



**CONSOLIDATED FINANCIAL
STATEMENTS**

AT 31 DECEMBER 2014

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)	Notes	2014	2013*
Sales	note 2	12,973.6	12,697.6
Cost of sales		(9,791.8)	(9,685.3)
Research and development expenses		(641.4)	(612.2)
Marketing and selling expenses		(914.4)	(894.0)
General and administrative expenses		(519.3)	(506.2)
Restructuring costs	note 10.4	(114.4)	(121.6)
Amortisation of intangible assets acquired (PPA)**	note 4.2	(103.7)	(61.8)
Income from operations	note 2	888.6	816.5
Disposal of assets, changes in scope of consolidation and other	note 3.2	248.9	16.1
Impairment of non-current operating assets	note 4.3	--	(3.0)
Income of operating activities before impact of equity affiliates		1,137.5	829.6
Share in net income (loss) of equity affiliates		(34.0)	106.0
Of which, share in net income (loss) of joint ventures	note 5.1	(83.5)	79.8
Of which, share in net income (loss) of associates	note 5.2	49.5	26.2
Income of operating activities after impact of equity affiliates		1,103.5	935.6
Financial interests on gross debt		(20.2)	(26.6)
Financial income from cash at bank and equivalents		22.4	17.7
Financial interests, net	note 6.1	2.2	(8.9)
Other financial income (expense)	note 6.1	(39.6)	(45.1)
Finance costs on pensions and other employee benefits	note 9.3	(90.1)	(69.5)
Income tax	note 7.1	(214.3)	(203.5)
Net income (loss)		761.7	608.6
Attributable to:			
Shareholders of the parent company		714.2	573.4
Non-controlling interests		47.5	35.2
Basic earnings per share (in euros)	note 8.2	3.49	2.85
Diluted earnings per share (in euros)	note 8.2	3.47	2.84

* New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

In this context, and given that joint ventures and associates are an integral part of the Group's businesses, share in net income (loss) of equity affiliates is now presented within "income from operating activities after impact of equity affiliates", according to recommendation 2013-01 of the French Authority of Accounting Standards.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014			2013*		
	Total attributable to:		Total	Total attributable to:		Total
(€ Million)	Shareholders of the parent company	Non-controlling interests		Shareholders of the parent company	Non-controlling interests	
Net income (loss)	714.2	47.5	761.7	573.4	35.2	608.6
Cumulative translation adjustment (note 8.1)	107.9	1.0	108.9	(135.4)	(0.7)	(136.1)
Deferred tax (note 7.2)	(0.7)	--	(0.7)	(0.3)	--	(0.3)
Net	107.2	1.0	108.2	(135.7)	(0.7)	(136.4)
Cash flow hedge (note 8.1)	(261.8)	(30.2)	(292.0)	60.3	10.8	71.1
Deferred tax (note 7.2)	86.7	10.4	97.1	(22.4)	(3.7)	(26.1)
Net	(175.1)	(19.8)	(194.9)	37.9	7.1	45.0
Financial assets available for sale	0.1	--	0.1	(0.1)	--	(0.1)
Items to be subsequently reclassified to P&L	(67.8)	(18.8)	(86.6)	(97.9)	6.4	(91.5)
<i>Of which, part related to joint ventures, after income tax (note 5.1)</i>	<i>18.4</i>	<i>--</i>	<i>18.4</i>	<i>(16.3)</i>	<i>--</i>	<i>(16.3)</i>
<i>Of which, part related to associates, after income tax (note 5.2)</i>	<i>16.0</i>	<i>--</i>	<i>16.0</i>	<i>(21.2)</i>	<i>--</i>	<i>(21.2)</i>
						--
Actuarial gains (losses) on pensions: subsidiaries (note 9.3)	(617.6)	(9.4)	(627.0)	(27.1)	(5.0)	(32.1)
Actuarial gains (losses) on pensions: equity affiliates	(24.6)	--	(24.6)	(5.2)	--	(5.2)
Deferred tax (note 7.2)	97.0	3.1	100.1	(11.0)	0.1	(10.9)
Items that will not be reclassified to P&L	(545.2)	(6.3)	(551.5)	(43.3)	(4.9)	(48.2)
<i>Of which, part related to joint ventures, after income tax (note 5.1)</i>	<i>(14.8)</i>	<i>--</i>	<i>(14.8)</i>	<i>(3.8)</i>	<i>--</i>	<i>(3.8)</i>
<i>Of which, part related to associates, after income tax (note 5.2)</i>	<i>0.9</i>	<i>--</i>	<i>0.9</i>	<i>--</i>	<i>--</i>	<i>--</i>
Other comprehensive income (loss) for the period, net of tax	(613.0)	(25.1)	(638.1)	(141.2)	1.5	(139.7)
Total comprehensive income (loss) for the period	101.2	22.4	123.6	432.2	36.7	468.9

* New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ Million)	Number of shares outstanding (thousands)	Share capital	Paid-in surplus	Retained earnings	Cash Flow Hedge	AFS invest ments	Cumulative translation adjustment	Treasury shares	Total attrib. to shareholders of the parent company	Non controlling interests	Total
At 1 January 2013 published	199,544	607.0	3,731.6	(623.7)	18.7	1.6	(106.2)	(87.9)	3,541.1	10.4	3,551.5
New consolidation standards impact	--	--	--	(64.1)	--	--	--	--	(64.1)	219.1	155.0
At 1 January 2013 restated *	199,544	607.0	3,731.6	(687.8)	18.7	1.6	(106.2)	(87.9)	3,477.0	229.5	3,706.5
Net income (loss)	--	--	--	573.4	--	--	--	--	573.4	35.2	608.6
Other comprehensive income (loss)	--	--	--	(43.3)	37.9	(0.1)	(135.7)	--	(141.2)	1.5	(139.7)
Total comprehensive income (loss) for 2013*	--	--	--	530.1	37.9	(0.1)	(135.7)	0.0	432.2	36.7	468.9
Employee share issues	3,405	10.2	95.0	--	--	--	--	--	105.2	--	105.2
Parent company dividend distribution (note 8.1)	--	--	--	(180.7)	--	--	--	--	(180.7)	--	(180.7)
Third party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(31.9)	(31.9)
Share-based payments (note 9.4)	--	--	--	14.7	--	--	--	--	14.7	--	14.7
Acquisitions / disposals of treasury shares (note 8.1)	305	--	--	(10.4)	--	--	--	6.5	(3.9)	--	(3.9)
Other	--	--	--	4.0	--	--	--	--	4.0	(0.2)	3.8
Changes in scope of consolidation	--	--	--	(1.6)	--	--	--	--	(1.6)	4.1	2.5
At 31 December 2013 restated *	203,254	617.2	3,826.6	(331.7)	56.6	1.5	(241.9)	(81.4)	3,846.9	238.2	4,085.1
Net income (loss)	--	--	--	714.2	--	--	--	--	714.2	47.5	761.7
Other comprehensive income (loss)	--	--	--	(545.2)	(175.1)	0.1	107.2	--	(613.0)	(25.1)	(638.1)
Total comprehensive income (loss) for 2014	--	--	--	169.0	(175.1)	0.1	107.2	--	101.2	22.4	123.6
Employee share issues	2,097	6.3	63.3	--	--	--	--	--	69.6	--	69.6
Parent company dividend distribution (note 8.1)	--	--	--	(242.8)	--	--	--	--	(242.8)	--	(242.8)
Third party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(130.9)	(130.9)
Share-based payments (note 9.4)	--	--	--	14.1	--	--	--	--	14.1	--	14.1
Acquisitions / disposals of treasury shares (note 8.1)	613	--	--	(19.3)	--	--	--	22.5	3.2	--	3.2
Other	--	--	--	(24.9)	--	--	--	--	(24.9)	(0.5)	(25.4)
Changes in scope of consolidation	--	--	--	4.1	--	--	--	--	4.1	169.3	173.4
At 31 December 2014	205,964	623.5	3,889.9	(431.5)	(118.5)	1.6	(134.7)	(58.9)	3,771.4	298.5	4,069.9

* New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

CONSOLIDATED BALANCE SHEET

(€ Million)

ASSETS	Notes	31/12/14	31/12/13 *	01/01/13 *
Goodwill, net	note 4.1	3,212.6	2,923.6	2,913.7
Other intangible assets, net	note 4.2	946.2	527.8	564.2
Tangible assets, net	note 4.2	1,557.0	1,322.3	1,273.8
Total non-current operating assets		5,715.8	4,773.7	4,751.7
Investment in joint ventures	note 5.1	1,103.1	1,411.4	1,439.5
Investment in associates	note 5.2	385.5	246.8	203.0
Non consolidated investments	note 6.3	60.4	65.0	191.5
Other non-current financial assets	note 6.3	138.4	153.0	132.3
Total non-current financial assets		1,687.4	1,876.2	1,966.3
Non-current derivatives - assets	note 6.5	44.1	16.6	23.5
Deferred tax assets	note 7.3	947.6	803.6	993.3
Non-current assets		8,394.9	7,470.1	7,734.8
Inventories and work in progress	note 10.1	2,437.6	2,124.1	2,111.2
Construction contracts: assets	note 10.2	1,996.4	1,995.2	2,029.5
Advances to suppliers	note 10.1	326.0	285.2	231.0
Accounts, notes and other current receivables	note 10.1	4,129.1	3,810.0	3,888.1
Current derivatives - assets	note 6.5	108.2	176.5	119.1
Total current operating assets		8,997.3	8,391.0	8,378.9
Current tax receivables		60.3	31.9	35.1
Current financial assets	note 6.2	56.8	196.9	271.8
Cash at bank and equivalents	note 6.2	2,481.4	2,563.7	2,127.3
Total current financial assets		2,538.2	2,760.6	2,399.1
Current assets		11,595.8	11,183.5	10,813.1
TOTAL ASSETS		19,990.7	18,653.6	18,547.9
EQUITY AND LIABILITIES	Notes	31/12/14	31/12/13 *	01/01/13 *
Capital, paid-in surplus and other reserves		3,965.0	4,170.2	3,671.1
Cumulative translation adjustment		(134.7)	(241.9)	(106.2)
Treasury shares		(58.9)	(81.4)	(87.9)
Total attributable to shareholders of the parent company		3,771.4	3,846.9	3,477.0
Non-controlling interests		298.5	238.2	229.5
Total equity	note 8.1	4,069.9	4,085.1	3,706.5
Financial debt: long-term	note 6.2	1,467.8	1,451.6	712.2
Non-current derivatives - liabilities	note 6.5	--	2.6	--
Pensions and other employee benefits	note 9.3	2,556.8	1,857.9	1,883.4
Deferred tax liabilities	note 7.3	265.3	149.1	183.4
Non-current liabilities		4,289.9	3,461.2	2,779.0
Advances received from customers on contracts	note 10.1	3,676.4	3,739.3	3,741.2
Refundable grants	note 10.1	130.4	143.0	148.1
Construction contracts: liabilities	note 10.2	1,072.3	1,073.9	1,267.9
Reserves for contingencies	note 10.4	1,038.0	1,026.1	1,156.2
Accounts, notes and other current payables	note 10.1	5,269.4	4,746.9	4,836.6
Current derivatives - liabilities	note 6.5	282.2	72.9	92.5
Total current operating liabilities		11,468.7	10,802.1	11,242.5
Current tax payables		54.0	59.5	39.4
Financial debt: short-term	note 6.2	108.2	245.7	780.5
Current liabilities		11,630.9	11,107.3	12,062.4
TOTAL EQUITY AND LIABILITIES		19,990.7	18,653.6	18,547.9

