

# Half-yearly financial report 2018

Report on business activity

Consolidated financial statements



# HALF-YEARLY FINANCIAL REPORT 2018

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



## **Declaration by person responsible for the half-yearly financial report**

*I certify that, to the best of my knowledge, the condensed financial statements at 30 June 2017 have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the company and of all the entities taken as a whole included in the consolidation, and that the attached half-yearly business report presents a fair view of the significant events that occurred during the first six months of the financial year, their impact on the financial statements, the main related party transactions as well as a description of the main risks and uncertainties for the remaining six months of the financial year.*

Paris La Défense, 26 July 2018

**Patrice Caine**  
Chairman & Chief Executive Officer



## REPORT ON 2018 FIRST HALF BUSINESS ACTIVITY AND RESULTS

### KEY FIGURES (ADJUSTED)<sup>1</sup>

<i>In € millions except earnings per share (in €)</i>	<b>H1 2018</b>	<b>H1 2017 restated for IFRS 15</b>	<b>H1 2017 reported</b>	<b>Total change<sup>3</sup></b>	<b>Organic change<sup>4</sup></b>
<b>Order intake<sup>2</sup></b>	<b>6,331</b>	6,009	5,972	+5%	+8%
<b>Order book at end of period<sup>2</sup></b>	<b>30,987</b>	32,064 <sup>6</sup>	31,914 <sup>6</sup>	-3%	-3%
<b>Sales</b>	<b>7,452</b>	7,118	7,241	+4.7%	+6.9%
<b>EBIT<sup>5</sup></b>	<b>762</b>	587	637	+30%	+33%
<i>in % of sales</i>	<i>10.2%</i>	<i>8.3%</i>	<i>8.8%</i>	<i>+2.0 pts</i>	<i>+2.0 pts</i>
<b>Adjusted net income, Group share<sup>5</sup></b>	<b>539</b>	387	424	+39%	
<b>Adjusted net income, Group share, per share<sup>5</sup></b>	<b>2.54</b>	1.83	2.00	+39%	
<b>Consolidated net income, Group share</b>	<b>457</b>	299	336	+53%	
<b>Free operating cash flow<sup>5</sup></b>	<b>-272</b>	216	216	-488	
<b>Net cash at end of period</b>	<b>2,311</b>	2,971 <sup>6</sup>	2,971 <sup>6</sup>	-661	

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

<sup>2</sup> As of 1<sup>st</sup> January 2018, the Group has been applying IFRS 15 "Revenue from Contracts with Customers", which introduces the concept of accounting order book ("revenue remaining to be recognized"). The definitions of "order book" and "order intake" have been adjusted accordingly, without having a material impact at Group level

<sup>3</sup> All through this press release, "total changes" are calculated compared with the H1 2018 figures restated for the application of the IFRS 15 standard, which appear in the H1 2018 consolidated financial statements

<sup>4</sup> Organic means at constant scope and exchange rate

<sup>5</sup> Non-GAAP financial indicator, see definition in page 3

<sup>6</sup> At 31 December 2017

## PRESENTATION OF FINANCIAL INFORMATION

### Accounting policies

The condensed interim consolidated financial statements for the six months ending 30 June 2018 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2018 .

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2017, as detailed in the 2017 registration document (notes 1 and 13 of the consolidated financial statements), with the exception of those resulting from the first application of IFRS 15 (Revenue from Contrats with Customers) and IFRS 9 (Financial instruments) as described in note 1.2 below.

IFRIC interpretation 22 (Foreign Currency Transactions and Advance Consideration) and amendments to IFRS 2 (Share-based Payments), applicable as from 1 January 2018, have no impact on the Group’s financial statements.

The Group continues to work on the implementation of IFRS 16 (Leases) which will become mandatory as of 1 January 2019.

### Adjusted income statement

In order to facilitate monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which exclude non-operating and/or non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating indicator, corresponds to income from operations plus the share in net income of equity affiliates, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
  - amortisation of acquired intangible assets (PPA) recorded as part of business combinations;
  - expenses recognised in income from operations and other financial income and expenses<sup>1</sup> that are directly related to business combinations, which are unusual by nature;
  - gains and losses on disposals of assets, changes in scope of consolidation and other;
  - changes in the fair value of derivative foreign exchange instruments (recognised under “Other financial income and expenses” in the consolidated financial statements);
  - actuarial gains (losses) on long-term benefits (recognised under “Finance costs on pensions and other long-term employee benefits” in the consolidated financial statements).
- **Free operating cash flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

The definitions of EBIT and adjusted net income imply the definition of other operating indicators on the adjusted income statement: adjusted cost of sales, adjusted gross margin (equating to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income and expenses, adjusted finance costs on pensions and other long-term employee benefits, adjusted income tax, adjusted net income, Group share, per share, the calculation of which is detailed on pages 4 and 5.

Readers are reminded that only the 2017 consolidated financial statements were audited by the statutory auditors, including the calculation of EBIT, which is described in Note 2.1 “Information by business segment”, and free operating cash flow, the definition and calculation of which are specified in Note 6.4 “Changes in net cash”. Adjusted financial information other than that provided in the notes to the consolidated financial

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<sup>1</sup> The definition of adjusted net income was changed to take into account the expenses related to the acquisition of Gemalto recorded in financial result (€8.4 million for H1 2018). See Note 6.1 of the H1 2018 consolidated financial statements

statements is subject to the verification procedures applicable to all information included in this press release. The impact of these adjustment entries on the profit and loss account for H1 2017 and H1 2016 is as follows:

**For H1 2018:**

<i>In € millions except earnings per share (in €)</i>	<b>H1 2018 consolidated income statement</b>	<b>Adjustments</b>				<b>H1 2018 adjusted income statement</b>
		(1)	(2)	(3)	(4)	
<b>Sales</b>	<b>7,452</b>					<b>7,452</b>
Cost of sales	(5,530)	0				(5,530)
Research and development expenses	(407)	1				(406)
Marketing and selling expenses	(543)	1				(541)
General and administrative expenses	(277)	1				(276)
Restructuring costs	(22)					(22)
Amortization of acquired intangible assets (PPA)	(51)	51				0
<b>Income from operations</b>	<b>623</b>					<b>N/A</b>
Impairment of non-current assets*	0					0
Disposal of assets, changes in scope and other	(19)		19			0
Share in net income of equity affiliates	71	13				85
<b>EBIT</b>	<b>N/A</b>					<b>762</b>
Impairment of non-current assets*	0					0
Cost of net debt	(3)					(3)
Other financial income and expenses	(35)	8		27		1
Finance costs on pensions and other long-term employee benefits	(22)				(5)	(27)
<b>Net profit before income tax and share in net income of equity affiliates</b>	<b>544</b>					<b>648</b>
Income tax	(140)	(18)	(6)	(9)	2	(173)
<i>Effective income tax rate</i>	<i>-25.8%</i>					<i>-26.6%</i>
<b>Net income</b>	<b>475</b>	<b>58</b>	<b>12</b>	<b>18</b>	<b>(3)</b>	<b>560</b>
Non-controlling interests	(18)	(4)		(1)		(22)
<b>Net income, Group share</b>	<b>457</b>	<b>55</b>	<b>12</b>	<b>17</b>	<b>(3)</b>	<b>539</b>
<i>Average number of shares (thousands)</i>	<i>212,292</i>					<i>212,292</i>
<b>Net income, Group share, per share (in €)</b>	<b>2.15</b>					<b>2.54</b>

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

**Adjustments**

(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations

(2) Result from disposals, changes in scope and other

(3) Change in fair value of foreign exchange derivatives

(4) Actuarial differences on long-term employee benefits



**For H1 2017:**

<i>In € millions except earnings per share (in €)</i>	<b>H1 2017 consolidated income statement</b>	<b>Adjustments</b>				<b>H1 2017 adjusted income statement</b>
		(1)	(2)	(3)	(4)	
<b>Sales</b>	<b>7,118</b>					<b>7,118</b>
Cost of sales	(5,419)	0				(5,418)
Research and development expenses	(363)	3				(360)
Marketing and selling expenses	(533)	3				(530)
General and administrative expenses	(278)	4				(274)
Restructuring costs	(24)					(24)
Amortization of acquired intangible assets (PPA)	(54)	54				0
<b>Income from operations</b>	<b>449</b>					<b>N/A</b>
Impairment of non-current assets*	0					0
Disposal of assets, changes in scope and other	(9)		9			0
Share in net income of equity affiliates	61	13				74
<b>EBIT</b>	<b>N/A</b>					<b>587</b>
Impairment of non-current assets*	0					0
Cost of net debt	2					2
Other financial income and expenses	(63)			43		(20)
Finance costs on pensions and other long-term employee benefits	(28)				(3)	(31)
<b>Net profit before income tax and share in net income of equity affiliates</b>	<b>351</b>					<b>464</b>
Income tax	(90)	(22)	1	(15)	1	(125)
<i>Effective income tax rate</i>	<i>-25.5%</i>					<i>-26.9%</i>
<b>Net income</b>	<b>322</b>	<b>56</b>	<b>10</b>	<b>28</b>	<b>(2)</b>	<b>414</b>
Non-controlling interests	(23)	(4)		(0)		(27)
<b>Net income, Group share</b>	<b>299</b>	<b>52</b>	<b>10</b>	<b>20</b>	<b>(2)</b>	<b>387</b>
<i>Average number of shares (thousands)</i>	<i>211,611</i>					<i>211,611</i>
<b>Net income, Group share, per share (in €)</b>	<b>1.41</b>					<b>1.83</b>

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

**Adjustments**

(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations

(2) Result from disposals, changes in scope and other

(3) Change in fair value of foreign exchange derivatives

(4) Actuarial differences on long-term employee benefits

## ORDER INTAKE

<i>In € million</i>	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change
Aerospace	2,042	2,274	2,238	-10%	-8%
Transport	835	662	662	+26%	+28%
Defence & Security	3,434	3,035	3,035	+13%	+16%
<b>Total – operating segments</b>	<b>6,311</b>	<b>5,971</b>	<b>5,934</b>	<b>+6%</b>	<b>+8%</b>
Other	20	38	38		
<b>Total</b>	<b>6,331</b>	<b>6,009</b>	<b>5,972</b>	<b>+5%</b>	<b>+8%</b>
Of which mature markets <sup>1</sup>	5,011	4,371	4,401	+15%	+18%
Of which emerging markets <sup>1</sup>	1,320	1,638	1,571	-19%	-17%

H1 2018 **order intake** amounted to **€6,331 million, up 5%** compared with H1 2017 (up +8% at constant scope and currency<sup>2</sup>). The **book-to-bill** ratio was **0.85** for H1 2018 (0.84 for H1 2017), and **0.98** over the last 12 months.

In H1 2018, Thales booked **six large orders with a unit value of over €100 million** (compared with eight such orders in H1 2017), representing a total amount of €1,814 million:

- 3 large orders recorded in Q1 2018, covering the modernization of air traffic control in Australia (OneSKY project), the supply of systems onboard the 12 additional Rafale combat aircraft ordered by Qatar, and the renovation of signaling systems on one of the main railways in Poland;
- 3 large orders booked in Q2 2018:
  - for Eutelsat, the design of a very high throughput next-generation satellite, fitted with the most powerful digital processor ever sent into orbit (Konnnect VHTS)
  - for the German Navy, the combat management system (CMS) for five K130 corvettes, in a consortium with Atlas Elektronik
  - for the Australian Royal Navy, the modernization of sonar systems on six Collins class submarines

At €4,517 million, orders with a unit value of less than €100 million were down by 6% on H1 2017, impacted by phasing effects during the year (Q1: -15%, Q2: -0%).

From a geographical perspective<sup>3</sup>, order intake in emerging markets, which had benefited from three major orders in the previous year compared with just one this year, stood at €1,320 million, down 19%. Meanwhile, order intake in mature markets rose sharply (+15% to €5,011 million), driven in particular by the OneSKY project in Australia.

Order intake in the **Aerospace** segment stood at **€2,042 million**, down 10% from €2,274 million in H1 2017. This drop can be explained by lower order intake in military avionics and In-Flight Entertainment (IFE), with H1 2017 having benefited from the booking of a large order from a North American airline. Order intake in the Space segment posted slight growth compared with the H1 2017; however, the first part of the year not being very material in this segment.

<sup>1</sup> Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.

<sup>2</sup> Taking into account a negative exchange rate effect of €139 million and a net negative scope effect of €14 million, mainly related to the consolidation of Guavus as of 12 September 2017 (Defence & Security segment), offset by the disposal of the identity management business in Q2 2017 (same segment)

<sup>3</sup> See table on page 12



At **€835 million**, order intake in the **Transport** segment remained particularly buoyant, up 26% compared with H1 2017, driven in particular by two major railway signaling contracts.

