		(13.9)	—	(13.9)	28.3	—	28.3
Items that may be reclassified to income		**(49.8)**	**(3.3)**	**(53.1)**	**2.8**	**(1.9)**	**0.9**
Actuarial gains (losses) on pensions	note 9.3	625.5	3.2	628.7	(567.5)	(5.0)	(572.5)
Financial assets at fair value		42.9	18.4	61.3	(55.8)	(22.5)	(78.3)
Deferred tax	note 7.2	0.6	(0.7)	(0.1)	52.5	1.3	53.8
Equity affiliates	note 5.1	11.5	—	11.5	(0.8)	—	(0.8)
Discontinued operations		62.2	—	62.2	(72.1)	—	(72.1)
Items that will not be reclassified to income		**742.7**	**20.9**	**763.6**	**(643.7)**	**(26.2)**	**(669.9)**
Other comprehensive income (loss) for the period net of tax		**692.9**	**17.6**	**710.5**	**(640.9)**	**(28.1)**	**(669.0)**
Total comprehensive income for the period		**1,781.7**	**63.2**	**1,844.9**	**(157.5)**	**(19.6)**	**(177.1)**

(a) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations".

7.1.3 Consolidated statement of changes in equity

(in € millions)	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	Cumulative translation adjustment	Treasury shares	**Group share**	Non-controlling interests	**Total equity**
At 1st January 2020 as published	*212,757*	**640.0**	**4,074.3**	**1,066.2**	**(94.1)**	**(180.7)**	**(56.5)**	**5,449.2**	**232.9**	**5,682.1**
IAS 19 impact linked to IFRIC-IC decision (note 1.1)	—	—	—	27.5	—	—	—	27.5	1.5	29.0
At 1st January 2020 restated	*212,757*	**640.0**	**4,074.3**	**1,093.7**	**(94.1)**	**(180.7)**	**(56.5)**	**5,476.7**	**234.4**	**5,711.1**
Net income	—	—	—	483.4	—	—	—	483.4	8.5	491.9
OCI - Controlled companies	—	—	—	(570.8)	81.7	(96.9)	—	(586.0)	(28.1)	(614.1)
OCI - Equity affiliates	—	—	—	(0.8)	11.6	(21.9)	—	(11.1)	—	(11.1)
OCI - Discontinued operations	—	—	—	(72.1)	12.2	16.1	—	(43.8)	—	(43.8)
Total comprehensive income for 2020	—	**—**	**—**	**(160.3)**	**105.5**	**(102.7)**	**—**	**(157.5)**	**(19.6)**	**(177.1)**
Employee share issues	*48*	0.1	1.2	—	—	—	—	1.3	—	1.3
Parent company dividend distribution	—	—	—	(85.1)	—	—	—	(85.1)	—	(85.1)
Third-party share in dividend paid by subsidiaries	—	—	—	—	—	—	—	—	(12.1)	(12.1)
Share-based payments	—	—	—	13.4	—	—	—	13.4	—	13.4
Acquisitions/disposals of treasury shares	*63*	—	—	(28.0)	—	—	17.9	(10.1)	—	(10.1)
Changes in scope	—	—	—	(50.3)	—	—	—	(50.3)	(2.3)	(52.6)
Other	—	—	—	(46.2)	—	0.2	—	(46.0)	(3.9)	(49.9)
At 31 December 2020	*212,868*	**640.1**	**4,075.5**	**737.2**	**11.4**	**(283.2)**	**(38.6)**	**5,142.4**	**196.5**	**5,338.9**
Net income	—	—	—	1,088.8	—	—	—	1,088.8	45.6	1,134.4
OCI - Controlled companies	—	—	—	669.0	(101.8)	54.0	—	621.2	17.6	638.8
OCI - Equity affiliates	—	—	—	11.5	(5.9)	17.8	—	23.4	—	23.4
OCI - Discontinued operations	—	—	—	62.2	(8.4)	(5.5)	—	48.3	—	48.3
Total comprehensive income for 2021	—	**—**	**—**	**1,831.5**	**(116.1)**	**66.3**	**—**	**1,781.7**	**63.2**	**1,844.9**
Employee share issues	*45*	0.1	1.1	—	—	—	—	1.2	—	1.2
Parent company dividend distribution	—	—	—	(417.0)	—	—	—	(417.0)	—	(417.0)
Third-party share in dividend paid by subsidiaries	—	—	—	—	—	—	—	—	(13.5)	(13.5)
Share-based payments	—	—	—	25.0	—	—	—	25.0	—	25.0
Acquisitions/disposals of treasury shares	*5*	—	—	(28.7)	—	—	0.9	(27.8)	—	(27.8)
Other	—	—	—	(25.4)	—	—	—	(25.4)	(1.8)	(27.2)
At 31 December 2021	*212,918*	**640.2**	**4,076.6**	**2,122.6**	**(104.7)**	**(216.9)**	**(37.7)**	**6,480.1**	**244.4**	**6,724.5**

Retained earnings include actuarial gains and losses on pension obligations amounting to -€2,773.8 million at end 2020 and -€2,066.8 million at end 2021

7.1.4. Consolidated balance sheet

(in € millions)

ASSETS	Notes	31/12/21	31/12/20 (a)
Goodwill	note 4.1	5,202.9	6,034.4
Other intangible assets, net	note 4.2	1,951.0	2,284.5
Property, plant and equipment, net	note 4.2	3,399.0	3,569.9
Investments in equity affiliates	note 5	1,341.6	1,283.1
Non-consolidated investments	note 6.4	138.3	90.7
Other non-current financial assets	note 6.4	151.2	138.9
Non-current derivatives – assets	note 6.6	4.0	13.0
Deferred tax assets	note 7.3	949.2	958.8
Non-current assets		**13,137.2**	**14,373.3**
Inventories and work in progress	note 10.1	3,336.0	3,508.5
Contract assets	note 10.2	2,477.6	2,935.2
Advances to suppliers	note 10	411.0	433.9
Accounts, notes and other current receivables	note 10.4	5,442.9	5,038.3
Current derivatives – assets	note 6.6	99.7	254.2
Current tax receivable	note 7.3	214.5	220.2
Current financial assets	note 6.2	4.3	32.3
Cash and cash equivalents	note 6.2	5,049.4	5,003.9
Assets held for sale	note 1.4	2,668.2	—
Current assets		**19,703.6**	**17,426.5**
Total assets		**32,840.8**	**31,799.8**

EQUITY AND LIABILITIES	Notes	31/12/21	31/12/20 (a)
Capital, additional paid-in capital and other reserves		6,734.7	5,464.2
Cumulative translation adjustment		(216.9)	(283.2)
Treasury shares		(37.7)	(38.6)
Total attributable to shareholders of the parent company		**6,480.1**	**5,142.4**
Non-controlling interests		244.4	196.5
Total equity	note 8.1	**6,724.5**	**5,338.9**
Long-term loans and borrowings	note 6.2	4,602.4	5,209.7
Non-current derivatives – liabilities	note 6.6	7.3	13.5
Pensions and other long-term employee benefits	note 9.3	2,447.3	3,404.4
Deferred tax liabilities	note 7.3	491.4	657.6
Non-current liabilities		**7,548.4**	**9,285.2**
Contract liabilities	note 10.2	7,068.5	6,453.5
Reserves for contingencies	note 10.3	1,771.8	2,052.2
Accounts, notes and other current payables	note 10.4	6,066.6	5,998.0
Current derivatives – liabilities	note 6.6	234.1	134.0
Current tax receivable	note 7.3	140.7	149.3
Short-term loans and borrowings	note 6.2	1,319.0	2,388.7
Liabilities held for sale	note 1.4	1,967.2	—
Current liabilities		**18,567.9**	**17,175.7**
Total equity and liabilities		**32,840.8**	**31,799.8**

(a) Restated to take into account IFRIC-IC agenda decision relating to IAS 19.

7.1.5. Consolidated statement of cash flows

(in € millions)	**Notes**	**2021**	**2020 (a)**
Net income		**1,134.4**	**491.9**
Deduct, net income related to discontinued operations		(117.6)	(42.3)
Net income related to continued operations		**1,016.8**	**449.6**
Add (deduct):			
Income tax expense (gain)		147.7	64.5
Net interest expenses		56.6	55.2
Share in net income of equity affiliates	note 5.1	(103.6)	(45.0)
Dividends received from equity affiliates	note 5.1	45.1	64.1
Depreciation and amortisation of PPE and intangible assets	note 4.2	1,062.6	1,126.2
Impairment on non-current fixed assets	note 4.1	—	135.4
Provisions for pensions and other employee benefits	note 9.3	150.6	164.9
Loss (gain) on disposal of assets, change in scope of consolidation and other	note 3.2	(48.7)	(44.4)
Provisions for restructuring, net	note 10.3	(54.1)	58.7
Other items		70.8	7.5
Operating cash flows before working capital changes, interest and tax		**2,343.8**	**2,036.7**
Change in working capital and reserves for contingencies	note 10	776.1	(486.6)
Cash contributions to pension plans and other long-term employee benefits, o.w.:	note 9.3	(210.3)	(249.0)
- UK deficit payment		*(98.7)*	*(94.6)*
- Recurring contributions/benefits		*(111.6)*	*(154.4)*
Interest paid		(64.8)	(59.4)
Interest received		6.7	10.8
Income tax received		(144.8)	(97.1)
Net cash flow from operating activities relating to continued activities	**- I -**	**2,706.7**	**1,155.4**
Acquisitions of property, plant and equipment and intangible assets	note 4.2	(450.8)	(379.4)
Disposals of property, plant and equipment and intangible assets	note 4.2	4.9	8.5
Net operating investments		**(445.9)**	**(370.9)**
Acquisitions of subsidiaries and affiliates	note 6.3	(54.7)	(22.0)
Disposals of subsidiaries and affiliates	note 6.3	2.2	21.6
Decrease (increase) in loans and non-current financial assets		(14.2)	23.5
Decrease (increase) in current financial assets		19.2	(24.6)
Net financial investments		**(47.5)**	**(1.5)**
Net cash flow used in investing activities relating to continued operations	**-II-**	**(493.4)**	**(372.4)**
Parent company dividend distribution	note 8.1	(417.0)	(85.1)
Third party share in dividend distribution of subsidiaries		(13.5)	(12.1)
Purchase of treasury shares and exercise of share subscription options		(26.7)	(8.9)
Issuance of debt		51.1	2,279.3
Repayment of debt		(1,763.0)	(856.8)
Net cash flow from financing activities relating to continued operations	**-III-**	**(2,169.1)**	**1,316.4**
Effect of exchange rate changes and other relating to continued operations	**- IV -**	41.8	(42.3)
Change in cash and cash equivalents relating to continued operations	**I+II+III+IV**	**86.0**	**2,057.1**
Cash and cash equivalents at beginning of period		**5,003.9**	**2,931.4**
Change in cash and cash equivalents relating to continued operations		86.0	2,057.1
Change in cash and cash equivalents relating to discontinued operations	note 1.4	126.5	15.4
Cash and cash equivalents at end of period		5,216.4	**5,003.9**
Contribution from discontinued operations at closing		167.0	
Cash and cash equivalents relating to continued operations at closing		**5,049.4**	

a) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations"

The Group's net debt position and variation are presented in Notes 6.2 and 6.3.

7.1.6. Notes to the consolidated financial statements

All monetary amounts included in these notes are expresses in millions of euros.

Note 1. Accounting standards framework

Thales's consolidated financial statements for the year ending 31 December 2021 were approved and authorised for issue by its Board of Directors on 2 March 2022. In accordance with French law, the financial statements will be deemed final once they have been adopted by the shareholders of the Group at the Annual General Meeting to be held on 11 May 2022.

Thales (parent company) is a French publicly traded joint-stock company (*société anonyme*) registered with the Nanterre Trade and Company Register under number 552 059 024.

1.1. Basis of preparation for the 2021 consolidated financial statements

Thales's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union at 31 December 2021 [1].
These accounting policies, as described in Note 13, are similar to those applied by the Group for the year ending 31 December 2020.
The clarification provided by the IFRIC in April 2021 regarding the accounting for costs of configuring or customising the supplier's application in a Software as a Service agreement should have no significant impact on the consolidated financial statements. The analysis will be finalized by June 30, 2022.

Defined-benefit plans

In May 2021, the IFRS Interpretation Committee (IFRS IC) published a decision relating to the allocation of the costs of services associated with a defined benefit plan with the following characteristics :

- the definitive acquisition of the benefits is conditioned to the presence in the company at the time of retirement;
- the amount of benefits depends on seniority within the company; and
- the amount is capped at a specific number of consecutive years of service.

The application of IAS 19 as recommended by IFRS IC leads to the distribution of the projected rights, not over the duration of the employees' presence in the company, but over the last years of rights acquisition, taking into account vesting levels when appropriate. In the consolidated financial statements, the impact of this decision must be considered as a change in accounting method.

For Thales Group, this interpretation led up reducing the obligation related to retirement benefits in France by €37.0 million (i.e. €29.0 million after tax) as of January 1, 2020. In accordance with the principles related to changes in accounting method, the balance sheet as of January 1, 2020 has been amended accordingly.

Reform of benchmark interest rates

As a reminder, the second phase of the benchmark interest rate reform project (IFRS 9 and IFRS 7 amendments on financial instruments) is mandatory from 2021. The objective of this phase 2 is to treat the accounting impacts of the effective replacement of benchmarks. The application of phase 2 has no impact for the Group in the absence of any effective change in the benchmarks in the Group's contracts at 31 December 2021.

1.2. New standards mandatory after 31 December 2021

The texts adopted by the IASB and applicable after 31 December 2021 are not expected to have a significant impact on the Group. This is particularly true of the amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as the Group's management rules are in line with the definition of the costs to be used to determine whether a contract is onerous. .

1.3. Translation

The main exchange rates used to translate financial statements of entities with a functional currency different from the euro are as follows:

	31 December 2021		31 December 2020		31 December 2019	
(in euros)	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian dollar	**1.5615**	**1.5783**	1.5896	1.6567	1.5995	1.6079
Pound sterling	**0.8403**	**0.8584**	0.8990	0.8894	0.8508	0.8759
U.S. dollar	**1.1326**	**1.1816**	1.2271	1.1470	1.1234	1.1195

[1] Available at:
https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en.

1.4. Classification of Transportation business as "discontinued operations"

On August 3, 2021, Thales entered into exclusive negotiations with Hitachi Rail in order to sell the global Transport business segment for an enterprise value of €1.66 billion.

The employee representatives of Thales and Hitachi Rail have been informed and consulted on this project in accordance with the legislation of the countries concerned.

The Sale and Purchase Agreement has been signed on 10 February 2022, in accordance with the time schedule initially agreed.

The transaction, subject to the usual regulatory and antitrust approvals, should take place in at the end of 2022 or at the beginning of 2023.

In accordance with IFRS 5 standard « Non-current assets held for sale and discontinued operations", the Group has reclassified the financial statements of this business segment under "discontinued operations".

The impact on the Group's financial statements are as follows:

- Assets and liabilities held for sale are reported on dedicated lines in the balance sheet at the end of 2021, without reclassification of comparative information at the end of 2020. In accordance with IFRS 5, intra-group transactions remain eliminated.
- The 2021 net income of the Transport business is reported on a single line of the income statement under "Net income relating to discontinued operations". The comparative figures for year 2020 have been restated in accordance with IFRS 5.
- In the consolidated statement of cash flows, net cash flows from operating, investing and financing activities correspond to cash flows relating to continued operations. The change in cash from the Transport business is reported on a separate line. The comparative figures for year 2020 have also been restated in accordance with IFRS 5.