* New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ Million)	Notes	2014	2013*
Net income (loss)		761.7	608.6
Add (deduct):			
Income tax expense (gain)		214.3	203.5
Financial interests, net expense (gain)		(2.2)	8.9
Share in net (income) loss of equity affiliates (net of dividends received)		34.0	(106.0)
Dividends received from equity-accounted: joint ventures		44.6	95.8
Dividends received from equity-accounted: associates		25.1	16.9
Depreciation and amortisation of tangible and intangible assets	note 4.2	345.9	305.1
Depreciation and amortisation of intangible assets acquired	note 4.2	103.7	61.8
Provisions for pensions and other employee benefits	note 9.3	172.5	154.5
Impairment of non current operating assets	note 4.3	0.0	3.0
Loss (gain) on disposal of assets, change in scope of consolidation and other	note 3.2	(248.9)	(16.1)
Net allowances to restructuring provisions	note 10.4	(10.7)	(39.2)
Other items		25.6	32.9
Operating cash flows before working capital changes, interests and tax		1,465.6	1,329.7
Change in working capital requirement and in reserves for contingencies	note 10.1	(287.1)	(300.7)
Payment of contributions / pensions benefits (defined benefit plans):	note 9.3	(190.5)	(187.4)
- related to reduction of the UK deficit		(68.8)	(64.3)
- related to future service (recurrent contributions)		(121.7)	(123.1)
Financial interests paid		(31.4)	(47.5)
Financial interests received		17.0	16.3
Income tax paid		(98.4)	(39.8)
Net cash flows from operating activities	- I -	875.2	770.6
Capital expenditure on tangible and intangible assets		(472.6)	(383.9)
Proceeds from disposal of tangible and intangible assets		29.2	25.7
Net operating investment	note 11.2	(443.4)	(358.2)
Acquisitions of subsidiaries, net	note 11.3	(378.2)	(44.0)
Disposals of subsidiaries, net	note 11.3	4.4	8.9
Decrease (increase) in loans and other non current financial assets		21.9	(14.3)
Decrease (increase) in other current financial assets		152.7	81.1
Net financial investment		(199.2)	31.7
Net cash flows from investing activities	- II -	(642.6)	(326.5)
Parent company dividend distribution		(242.8)	(180.7)
Third party share in dividend distributions of subsidiaries		(130.9)	(31.9)
Increase in equity (exercise of subscription options)		75.0	97.3
Purchase/sale of treasury shares		3.2	(6.8)
Increase in financial debt		46.1	840.3
Repayment of financial debt		(94.2)	(699.3)
Net cash flows from financing activities	- III -	(343.6)	18.9
Effect of exchange rate variations and other	- IV -	28.7	(26.6)
Total increase (decrease) in cash at bank and equivalents	I+II+III+IV	(82.3)	436.4
Cash at bank and equivalents at beginning of period		2,563.7	2,127.3
Cash at bank and equivalents at end of period		2,481.4	2,563.7

* New consolidation standards, mentioned in note 1.1, prescribe a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

The Group net cash position and its change on both periods are presented in note 11.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. ACCOUNTING STANDARDS FRAMEWORK

On 25 February 2015, the Board of Directors approved, and authorised for issue, Thales's consolidated financial statements for the year ended 31 December 2014. In accordance with French legislation, the financial statements will be finally approved by the shareholders of Thales S.A. at the Annual General Meeting on 13 May 2015.

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

1.1. BASIS OF PREPARATION OF THE 2014 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Thales Group are prepared in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union at 31 December 2014 ¹.

These principles, described in note 14, are consistent with those applied for the year ended 31 December 2013, with the exception of the first time adoption of the new consolidation standards described hereafter.

a) Analysis of the new standards

Consolidated Financial Statements (IFRS 10)

This new standard replaces IAS 27 (consolidated and separate financial statements) and SIC 12 (Consolidation - Special Purpose Entities).

IFRS 10 introduces a new definition of control. An investor (the Group) controls an investee and consolidates it as a subsidiary when the following criteria are met:

- the investor has the ability to direct the core activities of the investee,
- the investor has rights to variable returns from its involvement with the investee,
- the investor has the ability to affect those returns through its power over the investee.

In this framework, the Group has undertaken an analysis of its not fully owned investments to determine the level of control exercised over them and to confirm their method of consolidation.

In particular, this led to review, according to IFRS 10 criteria, the consolidation method of Space activities that were, up to now, consolidated under the proportionate method. It was concluded that these activities should be consolidated as follows:

- Thales Alenia Space, sub-group controlled and owned at 67 %, under the full consolidation method ;
- Telespazio, owned at 33% and under significant influence, according to the equity method.

These changes have been implemented in the Group consolidated accounts published as from 2014.

Joint Arrangements (IFRS 11)

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers". This standard defines the accounting treatment of joint arrangements through which at least two parties exercise joint control. Pursuant to this new standard, there are only two types of joint arrangement: joint ventures and joint operations.

The classification is based on the rights and obligations of the parties to the arrangement, taking into consideration the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

- A joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities, relating to the arrangement. The Group did not identify a joint operation in its perimeter;

¹ available on the following internet address: http://ec.europa.eu/internal_market/accounting/ias_fr.htm.

- A joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. Pursuant to IAS 31, the Group accounted for its joint arrangements, all classified as joint ventures, using the proportionate consolidation method. In accordance with IFRS 11, joint arrangements classified as joint ventures must be accounted for using the equity method (proportionate consolidation is no longer allowed).

Consequently, the Group now accounts all arrangements under a joint control using the equity method.

Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 includes into a single standard the disclosures relating to entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The first time adoption of this standard involves additional disclosures in the Notes to the Financial Statements (note 5 and 8.1-g).

b) Impact of the changes in consolidation methods on the 2013 consolidated financial statements

The consolidated financial statements of 2013 have been restated in order to take into account changes in the consolidation methods detailed hereafter:

Main subsidiaries, previously accounted for under the proportionate method, now fully consolidated:

	Country	Level of control	Consolidation method	% stake
Thales Alenia Space France	France	Exclusive control	Fully consolidated	67%
Thales Alenia Space Italia SpA	Italy	Exclusive control	Fully consolidated	67%

Subgroup, previously accounted for under the proportionate method, now accounted for under the equity method:

	Country	Level of control	Consolidation method	% stake
Telespazio SpA	Italy	Significant influence	Equity method	33%

Main joint ventures, previously accounted for under the proportionate method, now accounted for under the equity method:

	Country	Level of control	Consolidation method	% stake
Air Command Systems International SAS	France	Joint control	Equity method	50%
Amper Programas SA	Spain			49%
Citylink Telecommunications Holdings Ltd	United Kingdom			33%
DCNS	France			35%
Diehl Aerospace GmbH	Germany			49%
Junghans Microtec GmbH	Germany			45%
Samsung Thales Co. Ltd	South Korea			50%
Sofradir SAS	France			50%
Thales-Raytheon Systems Company LLC	United States			50%
Thales-Raytheon Systems Company SAS	France			50%
Trixell SAS	France			51%

Impact of the transitional arrangements:

The transitional arrangements of the new standards led the Group to make the following restatements:

The equity book value of joint ventures at 1 January 2013 has been recalculated by including their goodwill. The reclassified goodwill amounts to € 497.5 million (note 4.1).

When the joint venture is included in a broader Cash Generating Unit (CGU), a share of the goodwill of the corresponding CGU is reallocated on the basis of its relative value. In this context, an impairment test has been carried out and has led Thales to recognise, in the opening balance sheet, an impairment of € 23.1 million.

Within the joint application of IFRS 11 and IAS 28 requirements, the Group has chosen to restate the transactions that had led to take over (lose) joint control. The restatement (€ -41.0 million) essentially comes from the cancellation of the revaluation of shares previously held at the date of the additional 10% DCNS acquisition (end of 2011).

The impact of both adjustments, at the transition date, leads to a € 64.1 million decrease of the equity at 1 January 2013.

Condensed financial statements of 2013 restated for comparative periods:

Consolidated balance sheet at 1 January 2013	01/01/13 published	Impacts	01/01/13 Restated	<i>Of which, DCNS impact</i>
Non current operating assets	6,088.5	(1,336.8)	4,751.7	(1,076.3)
Investment in joint ventures	--	1,439.5	1,439.5	838.2
Investment in associates	148.6	54.4	203.0	(6.8)
Other non current assets	1,483.2	(142.6)	1,340.6	(147.2)
Current operating assets and taxes	10,358.7	(1,944.7)	8,414.0	(1,359.1)
Current financial assets	3,238.7	(839.6)	2,399.1	(577.1)
Total assets	21,317.7	(2,769.8)	18,547.9	(2,328.3)
Equity, shareholders of the parent company	3,541.1	(64.1)	3,477.0	(37.0)
Non-controlling interests	10.4	219.1	229.5	--
Financial debt: long-term	850.6	(138.4)	712.2	(49.4)
Other non current liabilities	2,308.5	(241.7)	2,066.8	(203.2)
Current operating liabilities and taxes	13,609.8	(2,327.9)	11,281.9	(2,016.5)
Financial debt: short-term	997.3	(216.8)	780.5	(22.2)
Total equity and liabilities	21,317.7	(2,769.8)	18,547.9	(2,328.3)
<i>Net cash (debt)</i>	<i>1,527.9</i>	<i>(598.0)</i>	<i>929.9</i>	<i>(619.0)</i>