Order intake in the **Defence & Security** segment amounted to **€3,434 million**, up 13% from €3,035 for H1 2017, notably with strong momentum in equipment for military ships and submarines, air traffic control (with the OneSKY project), and cybersecurity.

## SALES

<i>In € million</i>	<b>H1 2018</b>	<b>H1 2017 restated for IFRS 15</b>	<b>H1 2017 reported</b>	<b>Total change</b>	<b>Organic change</b>
Aerospace	2,768	2,797	2,872	-1.0%	+1.1%
Transport	904	761	711	+18.8%	+22.2%
Defence & Security	3,757	3,533	3,631	+6.3%	+8.5%
<b>Total – operating segments</b>	<b>7,429</b>	<b>7,090</b>	<b>7,214</b>	<b>+4.8%</b>	<b>+7.0%</b>
Other	23	28	27		
<b>Total</b>	<b>7,452</b>	<b>7,118</b>	<b>7,241</b>	<b>+4.7%</b>	<b>+6.9%</b>
Of which mature markets <sup>1</sup>	5,203	4,988	4,958	+4.3%	+6.3%
Of which emerging markets <sup>1</sup>	2,249	2,130	2,283	+5.6%	+8.4%

**Sales** for H1 2018 stood at **€7,452 million**, compared to €7,118 million in H1 2017, up 4.7%. The organic change (at constant scope and exchange rate<sup>2</sup>) came in at +6.9%, driven by strong momentum in the Transport and Defence & Security segments.

From a geographical perspective<sup>3</sup>, this performance reflected strong momentum, both in emerging markets (up 8.4%) and in mature markets (up 6.3%).

Sales in the **Aerospace** segment amounted to **€2,768 million**, down 1.0% on H1 2017 (+1.1% at constant scope and currency). This low growth reflected the slowdown of the commercial telecommunications satellites market as well as a high basis of comparison in In-Flight Entertainment (IFE), partly offset by strong momentum in the military and institutional space markets.

In the **Transport** segment, sales amounted to **€904 million**, up 18.8% on H1 2017 (+22.2% at constant scope and currency). The segment benefited from the ramp-up of the large urban rail signaling contracts signed in 2015 and 2016, combined with an upturn in mainline activity. However, growth in this segment is expected to slow down significantly during H2, with the basis of comparison becoming less favorable.

Sales in the **Defence & Security** segment represented **€3,757 million**, up 6.3% compared to H1 2017 (+8.5% at constant scope and currency). A large number of activities contributed to this momentum: surface radar, combat aircraft systems, systems and services for military ships and submarines, military radio communications, and cybersecurity. Organic growth in this segment was particularly strong in mature markets (up 10.2%), reflecting the positive inflection of defence budgets and the Group's solid commercial momentum in these markets. This growth is nevertheless expected to experience a slowdown in H2 2018, with the basis of comparison being significantly higher (organic growth in H1 2017: +6.5%, in H2 2017: +11.8%).

<sup>1</sup> Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 13

<sup>2</sup> The calculation of the organic change in sales is shown on page 14

<sup>3</sup> See table on page 13

## ADJUSTED RESULTS

EBIT (in € millions)	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change
<b>Aerospace</b>	<b>291</b>	<b>260</b>	<b>263</b>	<b>+12%</b>	<b>+13%</b>
<i>in % of sales</i>	<i>10.5%</i>	<i>9.3%</i>	<i>9.2%</i>	<i>+1.2 pt</i>	<i>+1.1 pt</i>
<b>Transport</b>	<b>27</b>	<b>8</b>	<b>6</b>	<b>+220%</b>	<b>+231%</b>
<i>in % of sales</i>	<i>2.9%</i>	<i>1.1%</i>	<i>0.9%</i>	<i>+1.8 pt</i>	<i>+1.9 pt</i>
<b>Defence &amp; Security</b>	<b>444</b>	<b>325</b>	<b>374</b>	<b>+37%</b>	<b>+40%</b>
<i>in % of sales</i>	<i>11.8%</i>	<i>9.2%</i>	<i>10.3%</i>	<i>+2.6 pts</i>	<i>+2.7 pts</i>
<b>Total – operating segments</b>	<b>761</b>	<b>594</b>	<b>644</b>	<b>+28%</b>	<b>+31%</b>
<i>in % of sales</i>	<i>10.3%</i>	<i>8.4%</i>	<i>8.9%</i>	<i>+1.9 pt</i>	<i>+1.9 pt</i>
Other – excluding Naval Group	(37)	(33)	(34)		
<b>Total – excluding Naval Group</b>	<b>724</b>	<b>561</b>	<b>610</b>	<b>+29%</b>	<b>+32%</b>
<i>in % of sales</i>	<i>9.7%</i>	<i>7.9%</i>	<i>8.4%</i>	<i>+1.8 pt</i>	<i>+1.9 pt</i>
Naval Group (35% share)	38	26	27	+42%	+42%
<b>Total</b>	<b>762</b>	<b>587</b>	<b>637</b>	<b>+30%</b>	<b>+33%</b>
<i>in % of sales</i>	<i>10.2%</i>	<i>8.3%</i>	<i>8.8%</i>	<i>+2.0 pts</i>	<i>+2.0 pts</i>

In H1 2018, the Group posted consolidated **EBIT<sup>1</sup> of €762 million (10.2% of sales)**, compared to €587 million (8.3% of sales) in H1 2017.

The **Aerospace** segment posted EBIT of **€291 million (10.5% of sales)**, versus €260 million (9.3% of sales) for the same period in 2017. The margin in this segment increased significantly, with the competitiveness initiatives and savings on sales and administrative expenses largely offsetting the acceleration in R&D expenses, particularly in Space.

EBIT for the **Transport** segment continued to recover, reaching **€27 million (2.9% of sales)**, compared with €8 million (1.1% of sales) in H1 2017. The segment benefited from the gradual phasing-out of old contracts with low or zero margin and the leverage on indirect costs brought on by the strong growth in sales.

In the **Defence & Security** segment, EBIT increased significantly to **€444 million (11.8% of sales)** versus €325 million in H1 2017 (9.2% of sales). The increase in margin was driven by the strong commercial momentum, savings on sales and administrative expenses, and an exceptional provision reversal of €20 million following the resolution of two trade disputes, which largely offset the sharp rise in R&D expenses.

**Naval Group** contributed **€38 million** to EBIT in H1 2018, compared with €26 million in H1 2017, benefiting from solid sales growth (up 10% over the half year) and its competitiveness initiatives. For the Full Year 2018, Naval Group targets a growth in its net income, group share of around 10% compared with 2017.

### Adjusted net financial income (expense)

At **-€3 million** in H1 2018 versus €2 million in H1 2017, **cost of net debt** remained very low. **Other adjusted financial income and expenses<sup>1</sup>** amounted to a **net expense of -€1 million** in H1 2018, compared with a net expense of -€20 million in H1 2017, primarily thanks to the recovery in foreign exchange performance. **Adjusted finance costs on pensions and other long-term employee benefits<sup>1</sup>** improved slightly (**-€27 million** versus -€31 million in H1 2017), benefiting primarily from the fall in net pension obligations and in the discount rate in the United Kingdom.

<sup>1</sup>Non-GAAP financial indicator, see definition in page 3

### Adjusted net income (expense)

As a result, **adjusted net income, Group share**<sup>1</sup> was **€539 million** versus €387 million in H1 2017, after an adjusted income tax charge<sup>16</sup> of -€173 million, compared with -€125 million in H1 2017. A 26.6%, the effective income tax rate was stable (26.9% in H1 2017).

**Adjusted net income, Group share, per share**<sup>1</sup> came out at **€2.54**, up 39% on H1 2017 (€1.83).

At **€457 million, consolidated net income, Group share** posted an increase of **53%**, benefiting from the strong improvement in income from operations (up €174 million) and from the improvement in the financial result (up €29 million).

## CONSOLIDATED RESULTS

### Income from operations

After accounting for the €51 million impact of purchase price allocation (PPA), compared to €54 million in the first half last year, reported **income from operations** was **€623 million**, compared to €449 million at 30 June 2017 (representing a 39% increase).

**Income of operating activities before share in net income (loss) from equity affiliates** was at **€604 million**, compared to €440 million at 30 June 2017.

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

The share in net income (loss) of equity affiliates comes to €71 million, compared to €61 million during the first half of 2017. **Income of operating activities after share in net income from equity affiliates** therefore comes to **€675 million**, compared to €501 million for the same period last year.

### Net financial income/(expense)

**Net interest expense** was a negative **€3 million** compared to positive €2 million in the first half of 2017. **Other financial expenses** were **-€35 million**, compared to -€63 million in the first half of 2017, mainly due to an improved impact of foreign exchange (-€32 million against -€60 million at 30 June 2017). **Finance costs on pensions and other employee benefits** amounted to **-€22 million** compared to -€28 million for the first six months of 2017, benefiting mainly from the decrease of net liability and the decrease of long term rates in UK.

### Net income (loss)

The first half of 2018 closed with **consolidated net earnings, Group share** of **€457 million (+53%** compared with 2017), benefiting from the strong increase of the net income from operations (+€174 million) and from the financial result (+€29 million).

## FINANCIAL POSITION AS OF 30 JUNE 2018

<i>In € million</i>	H1 2018	H1 2017 restated for IFRS 15	Change
<b>Operating cash flow before working capital changes, interest and tax</b>	<b>915</b>	<b>692</b>	<b>+224</b>
+ Change in WCR and reserves for contingencies	(915)	(172)	-742
+ Pension cash contributions, excluding contributions related to the reduction of the UK pension deficit	(70)	(62)	-8
+ Net financial interest received (paid)	(16)	(6)	-10
+ Income tax paid	(33)	(46)	+13
+ Net operating investments	(153)	(189)	+36
<b>= Free operating cash flow</b>	<b>(272)</b>	<b>216</b>	<b>-488</b>
+ Net disposals (acquisitions) of subsidiaries and shareholdings	(55)	40	-94
+ Contributions related to the reduction of the UK pension deficit	(47)	(40)	-7
+ Dividends paid	(276)	(254)	-22
+ Changes in exchange rates and other	(11)	(34)	+22
<b>= Changes in net cash (debt)</b>	<b>(661)</b>	<b>(72)</b>	<b>-589</b>
Net cash (debt) at beginning of period	2,971	2,366	
+ Changes in net cash (debt)	(661)	(72)	
<b>= Net cash (debt) at end of period</b>	<b>2,311</b>	<b>2,294</b>	

H1 2018 **free operating cash flow**<sup>1</sup> amounted to **-€272 million**, compared with €216 million in H1 2017. This downturn is explained primarily by the partial reversal of exceptional items that had boosted working capital performance at 31 December 2017, as well as the return to the traditionally more visible seasonality of the change in WCR.

At 30 June 2018, **net cash** thus amounted to **€2,311 million**, compared with €2,971 million at 31 December 2017, after the distribution of €276 million of dividends during the half year (€254 million in H1 2017) and a net cash outflow of €55 million related to acquisitions and disposals in the period, corresponding primarily to an additional Thales Alenia Space investment in the American company Spaceflight Industries, as part of the “BlackSky” constellation project.

**Equity, Group share** stood at **€5,188 million**, compared with €4,922 million at 31 December 2017, with consolidated net income, Group share (€457 million) and the reduction in net pension obligations (€148 million net of tax) offsetting the distribution of dividends (€276 million) and the reduction in value of foreign exchange hedges (€56 million net of tax).

## UPDATE ON THE PROJECTED ACQUISITION OF GEMALTO

On 17 December 2017, Thales and Gemalto (Euronext Amsterdam and Paris: GTO) announced the signing of a merger agreement including an all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per share cum dividend<sup>2</sup>. This offer was unanimously recommended by Gemalto's Board of Directors.

This projected acquisition is progressing as planned. On 27 March 2018, the offer document was published following its approval by the Dutch financial markets authority (AFM). The offer acceptance period has been extended until 15 August 2018.

<sup>1</sup> Non-GAAP financial indicator, see definition in page 3

<sup>2</sup> Valuing the equity capital of Gemalto at approximately €4.8 billion

2 of the 14 required regulatory authorizations<sup>1</sup> have already been obtained, in Australia<sup>2</sup> and Israel, and the steps to obtain the others are progressing as planned. Given that, as anticipated, all the required regulatory authorizations will not have been obtained before 15 August 2018, Thales has recently requested from the AFM an additional technical extension of the acceptance period.

As expected, the transaction should close shortly after all of the usual regulatory approvals have been secured, which should occur before the end of 2018.

## RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in note 13-a of the consolidated financial statements included in the 2017 registration document.

Revenues with the French Ministry of Defence amounted to € 1,262.8 million in the first half of 2018 and € 1,117.1 million in the first half of 2017.

At 30 June 2018, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to € 38.0 million (€ 35.8 million at 30 June 2018 and € 181.1 million at 31 December 2017).

## MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2018 FISCAL YEAR

There are no material changes in risks and uncertainties that are described in the Group management report for 2016 ("1.1.2 Risk Factors" pages 17 and followings of the 2017 Registration Document filed with the Autorité des Marchés Financiers (AMF) on 30 March 2018).

## OUTLOOK FOR THE CURRENT YEAR

The H1 2018 results are in line with expectations. In this context, the Group confirms all its objectives<sup>3</sup>, as set out below.

In 2018, Thales should continue to benefit from positive trends in the majority of its markets. The acceleration of commercial momentum in the defence businesses should offset the slowdown of the telecom satellite market. In this context, 2018 order intake is expected to be around €15.5 billion.

In spite of a more moderate growth in the aerospace segment, sales should see an organic growth of between 4% and 5% compared to 2017 sales restated for the application of the IFRS 15 standard (€15,228 million).

The Group will continue to increase its R&D investments, particularly in digital technologies. The self-funded R&D expenses should therefore increase by around 10% compared to 2017.

The growth in sales, combined with the impact of the Ambition 10 strategy on product competitiveness and differentiation, should result in Thales delivering an EBIT of between €1,620 and €1,660 million in 2018 (based on February 2018 scope and exchange rates), representing an increase of 19% to 22% compared to 2017 EBIT restated for the application of the IFRS 15 standard (€1,365 million).

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<sup>1</sup> For the record, Thales and Gemalto are seeking regulatory authorizations from the competent competition authorities in Australia, China, the European Union, Israel, Mexico, New Zealand, Russia, South Africa, Turkey and the USA. Apart from the CFIUS authorization in the USA, Thales and Gemalto are seeking regulatory authorizations relating to foreign investments from the competent authorities in Australia, Canada and Russia

<sup>2</sup> Investment authorization in Australia, granted by the FIRB

<sup>3</sup> As of 1<sup>st</sup> January 2018, the Group has been applying IFRS 15 "Revenue from Contracts with Customers". To provide a basis for understanding the 2018 financial objectives, the 2017 results restated to reflect the application of this standard are presented on page 20 of the 2017 full year results press release published on 6 March 2018.

# NOTES TO THE REPORT ON OPERATIONS AND RESULTS FOR THE FIRST HALF OF 2018

## Operating segments

<b>Aerospace</b>	Avionics, Space
<b>Transport</b>	Ground Transportation Systems
<b>Defence &amp; Security</b>	Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems

## Order intake by destination – H1 2018

<i>In € million</i>	<b>H1 2018</b>	<b>H1 2017 restated for IFRS 15</b>	<b>H1 2017 reported</b>	<b>Total change</b>	<b>Organic change</b>	<b>H1 2018 weighting in %</b>
France	1,456	1,803	1,811	-19%	-18%	23%
United Kingdom	226	370	370	-39%	-38%	4%
Rest of Europe	1,558	1,142	1,143	+36%	+38%	25%
<b>Sub-total Europe</b>	<b>3,240</b>	<b>3,315</b>	<b>3,323</b>	<b>-2%</b>	<b>-1%</b>	<b>51%</b>
United States and Canada	532	676	697	-21%	-15%	8%
Australia and New Zealand	1,239	381	381	+225%	+254%	20%
<b>Total mature markets</b>	<b>5,011</b>	<b>4,371</b>	<b>4,401</b>	<b>+15%</b>	<b>+18%</b>	<b>79%</b>
Asia	716	708	689	+1%	+4%	11%
Middle East	457	570	551	-20%	-18%	7%
Rest of the world	147	359	331	-59%	-58%	2%
<b>Total emerging markets</b>	<b>1,320</b>	<b>1,638</b>	<b>1,571</b>	<b>-19%</b>	<b>-17%</b>	<b>21%</b>
<b>Total all markets</b>	<b>6,331</b>	<b>6,009</b>	<b>5,972</b>	<b>+5%</b>	<b>+8%</b>	<b>100%</b>



## Sales by destination – H1 2018

<i>In € million</i>	H1 2018	H1 2017 restated for IFRS 15	H1 2017 reported	Total change	Organic change	H1 2018 weighting in %
France	1,956	1,819	1,768	+7.6%	+8.2%	26%
United Kingdom	621	638	633	-2.6%	-0.8%	8%
Rest of Europe	1,532	1,468	1,415	+4.3%	+5.1%	21%
<b>Sub-total Europe</b>	<b>4,110</b>	<b>3,926</b>	<b>3,816</b>	<b>+4.7%</b>	<b>+5.6%</b>	<b>55%</b>
United States and Canada	660	663	699	-0.4%	+3.9%	9%
Australia and New Zealand	433	399	443	+8.3%	+18.0%	6%
<b>Total mature markets</b>	<b>5,203</b>	<b>4,988</b>	<b>4,958</b>	<b>+4.3%</b>	<b>+6.3%</b>	<b>70%</b>
Asia	1,062	1,001	1,068	+6.1%	+8.8%	14%
Middle East	736	737	789	-0.2%	+2.5%	10%
Rest of the world	452	392	426	+15.2%	+18.5%	6%
<b>Total emerging markets</b>	<b>2,249</b>	<b>2,130</b>	<b>2,283</b>	<b>+5.6%</b>	<b>+8.4%</b>	<b>30%</b>
<b>Total all markets</b>	<b>7,452</b>	<b>7,118</b>	<b>7,241</b>	<b>+4.7%</b>	<b>+6.9%</b>	<b>100%</b>

## Order intake and sales – Q2 2018

<b>Order intake</b> <i>(in € millions)</i>	Q2 2018	Q2 2017 restated for IFRS 15	Q2 2017 reported	Total change	Organic change
Aerospace	1,291	1,349	1,300	-4%	-2%
Transport	347	447	447	-22%	-21%
Defence & Security	1,652	1,923	1,923	-14%	-13%
<b>Total – operating segments</b>	<b>3,289</b>	<b>3,720</b>	<b>3,670</b>	<b>-12%</b>	<b>-10%</b>
Other	9	22	22		
<b>Total</b>	<b>3,298</b>	<b>3,742</b>	<b>3,692</b>	<b>-12%</b>	<b>-10%</b>

<b>Sales</b> <i>(in € millions)</i>					
Aerospace	1,483	1,465	1,619	+1.2%	+2.4%
Transport	518	451	432	+15.0%	+17.4%
Defence & Security	2,028	1,913	2,120	+6.0%	+7.6%
<b>Total – operating segments</b>	<b>4,029</b>	<b>3,829</b>	<b>4,171</b>	<b>+5.2%</b>	<b>+6.7%</b>
Other	12	12	12		
<b>Total</b>	<b>4,040</b>	<b>3,841</b>	<b>4,183</b>	<b>+5.2%</b>	<b>+6.7%</b>

## Organic change in sales by quarter

<i>In € million</i>	<b>2017 SALES restated for IFRS 15</b>	<b>Impact of exchange rates</b>	<b>Impact of disposals</b>	<b>2018 sales</b>	<b>Impact of acquisitions</b>	<b>Total change</b>	<b>Organic change</b>
Q1	3,278	-94	-9	3,412	8	+4.1%	+7.2%
Q2	3,841	-53	-5	4,040	4	+5.2%	+6.7%
H1	7,118	-147	-14	7,452	12	+4.7%	+6.9%

### Main scope effects:

- Disposals: identity management activity, deconsolidated from 1<sup>st</sup> May 2017 (Defence & Security segment)
- Acquisitions: consolidation of Guavus from 12 September 2017 (Defence & Security segment)



**CONDENSED INTERIM  
CONSOLIDATED FINANCIAL  
STATEMENTS  
AT 30 JUNE 2018**

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## INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

(in € millions)	Notes	First Half 2018	First Half 2017 *	Full Year 2017 *
<b>Sales</b>	<b>note 2</b>	<b>7,452.2</b>	<b>7,118.4</b>	<b>15,227.5</b>
Cost of sales		(5,530.4)	(5,418.5)	(11,516.7)
Research and development expenses		(407.0)	(362.7)	(802.2)
Marketing and selling expenses		(542.8)	(532.5)	(1,069.5)
General and administrative expenses		(276.7)	(277.8)	(549.5)
Restructuring costs		(21.8)	(23.6)	(81.1)
Amortisation of intangible assets acquired (PPA) **		(50.9)	(54.4)	(113.0)
<b>Income from operations</b>	<b>note 2</b>	<b>622.6</b>	<b>448.9</b>	<b>1,095.5</b>
Disposal of assets, changes in scope of consolidation and other	note 3.2	(18.7)	(9.2)	(81.5)
Impairment on non-current assets	note 4	--	--	--
<b>Income of operating activities before share in net income of equity affiliates</b>		<b>603.9</b>	<b>439.7</b>	<b>1,014.0</b>
<b>Share in net income of equity affiliates</b>		<b>71.2</b>	<b>60.8</b>	<b>119.9</b>
Of which, share in net income of joint-ventures	note 5.1	51.2	39.2	73.6
Of which, share in net income of associates	note 5.2	20.0	21.6	46.3
<b>Income of operating activities after share in net income of equity affiliates</b>		<b>675.1</b>	<b>500.5</b>	<b>1,133.9</b>
Interest expense on gross debt		(11.6)	(7.4)	(16.3)
Interest income on cash and cash equivalents		8.5	9.0	21.3
Interest income (expenses), net		(3.1)	1.6	5.0
Other financial income (expenses)	note 6.1	(34.6)	(62.7)	(99.3)
Finance costs on pensions and other employee benefits	note 8	(22.1)	(27.7)	(65.5)
Income tax	note 9	(140.4)	(89.6)	(236.7)
<b>Net income</b>		<b>474.9</b>	<b>322.1</b>	<b>737.4</b>
Attributable to:				
<b>Shareholders of the parent company</b>		<b>457.2</b>	<b>299.4</b>	<b>679.8</b>
Non-controlling interests		17.7	22.7	57.6
Basic earnings per share (in euros)	note 10.2	2.15	1.41	3.21
Diluted earnings per share (in euros)	note 10.2	2.14	1.40	3.19

\* 2017 financial statements have been restated to take into account the first implementation of the IFRS 15 standard. Restatements are described in Note 1.2.

\*\* This item corresponds to the amortisation of acquired intangible assets (Purchase Price Allocation : PPA) of fully consolidated entities. The amortisation of PPA related to equity affiliates is included in the share in net income (loss) of equity affiliates and detailed in Note 2.3.