Restatement of the 2020 consolidated profit and loss account and 2020 statement of cash-flows:

2020 *(in € millions)*	**Pre IFRS 5**	**IFRS 5 impact**	**Post IFRS 5**
Sales	**16,988.9**	**(1,617.9)**	**15,371.0**
Income from operations	**817.6**	**(83.4)**	**734.2**
Disposal of assets, changes in scope of consolidation and other	42.0	2.4	44.4
Impairment on non-current fixed assets	(135.4)	—	(135.4)
Share in net income of equity affiliates	44.3	0.7	45.0
Income of operating activities after share in net income of equity affiliates	**768.5**	**(80.3)**	**688.2**
Financial result	(186.3)	12.2	(174.1)
Income tax	(90.3)	25.8	(64.5)
Net income relating to continued operations	**491.9**	**(42.3)**	**449.6**
Net income relating to discontinued operations	**—**	**42.3**	**42.3**
Net income	**491.9**	**—**	**491.9**

2020 *(in € millions)*	**Pre IFRS 5**	**IFRS 5 impact**	**Post IFRS 5**
Net cash flow from operating activities	1,345.6	(190.2)	1,155.4
Net cash-flow used in investing activities	(386.4)	14.0	(372.4)
Net cash flow from financing activities	1,197.3	119.1	1,316.4
Exchange rates and other	(84.0)	41.7	(42.3)
Change in cash and cash equivalents	**2,072.5**	**(15.4)**	**2,057.1**

Financial information relating to discontinued operations:

Profit and loss account	2021	2020
Sales	**1,665.2**	**1,617.9**
Income from operations	**153.8**	**83.4**
Disposal of assets, changes in scope of consolidation and other	(8.6)	(2.4)
Share in net income of equity affiliates	6.8	(0.7)
Financial result	5.3	(12.2)
Income tax	(39.6)	(25.8)
Net income	**117.7**	**42.3**

Sales correspond to the contribution of the Transport business to consolidated sales. Intra-group flows are not significant.

Income from operations excludes the Group's corporate costs which will no longer be re-invoiced to the Transport business after the transaction (€17.7 million in 2020, €18.5 million in 2021). Net income relating to continued operations is reduced accordingly.

In accordance with IFRS 5 standard, the Group has stopped recognizing the depreciation and amortization of the PPE and intangible assets of the Transport business as from August 3, 2021, the date on which the criteria for classification as group to be sold have been met. The resulting impact in depreciation and amortization amounts to €15.0 million before tax. This profit is excluded from the business segment's EBIT, and included under the line "**Disposal of assets, changes in scope of consolidation and other**".
In addition, this line mainly includes costs directly associated with the transaction (advisory fees, employee retention plans implemented as part of the transaction, carve-out costs, etc.).

Cash flow statement	2021	2020
Net cash flow from operating activities	171.9	190.2
Net cash-flow used in investing activities	(19.8)	(14.0)
Net cash flow from financing activities	(23.4)	(119.1)
Exchange rates and other	(2.2)	(41.7)
Change in cash and cash equivalents	**126.5**	**15.4**

	2021	2020
Net cash flow from operating activities	**171.9**	**190.2**
Less: UK deficit payment	3.5	3.4
CAPEX	(19.6)	(16.0)
Operating free cash flow	**155.8**	**177.6**

Assets	31/12/21
Goodwill	879.8
PPE and intangible assets	165.7
Other non-current assets	47.2
Deferred tax assets	49.5
Working capital - assets	1,359.3
Cash and cash equivalents	166.7
Assets held for sale	**2,668.2**

Liabilities	31/12/21
Long-term loans and borrowings	59.8
Pensions	292.4
Other non-current liabilities	15.8
Working capital - liabilities	1,561.2
Short-term loans and borrowings	38.1
Liabilities held for sale	**1,967.3**

Net cash	**68.8**

As of December 31, 2021, the cumulative amount recognized in other comprehensive income that may be reclassified to income and relating to discontinued operations is :

- €-11.4 million for the translation adjustment
- € -0.3 million for cash flow hedge

Accumulated actuarial gains and losses relating to pension obligations amounted to €219.7 million.

1.5. Main sources of estimates

The preparation of the Group's consolidated financial statements involves making estimates and assumptions that have an impact on the assessment of the Group's performance and its consolidated assets and liabilities. 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 at which the financial statements are prepared.

In today's global economic environment, the degree of volatility and subsequent lack of visibility are particularly high. Future facts and circumstances could lead to changes in these estimates or assumptions which could affect the Group's financial situation, profit and loss and/or cash flows, notably with regard to:

Recognition of revenue over time (Note 10)

A very significant part of the Group's revenue and current operating income stems from contracts recognised according to the percentage of completion method. These contracts often span several financial years. In the accounting closing process, the recognition of revenue and operating margin relating to these contracts depends mainly:

- on estimates of revenue and margin at completion, including provisions for technical and commercial risks;
- on costs incurred to date compared to the total costs expected at completion.

Monitoring of costs incurred to date and estimates of figures at completion are based, for each contract, on the Group's internal systems and procedures, with project managers playing a key role. These estimates are reviewed regularly by the Operations and Finance departments, under the supervision of the Group's corporate management, particularly at each period-end reporting.

Litigation (Note 11)

The Group conducts its business in France and abroad in complex, evolving legal and regulatory environments. As a result, it is exposed to technical and commercial disputes.

The Group regularly identifies and reviews all current commercial, civil or criminal litigation and pre-litigation, and recognises any accounting provisions that it considers to be reasonable. Uncertainties concerning litigation in progress are described in Note 11.

Business combinations

Business combinations are accounted for in accordance with the purchase accounting method described in Note 13-b: thus, on the date of the takeover of a company, the acquiree's identifiable assets and liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and must estimate the effects of future events, which are uncertain at the acquisition date.

Goodwill (Note 4.1)

Goodwill is subject to impairment tests. The recoverable amount of goodwill is assessed based on forecasts extracted from the strategic plans prepared in accordance with Group procedures. Sensitivity tests are carried out on key assumptions in order to lend greater weight to the conclusions reached.

Pensions and other long-term employee benefits (Note 9.3)

Pensions and other long-term employee benefit commitments are estimated on statistical and actuarial bases in accordance with the policies outlined in Note 13-k. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc.) are reviewed each year with the actuaries.

Deferred tax assets (Note 7)

Deferred tax assets are recognised for tax loss carry-forwards and temporary differences between the book value and the tax value of assets and liabilities. The recoverability of these assets is assessed on the basis of forecasts of future tax results of the tax entities over a period of three to five years, the entity's history of tax losses, past non-recurring items and tax strategies specific to each country.

Risks induced by climate change

The judgments and estimates used by the Group to prepare the financial statements take into account the current assessment of risks induced by climate change, whether physical, regulatory, or related to customer expectations and sector commitments (see § 3.1.7.).

Based on the analyses conducted as part of the Group's internal work on climate change, the Group has not identified any significant climate-related risk whose financial consequences would be likely to lead to a loss of value of its assets.

The Group is implementing action plans aimed at reducing operational CO_2 emissions, accelerating innovations and generalizing eco-design. Their impact on cash flow has been integrated into the business plans of the CGUs concerned. The Group's strategy for a low-carbon future is set out in detail in the extra-financial performance declaration (DPEF) included in the Universal Registration Document (see § 5.5).

Note 2. Segment information

2.1. Business segments

The business segments presented by the Group are as follows:

- the **Aerospace** segment combines the "Avionics" and "Space" Global Business Units. They develop on-board systems and services for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) and for government/defence customers (national governments, space agencies and other semi-public organisations).
- the **Defence & Security** segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units. They develop equipment, systems and services for armed forces and for the protection of networks and infrastructure, mainly for a government/defence customer base.
- the **Digital Identity & Security** segment, which develops digital identity and security solutions for a private and government customer base, and some digital businesses previously included in the Defense & Security segment, in particular in data protection .

The Transportation business segment has been considered as a discontinued operation as from the date of the signature of the put option agreement with Hitachi Rail. Consequently, financial data of this segment are excluded from segment information.

2.2. Sales

2021	Aerospace	Defence & Security	Digital I&S	Other	Thales
Sales by destination:					
Europe	2,977.2	5,282.5	903.9	40.9	9,204.5
North America	576.4	488.7	874.5	12.0	1,951.6
Australia and New Zealand	42.5	897.0	54.3	—	993.8
Total mature markets	3,596.1	6,668.2	1,832.7	52.9	12,149.9
Emerging markets (a)	867.0	1,965.1	1,161.8	48.2	4,042.1
Total	**4,463.1**	**8,633.3**	**2,994.5**	**101.1**	**16,192.0**
Revenue recognition method:					
Over time	2,981.6	7,170.9	615.5	62.4	10,830.4
At a point in time	1,481.5	1,462.4	2,379.0	38.7	5,361.6
Total	4,463.1	8,633.3	2,994.5	101.1	**16,192.0**

2020 restated (b)	Aerospace	Defence & Security	Digital I&S	Other	Thales
Sales by destination:					
Europe	2,805.7	4,789.4	839.5	32.7	8,467.3
North America	528.0	497.9	856.0	5.2	1,887.1
Australia and New Zealand	40.8	835.9	67.1	—	943.8
Total mature markets	3,374.5	6,123.2	1,762.6	37.9	11,298.2
Emerging markets (a)	842.5	1,961.6	1,229.2	39.5	4,072.8
Total	**4,217.0**	**8,084.8**	**2,991.8**	**77.4**	**15,371.0**
Revenue recognition method:					
Over time	2,653.6	6,635.4	704.0	41.8	10,034.8
At a point in time	1,563.4	1,449.4	2,287.8	35.6	5,336.2
Total	**4,217.0**	**8,084.8**	**2,991.8**	**77.4**	**15,371.0**

(a) Emerging markets: all countries outside Europe, North America, Australia and New Zealand.

(b) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations" (note 1.4).

In 2021, the Group's business is balanced between civilian customers for 49% and military customers for 51% (same as 2020).

2.3. Commercial activity and EBIT by segment

In order to monitor the operating and financial performance of the entities, the Group's management regularly considers certain key non-GAAP indicators as defined in Note 13-a, which enable them to exclude certain non-operating and non-recurring items.

In particular, EBIT, presented by business segment below, corresponds to income from operations plus the share in net income of equity affiliates, excluding expenses related to business combinations (amortisation of acquisition-related assets (PPA) and other expenses directly linked to business combinations).

2021	Aerospace	Defence & Security	Digital I&S	Other	Thales
Order book – non-Group at 31/12	**7,903.4**	**26,110.8**	**613.3**	**116.9**	**34,744.4**
Order intake – non-Group	**5,630.8**	**11,185.0**	**2,994.5**	**98.3**	**19,908.6**
Sales – non-Group	4,463.1	8,633.3	2,994.5	101.1	16,192.0
Sales – intersegment	91.5	328.0	39.8	(459.3)	—
Total Sales	**4,554.6**	**8,961.3**	**3,034.3**	**(358.2)**	**16,192.0**
EBIT	**202.1**	**1,111.5**	**357.5**	**(22.2)**	**1,648.9**
Of which, Naval Group	—	—	—	68.8	68.8
Excluding Naval Group	202.1	1,111.5	357.5	(91.0)	1,580.1
Capital expenditures	**89.7**	**163.9**	**97.4**	**99.8**	**450.8**
Depreciation and amortization, excluding PPA	**128.0**	**170.6**	**120.6**	**279.8**	**699.0**

2020 restated (a)	Aerospace	Defence & Security	Digital I&S	Other	Thales
Order book – non-Group at 31/12	**6,590.7**	**23,245.3**	**588.8**	**87.2**	**30,512.0**
Order intake – non-Group	**3,821.8**	**9,922.5**	**3,022.9**	**57.0**	**16,824.2**
Sales – non-Group	4,217.0	8,084.8	2,991.8	77.4	15,371.0
Sales – intersegment	94.8	286.0	25.5	(406.3)	—
Total Sales	**4,311.8**	**8,370.8**	**3,017.3**	**(328.9)**	**15,371.0**
EBIT	**(76.2)**	**1,038.9**	**324.3**	**(38.7)**	**1,248.3**
Of which, Naval Group	—	—	—	21.6	21.6
Excluding Naval Group	(76.2)	1,038.9	324.3	(60.3)	1,226.7
Capital expenditures	**83.5**	**135.8**	**73.1**	**87.0**	**379.4**
Depreciation and amortization, excluding PPA	**151.0**	**147.4**	**121.9**	**289.3**	**709.6**

(a) 2020 comparative data have been restated due to the classification of the Transportation business segment under "Discontinued operations" (note 1.4)

Order book, order intake and sales included in the "Other" column relate to corporate activities (Thales parent company, Thales Global Services, Group R&D centres, facilities management), and to the elimination of transactions between business segments.

Unallocated EBIT includes the Group's share (35%) in the net income of Naval Group, corporate income from operations which is not assigned to segments, and the cost of vacant premises. Other costs (mainly the costs of foreign holding companies not invoiced) are reallocated to business segments proportionally to their respective non-Group sales.

At the end of 2021, the order book stood at € 34,744.4 million. Around 70% of this amount is expected to convert into sales within three years.

The reconciliation between income from operations and EBIT is analysed as follow:

	2021	2020
Income from operations	**1,143.5**	**734.2**
Less, amortisation of acquisition-related assets (PPA):	**372.1**	**435.4**
- Intangible assets	340.6	393.6
- Property, plant and equipment	23.0	23.0
- Deferred revenues	8.6	18.8
Less, expenses directly linked to business combinations:	**1.3**	**6.6**
- Restructuring costs	0.7	5.0
- Other expenses	0.6	1.6
Share in net income of equity from affiliates	**103.6**	**45.0**
Less, PPA amortisation related to equity affiliates entities	**28.4**	**27.1**
EBIT	**1,648.9**	**1,248.3**

Note 3. Impact of changes in scope of consolidation

3.1 Main changes in scope of consolidation

At the beginning of December 2021, Thales acquired the Moog ground-based navigation aids business for an amount of 45 million US dollars. The activity has been consolidated in the Group's accounts since December 1, 2021.

Mid-November 2021, Thales announced entering into exclusive negotiations on the acquisition of RUAG International’s Simulation & Training business. This transaction - which remains subject to the information and consultation process with employee representative bodies, to the authorization of the regulatory authorities and to the usual closing conditions - aims in particular to strengthen the Group's industrial presence in the Land Simulation & Training market.

3.2 Disposal of assets, changes in scope of consolidation and other

	2021	2020
Disposal of investments	6.4	50.1
Acquisition-related fees (consultants, legal counsel …)	(9.1)	(5.4)
Disposal of real estate and other tangible and intangible assets	(2.2)	0.1
Impact of settlements / amendments to pensions plans (note 9)	4.4	(0.4)
Litigation (a)	49.2	—
Total	**48.7**	**44.4**

(a) Compensation received as a result of a settlement agreement relating to a former dispute.