Consolidated balance sheet at 31 December 2013	31/12/13 Published	Impacts	31/12/13 Restated	<i>Of which, DCNS impact</i>
Non current operating assets	6,149.0	(1,375.3)	4,773.7	(1,107.6)
Investment in joint ventures	--	1,411.4	1,411.4	829.8
Investment in associates	187.8	59.0	246.8	(5.4)
Other non current assets	1,336.6	(298.4)	1,038.2	(292.4)
Current operating assets and taxes	10,430.7	(2,007.8)	8,422.9	(1,477.8)
Current financial assets	3,390.7	(630.1)	2,760.6	(350.9)
Total assets	21,494.8	(2,841.2)	18,653.6	(2,404.3)
Equity, shareholders of the parent company	3,911.0	(64.1)	3,846.9	(37.0)
Non-controlling interests	29.9	208.3	238.2	(14.6)
Financial debt: long-term	1,539.0	(87.4)	1,451.6	(25.3)
Other non current liabilities	2,243.0	(233.4)	2,009.6	(200.1)
Current operating liabilities and taxes	13,314.7	(2,453.1)	10,861.6	(2,099.2)
Financial debt: short-term	457.2	(211.5)	245.7	(28.1)
Total equity and liabilities	21,494.8	(2,841.2)	18,653.6	(2,404.3)
<i>Net cash (debt)</i>	<i>1,666.3</i>	<i>(589.0)</i>	<i>1,077.3</i>	<i>(555.2)</i>

Consolidated statement of comprehensive income 2013	2013 Published	Impacts	2013 Restated	<i>Of which, DCNS impact</i>
Sales	14,194.1	(1,496.5)	12,697.6	(1,088.9)
Income from operations	904.8	(88.3)	816.5	(24.6)
Share in income (loss) of equity affiliates (new standards)	--	106.0	106.0	14.7
EBIT (excl. PPA note 2.2)	1,003.2		1,011.0	--
Share in income (loss) of equity affiliates (previous standards)	20.2	(20.2)	--	--
Net income (loss)	573.0	35.6	608.6	1.8
<i>Of which, shareholders of the parent company</i>	<i>573.4</i>	<i>--</i>	<i>573.4</i>	<i>--</i>
<i>Of which, non-controlling interests</i>	<i>(0.4)</i>	<i>35.6</i>	<i>35.2</i>	<i>1.8</i>
Net income (loss)	573.0	35.6	608.6	1.8
Other comprehensive income (loss)	(141.7)	2.0	(139.7)	5.5
Total comprehensive income (loss)	431.3	37.6	468.9	7.3

Consolidated statement of cash flows 2013	2013 Published	Impacts	2013 Restated	<i>Of which, DCNS impact</i>
Cash flow from operating activities	834.6	(64.0)	770.6	(6.5)
Cash flow from investing activities	(289.2)	(37.3)	(326.5)	(43.2)
Cash flow from financing activities	(4.4)	23.3	18.9	18.4
Effect of exchange rate variations and other	(35.5)	8.9	(26.6)	4.1
<i>Cash at bank and equivalents at beginning of period</i>	<i>2,518.3</i>	<i>(391.0)</i>	<i>2,127.3</i>	<i>(191.3)</i>
<i>Cash at bank and equivalents at end of period</i>	<i>3,023.8</i>	<i>(460.1)</i>	<i>2,563.7</i>	<i>(218.5)</i>

c) Other standards applicable in 2014

The following texts, mandatorily applicable from 1 January 2014 have no significant impact on the consolidated financial statements:

- Amendment to IAS 32 (Financial Instruments - Presentation), seeking to clarify the principles for offsetting financial assets and financial liabilities;
- Amendment to IAS 39 (Financial Instruments - Recognition and Measurement) relating to the novation of derivatives and maintaining hedge accounting;
- Amendment to IAS 36 (Impairment of Assets), relating to disclosures on the recoverable values of non-financial assets.

1.2. NEW STANDARDS MANDATORILY APPLICABLE AFTER 31 DECEMBER 2014

The interpretation IFRIC 21 (Levies) has been adopted by the European Union in June 2014 and will be applicable for the Group from 1 January 2015. This new interpretation identifies the obligating event for the recognition of a liability related to tax (excluding income tax and et taxes related to wages and salaries). The liability is recognised progressively only if the obligating event occurs over a period of time. According to this principle, some taxes will be recognised in full in the Interim Consolidated Financial Statements (the estimated impact amounts to € -20 million on EBIT of the first interim 2015 and € +20 million on EBIT of the second interim).

The following new standards have been published by the IASB and, subject to endorsement by the European Union, these standards will be applicable for annual periods detailed hereafter:

- IFRS 15 (revenue from contracts with customers), replacing the standards IAS 18 (revenue) and IAS 11 (construction contracts) will be effective from 1 January 2017;
- IFRS 9 (financial instruments) will be effective from 1 January 2018, subject to its definitive endorsement by the European Union. This new standard will replace all the texts related to financial instruments;

- Amendment to IAS 16 (tangible assets) and IAS 38 (intangible assets) which clarify the amortisation methods allowed;
- Amendment to IFRS 11 (joint arrangements), related to the accounting of acquisition of interests in a joint operation ; amendment to IFRS 10 (consolidated financial statements) related to the non monetary assets contribution to an associate or a joint venture, in exchange of investments in share in these companies;
- Amendment to IAS 19 (Employee benefits), to clarify the accounting of contributions from employees or third parties set out in the formal terms of a defined benefit plan in respect of service;
- Amendment to IFRS 2 (share-based payment), related to the definition of vesting conditions and other conditions;
- Annual improvements to IFRS: Cycles 2011-2013 and 2012-2014.

The process to identify the potential impacts of the new standards on the Group's consolidated statements is in progress.

1.3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's consolidated financial statements involves making estimates and assumptions, which have an impact on the valuation of income, expenses, assets and liabilities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date of preparation of the financial statements.

In the context of the current global economic environment, the degree of volatility and subsequent lack of visibility remain particularly high. Future facts and circumstances could lead to changes in these estimates or assumptions, which would affect the Group's financial condition, results of operations and cash flows.

Construction contracts (note 10.2)

Recognition of incomes and expenses relating to construction contracts is based on estimates of overall profit or loss on completion of such contracts (see note 14-d). These estimates are performed by project managers, under the supervision of General Management, in accordance with Group procedures.

Goodwill (note 4.1)

Goodwill is subject to impairment tests (see note 14-i). The recoverable amount of goodwill by cash generating unit is assessed on the basis of forecast data from the strategic plans prepared, in accordance with Group procedures. Tests of sensitivity to changes in key assumptions are used to secure the conclusions reached.

Development costs (note 4.2)

Development costs that meet the criteria for capitalisation (note 14-f) are recognised as intangible assets and amortised over their useful lives. Assessments of compliance with the criteria are carried out on the basis of the forecast revenues and profitability of the corresponding projects.

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

Benefit obligations in respect of pensions and other long-term employee benefits are estimated on statistical and actuarial bases in accordance with the policies outlined in the note 14-l. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc.) are reviewed each year with the Group's actuaries.

Deferred tax assets (note 7)

Deferred tax assets are recognized for unused tax losses and deductible temporary differences between the book value and the tax value of assets and liabilities. Recovery of these assets is assessed on the basis of forecast data contained in the strategic plans of each of the tax groups considered, over a period of 5 years.

Litigation (note 12)

The Group regularly identifies and reviews litigation in progress and recognises, depending on the circumstances, accounting provisions that it considers to be reasonable. Any uncertainties concerning litigation in progress are described in the note 12.

Purchase price allocation in respect of business combinations

Business combinations are accounted for in accordance with the "purchase accounting" method described in the note 14-c: thus, on the date of the takeover of a company, the acquiree's identifiable assets, liabilities and contingent liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and estimate the effects of future events, which are uncertain at the acquisition date.

2. SEGMENT INFORMATION

2.1. INFORMATION BY BUSINESS SEGMENT

The implementation of IFRS 11, as well as the increasing importance of activities and new projects involving partners in joint ventures or associates, led the Group to adapt the presentation of its consolidated profit & loss account and the definition of its performance indicators.

In the consolidated profit & loss account, the share in net income of equity affiliates is now presented in the item "income of operating activities after impact of equity affiliates", in accordance with the recommendation 2013-01 of the French Authority of Accounting Standards.

The calculation of the performance indicator EBIT has also been changed in order to include the share in net income of equity affiliates in the income from operations before PPA².

2014	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	8,686.9	3,615.1	14,914.6	68.2	27,284.8
Consolidated new orders	5,023.8	1,651.5	7,608.3	79.4	14,363.0
Consolidated sales	5,013.6	1,401.6	6,479.7	78.7	12,973.6
Inter segment sales	73.2	7.6	257.6	(338.4)	--
Total sales	5,086.8	1,409.2	6,737.3	(259.7)	12,973.6
EBIT	505.4	32.2	620.1	(172.7)	985.0
<i>Of which, in DCNS</i>	--	--	--	(117.0)	(117.0)
<i>Of which, DCNS excluded</i>	505.4	32.2	620.1	(55.7)	1,102.0
Capital expenditures	152.0	12.9	109.7	198.0	472.6
Dep. and amort. of tangible and intang. assets	139.1	8.4	109.8	88.6	345.9

2013 restated*	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog	7,880.6	3,329.5	13,225.7	32.9	24,468.7
Consolidated new orders	4,296.9	1,454.4	7,113.6	62.8	12,927.7
Consolidated sales	4,712.8	1,447.2	6,455.4	82.2	12,697.6
Inter segment sales	96.1	21.8	290.5	(408.4)	--
Total sales	4,808.9	1,469.0	6,745.9	(326.2)	12,697.6
EBIT	419.9	97.4	499.2	(5.5)	1,011.0
<i>Of which, in DCNS</i>	--	--	--	40.0	40.0
<i>Of which, DCNS excluded</i>	419.9	97.4	499.2	(45.5)	971.0
Capital expenditures	145.9	12.1	105.0	120.9	383.9
Dep. and amort. of tangible and intang. assets	117.2	8.9	109.3	69.7	305.1

* Restated to take into account the new consolidation standards.

² Amortisation of intangible assets acquired (Purchase Price Allocation - PPA) within business combination.

Operating segments

The operating segments presented by the Group are the following:

- The *Aerospace* operating segment combines the “Avionics” and “Space” Global Business Units that develop on-board systems, solutions and services mainly with civil customers (aircraft manufacturers, airlines, satellite operators) and also, to a lesser extent, with States/Defence customers (States, Space agencies and other parapublic organisations).
- The *Transport* operating segment comprises the “Ground Transportation Systems” Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- The *Defence and Security* operating segment combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively States/Defence customer base.

Other, elim and non allocated

The "Other, elim and non allocated" column relates to corporate activities (Thales parent company, Thales Global Services, Group R&D centers, facilities management), and to the elimination of transactions between the business segments.

The non-allocated EBIT includes Group's share (35%) in the net income of DCNS (note 5.1-d), the Corporate income from operations which is not charged back to the segments and the cost of vacant premises. Other costs (mainly results from foreign holding companies which are not charged back and the share-based payments cost) are reallocated to business segments proportionally to their respective ex-Group sales.

2.2. ADJUSTED RESULTS

In order to monitor the operational and financial performance of the Group entities, the Group's executives regularly consider two main non-GAAP indicators determined as follows:

EBIT, an adjusted operating metric presented by operating segment above, corresponds to income from operations increased by the share in net income of equity affiliates, and excluding the amortisation of intangible assets acquired (purchase price allocation PPA).