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	First half 2018			First half 2017 *			Full year 2017 *		
	Total attributable to :			Total attributable to :			Total attributable to :		
(in € millions)	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
<b>Net income</b>	<b>457.2</b>	<b>17.7</b>	<b>474.9</b>	<b>299.4</b>	<b>22.7</b>	<b>322.1</b>	<b>679.8</b>	<b>57.6</b>	<b>737.4</b>
Currency translation adjustment **	(3.3)	1.1	(2.2)	(37.7)	(0.7)	(38.4)	(82.8)	(1.9)	(84.7)
Deferred tax **	--	--	--	--	--	--	--	--	--
Joint-ventures	1.1	--	1.1	(4.6)	--	(4.6)	(7.9)	--	(7.9)
Associates	2.7	--	2.7	(11.2)	--	(11.2)	(17.5)	--	(17.5)
<b>Net</b>	<b>0.5</b>	<b>1.1</b>	<b>1.6</b>	<b>(53.5)</b>	<b>(0.7)</b>	<b>(54.2)</b>	<b>(108.2)</b>	<b>(1.9)</b>	<b>(110.1)</b>
Cash flow hedge **	(86.2)	(0.7)	(86.9)	265.2	13.4	278.6	385.6	17.2	402.8
Deferred tax **	26.0	0.2	26.2	(76.5)	(4.3)	(80.8)	(107.9)	(5.5)	(113.4)
Joint-ventures	0.2	--	0.2	(1.3)	--	(1.3)	(3.5)	--	(3.5)
Associates	4.4	--	4.4	(0.9)	--	(0.9)	(2.3)	--	(2.3)
<b>Net</b>	<b>(55.6)</b>	<b>(0.5)</b>	<b>(56.1)</b>	<b>186.5</b>	<b>9.1</b>	<b>195.6</b>	<b>271.9</b>	<b>11.7</b>	<b>283.6</b>
Available for sale financial assets **	--	--	--	(1.0)	--	(1.0)	(1.0)	--	(1.0)
Joint-ventures	--	--	--	(6.7)	--	(6.7)	(6.7)	--	(6.7)
<b>Net</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(7.7)</b>	<b>--</b>	<b>(7.7)</b>	<b>(7.7)</b>	<b>--</b>	<b>(7.7)</b>
<b>Items that may be reclassified to income</b>	<b>(55.1)</b>	<b>0.6</b>	<b>(54.5)</b>	<b>125.3</b>	<b>8.4</b>	<b>133.7</b>	<b>156.0</b>	<b>9.8</b>	<b>165.8</b>
Actuarial gains (losses) on pensions **	149.8	(1.8)	148.0	(119.0)	(1.8)	(120.8)	52.8	(3.4)	49.4
Deferred tax **	(0.3)	1.5	1.2	1.0	0.6	1.6	2.9	0.3	3.2
Joint-ventures	(1.0)	--	(1.0)	0.8	--	0.8	1.9	--	1.9
Associates	(0.6)	--	(0.6)	(0.7)	--	(0.7)	(0.7)	--	(0.7)
<b>Net</b>	<b>147.9</b>	<b>(0.3)</b>	<b>147.6</b>	<b>(117.9)</b>	<b>(1.2)</b>	<b>(119.1)</b>	<b>56.9</b>	<b>(3.1)</b>	<b>53.8</b>
Financial assets at fair value	0.4	--	0.4	--	--	--	--	--	--
<b>Items that will not be reclassified to income</b>	<b>148.3</b>	<b>(0.3)</b>	<b>148.0</b>	<b>(117.9)</b>	<b>(1.2)</b>	<b>(119.1)</b>	<b>56.9</b>	<b>(3.1)</b>	<b>53.8</b>
<b>Other comprehensive income (loss) for the period net of tax</b>	<b>93.2</b>	<b>0.3</b>	<b>93.5</b>	<b>7.4</b>	<b>7.2</b>	<b>14.6</b>	<b>212.9</b>	<b>6.7</b>	<b>219.6</b>
<b>Total comprehensive income for the period</b>	<b>550.4</b>	<b>18.0</b>	<b>568.4</b>	<b>306.8</b>	<b>29.9</b>	<b>336.7</b>	<b>892.7</b>	<b>64.3</b>	<b>957.0</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

\*\* Fully consolidated entities



# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	AFS invest- ments	Cumulative translation adjustment	Treasury shares	attributable shareholders of the parent company	Total controlling interests	Total equity
<i>(in € millions)</i>											
<b>At 31 December 2016 published</b>	211,445	636.6	4,036.9	376.5	(250.7)	12.4	(110.0)	(61.6)	4,640.1	225.9	4,866.0
<b>Impact of IFRS 15 standard (note 1.2)</b>	--	--	--	(251.1)	--	--	--	--	(251.1)	(4.2)	(255.3)
<b>At 1st January 2017 restated</b>	211,445	636.6	4,036.9	125.4	(250.7)	12.4	(110.0)	(61.6)	4,389.0	221.7	4,610.7
Net income	--	--	--	679.8	--	--	--	--	679.8	57.6	737.4
Other comprehensive income	--	--	--	56.9	271.9	(7.7)	(108.2)	--	212.9	6.7	219.6
<b>Total comprehensive income for 2017 *</b>	--	--	--	736.7	271.9	(7.7)	(108.2)	--	892.7	64.3	957.0
Employee share issues	464	1.4	16.3	--	--	--	--	--	17.7	--	17.7
Parent company dividend distribution	--	--	--	(348.9)	--	--	--	--	(348.9)	--	(348.9)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(68.1)	(68.1)
Share-based payments	--	--	--	21.8	--	--	--	--	21.8	--	21.8
Acquisitions/disposals of treasury shares	181	--	--	(65.4)	--	--	--	9.1	(56.3)	--	(56.3)
Other	--	--	--	5.7	--	--	--	--	5.7	(1.1)	4.6
Changes in scope of consolidation	--	--	--	--	--	--	--	--	--	--	--
<b>At 31 December 2017</b>	212,090	638.0	4,053.2	475.3	21.2	4.7	(218.2)	(52.5)	4,921.7	216.8	5,138.5
<b>Impact of IFRS 9 standard (note 1.2)</b>	--	--	--	(8.5)	--	(4.7)	--	--	(13.2)	--	(13.2)
<b>At 1st January 2018 restated</b>	212,090	638.0	4,053.2	466.8	21.2	--	(218.2)	(52.5)	4,908.5	216.8	5,125.3
Net income	--	--	--	457.2	--	--	--	--	457.2	17.7	474.9
Other comprehensive income	--	--	--	148.3	(55.6)	--	0.5	--	93.2	0.3	93.5
<b>Total comprehensive income for first half 2018</b>	--	--	--	605.5	(55.6)	--	0.5	--	550.4	18.0	568.4
Employee share issues	413	1.2	14.0	--	--	--	--	--	15.2	--	15.2
Parent company dividend distribution	--	--	--	(275.8)	--	--	--	--	(275.8)	--	(275.8)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(40.0)	(40.0)
Share-based payments	--	--	--	8.2	--	--	--	--	8.2	--	8.2
Acquisitions/disposals of treasury shares	21	--	--	1.5	--	--	--	(0.3)	1.2	--	1.2
Other	--	--	--	(19.3)	--	--	--	--	(19.3)	0.3	(19.0)
<b>At 30 June 2018</b>	212,524	639.2	4,067.2	786.9	(34.4)	--	(217.7)	(52.8)	5,188.4	195.1	5,383.5

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

## First half 2017

(in € millions)

	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	AFS invest- ments	Cumulative translation adjustment	Treasury shares	Total attributable to shareholders of the parent company	Non- controlling interests	Total equity
<b>At 31 December 2016</b>	211,445	636.6	4,036.9	376.5	(250.7)	12.4	(110.0)	(61.6)	4,640.1	225.9	4,866.0
<b>Impact of IFRS 15 standard (note 1.2)</b>	--	--	--	(251.1)	--	--	--	--	(251.1)	(4.2)	(255.3)
<b>At 1 January 2017</b>	211,445	636.6	4,036.9	125.4	(250.7)	12.4	(110.0)	(61.6)	4,389.0	221.7	4,610.7
Net income	--	--	--	299.4	--	--	--	--	299.4	22.7	322.1
Other comprehensive income	--	--	--	(117.9)	186.5	(7.7)	(53.5)	--	7.4	7.2	14.6
<b>Total comprehensive income for first half 2017 *</b>	--	--	--	181.5	186.5	(7.7)	(53.5)	--	306.8	29.9	336.7
Employee share issues	384	1.1	13.9	--	--	--	--	--	15.0	--	15.0
Parent company dividend distribution	--	--	--	(253.7)	--	--	--	--	(253.7)	--	(253.7)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(11.7)	(11.7)
Share-based payments	--	--	--	8.0	--	--	--	--	8.0	--	8.0
Acquisitions/disposals of treasury shares	(85)	--	--	(0.9)	--	--	--	(8.6)	(9.5)	--	(9.5)
Others	--	--	--	21.3	--	--	--	--	21.3	(0.6)	20.7
<b>At 30 June 2017</b>	211,744	637.7	4,050.8	81.6	(64.2)	4.7	(163.5)	(70.2)	4,476.8	239.3	4,716.1

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard

## INTERIM CONSOLIDATED BALANCE SHEET

ASSETS	Notes	30/06/18	31/12/17 *	01/01/17 *
Goodwill, net	note 4.1	3,452.4	3,447.2	3,424.4
Other intangible assets, net	note 4.2	829.4	883.5	963.5
Property, plant and equipment, net	note 4.2	1,784.4	1,819.9	1,800.8
Total non-current operating assets		6,066.2	6,150.6	6,188.7
Investments in joint-ventures	note 5.1	1,027.1	1,001.9	985.2
Investments in associates	note 5.2	206.8	210.1	219.5
Non-consolidated investments		136.9	87.7	82.3
Other non-current financial assets		159.5	166.5	138.3
Non-current derivatives - assets	note 6.2	13.8	17.0	27.9
Total non-current financial assets		1,544.1	1,483.2	1,453.2
Deferred tax assets		974.4	986.5	1,077.9
<b>Non-current assets</b>		<b>8,584.7</b>	<b>8,620.3</b>	<b>8,719.8</b>
Inventories and work in progress		3,318.1	3,158.9	2,999.6
Construction contracts: assets		3,059.0	2,301.4	2,577.0
Advances to suppliers		542.2	451.8	348.3
Accounts, notes and other current receivables		3,967.0	4,008.5	4,188.4
Current derivatives – assets		131.5	254.4	161.7
Total current operating assets	note 7.1	11,017.8	10,175.0	10,275.0
Current tax receivable		34.4	36.6	59.8
Current financial assets		332.5	332.0	265.9
Current derivatives – assets		--	3.1	--
Cash and cash equivalents		4,666.8	4,282.7	3,616.9
Total current financial assets	note 6.2	4,999.3	4,617.8	3,882.8
<b>Current assets</b>		<b>16,051.5</b>	<b>14,829.4</b>	<b>14,217.6</b>
<b>Total assets</b>		<b>24,636.2</b>	<b>23,449.7</b>	<b>22,937.4</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>30/06/18</b>	<b>31/12/17 *</b>	<b>01/01/17 *</b>
Capital, additional paid-in capital and other reserves		5,458.9	5,192.4	4,560.6
Cumulative translation adjustment		(217.7)	(218.2)	(110.0)
Treasury shares		(52.8)	(52.5)	(61.6)
Total attributable to shareholders of the parent company		5,188.4	4,921.7	4,389.0
Non-controlling interests		195.1	216.8	221.7
<b>Total equity</b>	note 10.1	<b>5,383.5</b>	<b>5,138.5</b>	<b>4,610.7</b>
Long-term loans and borrowings	note 6.2	2,410.3	953.5	1,433.7
Non-current derivatives – Liabilities	note 6.2	0.7	2.6	--
Pensions and other long-term employee benefits	note 8	2,489.1	2,674.3	2,785.8
Deferred tax liabilities		196.9	230.9	287.0
<b>Non-current liabilities</b>		<b>5,097.0</b>	<b>3,861.3</b>	<b>4,506.5</b>
Advances received from customers on contracts		6,092.2	6,366.0	6,393.3
Reserves for contingencies		1,784.9	1,782.4	1,605.3
Accounts, notes and other current payables		5,643.0	5,360.5	5,172.9
Current derivatives -liabilities		290.1	179.7	478.3
Total current operating liabilities	note 7.1	13,810.2	13,688.6	13,649.8
Current tax payable		54.3	54.0	59.0
Short-term loans and borrowings	note 6.2	291.2	707.3	111.4
<b>Current liabilities</b>		<b>14,155.7</b>	<b>14,449.9</b>	<b>13,820.2</b>
<b>Total equity and liabilities</b>		<b>24,636.2</b>	<b>23,449.7</b>	<b>22,937.4</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	Notes	First Half 2018	First Half 2017 *	Full Year 2017 *
<b>Net income</b>		<b>474.9</b>	<b>322.1</b>	<b>737.4</b>
Add (deduct):				
Income tax expense (gain)		140.4	89.6	236.7
Net interest income (expenses)		3.1	(1.6)	(5.0)
Share in net income of equity affiliates		(71.2)	(60.8)	(119.9)
Dividends received from equity accounted: joint-ventures	note 5.1	33.6	13.4	38.5
Dividends received from equity accounted: associates	note 5.2	24.6	21.7	40.8
Depreciation and amortisation of property, plant and equipment and	note 4.2	234.5	242.2	504.1
Provisions for pensions and other employee benefits	note 8	78.1	101.7	191.7
Loss (gain) on disposal of assets, change inscope of consolidation and other		18.7	9.2	81.5
Provisions for restructuring, net		(11.1)	(27.4)	(27.0)
Other items		(10.4)	(18.6)	(82.8)
<b>Operating cash flows before working capital changes, interest and tax</b>		<b>915.2</b>	<b>691.5</b>	<b>1,596.0</b>
Change in working capital and reserves for contingencies	note 7.1	(914.5)	(172.2)	402.5
Cash contributions to pension plans and other long-term employee benefits		(117.4)	(101.8)	(202.9)
- UK deficit payment		(47.2)	(40.0)	(82.3)
- Recurring contributions/benefits		(70.2)	(61.8)	(120.6)
Interest paid		(27.7)	(12.6)	(14.0)
Interest received		11.8	6.7	22.3
Income tax paid		(32.8)	(45.8)	(90.6)
<b>Net cash flow from operating activities</b>	<b>- I -</b>	<b>(165.4)</b>	<b>365.8</b>	<b>1,713.3</b>
Acquisitions of property, plant and equipment and intangible assets		(156.4)	(189.5)	(438.9)
Disposals of property, plant and equipment and intangible assets		3.0	0.1	8.2
<b>Net operating investments</b>	note 4.2	<b>(153.4)</b>	<b>(189.4)</b>	<b>(430.7)</b>
Acquisitions of subsidiaries and affiliates, net		(54.5)	(1.2)	(121.4)
Disposals of subsidiaries and affiliates, net		--	41.0	41.9
Decrease (increase) in loans and non-current financial assets		16.5	(4.1)	(26.7)
Decrease (increase) in current financial assets		(0.5)	3.5	(70.8)
<b>Net financial investments</b>		<b>(38.5)</b>	<b>39.2</b>	<b>(177.0)</b>
<b>Net cash flow used in investing activities</b>	<b>- II -</b>	<b>(191.9)</b>	<b>(150.2)</b>	<b>(607.7)</b>
Parent company dividend distribution	note 10	(275.8)	(253.7)	(348.9)
Third party share in dividend distribution of subsidiaries		(40.0)	(11.7)	(68.1)
Capital increase (options exercised) & (Purchase) sale of treasury shares		10.7	2.0	(38.3)
Issuance of debt		1,562.1	36.2	107.0
Repayment of debt		(510.1)	(0.8)	(32.9)
<b>Net cash flow from / used in financing activities</b>	<b>- III -</b>	<b>746.9</b>	<b>(228.0)</b>	<b>(381.2)</b>
Effect of exchange rate changes and other	- IV -	(5.5)	(39.6)	(58.6)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>I+II+III+IV</b>	<b>384.1</b>	<b>(52.0)</b>	<b>665.8</b>
Cash and cash equivalents at beginning of period		4,282.7	3,616.9	3,616.9
<b>Cash and cash equivalents at end of period</b>		<b>4,666.8</b>	<b>3,564.9</b>	<b>4,282.7</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