Note 4. Property, plant and equipment and intangible assets

4.1. Goodwill

a) Change in goodwill

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs corresponding to Thales's Global Business Units (GBU):

	01/01/21	Acquisitions	Reclas-sification	Asset held for sale	Exchange rate & other	31/12/21
Avionics	365.7	—	—	—	0.2	365.9
Space	490.0	—	—	—	1.8	491.8
Transport	879.8	—	—	(879.8)	—	—
Secured Communications and Information Systems	652.0	—	62.4	—	7.0	721.4
Land and Air Systems	309.4	30.6	—	—	1.4	341.4
Defence Mission Systems	457.9	—	—	—	0.8	458.7
Digital Identity & Security	2,879.6	0	(62.4)	—	6.5	2,823.7
Total	**6,034.4**	**30.6**	**—**	**(879.8)**	**17.7**	**5,202.9**

	01/01/20	Acquisitions	Disposals	Impairment	Exchange rate & other	31/12/20
Avionics	465.8	—	—	(98.2)	(1.9)	365.7
Space	490.6	—	—	—	(0.6)	490.0
Transport	879.8	—	—	—	—	879.8
Secured Communications and Information Systems	651.3	—	—	—	0.7	652.0
Land and Air Systems	309.4	—	—	—	—	309.4
Defence Mission Systems	457.6	—	—	—	0.3	457.9
Digital Identity & Security	*2,727.0*	*165.6*	—	—	*(13.0)*	2,879.6
Total	**5,981.5**	**165.6**	**—**	**(98.2)**	**(14.5)**	**6,034.4**

"Acquisitions" column includes €169.9 million relating to the final purchase price allocation of Gemalto, leading to a definitive goodwill of €2,739.9 million.

b) Impairment tests

Goodwill as well as cash-generating units (CGUs) are subject to annual impairment tests in accordance with the Group's budgetary timetable. Substantially all other intangible assets and property, plant and equipment are tested at the CGU level. For these tests, the value in use is based on discounted future operating cash flows over a three-year period and a terminal value. In certain specific cases (recent acquisitions, non-typical annual results, etc.), the terminal value is based on forecasts over an appropriate period of time. At the end of 2021, cash flows utilized for the tests came from the budget prepared for the following two years, established in accordance with Group procedures, and extended over the next year. These cash flows reflect management's best estimate of the medium-term consequences of the sanitary crisis in this specific case.

At the end of 2021, impairment tests were performed using a discount rate assumption of 8% (same as at the end of 2020) for all CGUs, the specific risks of the CGUs being taken into account in the projections. The assumptions used for business growth and terminal value are based on a reasonable approach specific to each sector (terminal value generally based on the average income from operations over the three years, growth limited to 2%). In the case of the Avionics business, revenue projections have been constructed taking into account the analyses of the International Air Transport Association (IATA), which does not expect air traffic to return to pre-crisis levels before 2024.

On the basis of the values in use, the Group also tested the sensitivity of all other CGUs to changes in key assumptions. Taken individually, an increase by 1 point of the discount rate, a decrease by 1 point of the growth rate or a decrease by 2 points in operating profitability over the standard year would not lead to the recognition of any impairment loss.

As a reminder, at December 31, 2020, goodwill and acquired intangible assets of the CGU IFE (on-board multimedia) had been fully impaired for €98.2 million and €37.3 million respectively.

4.2. Plant, property and equipment and other intangible assets

a) Change in net assets

	01/01/21	Acquisitions	Disposal	Depr. and amort.	Asset held for sale	Change in scope and exch. rate	31/12/21
Acquired Intangible assets	2,056.8	—	—	(340.6)	—	40.1	1,756.3
Capitalised development costs	51.8	13.8	—	(19.8)	(12.0)	1.5	35.3
Other	175.9	55.8	(0.1)	(74.5)	(3.5)	5.8	159.4
Intangible assets	**2,284.5**	**69.6**	**(0.1)**	**(434.9)**	**(15.5)**	**47.4**	**1,951.0**
Right-of-use from lease contracts	1,543.1	137.2	—	(205.5)	(71.7)	14.4	1,417.5
Acquired tangible assets	74.8	—	—	(23.0)	—	—	51.8
Property, plant and equipment	1,952.0	381.2	(4.8)	(399.2)	(39.8)	40.3	1,929.7
Tangible assets	**3,569.9**	**518.4**	**(4.8)**	**(627.7)**	**(111.5)**	**54.7**	**3,399.0**
Total	**5,854.4**	**588.0**	**(4.9)**	**(1,062.6)**	**(127.0)**	**102.1**	**5,350.0**
Less, new lease contracts		(137.2)					
Operating investments (a)		**450.8**					

	01/01/20	Acquisitions	Disposal	Depr. and amort.	Impair ment	Change in scope and exch. rate	31/12/20
Acquired Intangible assets	2,561.0	—	—	(393.6)	(37.3)	(73.3)	2,056.8
Capitalised development costs	58.6	18.2	—	(28.7)	—	3.7	51.8
Other	190.8	51.2	(2.4)	(68.5)	—	4.8	175.9
Intangible assets	**2,810.4**	**69.4**	**(2.4)**	**(490.8)**	**(37.3)**	**(64.8)**	**2,284.5**
Right-of-use from lease contracts	1,650.9	154.4	—	(226.3)	—	(35.9)	1,543.1
Acquired tangible assets	97.7	—	—	(23.0)	—	0.1	74.8
Property, plant and equipment	2,081.8	310.0	(6.1)	(386.1)	—	(47.6)	1,952.0
Tangible assets	**3,830.4**	**464.4**	**(6.1)**	**(635.4)**	**—**	**(83.4)**	**3,569.9**
Total	**6,640.8**	**533.8**	**(8.5)**	**(1,126.2)**	**(37.3)**	**(148.2)**	**5,854.4**
Less, new lease contracts		(154.4)					
Operating investments (a)		**379.4**					

(a) Presented in the statement of cash-flows.

b) Breakdown by item

			31/12/21	31/12/20
	Gross	Depreciation	Net	Net
Technologies acquired	1,927.0	(994.5)	**932.5**	1,143.7
Customer relationships acquired	960.7	(351.0)	**609.7**	682.5
Order book acquired	109.7	(103.8)	**5.9**	7.8
Other intangible assets	395.5	(187.3)	**208.2**	222.8
Acquired intangible assets (business combinations)	3,392.9	(1,636.6)	1,756.3	2,056.8
Development costs	972.7	(937.4)	**35.3**	51.8
Other intangible assets	1,097.7	(938.3)	**159.4**	175.9
Intangible assets	**5,463.3**	**(3,512.3)**	**1,951.0**	**2,284.5**
Right of use from lease contracts	2,054.4	(636.9)	**1,417.5**	1,543.1
Land	57.6	(1.1)	**56.5**	62.3
Buildings	2,233.3	(1,489.2)	**744.1**	773.8
Technical facilities, industrial equipment and tooling	3,578.1	(2,787.6)	**790.5**	776.9
Other property, plant and equipment	1,203.1	(812.7)	**390.4**	413.8
Property, plant and equipment	**9,126.5**	**(5,727.5)**	**3,399.0**	**3,569.9**

Note 5. Investments in equity affiliates

5.1. Change in investment in equity affiliates

	31/12/21	31/12/20
Investment at opening	**1,283.1**	**1,333.1**
Less: investments from discontinued activities	(37.3)	(44.7)
Share in net income of equity affiliates	**103.6**	**45.0**
Translation adjustment	17.8	(21.9)
Cash flow hedge	(5.9)	11.6
Actuarial gains (losses) on pensions	11.5	(0.8)
Share in comprehensive income of equity affiliates	**127.0**	**33.9**
Dividends paid	(45.1)	(64.1)
Change in scope and other	13.9	(12.4)
Reclassification of discontinued activities (a)	—	37.3
Investments at closing	**1,341.6**	**1,283.1**
Including Naval Group	763.9	715.1

(a) IFRS 5 accounting principles requiring not to restate balance sheet at 31.12.20

5.2. Naval group: summary financial information

Thales holds 35% of the capital of Naval Group and participates jointly with the French government in the governance of the company.

Naval Group is a group specialized in the naval defense industry. The financial statements of Naval Group, **as restated in Thales' financial statements** (PPA), are as follows:

Balance sheet (100% interest)	**31/12/21**	**31/12/20**
Non-current assets	1,937.4	2,253.0
Current assets	4,438.6	4,406.1
Total assets	**6,376.0**	**6,659.1**
Restated equity, attributable to shareholders	1,348.2	1,208.7
Non-controlling interests	0.5	0.5
Non-current liabilities	433.3	558.7
Current liabilities	4,594.0	4,891.2
Total equity and liability	**6,376.0**	**6,659.1**
Net cash	**1,760.1**	**1,628.5**

Thales share	31/12/21	31/12/20
Thales' share (35%)	471.9	423.1
Goodwill	292.0	292.0
Share in net assets	**763.9**	**715.1**

Income statement (100% interest)	2021	2020
Sales	4,052.9	3,320.3
Income (loss) from operating activities, after share in net income of equity affiliates	186.7	(25.8)
Financial income (loss)	(5.1)	(2.2)
Tax	(47.3)	24.0
Discontinued activities	(14.8)	(12.6)
Restated net income	**119.5**	**(16.5)**
Of which, attributable to shareholders of the company	**119.6**	**(11.7)**
Of which, attributable to non-controlling interests	(0.1)	(4.8)

Thales share	2021	2020
Thales' share in net income attributable to shareholders of the company	**41.8**	**(4.1)**
Of which, PPA amortisation	(27.0)	(25.7)
Share in net income, before PPA	68.8	21.6
Dividends received from Naval Group	**—**	**16.6**

5.3. Commitments and related parties

a) Commitments toward equity affiliates

At 31 December 2021, outstanding sureties, endorsements and guarantees granted by Thales S.A. (parent company) in support to its joint ventures amounted to €246.8 million (€395.5 million at 31 December 2020). The Group has no significant off-balance sheet commitments to associates.

The Group's policy is to issue these commitments only in proportion to its equity interest, or to obtain counter-guarantees from the other shareholders in proportion to their interest.

b) Transactions with equity affiliates

The volume of transactions with equity affiliates is as follows:

	2021	2020
Sales	376.2	345.1
Purchases	166.4	130.5
Loans and current accounts receivables	44.0	54.9
Borrowings and current accounts payables	6.3	2.6

Note 6.Financing and financial instruments

6.1. Financial income

a) Net interest income

	2021	2020
Financial interests related to lease contracts	**(22.6)**	**(25.2)**
Other interest expense:	**(31.5)**	**(37.1)**
- from financial gross debt	(25.5)	(27.8)
- from interest rate swaps	(6.0)	(9.3)
Interest income on cash and cash equivalents	**(2.5)**	**7.1**
Total	**(56.6)**	**(55.2)**

b) Other financial income

	2021	2020
Foreign exchange gains (losses)	(6.9)	(21.3)
Cash flow hedges, ineffective portion	(1.0)	(2.2)
Change in fair value of derivatives (a)	(31.5)	(48.7)
Other	(13.4)	(5.2)
Total	**(52.8)**	**(77.4)**

(a) This amount mainly includes the change in the fair value of swap points (- €30.9 million in 2021, – €39.6 million in 2020),

6.2. Net cash (net debt)

Group net cash (debt) is as follows:

	31/12/21	31/12/20
Current financial assets	4.3	32.3
Cash and cash equivalents	5,049.4	5,003.9
Cash and other short-term investments (a)	**5,053.7**	**5,036.2**
Financial debt	4,402.0	5,947.9
Lease debt	1,515.5	1,637.5
Gross debt (b) *	**5,917.5**	**7,585.4**
Net cash relating to discontinued operations (c) **	**68.8**	**—**
Net cash (a-b+c)	**(795.0)**	**(2,549.2)**
* Including :		
Long term financial debt	4,602.4	5,209.7
Short term financial debt	1,319.0	2,388.7
Fair value of interest rate hedging derivatives	(4.0)	(13.0)

** At the end of 2020, net cash relating to discontinued operations is not reclassified, IFRS 5 requiring not to restate prior year balance sheet.

a) Current financial assets

	31/12/21	31/12/20
Current accounts receivable with related parties	4.2	32.2
Accrued interests	0.1	0.1
Current financial assets	**4.3**	**32.3**

b) Cash and cash equivalents

At 31 December 2021, cash recorded under consolidated assets amounted to €5,049.4 million (€5,003.9 million at 31 December 2020) and included:

- €4,271.4 million held by the parent company and available for immediate use (€4,095.4 million in 2020). These amounts include € 3,406.0 million (€2,870.9 million in 2020) in very short-term deposits with tier-one banks or money market funds (UCITS);
- €778.0 million in the credit balances of subsidiaries (€908.5 million in 2020), most of them outside France. This figure includes payments received in the last days of the financial year and subsequently transferred to the cash pooling account.

c) Financial debt

	31/12/21	31/12/20
Bond issues	3,800.0	4,486.7
Treasury bills	531.5	1,196.4
Term loan	—	80.0
Current accounts in credit with related parties	45.6	150.9
Bank overdrafts	12.9	14.3
Accrued interests and other debts	12.0	19.6
Financial debt	**4,402.0**	**5,947.9**

In addition, the €800 million bank bridge loan, undrawn at December 31, 2020, matured in April 2021.

At 31 December 2021 the Group has a €1,500 million syndicated credit line which expires in December 2026, with the possibility of extension until December 2028. This credit line does not include an early repayment clause.

Bonds issues at 31 December 2021

Nominal value	Issue date	Maturity	Type of rate	Coupon	Effective rate	
					Before hedging	After hedging
500 M€	May 2019	May 2022	fixed	0.00%	0.02%	0.02%
600 M€	June 2016	June 2023	fixed	0.75%	0.84%	0.98%
500 M€	April 2018	April 2024	fixed	0.88%	0.94%	1.11%
500 M€	Jan. 2018	Jan. 2025	fixed	0.75%	0.91%	0.91%
500 M€	Nov. 2020	March 2026	fixed	0.00%	0.08%	0.08%
500 M€	Jan. 2020	Jan. 2027	fixed	0.25%	0.33%	0.33%
700 M€	May 2020	May 2028	fixed	1.00%	1.10%	1.10%

Financial debt by maturity

31/12/21	Total					Maturity
		2022	2023	2024	2025	>2025
Financial debt (a)	**4,402.0**	1,111.4	600.2	499.7	498.3	1,692.4
Contractual cash flows	4,488.7	1,111.0	623.9	517.3	512.6	1,723.9

31/12/20	Total					Maturity
		2021	2022	2023	2024	>2024
Financial debt (a)	**5,947.9**	2,158.7	503.4	598.6	499.6	2,187.6
Contractual cash flows	6,063.3	2,161.6	525.8	622.8	517.5	2,235.6

(a) discounted

Financial debt by currency

	31/12/21	31/12/20
Euro	4,393.0	5,937.5
US Dollar	2.0	3.8
Others	7.0	6.6
Total	**4,402.0**	**5,947.9**

Change in financial debt

	01/01/21	Cash flow	Other changes			31/12/21
			Scope	Exchange rates	Other	
Financial debt	**5,947.9**	(1,508.9)	(4.6)	(9.8)	(22.6)	**4,402.0**

	01/01/20	Cash flow	Other changes			31/12/20
			Scope	Exchange rates	Other	
Financial debt	**4,533.2**	1,617.4	(108.4)	(35.4)	(58.9)	**5,947.9**

The "cash flow" column includes the repayment of the bonds maturing in March and September 2021, as well as a portion of treasury bills.

The "other" column" includes issuance costs for new bonds, changes in the value of derivatives used to hedge bonds and changes in the value of debt on acquisition of subsidiaries.

d) Lease debt

Change in lease debt

	01/01/21	Cash flow (a)	Other changes			31/12/21
			Scope	Exchange rates and	New debt (b)	
Lease debt	**1,637.5**	(203.0)	(75.5)	19.3	137.2	**1,515.5**

	01/01/20	Cash flow (a)	Other changes			31/12/20
			Scope	Exchange rates and	New debt (b)	
Lease debt	**1,724.7**	(194.9)	(21.3)	(25.4)	154.4	**1,637.5**

(a) Share of lease payments corresponding to the repayment of lease debt.