The *adjusted net income* is considered as relevant by the Group because it enables non-recurring items to be excluded (definition in the note 14-a).

Determination of these two indicators is presented below:

	2014 Published	Amort. of intangible assets acquired	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long- term benefits	2014 Adjusted
Net operating income	888.6	103.7	--	--	--	992.3
share in net income (loss) of equity affiliates	(34.0)	26.7	--	--	--	(7.3)
EBIT						985.0
Impairment of non-current operating assets	--	--	--	--	--	--
Disposal of assets and other	248.9	--	(248.9)	--	--	--
Net financial interests	2.2	--	--	--	--	2.2
Other financial income (expense)	(39.6)	--	--	12.3	--	(27.3)
Financial income on pension and other	(90.1)	--	--	--	13.0	(77.1)
Income tax	(214.3)	(35.2)	(0.5)	(4.2)	(4.1)	(258.3)
<i>Effective tax rate</i>						29.0%
Less, non-controlling interests' income	(47.5)	(14.8)	--	0.2	--	(62.1)
Net income (expense), Group	714.2	80.4	(249.4)	8.3	8.9	562.4

<i>Average number of shares outstanding</i>	204,774		204,774
Net income (expense) per share, Group	3.49		2.75

	2013 Published	Amort. of intangible assets acquired	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long- term benefits	2013 Adjusted
Net operating income	816.5	61.8	--	--	--	878.3
Share in net income (loss) of equity affiliates	106.0	26.7	--	--	--	132.7
EBIT						1,011.0
Impairment of non-current operating assets	(3.0)	--	--	--	--	(3.0)
Disposal of assets and other	16.1	--	(16.1)	--	--	--
Net financial interests	(8.9)	--	--	--	--	(8.9)
Other financial income (expense)	(45.1)	--	--	30.9	--	(14.2)
Financial income on pension and other	(69.5)	--	--	--	(0.1)	(69.6)
Income tax	(203.5)	(21.1)	1.2	(10.6)	--	(234.0)
<i>Effective tax rate</i>						29.9%
Less, non-controlling interests' income	(35.2)	(2.8)	2.3	(2.7)	(0.5)	(38.9)
Net income (expense), Group	573.4	64.6	(12.6)	17.6	(0.6)	642.4
<i>Average number of shares outstanding</i>	<i>200,967</i>					<i>200,967</i>
Net income (expense) per share, Group	2.85					3.20

2.3. INFORMATION BY COUNTRY/REGION OF DESTINATION

Consolidated new orders (direct and indirect) by country / region of destination	2014	2013
France	3,593.8	3,343.4
United Kingdom	1,325.9	1,256.2
Rest of Europe	3,173.0	2,744.8
Europe	8,092.7	7,344.4
North America	1,036.2	914.5
Australia and New Zealand	967.0	681.4
Asia	1,701.4	1,478.4
Saudi Arabia & Middle East	1,929.0	1,401.4
Rest of the world	636.7	1,107.6
Emerging markets	4,267.1	3,987.4
Total	14,363.0	12,927.7

Sales (direct and indirect) by country / region of destination	2014	2013
France	3,419.0	3,497.0
United Kingdom	1,314.4	1,439.6
Rest of Europe	2,937.5	2,707.5
Europe	7,670.9	7,644.1
North America	1,349.7	1,479.0
Australia and New Zealand	667.3	696.9
Asia	1,823.4	1,597.1
Saudi Arabia & Middle East	911.8	833.3
Rest of the world	550.5	447.2
Emerging markets	3,285.7	2,877.6
Total	12,973.6	12,697.6

2.4. SALES BY CATEGORY OF CONTRACTS

More than half of the Group's sales come from contracts specifically negotiated with the customer, who establishes specifications concerning the contract. These contracts meet different needs depending on the customer, and are generally long-term contracts.

	2014	2013
Construction contracts	6,270.6	6,487.5
Sales of goods and equipment	3,344.2	3,182.0
Services	3,267.6	2,939.5
Other	91.2	88.6
Total	12,973.6	12,697.6

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1. MAIN CHANGES IN SCOPE OF CONSOLIDATION

- At the end of May 2014 Thales and Raytheon renegotiated the joint-venture agreement related to Thales Raytheon Systems, without any change in the percentage of interest of each shareholder in the company.

The changes consisted in a review of the corporate governance rules into force, particularly in terms of budgets approval. As a result, Thales obtained the exclusive control of Thales-Raytheon Systems Company SAS. As from 2014, the company is fully consolidated, with a 50% interest.

Consequently the Group determined, with the support of an independent expert, the fair value of its investment and booked a fair value adjustment in profit and loss of € 80.1 million. At the same time, this fair value has been allocated to identifiable assets and liabilities, in particular intangible assets for € 140.9 million, amortised over their useful lives (of which, € 56.8 million related to acquired technology and € 67.2 million related to acquired customer relationship) and an associated deferred tax liability of € 49.3 million. This results in a temporary goodwill of € 38.0 million.

- In June 2014, the shareholders' agreement related to the joint venture Trixell has been amended. This company is owned by Thales at 51%, Siemens at 24.5% and Philips Medical Systems International at 24.5%. According to the shareholders' agreement changes, Thales is now able to exercise an exclusive control over Trixell, according to IFRS 10, by purchasing its joint shareholders' respective shares in case of persistent disagreement on the key activities of the company. As from 2014, the company is fully consolidated, with a 51% interest.

Consequently the Group determined, with the support of an independent expert, the fair value of its investment and booked a fair value adjustment in profit and loss of € 140.8 million. At the same time, this fair value has been allocated to identifiable assets and liabilities, in particular intangible assets for € 248.9 million, amortised over their useful lives (of which, € 241.3 million related to acquired technology) and an associated deferred tax liability of € 84.6 million. This results in a temporary goodwill of € 63.3 million.

- In June 2014 Thales completed the acquisition for \$ 392.5 million (€ 287.4 million) of the American company Live TV from JetBlue. Live TV is the market leader in TV and broadband connectivity for aircraft. The company is fully consolidated at 31 December 2014. The temporary amount of goodwill amounts to € 86.5 million, after opening balance sheet adjustments and purchase price allocation to intangible assets and liabilities acquired. The fair value of assets and liabilities acquired is presented below:

Fair value of assets and liabilities acquired		M€
Tangible assets		64.6
Acquired technologies		77.5
Customer relationship:backlog		39.1
Current operating assets (liabilities)		19.8
Net assets acquired	(I)	200.9
Goodwill	(II)	86.5
Acquisition cost	(I + II)	287.4

Sales of the company amounted to approximately \$ 170 million in 2014.

- In June 2014 Thales Alenia Space UK acquired the space activities of the company Systems Engineering & Assessment Limited (SEA), a British subsidiary of the group Cohort Plc, for an expected amount of £ 6.5 million (of which, £ 5 million (€ 6.2 million) paid at 31 December 2014).
- In October 2014 Thales acquired from its joint shareholder Amper S.A., its 51% interests in the equity of Amper Programas Electrónica y Comunicaciones for an amount of € 4.4 million. From this date Thales has the exclusive control of the company. In the consolidated financial statements, the previously-held equity interest of 49% has been measured again at fair value through profit and loss and amounts to € 8.7 million. The purchase price allocation is in progress.
- At the end of December 2014, Thales ended the acquisition of the cyber security services and secure communications activities of Alcatel-Lucent which amounts to € 40.6 million, of which € 37.7 million paid on the 31st December 2014. The purchase price allocation is in progress.

No significant change in scope has occurred in 2013.

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

	2014	2013
Fair value adjustments (a):	229.6	--
Thales-Raytheon Systems Company SAS (50%)	80.1	--
Trixell (51%)	140.8	--
Amper Programmas (49%)	8.7	--
Disposal of investments	(2.2)	5.7
Simulation activities in the UK	--	8.4
Other	(2.2)	(2.7)
Disposal of other assets:	15.0	(1.3)
Real estate assets	14.4	(0.2)
Equipments	0.6	(1.1)
Provisions on litigation and other (b)	--	7.3
Impact of curtailments and settlements of pensions plans and long-term benefits (note 9.3)	6.5	4.4
Total	248.9	16.1

- (a) In June 2014 the shareholders' agreements of both joint ventures, Thales-RaytheonSystems SAS and Trixell have been amended (note 3.1). Consequently, Thales now controls these companies according to IFRS10, without any change in the percentage of interests of each shareholder in these companies.

In October 2014 Thales acquired from its joint shareholder Amper S.A., its 51% interests in the equity of Amper Programas Electrónica y Comunicaciones for an amount of € 4.4 million. From this date Thales has the exclusive control of the company.

In the Consolidated Financial Statements, the change in the level of control, from joint-control to exclusive control involves:

- the measurement at fair value through profit and loss of the interests previously accounted for under the equity method;
- the recognition of a goodwill related to the full consolidation of the entity (note 4.1).

- (b) In 2013 the profit refers to the grant provided by the Abruzzo Region further to the damages of the L'Aquila earthquake (Thales Alenia Space production site) in April 2009.

4. TANGIBLE AND INTANGIBLE ASSETS

4.1. GOODWILL

Goodwill is allocated to cash generating units (CGU) or to aggregate CGUs corresponding to the Group's Global Business Units (GBU).

Within the implementation of the new consolidation standards, the Group reclassified at the transition date, the amount of goodwill related to joint ventures in the line "Investment in Joint Ventures" as described in note 1.1.

The evolution of goodwill related to fully consolidated subsidiaries is presented hereafter.

	31/12/13 restated	Acquisi- tions	Disposals	Impairment	Exchange rate var. and other	31/12/14
Avionics	291.5	153.6*	--	--	11.6	456.7
Space	458.2	8.5	--	--	0.3	467.0
<i>Aerospace</i>	749.7	<i>162.1</i>	--	--	<i>11.9</i>	923.7
Transport	875.3	--	--	--	--	875.3
Secure Communications & information Systems	568.3	67.6**	--	--	6.6	642.5
Land and Air Systems	271.0	38.0***	--	--	0.9	309.9
Defence Mission Systems	459.3	--	--	--	1.9	461.2
<i>Defence and Security</i>	1,298.6	<i>105.6</i>	--	--	<i>9.4</i>	1,413.6
Total	2,923.6	267.7	--	--	21.3	3,212.6

* of which € 86.5 million related to the acquisition of Live TV and € 63.3 million related to the full consolidation of Trixell.

** of which € 39.3 million related to the acquisition of cyber security services and secure communications activities

*** full consolidation of Thales-Raytheon Systems SAS.

The goodwill related to Trixell and TRS SAS have been determined under the method of the partial goodwill. This method consists in recognising a goodwill only on the Group share.