The Group's net cash position and the changes over the periods are presented in Notes 6.2 and 7.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ACCOUNTING STANDARDS FRAMEWORK

Thales's condensed interim consolidated financial statements for the six months ending 30 June 2018 were approved and authorised for issue by its Board of Directors on 19 July 2018.

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

#### 1.1 BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the six months ending 30 June 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting" and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2018<sup>1</sup>.

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2017, as detailed in the 2017 registration document (notes 1 and 13 of the consolidated financial statements), with the exception of those resulting from the first application of IFRS 15 (*Revenue from Contrats with Customers*) and IFRS 9 (*Financial instruments*) as described in note 1.2 below.

IFRIC interpretation 22 (*Foreign Currency Transactions and Advance Consideration*) and amendments to IFRS 2 (*Share-based Payments*), applicable as from 1 January 2018, have no impact on the Group's financial statements.

New standards and interpretations issued by the IASB, but not yet mandatorily applicable, are described in the notes to the consolidated financial statements of the 2017 Registration Document, page 42 (note 1 "accounting standards framework").

The Group continues to work on the implementation of IFRS 16 (*Leases*) which will become mandatory as of 1 January 2019.

The specific provisions relating to the preparation of interim financial statements are described hereafter.

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

##### Pensions and other long-term employee benefits

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

##### Income taxes

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

##### Goodwill

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

<sup>1</sup> Available at the following address : <https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002>.

## b) Business seasonality

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

## c) Conversion rates

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

	30 June 2018		30 June 2017		31 December 17	
Euro	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.5787	1.5707	1.4851	1.4420	1.5346	1.4795
Pound Sterling	0.8861	0.8801	0.8793	0.8612	0.8872	0.8757
U.S. Dollar	1.1658	1.2071	1.1412	1.0934	1.1993	1.1370

# 1.2 IMPLEMENTATION OF IFRS 15 AND IFRS 9

## a) Impacts of the new standard IFRS 15 (Revenue from Contracts with Customers)

The main sources of differences between previous rules and IFRS 15 are described in note 1.2 of the 2017 consolidated financial statements.

Thales has opted for the full retrospective approach; consequently, the 2017 comparative financial statements have been restated with the impacts described below. IFRS 15 has no impact on cash-flows.

Balance sheet at 1st January 2017	01/01/17 Published	IFRS 15 impacts	01/01/17 Restated
Non-current operating assets	6,182.1	6.6	6,188.7
Non-current financial assets	1,465.5	(12.3)	1,453.2
Deferred tax assets	975.8	102.1	1,077.9
Current operating assets (note 7.1)	10,123.6	151.4	10,275.0
Current tax receivables	59.8	--	59.8
Current financial assets	3,882.8	--	3,882.8
<b>Total assets</b>	<b>22,689.6</b>	<b>247.8</b>	<b>22,937.4</b>
Equity	4,866.0	(255.3)	4,610.7
Non-current liabilities	4,514.1	(7.6)	4,506.5
Current operating liabilities & tax (note 7.1)	13,139.1	510.7	13,649.8
Current tax payable	59.0	--	59.0
Short-term loans and borrowings	111.4	--	111.4
<b>Total equity and liabilities</b>	<b>22,689.6</b>	<b>247.8</b>	<b>22,937.4</b>



<b>Balance sheet at 31 December 2017</b>	31/12/17 Published	IFRS 15 impacts	31/12/17 Restated
Non-current operating assets	6,143.8	6.8	6,150.6
Non-current financial assets	1,509.1	(25.9)	1,483.2
Deferred tax assets	858.1	128.4	986.5
Current operating assets (note 7.1)	10,166.7	8.3	10,175.0
Current tax receivables	36.6	--	36.6
Current financial assets	4,617.8	--	4,617.8
<b>Total assets</b>	<b>23,332.1</b>	<b>117.6</b>	<b>23,449.7</b>
Equity	5,555.5	(417.0)	5,138.5
Non-current liabilities	3,868.0	(6.7)	3,861.3
Current operating liabilities & tax (note 7.1)	13,147.3	541.3	13,688.6
Current tax payable	54.0	--	54.0
Short-term loans and borrowings	707.3	--	707.3
<b>Total equity and liabilities</b>	<b>23,332.1</b>	<b>117.6</b>	<b>23,449.7</b>

<b>Consolidated P&amp;L account, First Half 2017</b>	First Half 2017 Published	IFRS 15 impacts	First Half 2017 Restated
Sales	7,241.3	(122.9)	7,118.4
Income from operations	498.4	(49.5)	448.9
Income of operating activities after share in net income of equity affiliates	550.3	(49.8)	500.5
<i>EBIT (note 2.3)</i>	<i>637.3</i>	<i>(49.8)</i>	<i>587.5</i>
Net income	357.9	(35.8)	322.1
<i>Of which, shareholders of the parent company</i>	<i>335.9</i>	<i>(36.5)</i>	<i>299.4</i>
<i>Of which, non-controlling interests</i>	<i>22.0</i>	<i>0.7</i>	<i>22.7</i>
Net income	357.9	(35.8)	322.1
Other comprehensive net income (loss), net of tax	10.4	4.2	14.6
Total comprehensive income	368.3	(31.6)	336.7

<b>Consolidated P&amp;L account, Full Year 2017</b>	2017 Published	IFRS 15 impacts	2017 Restated
Sales	15,795.4	(567.9)	15,227.5
Income from operations	1,257.8	(162.3)	1,095.5
Income of operating activities after share in net income of equity affiliates	1,311.1	(177.2)	1,133.9
<i>EBIT (note 2.3)</i>	<i>1,542.6</i>	<i>(177.2)</i>	<i>1,365.4</i>
Net income	887.1	(149.7)	737.4
<i>Of which, shareholders of the parent company</i>	<i>821.7</i>	<i>(141.9)</i>	<i>679.8</i>
<i>Of which, non-controlling interests</i>	<i>65.4</i>	<i>(7.8)</i>	<i>57.6</i>
Net income	887.1	(149.7)	737.4
Other comprehensive net income (loss), net of tax	212.9	6.7	219.6
Total comprehensive income	1,100.0	(143.0)	957.0

As from 2018, 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 build followed by operation and maintenance). In such situations, IFRS 15 requires the contract to be segmented into several components ("*performance obligations*"), each component being accounted for separately, with its own revenue recognition method and margin rate.

The selling 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.

### **Evaluation of revenue allocated to performance obligations**

Variable consideration included in the selling price is taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognized 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 contract 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 contractual 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's 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 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 equipments (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**

Bid costs are expensed as incurred under "marketing and selling expenses". Consequently, they are excluded from contract margin.

Expected losses on contracts are fully recognised as soon as they are identified.

## Backlog and balance sheet presentation

Backlog (as disclosed in note 2.3) corresponds to the amounts of the selling price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at closing date.

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”.

Reserves for onerous contracts (so-called reserves for loss at completion) are excluded from contract assets and liabilities and presented among the “reserves for contingencies” item.

## b) Implementation of IFRS 9 (financial instruments)

On 29 November 2016, the European Union published IFRS 9 “Financial instruments”, superseding IAS 39 “Financial instruments: recognition and measurement”. This new standard, mandatorily effective as from 1st January 2018, covers three areas:

### Area 1:

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.

The former “available for sale financial assets” category, which allowed under IAS 39 to account for investments at “fair value through Other Comprehensive Income (OCI)”, with reclassification to the income statement in case of disposal or impairment of the underlying asset, no longer exists.

Under IFRS 9, financial assets with expected cash-flows that do not solely correspond to principal and interests payment (SPPI) will be carried at fair value through the income statement. Nevertheless, IFRS 9 introduces an irrevocable option to be exercised at the origin, investment by investment, which allows to account for those investments at fair value through OCI, with no reclassification to the income statement. Only dividends must remain accounted for through the income statement.

At transition date, this latter option has been chosen by the Group : non-consolidated investments have been classified in the category “fair value through OCI” with no further reclassification through the income statement. 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.

At 1<sup>st</sup> January 2018, IFRS 9, area 1 has no impact on Group shareholders’ equity.

### Area 2:

IFRS 9 introduces a new impairment model, with a shift from an “incurred loss” model to an “expected loss” model, based on credit risk.

Considering the profile of the Group customers, this new area has no significant impact on Group accounts at 1<sup>st</sup> January 2018 (-€13.2 million).

### Area 3:

IFRS 9 implementation has led the Group to change the accounting treatment of the time value of options that are used to hedge commercial contracts. The time value of foreign exchange options documented as hedges is mandatorily 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. At the transition date, the impact of this retrospective restatement is not significant for the Group.

The Group has chosen to take advantage of the new possibilities offered by IFRS 9 to change the accounting for swap points of new 2018 foreign exchange derivatives subscribed to hedge financial assets / liabilities: the cost of hedging is spread over the duration of the financial asset / liability.

However, the Group will continue to account at fair value through financial result for the swap points related to forward foreign currency contracts used to hedge commercial contracts.

As from 1<sup>st</sup> January 2018, Thales has opted for the retrospective approach, with no restatement of the 2017 financial statements.

## 2. SEGMENT INFORMATION

### 2.1 BUSINESS SEGMENTS

The operating segments presented by the Group are as follows :

- The *Aerospace* segment, which combines the “Avionics” and “Space” Global Business Units that develop on-board systems, solutions and services for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) and for government/defence customers (countries, space agencies and other semi-public organisations).
- The *Transport* segment, which comprises the “Ground Transportation Systems” Global Business Unit that develops systems and services for an exclusively civilian customer base of ground transportation infrastructure operators;
- The *Defence and Security* segment, which combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units that develop equipments, systems and services for armed forces and for the protection of networks and infrastructures, mainly for a government/defence customer base.

During the first half of 2018, like in 2017, the Group's activity is well balanced between civil (50%) and defence (50%) customers.