(b) New lease contracts signed during the year and impact of the renegotiation of existing leases.

Debt maturity

31/12/21	Total					Maturity
		2022	2023	2024	2025	>2025
Lease debt	**1,515.5**	207.7	197.0	178.7	154.5	777.6

31/12/20	Total					Maturity
		2021	2022	2023	2024	>2024
Lease debt	**1,637.5**	224.9	207.7	190.6	156.2	858.1

6.3. Changes in net debt

	2021	2020
Net debt at opening	**(2,549.2)**	**(3,310.6)**
Net cash flow from operating activities	2,706.7	1,155.4
Less, contributions to reduction of UK pension deficit	98.7	94.6
Net operating investments	(445.9)	(370.9)
Free operating cash-flow relating to continued operations	**2,359.5**	**879.1**
Acquisitions of subsidiaries and affiliates	(54.7)	(22.0)
Disposals of subsidiaries and affiliates	2.2	21.6
Contributions to reduction of UK pension deficit	(98.7)	(94.6)
Changes in loans	(14.2)	23.5
Dividends paid by the parent company	(417.0)	(85.1)
Third-party share in dividend distributions of subsidiaries	(13.5)	(12.1)
Treasury shares and subscription options exercised	(26.7)	(8.9)
New lease debts	(137.2)	(154.4)
Changes in exchange rates and other	30.8	46.6
Change in net cash (debt) relating to continued operations	**1,630.5**	**593.7**
Change in net cash (debt) relating to discontinued operations	123.7	167.7
Net debt at closing	**(795.0)**	**(2,549.2)**

6.4. Non-current financial assets

a) Non-consolidated investments

Non-consolidated investments amounted to €138.3 million at the end of 2021 compared to €90.7 million at the end of 2020, an increase of €47.6 million over the year, of which €54.6 million was due to changes in the value of foreign investments. At the end of 2021, this item is composed of individually non-material investments.

b) Non-current financial assets

	31/12/21	31/12/20
Loans to related parties	50.3	53.6
Loans to employees in the context of share purchase plan	10.7	—
Loans and other financial assets at amortised cost	61.9	54.1
Loans and other financial assets at market value	46.5	37.4
Gross value	**169.4**	**145.1**
Impairment	(18.2)	(6.2)
Net	**151.2**	**138.9**

6.5. Summary of financial assets and liabilities

At end 2021, the classification of financial assets and liabilities remained identical to the one disclosed at end 2020.

Receivables, payables and refundable grants are financial assets and liabilities as defined by IAS 32 and IFRS 9, and are measured at amortised cost. They are detailed in Note 10.

						31/12/21	31/12/20	
	At amortised cost	**Fair value through:**			**Acco-unting value**	**Fair value**	Acco-unting value	Fair value
		Profit or loss	Equity	Equity with P&L reclass.				
Non-current financial assets:								
Non-consolidated investments	—	—	138.3	—	138.3	138.3	90.7	90.7
Non-current loans and financial assets	113.1	38.1	—	—	151.2	151.2	138.9	138.9
Derivatives documented as hedges	—	4.0	—	—	4.0	4.0	13.0	13.0
Current financial assets:								
Derivatives documented as hedges	—	—	—	99.7	99.7	99.7	254.2	254.2
Derivatives not documented as hedges	—	—	—	—	—	—	—	—
Current financial assets	4.3	—	—	—	4.3	4.3	32.3	32.3
Cash and cash equivalents	1,643.4	3,406.0	—	—	5,049.4	5,049.4	5,003.9	5,003.9
Non-current financial liabilities:								
Long-term debt	4,598.3	—	—	4.1	4,602.4	4,638.9	5,209.7	5,294.8
Derivative documented as hedges	—	—	—	7.3	7.3	7.3	13.5	13.5
Current financial liabilities:								
Derivatives documented as hedges	—	—	—	227.7	227.7	227.7	133.8	133.8
Derivatives not documented as hedges	—	6.4	—	—	6.4	6.4	0.2	0.2
Short-term debt	1,319.0	—	—	—	1,319.0	1,319.8	2,388.7	2,394.5

IFRS 13 requires a hierarchy of valuation techniques for each financial asset and liability. The categories are defined as follows:

- level 1: valuation is based on quoted (non-adjusted) prices in active markets for identical assets or liabilities;
- level 2: valuation is based on information other than quoted market prices that is observable for the asset or liability, either directly or indirectly;
- level 3: valuation is based on unobservable information.

The fair value of financial assets and liabilities recorded at amortised cost approximates their carrying amount, except for borrowings and debts.

The fair value of bond debt is based on quoted prices (level 1). The fair value of other borrowings and debt is determined for each loan by discounting the expected future cash flows at the Euribor interest rate at the closing date, adjusted for the Group's credit risk (level 2).

The fair value of monetary and non-monetary UCITS funds is measured based on the last known net asset value. The fair value of interest rate products (certificates of deposit, short-term deposits, negotiable medium-term notes, etc.) is based on the discounting of coupon flows (nominal and interest) over the remaining life of the product at the closing date. The discount rate used is the market rate corresponding to the maturity and product characteristics.

The fair value of derivatives is based on models commonly used to assess these financial instruments (models including observable market data). Counterparty default risk and credit risk have no material impact on the fair value of derivatives.

6.6. Financial risk

a) Market risk

Thales hedges its foreign exchange and interest-rate risks using over-the-counter derivatives from tier-one banks. The book value of derivatives used to manage the Group's market risks is presented below.

	31/12/21		31/12/20	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Non-current derivatives:				
- Interest-rate derivatives	4.0	7.3	13.0	13.5
Current derivatives:				
- Foreign exchange derivatives	99.7	234.1	254.2	134.0
- Interest-rate derivatives	—	—	—	—
Foreign exchange derivatives, net	**(134.4)**		**120.2**	
Interest-rate derivatives, net	**(3.3)**		**(0.5)**	

Foreign exchange risk

Thales hedges currency risks arising in connection with the negotiation of contracts denominated in currencies other than the main production currency, currency risks generated by ordinary commercial operations, risks relating to cash pooling and, in some cases, risks relating to its net investments in foreign operations.

At 31 December 2021 and 2020, the amount of derivatives in the portfolio can be analysed as follows:

	31/12/21					31/12/20	
	Nominal value						
	USD	**GBP**	**Other**	**Total**	**Market value**	**Nominal value**	**Market value**
Negociations and trade operations hedges							
Documented as hedges							
Forward currency sales	3,191.7	1,032.4	1,848.2	6,072.3	(98.3)	6,003.7	89.1
Forward currency purchases	1,103.5	945.3	1,846.7	3,895.5		3,585.3	
Currency sales (call and put options)	—	—	—	—	—	33.9	5.0
Currency purchases (call and put options)	44.2	—	—	44.2		156.1	
Not documented as hedges							
Currency sales (call and put options)	23.6	10.1	4.6	38.3	0.4	50.0	0.8
Currency purchases (call and put options)	11.9	—	24.6	36.5		208.9	
Hedges related to cash pooling (documented as hedges)							
Currency sales: currency swaps	554.0	—	246.0	800.0	1.1	974.2	28.7
Currency purchases: currency swaps	84.0	434.4	435.0	953.4		718.8	
Hedges related to net investments in foreign operations (hedge accounting)							
Currency sales: currency swaps	635.7	—	—	635.7	(31.0)	590.3	(3.7)
Currency purchases: currency swaps	—	622.7	—	622.7		586.0	
Hedges related to net investments in foreign operations (not documented as hedges)							
Currency sales: currency swaps	166.3	—	—	166.3	(6.5)	10.2	0.3
Currency purchases: currency swaps	—	131.1	—	131.1		10.4	
Net assets (liabilities)					**(134.3)**		**120.2**

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is typically less than three years. Currency swaps are set up to align the maturities of derivatives to the maturities of hedged contracts. Other derivatives characteristics are consistent with the ones of the hedged risk.

The change in value of financial instruments (forward transactions) used to hedge cash flow is recognised in equity for the spot rate component. A decrease (increase) of 5% in the dollar against the euro, pound sterling, Canadian dollar or Australian dollar would have had a positive (negative) impact on equity of approximately €100 million at 31 December 2021 and €75 million at 31 December 2020.

The change in value of derivative instruments matched with commercial tender portfolio, which are not eligible for hedge accounting, is recognised in profit and loss. A decrease (increase) of 5% in the dollar against the euro, pound sterling, Canadian dollar or Australian dollar would have no impact on profit or loss at 31 December 2021, as at 31 December 2020.

Interest-rate risk

Thales is exposed to interest-rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active interest-rate hedging policy. At 31 December 2019 and 2020, the amount of derivatives in the portfolio was as follows:

	31/12/21		31/12/20	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable rate payables):				
- swaps related to bond maturing in 2023	400,0	4.0	400.0	7.9
- swaps related to bond maturing in 2021	—	—	300.0	5.1
		4.0		**13.0**
Cash flow hedge (swaps with fixed rate payables):				
- swaps related to bond maturing in 2023	400,0	(5.7)	400.0	(10.4)
- swaps related to bond maturing in 2021	—	—	300.0	(1.0)
- pre-hedging swap related to bond maturing in 2024 (a)		(1.6)	—	(2.1)
		(7.3)		**(13.5)**
Swaps not documented as hedges:				
- cross-currency swap with fixed-rate payable, hedging a loan			—	—
- swap with fixed-rate payable, hedging a loan	0.9		1.2	—
Net assets		**(3.3)**		**(0.5)**

(a) €500 million swaps set up prior the bond issue, and reversed on the issue date (April 2018).

The table below summarises the Group's exposure to interest-rate risk before and after hedging.

31/12/21	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt	(1,047.6)	(63.8)	(3,286.3)	(4.3)	(4,333.9)	(68.1)
Financial assets, cash and cash equivalents	—	5,053.7	—	—	—	5,053.7
Net exposure before impact of derivative instruments	**(1,047.6)**	**4,989.9**	**(3,286.3)**	**(4.3)**	**(4,333.9)**	**4,985.6**
Hedging derivatives	—	—	—	—	—	—
Net exposure after impact of derivative instruments	**(1,047.6)**	**4,989.9**	**(3,286.3)**	**(4.3)**	**(4,333.9)**	**4,985.6**

31/12/20	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt	(1,986.6)	(172.1)	(3,784.3)	(4.9)	(5,770.9)	(177.0)
Financial assets, cash and cash equivalents	—	5,036.2	—	—	—	5,036.2
Net exposure before impact of derivative instruments	**(1,986.6)**	**4,864.1**	**(3,784.3)**	**(4.9)**	**(5,770.9)**	**4,859.2**
Hedging derivatives	—	—	—	—	—	—
Net exposure after impact of derivative instruments	**(1,986.6)**	**4,864.1**	**(3,784.3)**	**(4.9)**	**(5,770.9)**	**4,859.2**

Based on the Group's average net cash, taking into account hedging instruments, a 1-point rise in interest rates would increase net interest income by €40.2 million in 2021 (€29.9 million in 2020).

b) Customer credit risk

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

Credit risk relating to governmental customers

Governmental customers account for around 60% of Thales's sales. Some of the countries with which Thales works could present a significant credit risk which could, for example, lead them to suspend an order in production, or render them unable to pay on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as BPIFrance) or private insurers.

In 2021, only three customers accounted for annual sales in excess of €500 million: the French government (around €3.5 billion), the Australian government (around €0.8 billion), and the UK government (around €0.6 billion).

At 31 December 2021, these three countries had first-class or high-quality ratings (France: AA by S&P Global Ratings and Aa2 by Moody's; Australia: AAA by S&P Global Ratings and Aaa by Moody's; the United Kingdom: AA by S&P Global Ratings and Aa3 by Moody's).

Risk of default relating to non-governmental customers

Non-governmental customers (private critical infrastructure operators, aircraft operators, etc.) account for approximately 40% of Thales's sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on the Group's sales, profitability and financial position.

To mitigate these risks, Thales conducts regular analyses of the ability of its customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

The Group's Finance Department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been impaired. At 31 December 2021 and 2020, the ageing of these accounts and notes receivable is as follows:

31/12/21	Total	Receivables past due:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue receivables not subject to provision				
Total	**928.3**	**661.2**	**97.7**	**169.4**

31/12/20	Total	Receivables past due:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue receivables not subject to provision				
Total	**1,122.0**	**776.9**	**133.7**	**211.4**

Credit risk related to banking counterparties

Financial investments are diversified. They relate to first ranking debt and are negotiated with tier-one banks.

Thales trades over-the-counter derivatives with tier-one banks under agreements which provide for the offsetting of amounts payable and receivable in the event of default by one of the contracting parties. These conditional offsetting agreements do not meet the eligibility criteria within the meaning of IAS 32 for offsetting derivative instruments recorded on the balance sheet under assets and liabilities. However, they do fall within the scope of disclosures to be provided under IFRS 7 on offsetting.

31/12/21	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collateral	
Derivatives – Assets	103.7	—	103.7	(97.0)	—	6.7
Derivatives – Liabilities	241.4	—	241.4	(97.0)	—	144.4

31/12/20	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collateral	
Derivatives – Assets	266.0	—	266.0	(139.0)	—	127.0
Derivatives – Liabilities	147.0	—	147.0	(139.0)	—	8.0

c) Liquidity risk

The Group's liquidity risk is the risk of not being able to to meet its cash needs out of its financial resources. In particular, it relates specifically to Thales's level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

The Group manages this risk by trying to anticipate its cash needs and ensures that these are covered by the Group's short-term and long-term financial resources, as follows:

- shareholders' equity (Note 8.1);
- financial debt (listed by date of maturity in Note 6.2);
- confirmed bank credit line, undrawn as of December 31, 2021, amounting to €1,500 million and maturing in 2026;
- as well as a commercial paper program (NeuCP).

The Group consolidates and pools its cash surpluses and needs for its various businesses, allowing it to simplify the cash management of those businesses by managing a consolidated position and accessing the financial markets through Thales parent company, which is rated by S&P Global Ratings (BBB+, stable outlook) and Moody's (A2, negative outlook).

The Group's funding agreements contain no covenants linked to changes in Thales's credit rating. A lower credit rating would result in an increase (capped) in the margins applicable to the confirmed bank credit line mentioned above; symmetrically, a higher rating would lead to a decrease in the applicable margin (with a floor).

Note 7. Income tax

The income tax expense takes into account specific local tax rules, including the tax consolidation systems in France and the United States, Group Relief in the United Kingdom, tax consolidation in USA, and *Organschaft* rules in Germany.

7.1. Income tax expense

	2021	2020
Current tax	(304.2)	(157.2)
Deferred tax	156.4	92.7
Total	**(147.8)**	**(64.5)**

Reconciliation between theoretical and actual tax expense

	2021	2020
Net income	1,134.4	491.9
Less: net income of discontinued activities	(117.6)	(42.3)
Less: share in net income of equity affiliates	(103.6)	(45.0)
Less: income tax	147.7	64.5
Net income before tax and share in net income of equity affiliates	**1,060.9**	**469.1**
Theoretical average tax rate	26.6%	27.2%
Theoretical tax benefit (expense)	**(282.2)**	**(127.7)**
Reconciliation items:		
- Impact of tax credits	70.0	65.7
- Effect of the change of law in Italy	44.0	—
- Impact of reduced tax rates	13.1	18.3
- Taxes not taken into account in the theoretical rate	(10.1)	(0.8)
- Impact of dividends paid	(8.2)	(1.2)
- Impact of tax rates changes on deferred tax	(9.2)	(23.8)
- Change in provision for deferred tax assets	12.4	(2.0)
- Adjustments in respect of prior periods	1.2	(1.4)
- Other	21.2	8.4
Income tax benefit (expense) recognised in profit and loss	**(147.8)**	**(64.5)**
Effective tax rate	**13.9%**	**13.7%**

The theoretical average tax rate corresponds to the sum of theoretical taxes of consolidated companies, divided by the consolidated net income before tax and share in net income of equity affiliates. The theoretical tax of each consolidated company corresponds to the application of the local tax rate to net income before tax. Accordingly, the theoretical average tax rate reflects the relative contribution of the different countries to the Group's consolidated net income. France, which has a tax rate of 28.41%, represented almost 65% of income before tax in 2021 (55% in 2020 with a tax rate of 32.02%).