	31/12/12 published	Impact IFRS 11	01/01/13 restated	Acquisi- tions	Exchange rate var. and other	31/12/13 restated
Avionics	313.2	(44.7)	268.5	26.9	(3.9)	291.5
Space	487.0	(28.8)	458.2	--	--	458.2
<i>Aerospace</i>	800.2	<i>(73.5)</i>	726.7	26.9	(3.9)	749.7
Transport	875.4	0.1	875.5	--	(0.2)	875.3
Secure Communications & information Systems	579.3	(1.7)	577.6	14.9	(24.2)	568.3
Land and Air Systems	332.2	(72.4)	259.8	16.8	(5.6)	271.0
Defence Mission Systems	492.7	(18.6)	474.1	--	(14.8)	459.3
<i>Defence and Security</i>	1,404.2	<i>(92.7)</i>	1,311.5	31.7	(44.6)	1,298.6
DCNS	329.0	(329.0)	--	--	--	--
Other	2.4	(2.4)	--	--	--	--
Total	3,411.2	(497.5)	2,913.7	58.6	(48.7)	2,923.6

Of which:

Reclassification into "Investment in joint ventures"

Recognised through equity (note 1.1):

-Depreciation at the transition date

-Impact of changes in the controlling relationship

(433.4)

(64.1)

(23.1)

(41.0)

4.2. OTHER TANGIBLE AND INTANGIBLE ASSETS

a) Change in net tangible and intangible assets

	Intangible assets acquired (PPA)	Development costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 2013	347.3	142.4	74.5	1,273.8	1,838.0
Acquisitions / capitalisations	--	25.8	29.3	328.8	383.9
Disposals	--	--	(3.5)	(22.2)	(25.7)
Amortisation of intangible assets acquired	(61.8)	--	--	--	(61.8)
Other depreciation and amortisation	--	(37.5)	(39.4)	(228.2)	(305.1)
Impairment	--	--	--	(3.0)	(3.0)
Scope, foreign exchange rates and other	10.8	(0.4)	40.3	(26.9)	23.8
Net value at 31 December 2013	296.3	130.3	101.2	1,322.3	1,850.1
Acquisitions / capitalisations	--	33.9	36.4	402.3	472.6
Disposals	--	--	--	(29.2)	(29.2)
Amortisation of intangible assets acquired	(103.7)	--	--	--	(103.7)
Other depreciation and amortisation	--	(46.0)	(39.6)	(260.3)	(345.9)
Scope, foreign exchange rates and other	522.9	29.0	(14.5)	121.9	659.3
Net value at 31 December 2014	715.5	147.2	83.5	1,557.0	2,503.2

b) Detail of the balance sheet items

	31/12/14			31/12/13	01/01/13
	Gross	Depreciation and impairment	Net	Net	Net
Acquired technologies	657.6	(271.8)	385.8	50.9	79.8
Customer relationship: long-term	485.3	(216.3)	269.0	231.7	255.1
Customer relationship: backlog	271.3	(224.3)	47.0	--	--
Other	34.0	(20.3)	13.7	13.7	12.4
Intangible assets acquired (business combinations)	1,448.2	(732.7)	715.5	296.3	347.3
Development costs	945.2	(798.0)	147.2	130.3	142.4
Other	656.6	(573.1)	83.5	101.2	74.5
Intangible assets	3,050.0	(2,103.8)	946.2	527.8	564.2
Lands	51.9	(1.8)	50.1	51.6	54.0
Buildings	1,480.4	(879.7)	600.7	521.1	482.2
Plants and equipment	2,250.1	(1,673.0)	577.1	472.1	472.7
Other	961.7	(632.6)	329.1	277.5	265.0
Tangible assets	4,744.1	(3,187.1)	1,557.0	1,322.3	1,273.8
Of which:					
Fixed assets held under lease agreements	33.0	(20.3)	12.7	14.3	16.0

4.3. IMPAIRMENT OF NON CURRENT OPERATING ASSETS

	2014	2013
Goodwill	--	--
Other tangible and intangible assets	--	(3.0)
Total	--	(3.0)

At the end of 2014, as in 2013, impairment tests were performed with the initial assumption of a 8.5% discount rate for every CGU (these CGU present a risk level more or less equivalent and the specific risks of

CGU are included in the projections). A 1% increase of the discount rate would not lead the Group to book significant additional impairments.

The long-term growth rate used to determine terminal value is 2%. This rate, close to the long-term inflation rate estimated at closing, represents a reasonable estimation by Thales of the future growth of the activity. A 1% decrease of this rate would not lead the Group to book significant additional impairments.

Terminal values are based on the normative operational incomes of the Group strategic plans (14-i). A 2% decrease in the operational profitability of the CGU would not lead the Group to book significant additional impairments.

4.4. COMMITMENTS RELATED TO OPERATION LEASES

Binding lease and rental commitments at 31 December 2014 and 2013 are analysed below:

31 December 2014	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases	--	--	--	--
Operation leases	1,482.5	207.7	641.7	633.1

31 December 2013	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
Financial leases	0.1	0.1	--	--
Operation leases	1,104.1	199.3	513.1	391.7

The increase in payable loans between 2013 and 2014 is due to the replacement of expired leases by leases with an average maturity of 9 years, as the Group did not change significantly the number of occupied square meters.

5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

5.1. JOINT VENTURES

a) Impact of equity accounting of joint ventures at transition date

The amount of assets and liabilities reclassified in the line "Investment in joint ventures" at the transition date, is presented below:

	01/01/13
Non current operating assets	(1,373.3)
Investment in joint ventures	1,439.5
Investment in associates	(6.8)
Other non current assets	(166.5)
Current operating assets & taxes	(2,104.4)
Current financial assets	(900.5)
Total assets	(3,112.0)

Equity, shareholders of the parent company	(60.1)
Non-controlling interests	(2.4)
Financial debt: long-term	(137.3)
Other non current liabilities	(287.4)
Current operating liabilities and taxes	(2,607.8)
Financial debt: short-term	(17.0)
Total equity and liabilities	(3,112.0)

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

	Investments in Joint Ventures			Share in net income (loss)		Share in oth.comprehensive income	
	31/12/14	31/12/13	01/01/13	2014	2013	2014	2013
DCNS (35%)	677.5	829.8	838.2	(142.3)	14.7	(139.6)	9.1
Other joint ventures *	425.6	581.6	601.3	58.8	65.1	59.7	50.6
Total	1,103.1	1,411.4	1,439.5	(83.5)	79.8	(79.9)	59.7

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

c) Change in investment in joint ventures

	31/12/14	31/12/13
Investment at 1 January	1,411.4	1,439.5
Share in net income (loss) of joint ventures	(83.5)	79.8
Items of comprehensive income (loss) to be subsequently reclassified to P&L	18.4	(16.3)
Other items of comprehensive income (loss) that will not be reclassified to P&L	(14.8)	(3.8)
Total comprehensive income (loss)	(79.9)	59.7
Dividends paid	(44.6)	(95.8)
Changes in scope*	(171.9)	0.3
Other	(11.9)	7.7
Investment at 31 December	1,103.1	1,411.4

* Mainly due to the full integration of Thales-Raytheon Systems SAS and Trixell SAS and to the reclassification in associates of Thales-Raytheon Systems LLC.

d) DCNS summarized financial information

Since December 2011, Thales has a 35% stake in the company DCNS, a subsidiary jointly controlled with the French State. DCNS is a French industrial group specialised in naval defence and energy.

During the second half of 2014, DCNS has conducted a comprehensive review of the financial and contractual status of several activities and complex programmes, which have had difficulties. The main conclusions were:

- Execution difficulties encountered in civil nuclear energy activities, which led DCNS to a significant increase in the costs to completion of on-going projects, particularly the Jules Horowitz research reactor for the French Atomic Energy and Alternative Energies Commission (CEA);
- Substantial increases in costs to completion of naval programmes, particularly on France's Barracuda nuclear attack submarine programme. These developments led DCNS to adopt a generally more cautious approach to this type of programmes.

The financial statement of DCNS, after Thales restatements (mainly related to intangible assets acquired) are presented below:

Summarized balance sheet at 100%	31/12/14	31/12/13
Non current assets	2,671.6	2,639.4
Current assets	6,443.8	6,001.9
Total assets	9,115.4	8,641.3
Restated equity, attrib. to the shareholders of the company	1,103.3	1,536.6
Non-controlling interests	32.0	41.6
Non current liabilities	723.1	654.9
Current liabilities	7,259.0	6,408.2
Total equity and liabilities	9,115.4	8,641.3
Cash at bank and equivalents	1,428.6	997.1
Available-for-sale investments	566.1	673.7
Non current financial liabilities	(187.4)	(157.3)
Net cash (debt)	1,807.3	1,513.5

Summarized profit and loss account at 100%	2014	2013
Sales	3,065.9	3,311.5
Income from operating activities after impact of equity affiliates*	(617.8)	64.1
Financial interests, net	14.4	22.9
Other elements of financial income	22.0	(19.5)
Tax	163.8	(30.6)
Restated net income*	(417.7)	36.9
<i>Of which, attrib. to the shareholders of the company</i>	(406.5)	41.9
<i>Of which, non-controlling interests</i>	(11.2)	(5.0)

Dividends received from the joint venture	3.0	17.1
---	-----	------

* After Thales restatements (mainly related to intangible assets acquired)

Reconciliation of the summarized financial information with the Group's investment in DCNS:

	31/12/14	31/12/13
Restated equity of DCNS, attrib. to the shareholders of the company	1,101.3	1,536.6
% of Thales' interests	35%	35%
Thales' share	385.5	537.8
Goodwill	292.0	292.0
Share in net assets of the joint venture	677.5	829.8

	2014	2013
Restated net income, attrib. to the shareholders of the company	(406.5)	41.9
% of Thales' interests	35%	35%
Share in income (loss) of the joint venture	(142.3)	14.7
<i>Of which, impact of PPA</i>	25.3	25.3
<i>Of which, share in income (loss) before PPA</i>	<i>(117.0)</i>	<i>40.0</i>

e) Commitments toward joint ventures

At 31 December 2014, the outstanding of sureties, endorsements and guarantees, given by Thales the Parent company to support its joint ventures amounts to € 234.1 million (€ 393.8 million at 31 December 2013, including TRS SAS).