### 2.2 SALES

The Group sales are analysed as follows :

<b>First half 2018</b>	Aerospace	Transport	Defence & Security	Other	<b>Thales</b>
<b>Geographical destination:</b>					
Europe	1,689.4	496.6	1,909.2	14.9	<b>4,110.1</b>
North America	390.3	21.2	248.6	0.3	<b>660.4</b>
Australia and New Zealand	23.0	20.6	388.9	--	<b>432.5</b>
Rest of the world	665.5	365.8	1,210.0	7.9	<b>2,249.2</b>
<b>Total</b>	<b>2,768.2</b>	<b>904.2</b>	<b>3,756.7</b>	<b>23.1</b>	<b>7,452.2</b>

<b>First half 2017 *</b>	Aerospace	Transport	Defence & Security	Other	<b>Thales</b>
<b>Geographical destination:</b>					
Europe	1,641.1	472.3	1,795.3	16.9	<b>3,925.6</b>
North America	421.4	31.3	210.7	--	<b>663.4</b>
Australia and New Zealand	29.4	14.6	355.2	--	<b>399.2</b>
Rest of the world	704.9	242.8	1,171.4	11.1	<b>2,130.2</b>
<b>Total</b>	<b>2,796.8</b>	<b>761.0</b>	<b>3,532.6</b>	<b>28.0</b>	<b>7,118.4</b>

<b>2017 *</b>	Aerospace	Transport	Defence & Security	Other	<b>Thales</b>
<b>Geographical destination:</b>					
Europe	3,393.7	1,020.0	3,881.4	44.7	8,339.8
North America	873.5	59.8	458.5	--	1,391.8
Australia and New Zealand	56.2	38.9	743.3	--	838.4
Rest of the world	1,423.9	604.6	2,606.5	22.5	4,657.5
<b>Total</b>	<b>5,747.3</b>	<b>1,723.3</b>	<b>7,689.7</b>	<b>67.2</b>	<b>15,227.5</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

Three quarters of Group revenue is recognized over time, and the remaining quarter is recognised at a point in time.

## 2.3 COMMERCIAL ACTIVITY AND EBIT BY SEGMENT

In order to monitor the operating and financial performance of the Group entities, the Group's executives regularly consider certain key non-GAAP indicators as defined in Note 13-a of the 2017 consolidated financial statements, 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 intangible assets (*purchase price allocation*), other expenses directly linked to business combinations).

<b>First half 2018</b>	Aerospace	Transport	Defence & Security	Other, elim and unallocated *	<b>Thales</b>
Order backlog – non-Group	7,620.7	4,197.0	19,104.8	64.2	<b>30,986.7</b>
Order intake – non-Group	2,042.0	834.9	3,433.8	19.9	<b>6,330.6</b>
Sales – non-Group	2,768.2	904.2	3,756.7	23.1	<b>7,452.2</b>
Sales - intersegment	33.4	2.9	139.8	(176.1)	--
Total sales	2,801.6	907.1	3,896.5	(153.0)	<b>7,452.2</b>
EBIT	290.6	26.5	444.4	0.3	<b>761.8</b>
<i>Of which, Naval Group (ex DCNS)</i>	--	--	--	37.6	37.6
<i>Of which, excluding Naval Group</i>	290.6	26.5	444.4	(37.3)	<b>724.2</b>

<b>First half 2017 **</b>	Aerospace	Transport	Defence & Security	Other, elim and unallocated *	<b>Thales</b>
Order backlog – non-Group	8,383.0	4,226.3	18,854.3	84.6	<b>31,548.2</b>
Order intake – non-Group	2,273.7	662.0	3,035.0	38.2	<b>6,008.9</b>
Sales – non-Group	2,796.8	761.0	3,532.6	28.0	<b>7,118.4</b>
Sales - intersegment	49.6	3.5	120.1	(173.2)	--
Total sales	2,846.4	764.5	3,652.7	(145.2)	<b>7,118.4</b>
EBIT	260.0	8.3	325.4	(6.2)	<b>587.5</b>
<i>Of which, Naval Group (ex DCNS)</i>	--	--	--	26.4	26.4
<i>Of which, excluding Naval Group</i>	260.0	8.3	325.4	(32.6)	561.1

<b>2017 **</b>	<b>Aerospace</b>	<b>Transport</b>	<b>Defence &amp; Security</b>	<b>Other, elim and unallocated *</b>	<b>Thales</b>
Order backlog – non-Group	8,259.9	4,289.3	19,451.4	63.6	<b>32,064.2</b>
Order intake – non-Group	5,237.5	1,780.7	7,856.5	56.5	<b>14,931.2</b>
Sales – non-Group	5,747.3	1,723.3	7,689.7	67.2	<b>15,227.5</b>
Sales - intersegment	92.1	5.9	294.2	(392.2)	--
Total sales	5,839.4	1,729.2	7,983.9	(325.0)	<b>15,227.5</b>
EBIT	567.0	56.6	756.6	(14.8)	<b>1,365.4</b>
<i>Of which, Naval Group (ex DCNS)</i>	--	--	--	32.8	32.8
<i>Of which, excluding Naval Group</i>	567.0	56.6	756.6	(47.6)	1,332.6

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

\*\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

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

At the end of 2017, the order backlog amounted to €32,064.2 million. Around 80% of this amount should convert into sales by 31 December 2020.

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

	<b>First half 2018</b>	<b>First half 2017 restated*</b>	<b>Full year 2017 restated*</b>
Income from operations	622.6	448.9	1,095.5
Share in net income of equity affiliates	71.2	60.8	119.9
<b>Sub-total</b>	693.8	509.7	1,215.4
PPA amortisation related to fully consolidated entities	50.9	54.4	113.0
PPA amortisation related to equity affiliates	13.4	13.3	19.2
Expenses directly linked to business combinations	3.7	10.1	17.8
<b>EBIT</b>	<b>761.8</b>	<b>587.5</b>	<b>1,365.4</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.



### 3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

#### 3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

##### a) Ongoing event as of 30 June 2018

On 17 December 2017, Thales and Gemalto jointly announced that they had reached an agreement on a recommended all-cash offer for all issued and outstanding ordinary shares of Gemalto, for a price of €51 per ordinary share cum dividend (i.e. a total equity value of approximately €4.8bn).

The offer document, which sets forth the terms, conditions and consequences of the offer, has been approved by the Dutch Authority for Financial Markets ("AFM") and was published on 27 March 2018.

The acceptance period, initially opened until 6 June 2018, has been extended until 15 August 2018. Subject to having obtained dispensation from the AFM, Thales plans to further extend this period until customary conditions for a transaction of this kind are met, in particular obtaining the required regulatory clearances. The completion of the offer and payment of the offer price to Gemalto shareholders who will have tendered their shares is expected in the course of the second half of 2018.

##### b) Main events in 2017

In September 2017, Thales finalised the acquisition of the US company Guavus, one of the pioneers of real-time "big data" analytics, for a maximum enterprise value of \$215 million, subject to the achievement of significant sales growth targets. The net cash outflow amounted to \$109.1 million (€90.5 million) at the closing date. The purchase price was allocated to amortisable intangible assets. Residual goodwill amounted to \$72.2 million (€60 million). The Company is fully consolidated.

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

	First half 2018	First half 2017	Full year 2017
<b>Disposal of investments:</b>	<b>(0.1)</b>	<b>17.9</b>	<b>19.0</b>
Identity management business	--	17.8	16.5
Other	(0.1)	0.1	2.5
<b>Acquisition-related costs</b>	<b>(18.4)</b>	<b>(5.7)</b>	<b>(17.7)</b>
<b>Disposal of real estate other tangible assets</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>2.6</b>
<b>Impact of settlements / amendments to pension plans</b> (note 8)	<b>--</b>	<b>(21.0)</b>	<b>(21.2)</b>
<b>Litigations</b>	<b>--</b>	<b>--</b>	<b>(64.2)</b>
<b>Total</b>	<b>(18.7)</b>	<b>(9.2)</b>	<b>(81.5)</b>

## 4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

### 4.1 GOODWILL

Goodwill is allocated to cash-generating units (CGU) or groups of CGUs corresponding to Thales's Global Business Units (GBU). The changes in goodwill attributable to fully consolidated subsidiaries are presented below :

	31/12/17	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	30/06/18
Avionics	472.2	--	--	--	2.6	474.8
Space	488.6	--	--	--	0.3	488.9
<i>Aerospace</i>	<b>960.8</b>	--	--	--	2.9	<b>963.7</b>
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	842.0	--	--	--	3.7	845.7
Land and Air Systems	309.6	--	--	--	(0.1)	309.5
Defence Mission Systems	459.5	--	--	--	(1.3)	458.2
<i>Defence and Security</i>	<b>1,611.1</b>	--	--	--	2.3	<b>1,613.4</b>
<b>Total</b>	<b>3,447.2</b>	--	--	--	<b>5.2</b>	<b>3,452.4</b>

	01/01/17	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	31/12/17
Avionics	476.1	11.3	--	--	(15.2)	472.2
Space	481.8	8.6	--	--	(1.8)	488.6
<i>Aerospace</i>	<b>957.9</b>	19.9	--	--	(17.0)	<b>960.8</b>
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	819.4	60.4*	(7.0)	--	(30.8)	842.0
Land and Air Systems	309.8	--	--	--	(0.2)	309.6
Defence Mission Systems	462.0	--	--	--	(2.5)	459.5
<i>Defence and Security</i>	<b>1,591.2</b>	60.4	(7.0)	--	(33.5)	<b>1,611.1</b>
<b>Total</b>	<b>3,424.4</b>	<b>80.3</b>	<b>(7.0)</b>	--	<b>(50.5)</b>	<b>3,447.2</b>

\* Acquisition of Guavus : residual amount after purchase price allocation (PPA)

Goodwill is subject to annual impairment tests in accordance with the Group's budgetary timetable.

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

On 30 June 2018, the Group conducted a review of impairment indications relating to goodwill allocated to the cash-generating units (CGU) or groups of CGU for which sensitivity tests were presented in the consolidated financial statements at 31 December 2017. This review confirmed the absence of impairment to be recognised at 30 June 2018.

## 4.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	31/12/17*	Acquisitions & Activations	Disposals	Depreciation	Impairment	Changes in scope, exch. rate and other	30/06/18
Acquired intangible assets (PPA)	694.6	--	--	(50.9)	--	8.0	651.7
Capitalisation of development costs	52.2	4.7	--	(7.7)	--	--	49.2
Other	136.7	20.6	--	(22.7)	--	(6.1)	128.5
<b>Intangible assets</b>	<b>883.5</b>	<b>25.3</b>	<b>--</b>	<b>(81.3)</b>	<b>--</b>	<b>1.9</b>	<b>829.4</b>
<b>Property, plant and equipment</b>	<b>1,819.9</b>	<b>131.1</b>	<b>(3.0)</b>	<b>(153.2)</b>	<b>--</b>	<b>(10.4)</b>	<b>1,784.4</b>
<b>Total</b>	<b>2,703.4</b>	<b>156.4</b>	<b>(3.0)</b>	<b>(234.5)</b>	<b>--</b>	<b>(8.5)</b>	<b>2,613.8</b>

	01/01/17 *	Acquisitions & Activations	Diposals	Depreciation	Impairment	Changes in scope, exch. rate and other	31/12/17 *
Acquired intangible assets (PPA)	773.9	--	--	(113.0)	--	33.7	694.6
Capitalisation of development costs	79.3	10.4	--	(35.0)	--	(2.5)	52.2
Other	110.3	55.5	--	(40.5)	--	11.4	136.7
<b>Intangible assets</b>	<b>963.5</b>	<b>65.9</b>	<b>--</b>	<b>(188.5)</b>	<b>--</b>	<b>42.6</b>	<b>883.5</b>
<b>Property, plant and equipment</b>	<b>1,800.8</b>	<b>373.0</b>	<b>(8.2)</b>	<b>(315.6)</b>	<b>--</b>	<b>(30.1)</b>	<b>1,819.9</b>
<b>Total</b>	<b>2,764.3</b>	<b>438.9</b>	<b>(8.2)</b>	<b>(504.1)</b>	<b>--</b>	<b>12.5</b>	<b>2,703.4</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

## 5. INVESTMENTS IN JOINT-VENTURES AND ASSOCIATES

### 5.1 JOINT-VENTURES

#### a) Group share in net equity and net income of joint-ventures

	Investments in joint ventures		Share in net income		
	30/06/18	31/12/17*	1 <sup>st</sup> half 18	1 <sup>st</sup> half 17*	2017 *
Naval Group (35%)	721.4	704.8	25.0	13.8	14.0
Other joint-ventures **	305.7	297.1	26.2	25.4	59.6
<b>Total</b>	<b>1,027.1</b>	<b>1,001.9</b>	<b>51.2</b>	<b>39.2</b>	<b>73.6</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

\*\* Not individually material, the value of each investment representing less than 10% of the total

#### b) Change in investments in joint-ventures

	30/06/18	31/12/17 *
<b>Investments at opening</b>	<b>1,001.9</b>	<b>985.2</b>
<b>Share in net income of joint-ventures</b>	<b>51.2</b>	<b>73.6</b>
Translation adjustment	1.1	(7.9)
Cash flow hedge	0.2	(3.5)
Available for sale financial assets	--	(6.7)
Actuarial gains (losses) on pensions	(1.0)	1.9
<b>Share in comprehensive income of joint-ventures</b>	<b>51.5</b>	<b>57.4</b>
Dividends paid	(33.6)	(38.5)
Change in scope and other	7.3	(2.2)
<b>Investments at closing</b>	<b>1,027.1</b>	<b>1,001.9</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