The impact of tax credits includes:

- the impact of tax exemption on research tax credits (186.9€ million in 2021, €176.8 million in 2020);
- the tax advantages related to research that are recognised in income tax (notably in the United States, Australia and the Netherlands).

The line "effect of the change of law in Italy" corresponds to a tax measure voted in Italy allowing the revaluation of certain assets in order to amortise them for tax purposes in return for a flat tax of 3%.

"Taxes not taken into account in the theoretical rate" mainly include state taxes in the United States, the IRAP in Italy, and taxes on foreign establishments.

The impact of " tax rates changes on deferred tax " corresponds to the effect of the decrease in future tax rates in France on provisions and other temporary differences recognized during the year.

7.2. Deferred tax recognised in equity

	2021		2020	
Fully consolidated entities	***Base***	**Tax**	***Base***	**Tax**
Translation of the financial statements of foreign subsidiaries	*55.3*	—	*(99.4)*	—
Cash flow hedges	*(140.8)*	34.4	*120.4*	(38.1)
Other items reclassified to income	***(85.5)***	**34.4**	***21.0***	**(38.1)**
Actuarial gains and losses/pensions – United Kingdom	*539.3*	19.8	*(420.3)*	16.0
Actuarial gains and losses/pensions – Other countries	*89.4*	(19.9)	*(152.2)*	37.8
Other items not reclassified to income	**628.7**	**(0.1)**	***(572.5)***	**53.8**
Treasury shares and share-based payment	—	1.4	—	2.3
Total deferred tax recognised in equity during the year		**35.7**		**18.0**

7.3. Tax assets and liabilities presented on the balance sheet

	01/01/21	Income (expense)	Equity	Cash flow	Scope & exch. rates	Other	31/12/21
Current income tax assets	220.2	(40.9)	—	64.1	(28.9)	—	214.5
Current income tax liabilities	(149.3)	(263.3)	—	80.7	55.1	136.1	(140.7)
Current income tax, net	**70.9**	**(304.2)**	**—**	**144.8**	**26.2**	**136.1**	**73.8**
Deferred tax assets	958.8	(16.1)	35.7	—	(29.2)	—	949.2
Deferred tax liabilities	(657.6)	172.5	—	—	(6.3)	—	(491.4)
Deferred tax, net	**301.2**	**156.4**	**35.7**	**—**	**(35.5)**	**—**	**457.8**
Total		**(147.8)**	**35.7**	**144.8**			

	01/01/20	Income (expense)	Equity	Cash flow	Scope & exch. rates	Other	31/12/20
Current income tax assets	212.6	(21.3)	—	38.3	(9.4)	—	220.2
Current income tax liabilities	(184.5)	(135.9)	—	58.8	5.3	107.0	(149.3)
Current income tax, net	**28.1**	**(157.2)**	**—**	**97.1**	**(4.1)**	**107.0**	**70.9**
Deferred tax assets	994.1	(11.8)	18.0	—	(21.8)	(19.7)	958.8
Deferred tax liabilities	(783.3)	104.5	—	—	12.9	8.3	(657.6)
Deferred tax, net	**210.8**	**92.7**	**18.0**	**—**	**(8.9)**	**(11.4)**	**301.2**
Total		**(64.5)**	**18.0**	**97.1**			

a) Current income tax

Income tax paid is presented net of tax credits utilised. Tax credits allocated to tax payments during the current year or to tax to be paid in the coming year is presented under “Other”.

b) Deferred tax

Changes by type

	01/01/21	(Expense)/ Income for the period	Equity	Scope & exch. rates	31/12/21
Temporary differences:	**836.6**	89.1	(91.0)	41.9	**876.6**
- pensions and similar benefits	703.8	(139.4)	(125.4)	113.0	552.0
- intangible assets	(517.1)	130.9		2.3	(383.9)
- provisions on contract	271.8	(5.7)		(46.8)	219.3
- other	378.1	103.3	34.4	(26.6)	489.2
Tax loss carry-forwards	**612.8**	**54.9**		**(27.6)**	**640.1**
Total before depreciation	**1,449.4**	**144.0**	**(91.0)**	**14.3**	**1,516.7**
Depreciation	**(1,148.2)**	12.4	126.7	(49.8)	**(1,058.9)**
Total net deferred tax assets	**301.2**	**156.4**	**35.7**	**(35.5)**	**457.8**

	01/01/20	(Expense)/ Income for the period	Equity	Scope & exch. rates	31/12/20
Temporary differences:	**496.4**	(46.1)	110.0	276.3	**836.6**
- pensions and similar benefits	573.8	(16.9)	146.4	0.5	703.8
- intangible assets	(693.4)	138.7		37.6	(517.1)
- provisions on contract	264.4	(27.2)		34.6	271.8
- other	351.6	(140.7)	(36.4)	203.6	378.1
Tax loss carry-forwards	**484.6**	140.8		**(12.6)**	**612.8**
Total before depreciation	**981.0**	**94.7**	**110.0**	**263.7**	**1,449.4**
Depreciation	**(770.3)**	**(2.0)**	**(92.0)**	**(283.9)**	**(1,148.2)**
Total net deferred tax assets	**210.7**	**92.7**	**18.0**	**(20.2)**	**301.2**

Tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of €640.1million at 31 December 2021 (€612.8 million at 31 December 2020). The corresponding expiry dates are as follows:

	31/12/21
2022	5.9
2023-2026	4.0
Beyond 2026	37.8
Not time limited	592.4
Total	**640.1**
O/w, depreciated	(605.0)
Net deferred tax asset	**35.1**

	31/12/20
2021	3.4
2022-2025	5.1
Beyond 2025	59.8
Not time limited	544.5
Total	**612.8**
O/w, depreciated	(568.8)
Net deferred tax asset	**44.0**

As described in Note 13-j, only deferred tax assets related to tax losses which the Group expects to recover are recognised on the balance sheet. In particular, the Group takes into account any loss carry-forward limitations.

Note 8. Equity and earnings per share

8.1. Equity

a) Share capital

At 31 December 2021, the share capital of Thales parent company amounted to €640,233,937 and comprised 213,411,309 shares with a par value of €3, compared with 213,365,958 shares at 31 December 2020. This represents an increase of 45,351 shares resulting from the exercise of share subscription options.

b) Outstanding securities giving access to the share capital

At 31th December 2021, there were no securities that gave access to the share capital of the company with the exception of the purchase options described in Note 9.4.

c) Treasury shares

Thales parent company held 493,175 of its own shares at 31 December 2021. They were accounted for as a deduction from equity for an amount of €(37.7) million.

In accordance with the authorisations granted to the Board of Directors by the Annual General Meeting, the Company carried out the following transactions in 2020 and 2021:

	2021	2020
Treasury shares at opening	**497,596**	**560,866**
Purchases as part of a liquidity agreement	1,413,610	1,310,502
Disposals as part of a liquidity agreement	(1,494,365)	(1,285,002)
Transfer to employees as part of the employee share purchase plan	(563,536)	(42,645)
Delivery of free shares	(150,130)	(226,125)
Market purchases	790,000	180,000
Treasury shares at closing	**493,175**	**497,596**

At 31 December 2021 and 2020, as part of the liquidity agreement managed by Kepler Cheuvreux, the following numbers of shares were held in the liquidity account:

	2021	2020
Number of shares at 31 December	119,745	200,500
Value (€ million)	8,7	13

d) Translation adjustments

Translation adjustments result from the translation of financial statements of companies whose functional currency is not the euro, offset as applicable by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign operations.

Translation adjustments are recorded in equity as "other comprehensive income", and are subsequently reclassified to income on the disposal date of related investments. They break down as follows:

	2021	2020
Translation adjustments at 1 January	**(283.2)**	**(180.7)**
Changes in value	66.3	(102.7)
Reclassified to profit and loss	—	—
Gross change	66.3	(102.7)
Deferred tax	—	—
Scope and other	—	0.2
Translation adjustments at 31 December	**(216.9)**	**(283.2)**

e) Reserves for cash flow hedge

The Group uses derivatives to hedge against changes in the value of future cash flows. In the consolidated financial statements, the effective portion of changes in fair value of these derivatives is recognised directly in equity, until such time as the hedged flows affect profit and loss.

	2021	2020
Cash flow hedge at 1 January	**11.4**	**(94.1)**
Changes in value of derivatives	(79.9)	69.0
Reclassified to operating (income)/expense	(50.0)	53.1
Reclassified to income tax (benefit)/expense	13.8	(16.5)
Changes in scope and exchange rates	—	(0.1)
Cash flow hedge at 31 December	**(104.7)**	**11.4**

A negative balance at closing means that the exchange rates and interest rates of the derivative documented as hedges are generally less favorable than the rates prevailing at the closing date.

f) Parent company dividend distribution

The per share dividend amounted to €0.60 in 2019 and €1.76 in 2020.

On 2 March 2022, the Board of Directors decided to propose to shareholders, who will be convened to a General Meeting on 11 May 2022, the payment of a dividend of €2.56 per share for the year 2021.

If approved, the ex-dividend date will be 17 May 2022 and the payment date will be 19 May 2022. The dividend will be paid fully in cash and will amount to €1.96 per share, after deducting the interim dividend of €0.60 per share paid in December 2021.

Dividends paid in 2020 and 2021 are described below:

Year	Approved by	Description	Dividend per share (in euro)	Payment date	Payment method	Total (€ million)
2021	Board of Directors on 30 September 2021	2021 interim dividend	€0.60	Dec. 2021	cash	**127.4**
	General Meeting on 6 May 2021	Balance for 2020	€1.36	May 2021	cash	289.6
	Total dividends paid in 2021					**417.0**
2020	Board of Directors on 30 September 2020	2020 interim dividend	€0.40	Dec. 2020	cash	85.1
	General Meeting on 6 May 2020	Balance for 2019	--		none	
	Total dividends paid in 2020					**85.1**
2019	Board of Directors on 25 September 2019	2019 interim dividend	€0.60	Dec. 2019	cash	127.3

g) Non-controlling interests

This item principally includes Leonardo's interest in the Thales Alenia Space sub-group (33%), and Siemens's and Philips Medical Systems International's interest in Trixell SAS (49%).

The individual contributions of these minority shareholders to the Group's key financial indicators are not material.

The cash of these two companies is unrestricted and is exclusively pooled with Thales's Corporate Treasury Department.

8.2. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the *pro rata temporis* weighted average number of shares outstanding during the period, excluding treasury shares.

Diluted earnings per share take only into account instruments with a dilutive effect on earnings per share. The dilutive effect of share subscription and share purchase options, free shares and unit allotments is calculated using the treasury stock method, taking into account the average share price over the relevant period.

		2021	2020
Numerator (in € million):			
Net income, Group share	**(a)**	**1,088.8**	**483.4**
Of which: net income relating to continued operations, Group share		*971.1*	*440.6*
Denominator (in thousands):			
Average number of shares outstanding	**(b)**	**212,852**	**212,704**
Share subscription and share purchase options (a)		15	44
Free shares and units plans (b)		218	140
Diluted average number of shares outstanding	**(c)**	**213,085**	**212,888**
Net earnings per share (in euros)	**(a) / (b)**	**5.12**	**2.27**
Of which:basic earnings relating to continued operations, per share		*4.6*	*2.07*
Diluted net earnings per share (in euros)	**(a) / (c)**	**5.11**	**2.27**
Of which:diluted earnings relating to continued operations, per share		*4.6*	*2.07*
Average share price		**€81.44**	**€74.58**

(a) Only option plans with an exercise price that is lower than the average share price are taken into account in the calculation of diluted earnings per share.

(b) Performance shares/units subject to internal performance conditions are only taken into account when the performance targets are achieved.

Note 9. Employee benefits

9.1. Consolidated headcount

Consolidated headcount includes all employees of fully consolidated companies. It does not include employees of equity affiliates. At end 2021, Thales's headcount stood at 81,098 - including Transportation business (b) - compared to 80,702 at end 2020. Three-quarters of the headcount comprises employees with grades equivalent to engineer, specialist or manager.

9.2. Personnel expenses (including Transportation business)

	2021	2020
Wages and salaries and payroll taxes (a)	(7,708.1)	(7,403.9)
Share-based payments (Note 9.4)	(39.4)	(15.3)
Total	**(7,747.5)**	**(7,419.2)**

(a) These amounts include defined-contribution pension expenses, employee profit-sharing and incentive plans.

(b) The headcount associated to Transportation business still being discussed.

9.3) Provisions for pensions and other employee benefits

The Group grants to its employees post-employment benefits (pensions, end-of-career severance, medical coverage, etc.) and other long-term benefits (long-service and jubilee awards, etc.).

a) Description of the plans

The Group's existing plans are either defined-contribution plans or defined-benefit plans.

Defined-contribution plans

In certain countries, the Group pays contributions based on salaries to state organisations overseeing basic pension schemes (e.g., *Securité Sociale* or the compulsory supplementary schemes ARRCO and AGIRC in France). Beyond these basic pension schemes, Thales also contributes to other defined-contribution plans (e.g., in the Netherlands and the United Kingdom since 2002). These plans do not impose any obligations on the Group other than the payment of contributions: there is no related benefit obligation and contributions are expensed in the period they are incurred.

Defined-benefit plans

Defined-benefit plans relate to different types of benefits:

- pensions and end-of-career indemnities (legal or contractual), and other long-term benefits (jubilee awards, etc.), particularly in France. In general, these commitments are not covered by any assets;
- supplementary pension schemes, mainly in the United Kingdom, where the main scheme, "Thales UK Pension Scheme", provides a pension based on the beneficiary's average salary, indexed to inflation. This plan has been closed to new entrants since 2002, and is managed by a trust according to minimum local funding regulations.