The risk management policy of the Group is to issue guarantees on commitments by joint ventures only in proportion to the Group's equity interest, or counter-guaranteed by the other shareholder in proportion to its interest.

f) Transactions with joint ventures (related party)

The volume of transactions with joint ventures and their joint shareholders amounts to:

	2014	2013
Sales	505.4	569.1
Purchases	199.7	234.2
Loans and financial assets	40.9	40.6
Financial debts	9.3	67.4

5.2. ASSOCIATES

The main associates are listed in note 17. None of these companies is individually significant with regard to consolidated aggregates. The mandatory information is therefore presented in aggregated form in tables below:

a) Changes in investment in associates

	31/12/14	31/12/13
Investment in associate at opening*	246.8	203.0
Share in net income (loss) of associates	49.5	26.2
Items of comprehensive income (loss) to be subsequently reclassified to P&L	16.0	(21.2)
Other items of comprehensive income (loss) that will not be reclassified to P&L	0.9	--
Total comprehensive income (loss)	66.4	5.0
Dividends paid	(25.1)	(16.9)
Dividends declared, non paid	(5.7)	--
Changes in scope **	110.3	50.0
Capital increase of Air Tanker	--	7.1
Other	(7.2)	(1.4)
Interests at 31 December*	385.5	246.8

* Share in Telespazio SpA included

** Cloudwatt in 2013, Thales-Raytheon Systems LLC in 2014

b) Commitments toward associates

The Group has no significant commitment toward associates

6. FINANCING AND FINANCIAL INSTRUMENTS

6.1. FINANCIAL INCOME

a) Net financial interests

	2014	2013
Interest expense:		
- on gross debt	(37.5)	(43.4)
- on interest rate swaps	17.3	16.8
	(20.2)	(26.6)
Interest income / cash at bank and equivalents	22.4	17.7
Total	2.2	(8.9)

b) Other financial income (expense)

	2014	2013
Foreign exchange gains (losses)	2.0	3.1
Change in fair value of derivative exchange instruments*	(12.3)	(30.9)
Cash flow hedge inefficiency / foreign exchange instruments	(1.8)	2.7
Net foreign exchange gains (losses)	(12.1)	(25.1)
Dividends received	2.3	5.0
Net financial costs on operating loans/debts	(5.3)	(9.1)
Impairment of investments in shares (available-for-sale)	(1.9)	(3.9)
Depreciation of loans and financial assets	(1.4)	0.9
Expenses related to confirmed credit line, non used	(5.4)	(4.2)
Other	(15.8)	(8.7)
Total	(39.6)	(45.1)

* Includes the variation of forward points fair value (€ +6.8 million in 2014 and € -12.6 million in 2013) and the time value of the hedge accounting derivatives (€ -6.0 million in 2014 and € -7.1 million in 2013), and also includes the variation of the fair value of derivatives non qualified for hedge accounting.

6.2. NET CASH (NET DEBT)

The Group's net cash is as follows:

	31/12/14	31/12/13	01/01/13
Current financial assets *	56.8	196.9	271.8
Cash at bank and equivalents	2,481.4	2,563.7	2,127.3
Cash and other short-term financial assets (I)	2,538.2	2,760.6	2,399.1
Long-term financial debt	1,467.8	1,451.6	712.2
Short-term financial debt	108.2	245.7	780.5
Fair value of interest rate derivatives **	(44.1)	(14.0)	(23.5)
Total gross financial debt (II)	1,531.9	1,683.3	1,469.2
Net Cash (I – II)	1,006.3	1,077.3	929.9

* Including € 158.8 million at 31 December 2013 and € 224.7 million at 1 January 2013 of deposits from Thales Alenia Space with Finmeccanica, non directly available for Thales. This deposit is nil at 31 December 2014.

**In accordance with IAS 39, the value of borrowings qualified for fair value hedge accounting takes into account changes in the fair value of the hedged risk.
This change in debt is offset by changes in the value of swaps used as hedges (note 6.5).

a) Current financial assets

	31/12/14	31/12/13	01/01/13
Current accounts receivable with affiliated companies	34.0	186.8	267.7
Marketable securities	3.7	0.6	0.2
Accrued interests	19.1	9.5	3.9
Current financial assets	56.8	196.9	271.8

b) Cash at bank and equivalents

The available cash presented in the consolidated balance sheet at 31 December 2014 is detailed in the note 6.5.

c) Gross financial debt

	31/12/14	31/12/13	01/01/13
Bond maturity 2021	314.8	291.0	--
Bond maturity 2018	504.1	495.5	--
Bond maturity 2016	611.4	612.4	618.5
Bond maturity 2013	--	--	599.4
Project financing debt*	30.4	46.5	70.5
Current accounts payable with affiliated companies	13.2	76.4	90.7
Subscription commitments	53.2	57.4	46.8
Other borrowings	8.3	47.6	22.9
Bank overdrafts	23.8	53.2	16.9
Accrued interests	16.8	17.3	27.0
Fair value of interest rate derivatives (note 6.5)	(44.1)	(14.0)	(23.5)
Gross financial debt	1,531.9	1,683.3	1,469.2

* Non-recourse, or limited recourse, debt whose interest costs and repayment are covered by the share of project revenues which is contractually guaranteed by customers. Fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.

Nature of bonds	Nominal value	Maturity date	Rate			
			Nature		Nominal (excluding effect of hedging)	Effective
Bond, maturity date 2021	€ 300 million	March 2021	fixed	incl. € 300 million swapped at variable rate	2.25%	2.40%
Bond, maturity date 2018	€ 500 million	March 2018	fixed	incl. € 300 million swapped at variable rate	1.625%	1.74%
Bond, maturity date 2016	€ 600 million	October 2016	fixed	incl. € 400 million swapped at variable rate	2.75%	2.91%
Bond, maturity date 2013	€ 600 million	April 2013	fixed	--	4.38%	4.58%

Breakdown of gross financial debt by maturity

31/12/14	Total	Contractual cash flows scheduled in:				
		2015	2016	2017	2018	>2018
Gross financial debt	1,531.9	108.2	616.7	5.3	501.3	300.4
Contractual maturity date	1,600.8	111.8	638.6	16.4	515.4	318.6

31/12/13	Total	Contractual cash flows scheduled in:				
		2014	2015	2016	2017	>2017
Gross financial debt	1,683.3	245.7	31.9	600.7	4.6	800.4
Contractual maturity date	1,799.1	253.9	54.7	627.9	18.9	843.7

Breakdown of gross financial debt by currency

	31/12/2014	31/12/2013	01/01/2013
Euro	1,461.2	1,544.5	1,370.1
Pound sterling	20.4	66.9	10.3
US Dollar	22.7	12.0	30.5
Australian Dollar	7.6	21.0	43.3
Other	20.0	38.9	15.0
Total	1,531.9	1,683.3	1,469.2

After incidence of the corresponding derivative instruments.

6.3. NON CURRENT FINANCIAL ASSETS

a) Non-consolidated available-for-sale investments

Fair value of investments at 31 December	31/12/14	31/12/13	01/01/13
Participation in Cloudwatt (22%) *	--	--	50.0
Investments held by Thales International Offsets **	28.2	28.2	33.1
Investments held by Thales Corporate Ventures (venture capital)	4.2	5.2	11.4
Sysgo ***	--	--	24.4
Visionix ***	--	--	23.3
Seso ***	--	--	14.6
Other	28.0	31.6	34.8
Total	60.4	65.0	191.5

* Company created jointly with Orange and La Caisse des Dépôts in order to offer cloud-based infrastructures. This investment is accounted for under the equity method as of 1 January 2013.

** The Group's subsidiary in charge of negotiating and implementing indirect offset requirements.

*** These companies are consolidated as of 1 January 2013.

Changes over the period	2014	2013
Investments in non-consolidated shares at 1 January	65.0	191.5
Acquisitions (disposals) of non-consolidated investments	0.6	(6.8)
Impairment of investments included in financial income	(1.9)	(3.9)
Changes in scope (Cloudwatt, Sysgo, Visionix and Seso in 2013)	(4.1)	(112.8)
Exchange rate variations and other	0.8	(3.1)
Investments in non-consolidated shares at 31 December	60.4	65.0

b) Non current financial assets

Changes over the period	31/12/14	31/12/13	01/01/13
Loans to related parties	69.1	76.3	55.8
Loans and other financial assets at amortised cost	46.6	54.7	53.5
Loans and other financial assets at fair value	30.6	31.3	34.8
Gross value	146.3	162.3	144.1
Depreciation	(7.9)	(9.3)	(11.8)
Net	138.4	153.0	132.3

6.4. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

a) Financial assets

At 31 December 2014:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available-for-sale	Hedge accounting	Not qualified for hedge accounting	
Non-current financial assets:						
Available-for-sale investments	--	--	60.4	--	--	60.4
Loans and financial assets, non current	107.8	30.6	--	--	--	138.4
Non-current derivatives, asset	--	--	--	44.1	--	44.1
Current financial assets:						
Current derivatives, asset	--	--	--	98.2	10.0	108.2
Current financial assets	56.8	--	--	--	--	56.8
Cash at bank and equivalents	2,225.8	255.6	--	--	--	2,481.4
Total		286.2	60.4	142.3	10.0	

Methods used to measure fair value

Valuation at cost	--	60.4	--	--	60.4
Quoted price in active markets (level 1)	255.6	--	--	--	255.6
Valuation based on observable market data (level 2)	30.6	--	142.3	10.0	182.9

At 31 December 2013:	Loans and receivables at amortised cost	At fair value				Total
		Financial assets		Derivatives		
		Through P&L	Available- for-sale	Hedge accounting	Not qualified for hedge accounting	
Non-current financial assets						
Available-for-sale investments	--	--	65.0	--	--	65.0
Loans and financial assets, non current	121.7	31.3	--	--	--	153.0
Non-current derivatives, asset	--	--	--	16.6	--	16.6
Current financial assets:						
Current derivatives, asset	--	--	--	166.8	9.7	176.5
Current financial assets	196.9	--	--	--	--	196.9
Cash at bank and equivalents	1,996.7	567.0	--	--	--	2,563.7
Total		598.3	65.0	183.4	9.7	

Methods used to measure fair value

Valuation at cost	--	65.0	--	--	65.0
Quoted price in active markets (level 1)	567.0	--	--	--	567.0
Valuation based on observable market data (level 2)	31.3	--	183.4	9.7	224.4

Trade receivables, as detailed in the note 10.1, are accounted for as financial assets and evaluated at amortised cost in accordance with IAS32/39.

b) Financial liabilities

by Financial liabilities

	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
At 31 December 2014:					
Non-current financial liabilities:					
Financial debt-long-term	1,423.7	44.1	--	--	1,467.8
Non-current derivatives, liability	--	--	--	--	--
Current financial liabilities:					
Current derivatives, liability	--	--	271.7	10.5	282.2
Financial debt-short-term	108.2	--	--	--	108.2
Total		44.1	271.7	10.5	

Methods used to measure fair value

Valuation based on observable market data (level 2)	44.1	271.7	10.5	326.3
---	------	-------	------	--------------

At 31 December 2013:	At amortised cost	At fair value			Total	
		Financial liabilities	Derivatives			
			Hedge accounting	Not qualified for hedge accounting		
Non-current financial liabilities:						
Financial debt-long-term	1,437.6	14.0	--	--	1,451.6	
Non-current derivatives, liability	--	--	2.6	--	2.6	
Current financial liabilities:						
Current derivatives, liability	--	--	61.9	11.0	72.9	
Financial debt-short-term	245.7	--	--	--	245.7	
Total		14.0	64.5	11.0		

Methods used to measure fair value

Valuation based on observable market data (level 2)	14.0	64.5	11.0	89.5
---	------	------	------	-------------

As detailed in the note 10.1, accounts payable and refundable grants are accounted for as financial liabilities and evaluated at amortised cost in accordance with IAS32/39.