### c) Naval Group summary financial information

<b>Summary balance sheet based on a100% interest **</b>	<b>30/06/18</b>	<b>31/12/17 *</b>
Non-current assets	2,213.8	2,105.4
Current assets	13,752.6	13,412.4
<b>Total assets</b>	<b>15,966.4</b>	<b>15,517.8</b>

Restated equity attributable to shareholders	1,226.8	1,179.3
Non-controlling interests	(42.2)	(13.0)
Non-current liabilities	614.4	602.5
Current liabilities	14,167.4	13,749.0
<b>Total equity and liabilities</b>	<b>15,966.4</b>	<b>15,517.8</b>

Net cash	2,412.2	2,594.5
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<b>Consolidation into Thales :</b>	<b>30/06/18</b>	<b>31/12/17 *</b>
Restated equity to shareholders of the company	1,226.8	1,179.3
Thales's holding percentage	35%	35%
Thales's share	429.4	412.8
Goodwill	292.0	292.0
<b>Share in net assets of the joint-venture</b>	<b>721.4</b>	<b>704.8</b>

<b>Summary P&amp;L account (100% interest) **</b>	<b>First half 2018</b>	<b>First half 2017 *</b>	<b>Full year 2017 *</b>
Sales	1,870.9	1,696.6	3,194.4
Income from operating activities & equity affiliates	71.0	9.2	(8.9)
Financial income	0.1	(3.3)	2.4
Tax	(29.6)	13.4	(63.8)
Restated net income	41.5	19.3	(70.3)
<i>Of which, shareholders of the company</i>	71.3	39.3	39.9
<i>Of which, non-controlling interests</i>	(29.8)	(20.0)	(110.2)

<b>Summary P&amp;L account (100% interest)</b>	<b>First half 2018</b>	<b>First half 2017 *</b>	<b>Full year 2017 *</b>
Restated net income, shareholders of the company	71.3	39.3	39.9
Thales's holding percentage	35%	35%	35%
<b>Share in income of the joint venture</b>	<b>25.0</b>	<b>13.8</b>	<b>14.0</b>
<i>Of which, impact of PPA</i>	(12.6)	(12.6)	(18.8)
<b>Of which, share in income before PPA</b>	<b>37.6</b>	<b>26.4</b>	<b>32.8</b>

Dividends received from the joint-venture	10.0	--	--
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\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

\*\* Including Thales amortization of PPA, net of tax

## 5.2 INVESTMENTS IN ASSOCIATES

	<b>30/06/18</b>	<b>31/12/17</b>
<b>Investments in associates at opening</b>	<b>210.1</b>	<b>219.5</b>
<b>Share in net income of equity affiliates</b>	20.0	46.3
Translation adjustment	2.7	(17.5)
Cash flow hedge	4.4	(2.3)
Actuarial gains (losses) on pensions	(0.6)	(0.7)
<b>Share in comprehensive income of equity affiliates</b>	<b>26.5</b>	<b>25.8</b>
Dividends paid	(24.6)	(40.8)
Other	(5.2)	5.6
<b>Investments in associates at closing</b>	<b>206.8</b>	<b>210.1</b>

## 6. FINANCING AND FINANCIAL INSTRUMENTS

### 6.1 OTHER FINANCIAL INCOME (EXPENSE)

	First half 2018	First half 2017	Full year 2017
Foreign exchange gains (losses)	(4.6)	(13.1)	(17.4)
Change in fair value of currency derivatives *	(26.8)	(43.1)	(69.9)
Cash flow hedge, ineffective portion	(1.0)	(3.6)	(10.9)
Foreign exchange result impact	(32.4)	(59.8)	(98.2)
Costs relating to the bridge loan set-up to finance the acquisition of Gemalto	(8.4)	--	--
Other	6.2	(2.9)	(1.1)
<b>Total other financial income (expense)</b>	<b>(34.6)</b>	<b>(62.7)</b>	<b>(99.3)</b>

\* Includes the change in the fair value of swap points (losses of €26.9 million in first half 2018, €45.4 million in first half 2017 and €65.3 million in 2017) and the time value of derivatives documented as future cash flow hedges (losses of €1.3 million in first half 2018, €3.6 million in first half 2017 and €5.7 million in 2017), as well as changes in the fair value of derivatives not documented as hedges.

### 6.2 NET CASH (NET DEBT)

#### • Net cash (net debt) at closing

	30/06/18	31/12/17
Current financial assets	332.5	332.0
Cash and cash equivalents	4,666.8	4,282.7
<b>Cash and other short-term investments (I)</b>	<b>4,999.3</b>	<b>4,614.7</b>
Borrowings and debt, long-term portion	2,410.3	953.5
Borrowings and debt, short-term portion	291.2	707.3
Fair value of interest rate derivatives	(13.1)	(17.5)
<b>Gross debt (II)</b>	<b>2,688.4</b>	<b>1,643.3</b>
<b>Net cash (I – II)</b>	<b>2,310.9</b>	<b>2,971.4</b>

#### • Gross financial debt

In January 2018, Thales issued a €500 million fixed-rate bond maturing in January 2025. This issue aimed in particular at refinancing the bond maturing in March 2018.

In April 2018, Thales launched a 2-tranche bond issue for a total amount of €1 billion. With this transaction, the Group finalized the financing of its proposed Gemalto acquisition, expected to be completed in the second half of 2018. The amounts raised enabled Thales to cancel the dedicated bridge credit agreement concluded in December 2017 to finance this acquisition. This bond issue includes a 2-year €500 million tranche and a 6-year €500 million tranche.

At the end of June, bonds characteristics are as following:

Nominal value	Issue date	Maturity	Nature of rate	Coupon	Effective rate	
					Before hedging	After hedging
€ 500 million	January 2018	January 2025	fixed	0.75%	0.91%	0.91%
€ 500 million	April 2018	April 2024	fixed	0.875%	0.9364%	1.11%
€ 600 million	June 2016	June 2023	fixed *	0.75%	0.84%	0.94%
€ 300 million	March 2013	March 2021	fixed *	2.25%	2.40%	1.042%
€ 500 million	April 2018	April 2020	variable	Euribor 3 M + 0.2%	-0.13%	-0.13%

\* After the reversal of initial swaps, during 1<sup>st</sup> half 2018.

### 6.3 SUMMARY OF FINANCIALS ASSETS AND LIABILITIES

There is no significative change in the classification of financial assets and liabilities, compared to the one disclosed in Note 6.5 of the 2017 consolidated financial statements, with the exception of non-consolidated investments, which have been classified, as from 1<sup>st</sup> January 2018, in the category “Fair value through OCI” (note 1.1.b).

The fair value of financial assets and liabilities approximates their carrying amount, except for long-term borrowings for which the fair value amounted to €2,427.7 million compared to a book value of €2,410.3 million at 30 June 2018 (€980.8 million vs. €953.5 million at 31 December 2017)

## 7. CHANGE IN NET CASH (NET DEBT)

	First half 2018	First half 2017	Full year 2017
<b>Net cash (debt) at opening</b>	<b>2,971.4</b>	<b>2,365.6</b>	<b>2,365.6</b>
Net cash flow from operating activities	(165.4)	365.8	1,713.3
Less, reduction in UK pension deficits	47.2	40.0	82.3
Net operating investments	(153.4)	(189.4)	(430.7)
<b>Free operating cash-flow</b>	<b>(271.6)</b>	<b>216.4</b>	<b>1 364.9</b>
Acquisitions of subsidiaries and affiliates	(54.5)	(1.2)	(121.4)
<i>Of which, Guavus</i>		--	(90.5)
Disposals of subsidiaries and affiliates	--	41.0	41.9
Reduction of UK pension deficits	(47.2)	(40.0)	(82.3)
Change in loans	16.5	(4.1)	(26.7)
Dividends paid by the parent company	(275.8)	(253.7)	(348.9)
Third party share in dividend distributions of subsidiaries	(40.1)	(11.7)	(68.1)
Treasury shares and subscription options exercised	10.7	2.0	(38.3)
Changes in exchange rates : translation and financing operations	(8.5)	(26.4)	(63.6)
Other	10.0	5.8	(51.7)
<b>Total change</b>	<b>(660.5)</b>	<b>(71.9)</b>	<b>605.8</b>
<b>Net cash (debt) at closing</b>	<b>2,310.9</b>	<b>2,293.7</b>	<b>2,971.4</b>

## 7.1 CHANGES IN WORKING CAPITAL REQUIREMENTS

Current operating assets and liabilities include working capital components and reserves for contingencies. The changes in these items are presented below.

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

Reserves for loss at completion are excluded from contract assets / liabilities and presented among the “reserves for contingencies” item.

IFRS 15 impacts	01/01/17 published	IFRS 15 impacts	01/01/17 restated	31/12/17 published	IFRS 15 impacts	31/12/17 restated
Inventories and work in progress	2,734.6	265.0	2,999.6	2,803.4	355.5	3,158.9
Construction contracts	2,331.5	(2,331.5)	--	2,306.0	(2,306.0)	--
Contract assets	--	2,577.0	2,577.0	--	2,301.4	2,301.4
Advance to suppliers	348.3	--	348.3	451.8	--	451.8
Accounts, notes and other receivables	4,547.5	(359.1)	4,188.4	4,351.1	(342.6)	4,008.5
Current derivatives – assets	161.7	--	161.7	254.4	--	254.4
<b>Current operating assets</b>	<b>10,123.6</b>	<b>151.4</b>	<b>10,275.0</b>	<b>10,166.7</b>	<b>8.3</b>	<b>10,175.0</b>
Construction contracts	(1,139.4)	1,139.4	--	(1,278.3)	1,278.3	--
Advances received from customers	(4,478.4)	4,478.4	--	(4,162.6)	4,162.6	--
Contracts liabilities	--	(6,393.3)	(6,393.3)	--	(6,366.0)	(6,366.0)
Reserves for contingencies	(1,037.0)	(568.3)	(1,605.3)	(1,134.7)	(647.7)	(1,782.4)
Accounts, notes and other payables	(6,006.0)	833.1	(5,172.9)	(6,392.0)	1,031.5	(5,360.5)
Current derivatives - liabilities	(478.3)	--	(478.3)	(179.7)	--	(179.7)
<b>Current operating liabilities</b>	<b>(13,139.1)</b>	<b>(510.7)</b>	<b>(13,649.8)</b>	<b>(13,147.3)</b>	<b>(541.3)</b>	<b>(13,688.6)</b>

Change in WCR	01/01/17*	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/17*	Changes in WCR and reserves	Scope, exch. rate and reclass.	30/06/18
Inventories and work in progress	2,999.6	225.0	(65.7)	3,158.9	132.8	26.4	3,318.1
Contract assets	2,577.0	(232.4)	(43.2)	2,301.4	679.4	78.2	3,059.0
Advance to suppliers	348.3	110.3	(6.8)	451.8	89.9	0.5	542.2
Accounts, notes and other receivables	4,188.4	(88.4)	(91.5)	4,008.5	5.4	(46.9)	3,967.0
Current derivatives – assets	161.7	122.6	(29.9)	254.4	(152.1)	29.2	131.5
<b>Current operating assets</b>	<b>10,275.0</b>	<b>137.1</b>	<b>(237.1)</b>	<b>10,175.0</b>	<b>755.4</b>	<b>87.4</b>	<b>11,017.8</b>
Contracts liabilities	(6,393.3)	(50.6)	77.9	(6,366.0)	400.7	(126.9)	(6,092.2)
Reserves for contingencies	(1,605.3)	(207.6)	30.5	(1,782.4)	25.2	(27.7)	(1,784.9)
Accounts, notes and other payables	(5,172.9)	(254.4)	66.8	(5,360.5)	(255.7)	(26.8)	(5,643.0)
Current derivatives - liabilities	(478.3)	--	298.6	(179.7)	--	(110.4)	(290.1)
<b>Current operating liabilities</b>	<b>(13,649.8)</b>	<b>(512.6)</b>	<b>473.8</b>	<b>(13,688.6)</b>	<b>170.2</b>	<b>(291.8)</b>	<b>(13,810.2)</b>
<b>Restructuring provisions</b>	<b>114.3</b>	<b>(27.0)</b>	<b>(1.3)</b>	<b>86.0</b>	<b>(11.1)</b>	<b>(0.6)</b>	<b>74.3</b>
<b>Increase (decrease) in WCR and reserves</b>		<b>(402.5)</b>			<b>914.5</b>		

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

The Group may assign trade receivables, mainly from the French State, and commercial paper. At 30 June 2018, derecognised receivables amounted to €36.9 million (€292.5 million at 31 December 2017).