The present value of the Group's obligations and the value of plan assets are measured independently. A provision is recognised if the value of the assets is insufficient to cover the obligations.

b) Provisions recognised on the balance sheet

	2021	2020
Provision at opening	**(3,404.4)**	**(2,945.2)**
Impact of IAS 19 interpretation (Note 1.1)	—	37.0
Provision at opening corrected	**(3,404.4)**	**(2,908.2)**
Less: provision at opening relating to discontinued activities	**345.6**	**269.5**
Current service cost (income from operations)	**(133.0)**	**(123.0)**
Amendments and settlements (non recurring operating income)	**4.3**	**(0.4)**
Net interest cost	(24.5)	(31.7)
Pension fund management cost	(5.7)	(5.4)
Actuarial gains and losses on other long-term employee benefits	8.3	(4.4)
Finance costs on pensions and other long-term employee benefits	**(21.9)**	**(41.5)**
Total expense for the period	**(150.6)**	**(164.9)**
Actuarial gains and losses (other comprehensive income) (a)	**628.7**	**(572.5)**
Benefits and contributions	**210.3**	**249.0**
- Of which, deficit payment in the United Kingdom	98.7	94.6
- Of which, other benefits and contributions	111.6	154.4
Translation adjustment	**(84.5)**	**62.4**
Changes in scope of consolidation and other	**7.6**	**5.9**
Reclassification relating to discontinued activities (b)	**—**	**(345.6)**
Provision at closing	**(2,447.3)**	**(3,404.4)**
Of which:		
post-employment benefits	(2,206.3)	(3,139.1)
other long-term benefits	(241.0)	(265.3)

(a) Mainly due to the change in actuarial rates, especially in United Kingdom.
(b) IFRS 5 accounting principles requiring not to restate balance sheet at 31.12.20.

c) Changes in defined benefit obligations and plans assets

2021	UK	France	Other	Total
Obligation at 1 January	**(5,114.5)**	**(1,511.4)**	**(831.6)**	**(7,457.5)**
Less: obligation relating to discontinued activities	529.3	27.9	246.2	**803.4**
Current service cost	(24.6)	(89.6)	(18.8)	**(133.0)**
Interest cost	(62.4)	(5.0)	(3.2)	**(70.6)**
Plan participant contributions	(7.6)	—	(1.3)	**(8.9)**
Amendments/settlements	—	(0.7)	5.0	**4.3**
Experience gains (losses)	67.3	(9.6)	6.3	**64.0**
Actuarial gains (losses)/financial assumptions	174.4	71.9	5.6	**251.9**
Actuarial gains (losses)/mortality assumptions	120.1	0.1	6.1	**126.3**
Actuarial gains (losses) on long-term benefits	—	4.3	4.0	**8.3**
Benefits paid by plan assets	161.9	2.9	17.5	**182.3**
Benefits paid by employer	0.7	110.0	22.4	**133.1**
Changes in scope, exchange rates and other	(309.9)	5.1	(10.4)	**(315.2)**
Obligation at 31 December	**(4,465.3)**	**(1,394.1)**	**(552.2)**	**(6,411.6)**
Plan assets at 1 January	**3,612.2**	**155.1**	**285.8**	**4,053.1**
Less: plan assets relating to discontinued activities	(359.6)	(1.6)	(96.6)	**(457.8)**
Expected return on plan assets	44.5	0.5	1.1	**46.1**
Employer's contribution	114.8	(42.7)	5.1	**77.2**
Plan participant contributions	7.6	—	1.3	**8.9**
Amendments/settlements	—	—	—	**—**
Benefits paid by plans assets	(161.9)	(2.9)	(17.5)	**(182.3)**
Experience gains (losses)	177.5	0.6	8.4	**186.5**
Changes in scope, exchange rates and other	225.0	0.2	7.4	**232.6**
Plan assets at 31 December	**3,660.1**	**109.2**	**195.0**	**3,964.3**
Provisions at 31 December	**(805.2)**	**(1,284.9)**	**(357.2)**	**(2,447.3)**

2020	UK	France	Other	Total
Obligation at 1 January	**(4,811.1)**	**(1,422.5)**	**(816.0)**	**(7,049.6)**
IAS 19 interpretation impact (note 1.1)	—	37.0	—	**37.0**
Current service cost	(21.0)	(81.1)	(20.9)	**(123.0)**
Interest cost	(81.6)	(10.2)	(5.6)	**(97.4)**
Plan participant contributions	(8.0)	—	—	**(8.0)**
Amendments/settlements	(3.0)	3.2	(0.6)	**(0.4)**
Experience gains (losses)	3.2	(45.8)	(11.9)	**(54.5)**
Actuarial gains (losses)/financial assumptions	(527.8)	(94.3)	(7.6)	**(629.7)**
Actuarial gains (losses)/demographic assumptions	(0.2)	(0.1)	(0.9)	**(1.2)**
Actuarial gains (losses) on long-term benefits	—	(1.7)	(2.7)	**(4.4)**
Benefits paid by plan assets	156.9	2.8	11.4	**171.1**
Benefits paid by employer	0.7	102.5	26.3	**129.5**
Changes in scope, exchange rates and other	177.4	(1.2)	(3.1)	**173.1**
Obligation at 31 December	**(5,114.5)**	**(1,511.4)**	**(831.6)**	**(7,457.5)**
Plan assets at 1 January	**3,669.3**	**157.4**	**277.7**	**4,104.4**
Expected return on plan assets	63.0	0.9	1.8	**65.7**
Employer's contribution	111.8	0.4	7.3	**119.5**
Plan participant contributions	8.0	—	—	**8.0**
Amendments/settlements	—	—	—	**—**
Benefits paid by plans assets	(156.9)	(2.8)	(11.4)	**(171.1)**
Experience gains (losses)	104.5	(0.8)	9.2	**112.9**
Changes in scope, exchange rates and other	(187.5)		1.2	**(186.3)**
Plan assets at 31 December	**3,612.2**	**155.1**	**285.8**	**4,053.1**
Provisions at 31 December	**(1,502.3)**	**(1,356.3)**	**(545.8)**	**(3,404.4)**

d) Actuarial assumptions used

The actuarial assumptions used are determined according to the economic environment and specific criteria of each country and each system. The most sensitive assumptions are as follows:

2021	UK	France
Inflation rate	3.42 %	1.50 %
Discount rate	1.82 %	0.91 %
Average duration of the plans (years)	17	12

2020	UK	France
Inflation rate	2.94 %	1.00 %
Discount rate	1.34 %	0.35 %
Average duration of the plans (years)	17	10

For each country, the discount rates are obtained by reference to the Iboxx Corporate AA index, which reflects the rate of return of very high-quality corporate bonds, with maturity dates equivalent to the duration of the plans being measured, and in the same currency.

At 31 December 2021, the sensitivity of the net obligation to a change in the discount rate is as follows:

Sensitivity in basis points	+25	+50	+100	-25	-50	-100
Decrease (increase) in provision (in € millions)	271.3	492.3	898.9	(209.8)	(471.8)	(1,044.1)

In the United Kingdom, a 25 basis-point increase in the inflation rate would lead to a €132.6 million increase in the obligation. Conversely, a 25 basis-point decrease in the inflation rate would lead to a €99.8 million decrease in the obligation.

e) Allocation and return on plan assets

Plan assets generated an actual average return of 5.8% in 2021, compared to 5.1% in 2020. At 31 December 2021, the allocation of assets, mainly invested in the United Kingdom, breaks down as follows:

	2021	2020
Fixed-rate bonds	22%	24%
Index-linked bonds	17%	13%
Equities	28%	27%
Alternative placement	33%	36%
Total	**100%**	**100%**

f) Funding

Thales is subject to funding obligations in respect of its defined-benefit pension commitments in the United Kingdom.

In accordance with the regulations in force, the level of funding for its pension obligation is re-measured every three years, further to which the suitability of a new funding plan and/or the implementation of guarantees for the plan is decided in consultation with the trustees.

The latest measurement, based on the situation at end 2017, led from 2019, to an annual contribution of £75 million for the main Thales UK Pension scheme (£5 million for other schemes) to reduce the funding shortfall. A new assessment is currently being carried out based on the situation at the end of 2020.

In support of the contributions made by Thales UK Ltd to the British pension plans, Thales parent company has also guaranteed the future liabilities linked to the funding plans for the subsidiaries concerned. At 31 December 2021, the balance of these guarantees was £900 million.

9.4. Share-based payment

At 31 December 2021, the following options, shares and units were outstanding:

- 1,034,399 free shares;
- 500,619 phantom shares, payable in cash at the end of a four-year vesting period.

All of these plans are submitted to internal performance conditions over the three financing years following their grant date. The features of these plans are described in chapter 6.2 of the 2021 Registration Document.

a) Outstanding share subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/20 *	Options exercised in 2021	Options cancelled in 2021	Number of options outstanding at 31/12/21
15/09/2011	15/09/2015 to 14/09/2021	26.34€	45,351	(45,351)	—	—

* after adjustment

b) Allotment of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/20 *	Shares allotted in 2021	Shares cancelled in 2021	Shares issued in 2021	Number of free shares at 31/12/21
01/07/2021	01/07/2021 to 01/07/2025	86.04€	—	303,360	(1,410)	—	301,950
24/11/2020	24/11/2020 to 24/11/2024	79.60€	375,235	—	(3,185)	—	372,050
25/09/2019	25/09/2019 to 25/09/2023	104.50€	239,693	—	(7,736)	(121)	231,836
27/09/2018	27/09/2018 to 27/09/2022	121.75€	132,510	—	(3,653)	(294)	128,563
28/09/2017	28/09/2017 to 28/09/2021	94.66€	153,028	—	(2,218)	(150,810)	—
							1,034,399

* after adjustment

c) Allotment of phantom shares indexed to the value of Thales shares

Date of Board decision	Vesting period	Number of phantom shares at 31/12/20 *	Phantom shares issued in 2021	Phantom shares cancelled in 2021	Phantom shares delivered in 2021	Number of phantom shares at 31/12/21
01/07/2021	01/07/2021 to 01/07/2025	—	103,880	(2,920)	—	100,960
24/11/2020	24/11/2020 to 24/11/2024	224,160	—	(7,890)	(750)	215,520
25/09/2019	25/09/2019 to 25/09/2023	154,575	—	(10,884)	(855)	142,836
27/09/2018	27/09/2018 to 27/09/2022	45,062	—	(3,252)	(507)	41,303
28/09/2017	28/09/2017 to 28/09/2021	46,961	—	(19)	(46,942)	—
						500,619

* after adjustment

d) Expenses related to share-based payments

Following the decision of the Board of Directors on 24 November 2020, the Group implemented a Thales share purchase plan reserved to its employees with a discount compared to the average market price plus an employer contribution.

The subscription price of €66.46, set on 28 October 2021, corresponds to the average of the opening price of Thales shares on Euronext Paris from 30 September to 27 October 2021, discounted by 20%. The employees also received an employer contribution corresponding to one free share for four acquired shares, within the limit of 10 bonus shares.

This plan is part of the Group savings plan, subject to a five-year lockup period of the investment, except for the United Kingdom where the share offering is implemented in accordance with the Share Incentive Plan ("SIP").

Thus, in 2021, 454,953 shares were subscribed by employees at the subscription price of €66.46 and 108,583 bonus shares were received. The delivery of shares to UK based employees has been finalised in early 2022.

In the consolidated financial statements, the cost of this plan is €6.7 million, before social contributions.

e) Expenses related to share-based payments

In the consolidated financial statements, the benefit granted to beneficiaries of the above-mentioned plans is recognised as an operating expense. These amounts are presented below:

Plans	Residual fair value at the end of 2021	2021 expense	2020 expense
Free shares	47.4	(18.3)	(13.4)
Phantom shares and other schemes (a)	21.8	(8.4)	(1.3)
Employee share purchase plan	—	(6.7)	—
Social contributions related to the plans	11.3	(6.0)	(0.6)
Total	**80.5**	**(39.4)**	**(15.3)**
Of which, offsetting entries:			
Shareholders' equity		25.0	13.4
Debt		14.4	1.9

(a) This line includes the expense relating to the long-term incentive plan (LTIP) of the Chairman and CEO the conditions of which are described in the concerned years Registration our Universal Registration documents.

The 2020 expense includes the impact of the cancellation of certain instruments on the 2017, 2018 and 2019 plans, following the non-achievement of the performance conditions.

9.5. Compensation of Directors and senior corporate officers

Expenses recognised in respect of compensation, benefits and social security contributions attributed to Directors and members of the Executive Committee are as follows:

	2021	2020
Short-term benefits:		
- Fixed compensation	6.8	6.7
- Variable compensation	8.5	3.3
- Severance payment	0.7	2.4
- Employer social security contributions	5.5	4.0
- Board attendance fees	0.6	0.6
Other benefits (including social contributions):		
- Post-employment benefits	3.2	3.8
- Share-based payments	4.0	1.5

At 31 December 2021, the share of directors in net Group pension obligations (Note 9.3) amounted to €17.2 million.

Note 10. Current operating assets and liabilities

Current operating assets and liabilities include working capital (WCR) components and reserves for contingencies, as defined in Note 13-d.

The changes in these items are presented below:

Change for the period	01/01/20	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/20	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/21
Inventories, work in progress and set-up costs	3,731.3	(129.9)	(92.9)	3,508.5	(65.8)	(106.7)	3,336.0
Contract assets	3,088.9	(69.5)	(84.2)	2,935.2	(42.6)	(415.0)	2,477.6
Advance to suppliers	549.5	(96.5)	(19.1)	433.9	(9.4)	(13.5)	411.0
Accounts, notes and other receivables	5,239.5	(113.1)	(88.1)	5,038.3	1,100.2	(695.6)	5,442.9
Current derivatives - assets	109.6	162.0	(17.4)	254.2	(248.3)	93.8	99.7
Contract liabilities	(6,414.9)	(195.9)	157.3	(6,453.5)	(1,174.5)	559.5	(7,068.5)
Reserves for contingencies	(1,960.0)	82.6	(174.8)	(2,052.2)	82.4	198.0	(1,771.8)
Accounts, notes and other payables	(6,813.7)	788.2	27.5	(5,998.0)	(364.0)	295.4	(6,066.6)
Current derivatives - liabilities	(150.5)	—	16.5	(134.0)	—	(100.1)	(234.1)
WCR and reserves, net	**(2,620.3)**	**427.9**	**(275.2)**	**(2,467.6)**	**(722.0)**	**(184.2)**	**(3,373.8)**
Restructuring provisions		58.7			(54.1)		
Increase (decrease) in WCR and reserves		**486.6**			**(776.1)**		

10.1. Inventories, work in progress, and set-up costs

	31/12/21	31/12/20
Goods	66.9	105.4
Raw materials	977.2	1,018.2
Semi-finished and finished goods	1,835.0	1,876.4
Work in progress	964.3	1,079.0
Gross value	3,843.4	4,079.0
Depreciation	(754.9)	(745.0)
Inventories and work in progress, net	**3,088.5**	**3,334.0**
Gross	905.1	757.3
Depreciation	(657.6)	(582.8)
Set-up costs, net	**247.5**	**174.5**
Total	**3,336.0**	**3,508.5**

10.2. Contract assets and liabilities

	31/12/21	31/12/20
Unbilled receivables, gross	9,363.6	11,176.6
Unbilled receivables, depreciation	(7.5)	(16.9)
Advances received from customers	(6,878.5)	(8,224.5)
Contract assets	**2,477.6**	**2,935.2**
Advances received from customers	(10,857.9)	(9,929.1)
Unbilled receivables	6,256.6	5,331.3
Deferred income	(2,467.2)	(1,855.7)
Contract liabilities	**(7,068.5)**	**(6,453.5)**

For a given contract, a contract asset (liability) represents the accumulated revenue not yet invoiced, less advances received from customers. This amount increases as and when revenue is recognised, and decreases when invoices are issued to the customers or advance payments are received.

10.3. Reserves for contingencies

	01/01/21	Utilisation	Additions	Reversal	Exch. Rate	31/12/21
Restructuring	162.3	(61.1)	45.3	(38.3)	(7.7)	100.5
Technical and other litigation	373.8	(61.2)	86.1	(31.7)	(13.0)	354.0
Guarantees	351.5	(87.9)	88.3	(21.3)	(63.4)	267.2
Losses at completion	547.4	(88.2)	88.2	(37.8)	(66.4)	443.2
Provisions on contracts	392.1	(41.0)	71.5	(19.3)	(16.2)	387.1
Other (a)	225.1	(63.0)	109.8	(20.8)	(31.3)	219.8
Total	**2,052.2**	**(402.4)**	**489.2**	**(169.2)**	**(198.0)**	**1,771.8**

	01/01/20	Utilisation	Additions	Reversal	Exch. Rate	31/12/20
Restructuring	100.7	(27.9)	93.4	(6.8)	2.9	162.3
Technical and other litigation	212.0	(50.6)	39.4	(12.3)	185.3	373.8
Guarantees	370.4	(81.5)	85.8	(21.4)	(1.8)	351.5
Losses at completion	658.2	(179.5)	94.0	(7.3)	(18.0)	547.4
Provisions on contracts	397.7	(60.4)	84.5	(26.0)	(3.7)	392.1
Other (a)	221.0	(48.5)	53.7	(11.2)	10.1	225.1
Total	**1,960.0**	**(448.4)**	**450.8**	**(85.0)**	**174.8**	**2,052.2**

(a) This line includes technical provisions of insurance companies, provisions for labour-related risks, vendor warranties, environmental guarantees and other.