Measurement of fair value of financial assets and liabilities:

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

The fair value of debt obligation is measured on the basis of prices quoted (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows with the Euribor interest rate at the balance sheet date, adjusted for the Group's credit risk (Level 2). On this basis, the fair value of the financial debt amounts to € 1,596.8 million at 31 December 2014 and € 1,710.3 million at December 2013.

The fair value of money market funds and other mutual funds is estimated according to their latest available net market value. The fair value of interest rates products (certificates of deposit, term accounts, medium-term negotiable notes...) is estimated by discounting coupons and price excluding accrued interests, for the time remaining between the annual closing and the maturity of the product. The discount rate is a market rate matching the maturity and features of the product.

The fair value of the derivatives is estimated according to the models commonly used by the stakeholders to estimate these financial instruments (model which take into account market data). The recognition of the default risk of the counterpart and the credit risk of the entity has no significant impact on the fair value of derivatives.

There were no transfers between the fair value hierarchy levels during the year ended 2014 and 2013.

6.5. FINANCIAL RISKS

a) Market risks

Thales covers foreign exchange and interest rate risks by using over-the-counter derivatives subscribed with first-ranking banks. The book value of derivatives used in the management of financial risk is presented below:

	31/12/14		31/12/13	
	Assets	Liabilities	Assets	Liabilities
Non-current derivatives				
- foreign exchange derivatives	--	--	--	--
- interest rate derivatives	44.1	--	16.6	2.6
Current derivatives				
- foreign exchange derivatives	108.2	278.2	176.5	68.0
- interest rate derivatives	--	4.0	--	4.9
Foreign exchange derivatives, net	(170.0)		108.5	
Interest rate derivatives, net	40.1		9.1	

- **Foreign exchange**

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

Operating receivables and payables denominated in foreign currencies are covered by exchange rate hedges and are therefore not exposed to foreign currency risk.

Regarding the derivative instruments documented as cash flow hedge, a decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP and CAD) would have positively (respectively, negatively) impacted equity by approximately € 132 million at 31 December 2014 compared to € 103 million at 31 December 2013.

Regarding the derivative instruments matched with portfolios of sales offers, which are not eligible for hedge accounting, a decrease (respectively, an increase) of 5% in the rate of the dollar against the main currencies (EUR, GBP and CAD) would have positively (respectively, negatively) impacted profit and loss by approximately € 2 million at 31 December 2014, compared to € 2 million at 31 December 2013.

Foreign exchange derivatives	31/12/14					31/12/13	
	USD	GBP	Other	Total	Market value	Total	Market value
Negotiations and trade operations hedges							
Hedge accounting							
Forward currency sales	4,299.8	464.8	1,413.6	6,178.2	(151.3)	4,950.9	106.6
Forward currency purchases	1,630.5	507.9	979.4	3,117.8		2,470.9	
Currency sales (call and put options)	93.7	--	--	93.7	0.5	141.3	1.4
Currency purchases (call and put options)	--	40.9	10.6	51.5		11.5	
Not qualified for hedge accounting							
Forward currency sales	--	9.5	--	9.5	--	4.4	(0.1)
Forward currency purchases	3.9	--	1.6	5.5		23.3	
Currency sales (call and put options)	98.4	--	64.9	163.3	1.5	402.2	3.9
Currency purchases (call and put options)	16.0	39.0	93.5	148.5		372.5	
Hedges related to cash pooling							
Currency sales: foreign exchange swaps	37.5	--	185.4	222.9	(1.3)	100.1	(4.3)
Currency purchases: foreign exchange swaps	66.6	488.9	418.4	973.9		1,001.5	
Hedges related to net foreign assets (hedge accounting)							
Currency sales: foreign exchange swaps	348.6	--	20.6	369.2	(19.4)	39.4	(0.4)
Currency purchases: foreign exchange swaps	--	325.9	--	325.9		--	--
Other	--	--	--	--	--	--	1.4
Net asset					(170.0)		108.5

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is consistent with the average payment deadlines of these contracts. This maturity is usually less than 5 years.

Other derivatives have a maturity of less than one year.

- **Interest rate**

Thales is exposed to interest rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active policy of interest rate hedging.

The Corporate Financing and Treasury department consolidates data on Thales's exposure to interest rate risk and uses the appropriate financial instruments to hedge those risks. Thales policy is to control interest rate and counterpart risks and to optimise its funding and banking operations.

Interest rate derivative instruments	31/12/2014		31/12/2013	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable-rate payable)				
- swaps related to bond with maturity 2021	300.0	21.0	300.0	(2.6)
- swaps related to bond with maturity 2018	300.0	8.3	300.0	0.1
- swaps related to bond with maturity 2016	400.0	14.8	400.0	16.5
		44.1		14.0
Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)				
	23.1	(3.4)	26.3	(4.1)
Swaps not documented as hedge				
- swap with fixed-rate payable, related to bonds	--	--	200	(0.3)
- swap with fixed-rate payable, related to a loan	11.1	(0.6)	13.3	(0.5)
Net asset		40.1		9.1

The table below summarises the Group's exposure to interest rate risk before and after hedging these risks. Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase financial income by € 8.4 million in 2014 (€ 12.0 million in 2013).

31/12/2014	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt	(22.2)	(86.0)	(1,387.2)	(36.5)	(1,409.4)	(122.5)
Financial assets, cash at bank and equivalents	--	2,538.2	--	--	--	2,538.2
Net exposure before impact of derivative instruments	(22.2)	2,452.2	(1,387.2)	(36.5)	(1,409.4)	2,415.7
Hedging derivatives	(4.9)	4.9	981.8	(981.8)	976.9	(976.9)
Net exposure after impact of derivative instruments	(27.1)	2,457.1	(405.4)	(1,018.3)	(432.5)	1,438.8

31/12/2013	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt	(37.4)	(208.4)	(1,394.3)	(43.2)	(1,431.7)	(251.6)
Financial assets, cash at bank and equivalents	--	2,760.6	--	--	--	2,760.6
Net exposure before impact of derivative instruments	(37.4)	2,552.2	(1,394.3)	(43.2)	(1,431.7)	2,509.0
Hedging derivatives	(4.7)	4.7	978.4	(978.4)	973.7	(973.7)
Net exposure after impact of derivative instruments	(42.1)	2,556.9	(415.9)	(1,021.6)	(458.0)	1,535.3

b) Client Credit

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

- **Risk relating to failure of a private-sector customer**

Non-governmental customers (aircraft manufacturers, airlines, private infrastructure operators and industry) account for approximately 25% of Thales's sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on Thales's sales, profitability and financial position.

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

- **Credit risk relating to public-sector customers**

Public, Government and institutional customers account for around 75% of Thales's sales. Thales works with a large number of countries. Some of these could present a significant credit risk which could, for example, lead them to suspend an order in production, or make them be unable to pay on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as Coface in France) or private insurers.

At 31 December 2014, only two customers accounted for annual sales in excess of € 500 million: the French government (approx. € 2.5 billion, compared to € 24 billion in 2013) and the British State (approx. € 1 billion). At 31 December 2014, these two countries still have first-class or high quality ratings (France AA by Standard & Poor's and Aa1 by Moody's – U.K. AAA by Standard & Poor's and Aa1 by Moody's).

The Group's Finance department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been written down as impaired. At 31 December 2014 and 2013, the ageing of these accounts and notes receivable is as follows:

At 31 December 2014 Overdue accounts & notes receivables not depreciated	Total	Accounts and notes receivables overdue:		
		< 3 months	3 to 6 months	> 6 months
State and assimilated	141.7	102.3	14.6	24.8
Others	366.5	232.5	40.4	93.6

At 31 December 2013 Overdue accounts & notes receivables not depreciated	Total	Accounts and notes receivables overdue:		
		< 3 months	3 to 6 months	> 6 months
State and assimilated	124.3	44.2	30.4	49.7
Others	341.6	196.9	55.1	89.6

- **Credit risks related to banking counterparts**

Financial investments are diversified. They relate to senior debt and are negotiated with leading banks.

Thales Group has OTC derivatives with first class banks under agreements which provide offset amounts owed and to receive in case of failure of one of the contracting parties. These conditional compensation agreements do not meet the criteria of IAS 32 to allow clearing of derivative instruments assets and liabilities on the balance sheet. However, they fall within the scope of disclosures under IFRS 7 on compensation.

At 31 December 2014	Gross book value (before netting)	Offset amounts on Balance sheet	Net balances presented in balance sheet	Impact of other netting agreements		Net
				Netting agreements	Financial collaterals	
Derivatives – Assets	152.3	--	152.3	(136.0)	--	16.3
Derivatives – Liabilities	282.2	--	282.2	(136.0)	--	146.2

c) Liquidity

Thales's liquidity risk corresponds to its level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

Thales manages this risk by anticipating its liquidity requirements. This risk is hedged by Thales's short- and long-term financial resources:

- Equity (note 8.1)
- Gross debt (listed by date of maturity in note 6.2)
- Committed, undrawn credit facilities granted by banks (€ 1,500 million maturing in 2019) as backup for the commercial paper programme and representing, as such, a financing reserve.

The principle of consolidating and centralising the short-term surpluses and requirements of units (cash pooling) is applied to units in the same currency zone — euro zone (with separate cash pooling for French units), sterling zone, dollar zone and Australian dollar zone, etc. — and, in some cases, in the same country.

Through the consolidation and centralisation of cash requirements and surpluses of its units, the Group is in a position to simplify cash management and match the cash positions of units to produce a single consolidated position that is easier to manage as well as to gain prime access to financial markets through the parent company's financing programmes, rated by Standard & Poor's and Moody's (see below).

At 31 December 2014, the cash recorded under consolidated assets amounts to € 2,481.4 million (€ 2,563.7 million in 2013). It includes:

- € 2,051.4 million held by the parent company and available for immediate use (€ 2,051.7 million in 2013). These amounts include € 1,725.6 million (€ 1,610.1 million in 2013) of term deposits, euros market funds, negotiable debt securities, other investments with maturities of less than 3 months;
- € 430.0 million in the bank credit balances of subsidiaries, most of them outside France. This figure includes payments received in the last few days of the financial year and subsequently transferred to the corporate treasury account (€ 512.0 million in 2013).