## 7.2 CHANGES IN RESERVES FOR CONTINGENCIES

	31/12/17*	Utilisation	Additions	Reversal (surplus)	Exchange rate and other	30/06/18
Restructuring	86.0	(15.0)	6.6	(2.7)	(0.6)	74.3
Litigations	152.0	(10.2)	7.2	(1.2)	0.1	147.9
Guarantees	338.2	(26.9)	51.6	(14.5)	13.2	361.6
Losses at completion	565.4	(55.3)	75.7	(29.2)	(8.1)	548.5
Provisions on contracts	321.0	(33.3)	47.3	(28.4)	8.2	314.8
Other **	319.8	(23.6)	51.4	(17.5)	7.7	337.8
<b>Total</b>	<b>1,782.4</b>	<b>(164.3)</b>	<b>239.8</b>	<b>(93.5)</b>	<b>20.5</b>	<b>1,784.9</b>

	01/01/17*	Utilisation	Additions	Reversal (surplus)	Exchange rates and other	31/12/17*
Restructuring	114.3	(62.8)	42.8	(7.0)	(1.3)	86.0
Litigations	131.0	(21.2)	72.7	(29.2)	(1.3)	152.0
Guarantees	261.7	(40.4)	120.1	(12.9)	9.7	338.2
Losses at completion	527.1	(120.6)	187.3	(23.3)	(5.1)	565.4
Provisions on contracts	270.6	(34.4)	86.0	(8.8)	7.6	321.0
Other **	300.6	(73.4)	113.0	(13.3)	(7.1)	319.8
<b>Total</b>	<b>1,605.3</b>	<b>(352.8)</b>	<b>621.9</b>	<b>(94.5)</b>	<b>2.5</b>	<b>1,782.4</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

\*\* Includes technical provisions of insurance companies, provisions for tax and labour-related risks, vendor warranties, environmental guarantees and other.

## 8. PENSIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

### a) Actuarial assumptions

At 30 June 2018, the market value of plan assets and the discount and inflation rates assumptions for the main countries (representing more than 90% of the net obligation) were updated. The assumptions used in the United Kingdom and in France are as follows:

30 June 2018	United Kingdom	France
Inflation rate	3.16%	1.45%
Discount rate	2.77%	1.46%
30 June 2017	United Kingdom	France
Inflation rate	3.05%	1.35%
Discount rate	2.55%	1.59%
31 December 2017	United Kingdom	France
Inflation rate	3.19%	1.35%
Discount rate	2.60%	1.20%

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

	First half 2018	First half 2017	Full year 2017
<b>Provision at opening</b>	<b>(2,674.3)</b>	<b>(2,785.8)</b>	<b>(2,785.8)</b>
<b>Current service cost</b> (income from operations)	<b>(56.0)</b>	<b>(53.0)</b>	<b>(105.0)</b>
<b>Past service cost</b> (other income of operating activities)	<b>--</b>	<b>(21.0)*</b>	<b>(21.2)*</b>
Net interest cost	(24.1)	(28.4)	(57.2)
Pension fund management cost	(2.5)	(2.5)	(5.6)
Actuarial gains and losses on other long-term employee benefits	4.5	3.2	(2.7)
<b>Finance costs on pensions and other long-term employee benefits</b>	<b>(22.1)</b>	<b>(27.7)</b>	<b>(65.5)</b>
<b>Total expense for the period</b>	<b>(78.1)</b>	<b>(101.7)</b>	<b>(191.7)</b>
<b>Actuarial gains and losses (other comprehensive income)</b>	<b>148.0</b>	<b>(120.8)</b>	<b>49.4</b>
<b>Benefits and contributions</b>	<b>117.4</b>	<b>101.8</b>	<b>202.9</b>
- Of which, deficit payment in the United Kingdom	47.2	40.0	82.3
- Of which, other benefits and contributions	70.2	61.8	120.6
<b>Translation adjustment</b>	<b>(2.8)</b>	<b>42.1</b>	<b>55.7</b>
<b>Changes in scope of consolidation and other</b>	<b>0.7</b>	<b>3.3</b>	<b>(4.8)</b>
<b>Provision at closing</b>	<b>(2,489.1)</b>	<b>(2,861.1)</b>	<b>(2,674.3)</b>

\* Provision recorded as part of a new agreement under which French employees may convert fully or partially, their end-of-career benefits into early retirement leave.

## 9. INCOME TAX

	First half 2018	First half 2017*	Full year 2017*
Net income	474.9	322.1	737.4
Less : income tax	140.4	89.6	236.7
Less : share in net income of equity affiliates	(71.2)	(60.8)	(119.9)
<b>Profit before tax and net income of equity affiliates</b>	<b>544.1</b>	<b>350.9</b>	<b>854.2</b>
<b>Income tax expense</b>	<b>(140.4)</b>	<b>(89.6)</b>	<b>(236.7)</b>
<b>Effective tax rate</b>	<b>25.8%</b>	<b>25.5%</b>	<b>27.7%</b>

\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

The income tax expense excludes research tax credits which are recorded in income from operations (€84.3 million in the first half of 2018, €85.4 million in the first half of 2017 and €176.0 million in 2017).

## 10. EQUITY AND EARNINGS PER SHARE

### 10.1 SHAREHOLDERS' EQUITY

#### a) Share capital

	At 30/06/18			At 31/12/17		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
T.S.A.	54,786,654	25.71%	35.71%	54,786,654	25.76%	35.75%
French State (including one golden share)	2,060	--	--	2,060	--	--
French public sector (a)	54,788,714	25.71%	35.71%	54,788,714	25.76%	35.75%
Dassault Aviation (b)	52,531,431	24.65%	28.42%	52,531,431	24.70%	28.44%
Thales (c)	547,981	0.26%	--	568,739	0.27%	--
Employees	5,862,124	2.75%	3.35%	6,181,444	2.91%	3.50%
Other shareholders	99,341,454	46.63%	32.52%	98,588,397	46.36%	32.31%
<b>Total (d)</b>	<b>213,071,704</b>	<b>100.00%</b>	<b>100.00%</b>	<b>212,658,725</b>	<b>100.00%</b>	<b>100.00%</b>

(a) Under the terms of its shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "French public sector" is represented by the company TSA. As from 29 January 2018, the EPIC Bpifrance holds the entire capital of TSA, with the exception of one preference share held by the French State. The EPIC Bpifrance and the French State also agreed to consult on TSA, under the conditions described in the AMF (French Authority for Financial Markets) notice n°218C0137 dated 16 January 2018. All Thales shares held directly and indirectly by the French State have been directly registered shares for more than two years and thus have a double voting right as of 30 June 2018.

(b) As at 30 June 2018, Dassault Aviation holds 42,154,349 shares in directly registered form, including 34,654,349 shares for more than two years, thus granting it double voting rights. In addition, it holds 10,377,082 shares in bearer form.

(c) Treasury shares made up of 47,500 bearer shares (held under a liquidity contract) and 500,481 directly registered shares.

(d) In the first half of 2018, 412,979 new shares bearing rights from 1 January 2018 were created as a result of the exercise of share subscription options.

## b) Treasury shares

Thales (parent company) holds 547,981 of its own shares at 30 June 2018. They are accounted for as a deduction from consolidated equity in the amount of €52.8 million.

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

	First half 2018	First half 2017	Full year 2017
<b>Treasury shares at opening</b>	<b>568,739</b>	<b>749,559</b>	<b>749,559</b>
Purchases as part of a liquidity agreement	314,623	298,883	819,512
Sales as part of a liquidity agreement	(393,123)	(291,883)	(743,512)
Transfer to employees as part of the employee share purchase offering	(37,118)	--	(462,167)
Delivery of free shares	(290)	(50)	(606,653)
Market purchases	96,000	118,000	852,000
Exercise of share purchase options	(850)	(40,000)	(40,000)
<b>Treasury shares at closing</b>	<b>547,981</b>	<b>834,509</b>	<b>568,739</b>

## c) Parent company dividend distribution

Dividends per share amounted respectively to €1.60 and €1.75 in 2016 and 2017. Dividends paid in 2017 and 2018 are described below:

Year	Approved by	Description	Dividend per share (en euros)	Payment date	Payment method	Total (€ million)
2018	General Meeting on 23 May 2018	Balance for 2017	1.30 €	June 2018	cash	€275.8m
		<b>Total dividends paid in first half 2018</b>				<b>€275.8m</b>
2017	Board of Directors meeting on 28 September 2017	2017 interim dividend	0.45 €	Dec. 2017	cash	€95.2m
	General Meeting on 17 May 2017	Balance for 2016	1.20 €	June 2017	cash	€253.7m
		<b>Total dividends paid in 2017</b>				<b>€348.9m</b>

## d) Non-controlling interests

This item principally includes Leonardo's interest in the sub-group Thales Alenia Space (33%), as well as Siemens' and Philips Medical Systems International's interests 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 2 companies is unrestricted and exclusively pooled with Thales's Corporate Treasury Department department.

## 10.2 EARNINGS PER SHARE

	First half 2018	First half 2017*	Full year 2017*
<b>Numerator (in € millions) :</b>			
Net income attributable to shareholders of the parent company (a)	457.2	299.4	679.8
<b>Denominator (in thousands) :</b>			
Average number of shares outstanding (b)	212,292	211,611	211,661
Share subscription and share purchase options **	410	705	596
Free shares and units plans ***	488	951	984
Diluted average number of shares outstanding (c)	213,190	213,267	213,241
<b>Basics earnings per share (in euros) (a) / (b)</b>	<b>2.15</b>	<b>1.41</b>	<b>3.21</b>
<b>Diluted earnings per share (in euros) (a) / (c)</b>	<b>2.14</b>	<b>1.40</b>	<b>3.19</b>

<i>Average share price</i>	98.91€	92.79 €	92.14 €
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\* 2017 figures have been restated to take into account the impact of the IFRS 15 standard.

\*\* 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.

\*\*\* The performance shares / units are only taken into account when performance targets are achieved.

## 11. LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation. There have been no evolution in the information disclosed in the 2017 Registration Document.

## 12. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 13-a of the 2017 consolidated financial statements.

Revenues with the French State (mainly with DGA : French defence procurement agency) amounted to €1,262.8 million in the first half of 2018 and €1,117.1 million in the first half of 2017.

At 30 June 2018, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to €38.0 million (€35.8 million at 30 June 2017 and €181.1 million at 31 december 2017).

## 13. EVENTS AFTER REPORTING PERIOD

To the best of the Group's knowledge, no significant events occurred after the end of the reporting period.

# THALES

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

For the period from January 1 to June 30, 2018

*This is a translation into English of the statutory auditors' report on the half-yearly consolidated financial information issued in French and it is provided solely for the convenience of English speaking users. This report also includes information relating to the specific verification of information given in the Group's half year management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

**ERNST & YOUNG Audit**

**MAZARS**

**ERNST & YOUNG Audit**

Tour First TSA 14444 – 92037 PARIS-LA DEFENSE CEDEX

COMMISSAIRE AUX COMPTES – MEMBRE DE LA COMPAGNIE REGIONALE DE  
VERSAILLES

S.A.S A CAPITAL VARIABLE

RCS 344 366 315

**MAZARS**

61, RUE HENRI REGNAULT – 92400 COURBEVOIE

SOCIETE ANONYME D’EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES  
A DIRECTOIRE ET CONSEIL DE SURVEILLANCE

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



**THALES**

*Half-yearly financial  
information*

*For the period from  
January 1 to June 30, 2018*

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

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Thales, for the period from January 1 to June 30, 2017,
- the verification of the information presented in the half-yearly management report.

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

### **1. Conclusion on the financial statement**

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

Based on our review, nothing has come to our attention that causes us to believe that the half year consolidated condensed financial statements, prepared in accordance with IFRS as adopted by the European Union, do not give a true and fair view of the financial position of the Group and of the results of its operations for the six month period then ended of all the companies within the scope of consolidation.

Without qualifying the conclusion expressed above, we draw your attention to note 1.2 which presents the effects of the first application of IFRS 15 and 9 on the condensed consolidated financial statements as of June 30, 2018.

**THALES**

*Half-yearly financial  
information*

*For the period from  
January 1 to June 30, 2018*

**2. Specific verification**

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

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

*Courbevoie and Paris-La Défense, July 19, 2018*

The Statutory Auditors

*French original signed by*

**M A Z A R S**

Dominique Muller

Grégory Derouet

**ERNST & YOUNG  
AUDIT**

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**THALES**