The breakdown of restructuring costs is as follows:

	2021	2020
Additions for the period	(45.3)	(93.4)
Utilisation for the period	61.1	27.9
Reversals for the period	38.3	6.8
Net	**54.1**	**(58.7)**
Expenses for the period	(145.9)	(106.4)
Restructuring costs	**(91.8)**	**(165.1)**

10.4. Maturity of current receivables and payables

The amounts presented in the balance sheet for this item break down as follows:

	31/12/21			31/12/20
	Total	< 1 year	> 1 year	Total
Accounts and accrued receivables gross	3,659.7	3,517.6	142.1	3,439.1
Accounts and accrued receivables depreciation	(130.7)	(83.6)	(47.1)	(153.7)
Accounts and accrued receivables, net	**3,529.0**	**3,434.0**	**95.0**	**3,285.4**
Tax receivables (excluding income tax)	1,292.6	1,109.5	183.1	1,167.9
Other receivables, gross	623.6	531.9	91.7	594.6
Other receivables, depreciation	(2.3)	(2.3)	—	(9.6)
Other receivables, net	**1,913.9**	**1,639.1**	**274.8**	**1,752.9**
Account, notes and other receivables	**5,442.9**	**5,073.1**	**369.8**	**5,038.3**
Accounts and notes payable	2,069.2	2,055.0	14.2	2,215.1
Accrued holiday pay and payroll taxes	2,023.7	1,966.3	57.4	1,810.9
Tax payables (excluding income tax)	1,239.6	1,239.6	—	1,211.9
Other creditors and accrued liabilities	734.1	594.4	139.7	760.1
Accounts notes and other payables	**6,066.6**	**5,855.3**	**211.3**	**5,998.0**

The changes in provisions on accounts and notes receivable break down as follows:

	01/01/21	Additions / reversal	Exchange rate and scope	Assets held for sale	31/12/21
Provisions on accounts and notes receivable	(153.7)	3.3	9.1	10.6	**(130.7)**

The Group may assign trade receivables, mainly from the French State, and commercial paper. At 31 December 2021, outstanding derecognised receivables amounted to € 336.4 million (€294.1 million at 31 December 2020).

Since these assignments are without recourse in case of debtor default, the receivables in question are subject to “de-recognition” of the asset.

10.5. Commitments linked to commercial contracts

The Group’s contractual commitments towards its counterparties (mainly its customers) can be subject to three types of guarantees or warranties:

a) Bank guarantees

- **Bid bonds:** In the ordinary course of its activities, the Group regularly responds to invitations to tender. When requested by the customer, bid bonds are delivered in order to demonstrate the definitive nature of the bid and to indemnify the customer if the Group fails to meet its commitments. At 31 December 2021, bid bonds issued amounted to €21.2 million (€24.5 million at 31 December 2020).
- **Performance bonds:** From the signature of a contract up until its completion, the Group may also issue performance bonds for its customers, with a bank acting as an intermediary, in order to cover the payment of damages to the customer in the event that the Group does not meet its contractual commitments. At 31 December 2021, performance bonds amounted to €1,335.2 million (€1,926.5 million at 31 December 2020). Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued on a contract-by-contract basis, and are included in the cost to completion of the contract. Where this is not the case, a provision is set aside in the consolidated financial statements for any potential risk, estimated on a contract-by-contract basis.
- **Advance payment bonds:** In order to finance contract execution, the Group may receive advance payments from its customers, in accordance with contractual terms, which are recognised in liabilities in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer’s request, an advance payment bond. At 31 December 2021, advance payment bonds amounted to €2,004.1million (€2,310.2 million at 31 December 2020).
- **Warranty retention bonds:** The Group evaluates and sets aside provisions for warranty costs in order to guarantee the conformity of goods sold to the customer during the contractual warranty period. In many cases, the provisional withholding of payment contractually applying during this period can be replaced by a warranty retention bond using a bank as intermediary. At 31 December 2021, warranty retention bonds amount to €77.6 million (€217.1 million at 31 December 2020).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	31/12/21	31/12/20
Bid bonds	17.5	2.2	1.5	21.2	24.5
Performance bonds	406.2	633.3	295.7	1,335.2	1,926.5
Advance payment bonds	903.0	717.8	383.3	2,004.1	2,310.2
Warranty retention bonds	9.6	33.2	34.8	77.6	217.1
Other bank bonds	104.3	102.0	21.8	228.1	331.8
Total	**1,440.6**	**1,488.5**	**737.1**	**3,666.2**	**4,810.1**

Moreover, in connection with the development of its activities related to in-flight broadband on passenger aircraft, Thales entered into a strategic agreement with SES from 2016 to 2028 (with possible extension until 2033) for an annual programm to purchase bandwidth for a predefined amount. To date, this commitment is considered to be covered on the basis of a number of aircraft to be equipped, 25% of which have already been contractually notified.

b) Parent company guarantees

Parent company guarantees are issued by Thales parent company and are intended to guarantee the obligations of its subsidiaries mainly to their customers under commercial contracts.

Parent company guarantees may also be issued to financial institutions, in order to improve the conditions of supports they grant to some subsidiaries.

At December 2021, the notional maximum amount of these guarantees was € 15,014.9 million (€14,148.9 million at 31 December 2020).

c) Offsetting commitments

The awarding of major contracts, particularly within the defence sector, may be subject to legal or regulatory offsetting of the execution of local obligations, which can take the form of direct offsetting, semi-direct offsetting or indirect offsetting.

The associated risks are described in section 3.1.3.a of the 2021 Universal Registration Document.

Note 11. Litigation

At the date of publication, there are no government, judicial or arbitration claims of which the Group is aware, which are pending or threatened and which could have or have had, any significant effect on the financial position or profitability of the Company and/or the Group in the last 12 months.

Note 12. Subsequent events

Following the invasion of Ukraine by Russia, Thales has started to identify the operational and financial consequences of this crisis. At this point, the impact of this crisis on 2022 sales to these two countries is estimated at around €100 million. The other possible impacts, in particular on Thales Alenia Space's supply chain, are currently being assessed.

Note 13. Accounting policies

a) Presentation of the financial statements

Consolidated profit and loss account

Expenses in the income statement are presented analytically by purpose.

Income from operations is equal to income of operating activities before taking into account:

- gains and losses on disposals of property, plant and equipment and intangible assets, businesses or investments;
- the impact of changes in scope on consolidated net income before tax (Note 13-b);
- the impact of the amendment, curtailment or settlement of pension plans and other long-term benefits;
- the impairment of non-current assets;
- other operating items resulting from unusual events, with a material impact on the financial statements.

Consolidated balance sheet

A significant portion of the Group's activities in its different business segments have long-term operating cycles. Accordingly, assets (liabilities) that are usually realised (settled) within the entities' operating cycles (inventory, accounts receivable and payable, advance payments, reserves, etc.) are classified in the consolidated balance sheet as current assets and liabilities, with no distinction between the amounts due within one year and those due after one year.

Consolidated statement of cash flows

The statement of cash flows provides an analysis of the change in cash and cash equivalents, as presented in the balance sheet and defined in Note 13-i. The statement of cash flows is prepared using the indirect method based on consolidated net income and is broken down into three categories:

- net cash flow from operating activities, including interest. Income tax payments are included in this caption, except when directly associated to investing or financing activities;
- net cash flow used in investing activities, including net operating investments (acquisition and disposal of property, plant and equipment and intangible assets, capitalisation of development costs) and net financial investments;
- net cash flow used in financing activities including dividends paid, capital subscriptions (exercise of options by employees), the purchase/sale of treasury shares, the issuance and repayment of debt, and changes in bank overdrafts, etc.

The Group also discloses the changes in its **net cash**, which is a non-GAAP measure. It includes financial debt, net of cash and cash equivalents and liquid investments. Changes in net cash, presented in Note 6.3, notably reflect **free operating cash flow**, defined as net cash flow from operating activities less net operating investments, plus the deficit payment linked to UK pension plans.

Adjusted net income

In order to monitor and compare its operating and financial performances, the Group presents the following key indicators:

EBIT, corresponding to income from operations plus the share in net income of equity affiliates. This total is then adjusted for entries directly related to business combinations (amortisation of assets recognized in the context of purchase price allocation and other acquisition-related expenses).

Adjusted net income, the calculation of which is presented in the Group's management report. It corresponds to consolidated net income attributable to shareholders of the parent company, less the following items, net of the corresponding tax impacts:

- amortisation of assets valued when determining the purchase price allocation (business combinations);
- other expenses directly related to these business combinations;
- impairment of non-current assets;
- gains and losses on disposal of assets, changes in scope of consolidation and others;
- changes in the fair value of derivative instruments, recognised in "Other financial income and expenses";
- actuarial gains and losses on long-term employee benefits, included in "Finance costs on pensions and other employee benefits".

Adjusted net income per share corresponds to the adjusted net income attributable to shareholders of the parent company, divided by the average number of shares outstanding during the period concerned.

Off-balance sheet commitments

Disclosures regarding off-balance sheet commitments are presented in the following notes:

- Note 9.3-f: funding obligations in respect of pensions;
- Note 10.5: commercial contract commitments.

Related parties

The Group has identified the following related parties: shareholders of Thales SA (parent company), notably the French State and Dassault Aviation, companies controlled by these shareholders, companies under joint control or significant influence, Directors and Senior Corporate Officers.

Section 6.2.3.3 of the 2021 Universal Registration Document describes the main provisions concerning the shareholders' agreement governing relations between the French State ("Public Sector") and Dassault Aviation ("Industrial Partner") within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

Information related to transactions with related parties is presented in the following notes:

- sales with the French State (mainly with the *Direction Générale de l'Armement*, the French defence procurement agency) in Note 6.6-b;
- transactions with equity affiliates in Note 5.3.

Transactions with other related parties are not material.

Expenses recognised in respect of compensation, benefits and social security contributions attributable to Directors and members of the Executive Committee are presented in Note 9.5.

b) Scope of consolidation and changes in scope

Scope of consolidation

The financial statements of material subsidiaries directly or indirectly controlled by Thales are fully consolidated. The financial statements of material subsidiaries jointly controlled by Thales (joint ventures) or in which the Group has significant influence (associates) are accounted for under the equity method.

The main consolidated companies are listed in Note 15.

The full list of affiliates outside of France is available on the Group's website (https://www.thalesgroup.com/en/global/corporate-responsibility/corporate-social-responsibility).

Business combinations

Business combinations are accounted for under the acquisition method as described in IFRS 3. Under this method, the Group recognises identifiable assets acquired and liabilities assumed at fair value on their acquisition date. It also recognises non-controlling interests in an acquiree on their acquisition date.

Non-controlling interests are measured either at fair value or proportionate to the share of the identifiable net assets. This is determined on a case-by-case by the Group depending on the option it applies.

Acquisition-related costs (valuation fees, consulting fees, etc.) are recognised under "other operating expenses" as incurred.

Negative goodwill is immediately recognised in "other operating income". Positive goodwill related to controlled companies is recognised in balance sheet assets under intangible assets. Positive goodwill related to equity affiliates is recognised under "investments in joint venture/associates".

Goodwill is not amortised but is subject to impairment tests each year. Goodwill impairment is booked as an expense under "impairment" and may not be reversed. Goodwill impairment related to equity affiliates is recognised in "share in net income of equity affiliates" and may be reversed.

c) Revenue

The Group's principles of revenue recognition are the following:

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining building of assets, followed by operation and maintenance). In such situations, the contract must be segmented into several components ("*performance obligations*"), each component being accounted for separately, with its own revenue recognition method and margin rate.

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately from the initial contract.

Evaluation of revenue allocated to performance obligations

Variable considerations included in the selling price are taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Penalties for late delivery or for the improper execution of a performance obligation are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when parties have agreed to set up a financing to the advantage of one of them, through contractual terms.

Revenue includes income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e., when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and recognise revenue over time, the following cumulative criteria are required:

- the goods sold have no alternative use; and
- the Group has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than Thales' failure to perform as promised.

These criteria are fulfilled by the vast majority of Group contracts that include the design and delivery of complex goods.

Revenue from the sale of goods with an alternative use, and/or for which the Group has no enforceable right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment (mainly in civil avionics) and spare parts.

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by Thales.

Percentage of completion method

The percentage of completion method generally used by the Group is expense-based: revenue is recognised based on costs incurred to date in relation to all the costs expected upon completion.

Margin recognition

Expected losses on contracts are fully recognised as soon as they are identified, pursuant to the provisions of IAS 37 on onerous contracts.

Order book

Order book (as disclosed in Note 2.3) corresponds to the amounts of the selling price allocated to the performance obligations not yet unsatisfied (or partially unsatisfied) at the closing date.

d) Operating assets and liabilities

Inventories and work in progress

Inventories and work in progress are carried at their production cost (determined using the FIFO or weighted-average cost method) and written down when their net sale value becomes lower than the production cost. Work in progress, semi-finished and finished goods are stated at direct cost of raw materials, production labour and subcontractor costs incurred during production, plus an appropriate portion of production overhead and any other costs that can be directly allocated to contracts.

When material, the cost of debt incurred during the construction period of a qualifying asset is incorporated in the value of this asset. If the funding is specific, the loan interest rate is used, otherwise the Group's financing rate is used.

Set-up costs

These costs cover preparatory work, not directly financed by the customer but necessary for the execution of the contract. They do not participate to the determination of the percentage of completion of the contract. They are capitalised and amortised as and when the revenue is recognised.

Contract assets and liabilities

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the balance sheet) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under "contract assets" in the balance sheet. If it is negative, the balance is recognised under "contract liabilities".

Customer receivables

A receivable is an unconditional right to payment by the customer.

Impairment losses are accounted for, based on a prospective assessment of the credit risk on the initiation of the receivable, and its deterioration over time. The changes in impairment are presented in Note 10.4.

The Group is authorised to assign trade receivables, mainly from the French State, and commercial paper. As these assignments, which are without recourse in case of default by the debtor, involve the transfer of substantially all corresponding risks and rewards (Thales holding the dilution risk), they are "derecognised." Thales' continued involvement (as this is defined by IFRS 7) in the transferred receivables corresponds to the keeping of the recovery mandate.

e) Research and development expenses

A significant share of research and development expenses is funded by customers and government agencies. Internally funded research and development expenses are charged to the profit and loss account as incurred, except for project development costs which meet the criteria of capitalization below:

- the product or process is clearly defined, and costs are separately identified and reliably measured;
- the technical feasibility of the product or project is clearly demonstrated, and the Group's experience in this area is established;
- adequate resources are available to complete the project successfully;
- a potential market for the products exists or their usefulness, in case of internal use, is demonstrated;
- the company intends to produce and market, or use the new product or process, and can demonstrate its profitability. Profitability is assessed on the basis of prudent commercial assumptions in order to reflect contingencies inherent to the long cycles of the Group's activities, in particular Aerospace. Minimum internal rates of return are required in the case of projects deemed risky.

Capitalised development costs mainly relate to the Group's Aerospace and Security activities, for which the developed products are relatively generic and can be sold to a large number of potential customers. By contrast, development costs linked to Defence activities are for more specific and restricted markets with a limited number of players: the specific features of the products developed make it harder to share development work and therefore harder to capitalise the associated costs.

Development costs are then amortised over the useful life of the product. The method of amortisation is generally determined by reference to expected future quantities over the period in which future economic benefits will be earned. If the method cannot be determined reliably, straight-line amortisation is adopted. The period of amortisation depends on the type of activity.

Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in Note 4.1. These impairment losses can be reversed. Impairment loss reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group receives tax credits related to research carried out by its subsidiaries. These tax credits are considered as operating grants and are therefore included in income from operations, when their award is not dependent on the generation of taxable income. Otherwise, they are recognised as a deduction from income tax expense.

f) Restructuring costs

Provisions for restructuring costs are accounted for when restructuring programmes have been agreed and approved by a competent body and have been announced before the balance sheet date, resulting in an obligating event of the Group to the third parties in question, as long as the Group does not expect compensation for these costs.

These costs primarily relate to severance payments, costs for notice periods not worked and other costs linked to the closure of facilities such as write-offs of fixed assets. These costs and the costs directly linked to restructuring measures (removal costs, training costs of transferred employees, etc.) are recognised under "restructuring costs" in the profit and loss account.

g) Property, plant and equipment and intangible assets

Intangible assets

The Group's intangible assets mainly include:

- goodwill (Note 13-b);
- assets acquired in business combinations, primarily acquired technologies, customer relationships and the order book. These assets are recognised at fair value and amortised over their useful lives. The fair value of the assets is based on the market value. If no active market exists, the Group uses methods based on forecasts of the present value of the expected future operating cash flows (excess earnings method, royalty method, etc.);
- capitalised development costs (Note 13-e).

Intangible assets are submitted to impairment tests.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of any accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment is generally calculated on the basis of the following typical useful lives:

- 20 years for buildings;
- 1 to 10 years for technical facilities and industrial equipment and tooling;
- 5 to 10 years for other property, plant and equipment (vehicles, fixtures, etc.).

The depreciable amount takes into account the residual value of the asset. The various components of property, plant and equipment are recognised separately when their estimated useful lives or patterns of use, and thus the period over which they are depreciated or the depreciation methods applicable to them, are materially different.

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset.

h) Leases

Contracts defined as a lease according to IFRS 16 (that is to say contracts which give the lessee a right to control the use of an identified asset for a period of time in exchange for consideration) are accounted for in the balance sheet, with the exception of low value assets and contracts with a duration below 12 months (by simplification, as allowed by the standard). In the Group's financial statements, lease contracts accounted for in the balance sheet are mainly real estate contracts (offices and production sites) and, in a lesser extent, service vehicles and few IT equipment.

Leases are accrued on the balance sheet at the date when the underlying asset is made available to the lessee. The lease liability is accrued against a right to use the rent asset, and is equal to the committed future lease payments discounted over the duration of the lease, as well as the exercise price of the options when it is reasonably certain that they will be exercised. The right-of-use asset is adjusted, if applicable, by the payments made in advance to the lessor, the initial direct costs incurred net of the incentives received by the lessor, and dismantling costs when an obligation is identified.

In the case of real estate contracts, the initial lease term retained for the lease liability calculation corresponds to the contractual term which is usually non-cancellable, the Group accepting most of the time to renounce to early termination options in order to benefit from favorable economic conditions. For these contracts, renewal options are generally not taken into account as the contractual terms are long and the date of exercise of these options is too far for the Group to be able to judge their exercice reasonnably certain.

The Group may reassess this duration in the course of a contract duration in the case where a significant event would occur, such as a reorganization plan or expensive leasehold improvements. In such situations, the

Group pays attention to the consistency between the amortisation duration of the leasehold improvements and the term retained for the calculation of the lease liability.

Besides, when the end date of a contract is close, and in the absence of a moving project, the lease term is re-estimated in order to reflect the Group's intention to renew the contract. In such a situation, as for open-end contracts (but cancellable anytime with termination notice by the lessee or the lessor) or for short-term contracts renewable without limitation by tacit agreement, the end date of the contract is estimated taken into account the legal and contractual applicable conditions, but also the particular context of each contract (fluidity of the local real estate market, relations with the lessor,…) and economic conditions surrounding the lease (appreciation of the economic loss which represents, for the Group, to abandon the improvements or constructions made on the leased asset, …). This methodology is consistent with the IFRIC's position taken on November 2019.

For other natures of lease, there is usually no early termination or extension options, the lease term retained therefore corresponds to the non-cancellable period.

Future lease payments are discounted using the incremental borrowing rate of the lessee. The latest is calculated taking into account the financing arrangements of the Group, that is to say it is based on both the risk-free rate of the lessee and the margin applicable to Thales SA for financing of maturity corresponding to the duration of the commitment.

The right-of-use asset is presented within the tangible assets (Note 4.2). It is amortised on a straight-line basis over the useful life of the underlying asset. The amortisation charge for the right of use is included in EBIT.

The lease liability is presented in the balance-sheet within the financial debt (Note 6.2). The interest charge is presented in the profit and loss account within the net interest income (Note 6.1).

Within the statement of cash flows:

- the interests paid are included within the net cash flow from operating activities;
- the reimbursement of the debt ("capital" portion of the rent paid) is presented in the financing cash flow on the line "repayment of debt". Thus, it is not included in the cash flow from operating activities;
- new lease liabilities have no effect on the cash flow statement insofar as they are balanced with a right of use recognized in the assets of the balance sheet.

i) Financial assets, financial liabilities and derivatives

Financial assets

IFRS 9 introduces a single approach to classification and measurement of financial assets, based on the characteristics of the financial instruments and on the Group's management intention. Thus:

- financial assets with expected cash-flows that solely correspond to principal and interest payments are measured at amortised costs if managed only to collect these flows;
- in other cases, financial assets are measured at fair value through the income statement, except for equity investments not held for trading and whose changes in value affect optionally the Other Comprehensive Income (OCI).

These principles are reflected as follows on the assets presented in the Group's balance sheet:

- **Investments** are measured at fair value. Fair value corresponds to the market price for shares quoted on a regulated market. For other shares, fair value is usually determined using valuation models provided by independent third parties, or by reference to the share in net equity held by the Group.

  Changes in fair value are recognised either on the income statement or, subject to an irrevocable option, investment by investment, through OCI with no reclassification to the income statement. This latter option has been chosen by the Group for all non-consolidated investments at the end of 2021. Consequently, subsequent changes in fair value and gains (losses) on disposal will be directly accounted for through shareholders' equity, with no impact on the income statement. Only dividends must remain accounted for through the financial result.
- **Receivables and financial loans** are recognised at amortised cost. They are subject to impairment if an expected loss or an impairment indicator is identified. This impairment, recognised in "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions so justify.
- **Deposits** that Thales intends to hold until maturity are recognised at amortised cost.
- **Other financial assets** (including mutual funds and equivalent products) are estimated at fair value through profit and loss.
- "**Cash and cash equivalents**" include cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).

Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective interest rate. Upon initial recognition, premiums, redemption and issuance costs are included in the calculation of the effective interest rate and are recognised in the profit and loss account on an actuarial basis over the life of the loan.

Derivatives

The Group uses financial instruments to manage and reduce its exposure to risks of changes in interest rates and foreign exchange rates.

Foreign exchange derivatives used to hedge commercial contracts, and eligible for hedge accounting are accounted for as follows:

- the effective portion of the change in fair value of the hedging instrument is recognised directly in equity until such time as the hedged flows affect profit and loss. The ineffective portion is recognised in profit and loss;
- the amount of the foreign currency denominated transaction is subsequently translated at the exchange rate prevailing at the date of inception of the hedge.

Changes in the fair value of premiums or discounts related to forward foreign currency contracts are recognised in "other financial income (expense)" as they are excluded from the hedging relationship.

The time value of foreign exchange options documented as hedges is considered as a cost of hedging: changes in fair value are accounted for through OCI, with reclassification to the financial result in line with the hedged item.

Concerning **foreign exchange derivatives subscribed to hedge financial assets/liabilities**, documented as fair value hedges, the swap point is spread over the duration of the financial asset/liability.

Interest-rate derivatives are used either as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in the value of assets and liabilities;
- a cash flow hedge is a hedge of the exposure to changes in the value of future cash flows (unknown future interest flows payable on existing variable-rate borrowings or on highly probable future borrowing issues, for example).

In the case of fair value hedge relationships, particularly for the portion of fixed-rate bond debt swapped for a variable rate, the financial liabilities hedged by the interest-rate derivatives are re-measured to the extent of risk hedged. Changes in the value of hedged items are recognised in profit and loss for the period and are offset by symmetrical adjustments in interest-rate derivatives.

In the case of cash flow hedging relationships, the effective portion of changes in fair value of interest-rate derivatives shown in the balance sheet is recognised directly in equity until such time as the hedged flows affect profit and loss.

j) Deferred tax assets and liabilities

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value.

Deferred tax assets are not recognised on the balance sheet if it is likely that the company concerned will not be able to recover them. To assess its ability to recover deferred tax assets, the Group takes into account forecast taxable income of the tax entities concerned, over a three to five-year time-frame, entity's tax loss history, non-recurring past events and tax strategies specific to each country.

k) Pensions and other long-term employee benefits

The Group's defined benefit plan commitments are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning discounting as well as inflation, mortality and staff turnover rates, etc.

Changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between projected and actual results – give rise to actuarial gains and losses:

- actuarial gains and losses on post-employment benefits are recognised in full within other comprehensive income, and are not subsequently reclassified to profit and loss. Where appropriate, the same treatment is applied to adjustments linked to the ceiling on net assets for plans in surplus;
- actuarial gains and losses on other long-term benefits are recognised immediately in financial income (Note 9.3).

Past service cost, measured in cases of amendments or curtailments of plans, and plan settlements are recognised in full within other operating income (loss) in the period in which it is incurred.

Net interest expense, determined based on the discount rate of obligations, is recognised in financial income.

l) Share-based payment

Free share plans

Thales regularly grants performance shares to its employees. These allotments give rise to an expense representing the fair value of services received at the grant date. This payroll expense is recognised against equity.

The fair value of the services received is calculated by reference to the fair value of the shares at the grant date, less the present value of dividends forfeited by employees during the vesting period, taking into account the presence conditions.

Internal performance conditions are taken into account only by means of an adjustment in the projected number of instruments acquired by employees at the end of the vesting period. Therefore, they are not taken into account in the fair value estimate of the instruments granted, which is determined at the grant date.

The expense related to these plans is included in the income from operations with the consolidated reserves account as counterpart without impact on total equity. As the payment of compensation is subject to presence conditions, the corresponding expense is recorded over the vesting period on a straight-line basis. When appropriate, the expense is adjusted over the vesting period to reflect any losses of rights.

Phantom shares indexed to the value of Thales shares

Since those are cash-settled plans, IFRS 2 requires an evaluation of vested services and the liability assumed at fair value. Until the payment of this liability, the debt is re-measured at the closing date and taken to profit and loss. The re-measurement of the debt takes into account the achievement of performance and/or presence conditions, as well as the change in value of the underlying shares.

Company savings plans

Employee share offerings with a discount to the average market price proposed within Company savings plans do not include any vesting period for rights but are subject to a contractual five-year lock-up period. The measurement of the benefits granted to employees takes into account the cost of the five-year lock-up period.

Note 14. Fees paid to statutory auditors

Total fees paid to Thales's statutory auditors by the parent company and members of their consolidated networks for financial years 2021 and 2020 (including Transport segment) are shown below.

Other services cover tasks required by law (e.g., interim dividend, capital increase, etc.) and other services compatible with the statutory auditors' role (certification of expenditures, agreed procedures engagements, services of a tax-related nature without material impact, etc.).

In € thousands	Mazars		E Y		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Certification of accounts	**5,654**	**5,427**	**5,029**	**5,327**	**10,683**	**10,754**
- Issuer	896	896	248	398	1,144	1,294
- Subsidiaries	4,758	4,531	4,781	4,929	9,539	9,460
Other services	**734**	**785**	**1,034**	**893**	**1,768**	**1,678**
- Issuer	206	251	254	58	460	309
- Subsidiaries	528	534	780	835	1,308	1,369
Total	**6,388**	**6,212**	**6,063**	**6,220**	**12,451**	**12,432**

Note 15. List of main consolidated companies

(excluding Thales SA, the parent company)

Company name	Country	% Interest 31/12/2021	% Interest 31/12/2020
1. . Consolidated subsidiaries (a)			
Thales Alenia Space France SAS	France	67 %	67 %
Thales Alenia Space Italia SpA	Italy	67 %	67 %
Thales Australia Ltd	Australia	100 %	100 %
Thales Avionics, Inc.	United States	100 %	100 %
Thales AVS France SAS	France	100 %	100 %
Thales Belgium S.A	Belgium	100 %	100 %
Thales Canada Inc.	Canada	100 %	100 %
Thales Defense & Security, Inc.	United States	100 %	100 %
Thales Deutschland GmbH	Germany	100 %	100 %
Thales DIS AIS Deutschland GmbH	Germany	100 %	100 %
Thales DIS Brasil Cartões e Soluções de Tecnologia Ltda	Brazil	100 %	100 %
Thales DIS CPL USA, Inc.	United States	100 %	100 %
Thales DIS France SAS	France	100 %	100 %
Thales DIS Mexico SA de CV	Mexico	100 %	100 %
Thales DIS (Singapore) Pte Ltd	Singapore	100 %	100 %
Thales DIS Technologies B.V	Netherlands	100 %	100 %
Thales DIS UK Ltd	United Kingdom	100 %	100 %
Thales DIS USA, Inc.	United States	100 %	100 %
Thales DMS France SAS	France	100 %	100 %
Thales Espana Grp, S.A.U.	Spain	100 %	100 %
Thales Ground Transportation Systems Ltd	United Kingdom	100 %	100 %
Thales GTS UK Ltd	United Kingdom	100 %	100 %
Thales International Saudi Arabia	Saudi Arabia	100 %	100 %
Thales LAS France SAS	France	100 %	100 %
Thales Nederland B.V.	Netherlands	99 %	99 %
Thales Services Numériques SAS	France	100 %	100 %
Thales SIX GTS France SAS	France	100 %	100 %
Thales Solutions Asia Pte Ltd	Singapore	100 %	100 %
Thales UK Ltd	United Kingdom	100 %	100 %
Trixell	France	51 %	51 %
2. Joint ventures & associates (equity method)			
Airtanker Ltd	United Kingdom	15 %	15 %
Arab International Optronics	Egypt	49 %	49 %
Aviation Communications & Surveillance Systems	United States	30 %	30 %
Diehl Aerospace GmbH	Germany	49 %	49 %
Elettronica SpA	Italy	33 %	33 %
Lynred	France	50 %	50 %
Naval Group	France	35 %	35 %
Telespazio SpA	Italy	33 %	33 %

(a) Companies with sales representing more than 0.5% of consolidated sales

Exemptions for subsidiaries publication:

Gemalto Holding BV (previously Gemalto NV) is exempted from its obligation to publish consolidated financial statements from 2019, as Thales applies the exemption 408 in Netherlands.

German entity Electronic Signalling Services (ESS) GmbH, located at 1 Thalesplatz, 71254 Ditzingen, has requested to be exempted from its obligation to publish statutory financial statements for the year 2020, pursuant to paragraph 3, subparagraph 264, of the German Comercial Code.