At the date of publication, Thales's credit risk ratings were as follows:

	Moody's	Standard & Poor's
Medium and long-term loans	A2	BBB+
Outlook	Negative outlook	Stable outlook
Commercial paper & short-term loans	Prime-1	A-2

The decrease of Thales's credit risk rating does not place at risk financial covenants included in financing contracts. The coming into effect of the unique clauses providing for accelerated repayment would only apply in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA³ were to exceed 3.

A decrease of Thales's credit risk ratings would lead to a (capped) increase in the margin related to the confirmed € 1.5 billion credit facilities; by contrast, an increase of Thales's credit risk ratings would lead to an improvement of the margin (with a minimum threshold). Other fundings do not provide "covenants" based on financial ratios.

7. INCOME TAX

Determination of the income tax expense takes into account the specific local rules applied by Thales, including the tax consolidation system in France, Group Relief in the United Kingdom, tax consolidation in the USA, and the "Organschaft" rules in Germany.

7.1. ANALYSIS OF TAX CHARGE

	2014	2013
Current tax*	(159.3)	(108.3)
Deferred tax	(55.0)	(95.2)
Total	(214.3)	(203.5)

* before deduction of research tax credits, which are included in the income from operations (€ 151.4 million in 2014, € 136.5 million in 2013)

³EBITDA, as defined in the funding agreements, is the sum of operating income, depreciation of movable and immovable assets and any impairment of intangible assets, net of amortisation of goodwill. This aggregate is determined in accordance with French accounting principles.

Effective tax rate

	2014	2013
Net income (loss)	761.7	608.6
Less: income tax	214.3	203.5
Less: share in net income (loss) of equity affiliates	34.0	(106.0)
Less: disposal of assets, changes in scope of consolidation and other	(248.9)	(16.1)
Profit before tax, disposals and impact of equity affiliates	761.1	690.0
Average tax rate *	32.0%	31.6%
Theoretical tax gain (expense)	(243.6)	(218.5)
Reconciliation items:		
- Tax credits **	72.0	64.0
- Other non taxable items	(1.5)	(3.6)
- Income related to previously unrecognised deferred tax assets	23.7	17.8
- Expenses related to the non-recognition of deferred tax assets	(21.4)	(4.3)
- Taxes not taken into account in the theoretical rate***	(16.7)	(10.9)
- Prior year adjustments	(14.2)	(8.2)
- Impact of dividends paid ****	(14.1)	(35.3)
- Impact of change in the deferred tax rate	1.5	(6.0)
- Tax related to disposal of assets, changes in scope of consolidation and oth.	0.5	(1.2)
- Other	(0.5)	2.7
Actual tax gain (expense)	(214.3)	(203.5)
Effective tax rate	28.2%	29.5%

* The weighted average rate corresponds to the sum of theoretical taxes of all the consolidated companies, divided by the consolidated income before tax, disposals and impact of equity affiliates. The theoretical tax of each consolidated company corresponds to the income before tax to which is applied the local tax rate.

Thus, the average tax rate depends on the contribution of the different countries to the Group's income before tax. The part of the income before tax of France, which tax rate amounts to 34.43% before additional contributions, represents more than 70% (compared to nearly 60% in 2013).

** Includes:

- The effect of not taxing research tax credits and tax credit for encouraging competitiveness and jobs (CICE), recorded in the non taxable income of operations (especially in France);
- The fiscal benefits related to the research, recorded in the income tax (notably in Australia and Netherlands);

*** Including in particular the additional contribution in France, the IRAP in Italy and foreign investments tax.

**** Includes the 3% tax on dividends as well as deferred tax on expected distributions (€-23.3 million in 2013 compared to €- 2.4 million in 2014).

7.2. DEFERRED TAX ALLOCATED TO EQUITY

	2014		2013	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	106.8	--	(137.0)	--
Net foreign investments hedge	2.1	(0.7)	0.9	(0.3)
Cash flow hedge	(292.0)	97.1	71.1	(26.1)
Available-for-sale investments	0.1	--	(0.1)	--
Items subsequently reclassified to P&L	(183.0)	96.4	(65.1)	(26.4)
Actuarial gains and losses/pensions - United Kingdom	(334.6)	--*	(75.5)	--*
Actuarial gains and losses/pensions - Other countries	(317.0)	100.1	38.2	(10.9)
Items not subsequently reclassified to P&L	(651.6)	100.1	(37.3)	(10.9)
Payment in shares		1.0		0.8
Total deferred tax allocated to equity		197.5		(36.5)
<i>Of which, related to companies under equity method</i>		12.6		3.2
<i>Of which, related to fully consolidated companies</i>		184.9		(39.7)

* Depreciation of deferred taxes related to pensions in the UK.

7.3. TAX ASSETS AND LIABILITIES PRESENTED IN THE BALANCE SHEET

	01/01/2014	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/2014
Current income tax assets	31.9	--	--	28.4	--	60.3
Current income tax liabilities	(59.5)	(159.3)	--	70.0	94.8	(54.0)
Current income tax, net	(27.6)	(159.3)	--	98.4	94.8	6.3
Deferred tax assets	803.6	61.2	184.9	--	(102.1)	947.6
Deferred tax liabilities	(149.1)	(116.2)	--	--	--	(265.3)
Deferred tax, net	654.5	(55.0)	184.9	--	(102.1)	682.3
Total		(214.3)	184.9	98.4		

	01/01/2013	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/2013
Current income tax assets	35.1	--	--	(3.2)	--	31.9
Current income tax liabilities	(39.4)	(108.3)	--	43.0	45.2	(59.5)
Current income tax, net	(4.3)	(108.3)	--	39.8	45.2	(27.6)
Deferred tax assets	993.3	(129.5)	(39.7)	--	(20.5)	803.6
Deferred tax liabilities	(183.4)	34.3	--	--	--	(149.1)
Deferred tax, net	809.9	(95.2)	(39.7)	--	(20.5)	654.5
Total		(203.5)	(39.7)	39.8		

a) Current income tax

The payment of corporate tax is reported net of tax credits utilised. The allocation of tax credits is presented in the column "changes in exch. rate, scope and other".

b) Deferred tax

- Changes by nature

	At 01/01/2014	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2014
Temporary differences:	664.5	10.8	251.8	(83.6)	843.5
- Pensions and other employee benefits	425.0	(9.6)	169.7	23.3	608.4
- Intangible assets	(150.2)	26.1	--	(2.1)	(126.2)
- Reserve for losses at completion	153.3	(25.9)	--	3.9	131.3
- Other	236.4	20.2	82.1	(108.7)	230.0
Tax loss carry-forwards	376.4	(68.1)	--	7.8	316.1
Total	1,040.9	(57.3)	251.8	(75.8)	1,159.6
Part not recognised in the balance sheet	(386.4)	2.3	(66.9)	(26.3)	(477.3)
Total net deferred tax assets	654.5	(55.0)	184.9	(102.1)	682.3

	At 01/01/2013	(Expense) income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2013
Temporary differences:	809.9	(69.8)	(48.8)	(26.8)	664.5
- Pensions and other employee benefits	448.8	5.7	(23.8)	(5.7)	425.0
- Intangible assets	(162.1)	26.4	--	(14.5)	(150.2)
- Reserve for losses at completion	231.1	(74.9)	--	(2.9)	153.3
- Other	292.1	(27.0)	(25.0)	(3.7)	236.4
Tax loss carry-forwards	419.7	(38.9)	--	(4.4)	376.4
Total	1,229.6	(108.7)	(48.8)	(31.2)	1,040.9
Part not recognised in the balance sheet	(419.7)	13.5	9.1	10.7	(386.4)
Total net deferred tax assets	809.9	(95.2)	(39.7)	(20.5)	654.5

• Expiration of tax loss carry-forwards

Total tax loss carry-forwards represent a potential tax saving of € 316.1 million at 31 December 2014 (€ 376.4 million at 31 December 2013). Corresponding expiry dates are:

	31/12/2014		31/12/2013
2015	0.5	2014	5.6
2016-2019	0.1	2015-2018	0.8
Beyond 2019	27.1	Beyond 2018	32.0
Without any time limit	288.4	Without any time limit	338.0
Total	316.1	Total	376.4
Of which not recognised in the balance sheet	(157.9)	Of which not recognised in the balance sheet	(170.5)
Net deferred tax asset	158.2	Net deferred tax asset	205.9
<i>Of which, in France</i>	<i>107.9</i>	<i>Of which, in France</i>	<i>143.4</i>

Only deferred tax assets related to tax losses which the Group expects to recover, in accordance with note 14-k, are recognised in the balance sheet. In particular, the Group takes into account loss carry-forward limitation.

8. EQUITY AND EARNINGS PER SHARE

8.1. EQUITY

a) Share capital

The share capital of Thales parent company amounts to € 623,523,333 and is made of 207,841,111 shares with an individual value of € 3, compared with 205,744,500 shares at 31 December 2013. This represents an increase of 2,096,611 shares resulting from the exercise of share subscription options by the beneficiaries of the plans.

b) Outstanding securities giving access to the share capital of the company

At 31 December 2014, there are no securities that give access to the share capital of the Company, with the exception of the share subscription options described in the note 9.4.

c) Treasury shares

Thales Parent Company held 1,876,732 of its own shares at 31 December 2014. They are accounted for with a € 58.9 million decrease from the consolidated equity. In accordance with the authorisations given to the Board of Directors at the Annual General Meeting, the company did the following operations in 2013 and 2014:

	2014	2013
Treasury shares at 1 January	2,490,177	2,795,564
Purchases as part of the liquidity contracts	2,146,816	1,582,469
Sales as part of the liquidity contracts	(2,216,116)	(1,624,034)
Purchase in the market	--	524,861
Transfer to employees as part of the employee share purchase offering	--	(473,653)
Delivery of free shares	(544,145)	(306,130)
Exercise of share purchase options	--	(8,900)
Treasury shares at 31 December	1,876,732	2,490,177

At 31 December 2014, as in 2013, relating to the liquidity contract entrusted to Kepler Cheuvreux from 30 October 2014, the liquidity account had the following means:

	2014	2013
Number of shares at 31 December	24,000	93,300
Value (million euros)	29.8	19.2

d) Translation differences

Translation differences result from the translation of financial statements of companies whose functional currency is not the euro, where appropriate offset by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign subsidiaries.

These differences are recorded in equity as other comprehensive income, subsequently reclassified to profit and loss at the date of disposal of such investments. They are as follows:

	2014	2013
Translation differences at 1 January	(241.9)	(106.2)
Changes in value	108.9	(135.4)
Reclassified to profit and loss	(1.0)	--
Gross variation	107.9	(135.4)
Deferred tax	(0.7)	(0.3)
Translation differences at 31 December	(134.7)	(241.9)
Of which:		
Hedge of net foreign investments	3.0	5.1

e) Reserves for cash flow hedge

The Group uses foreign exchange derivatives to hedge against changes in the value of future cash flows related to trade flows in foreign currencies. In the Group's consolidated financial statements, changes in fair value of these derivatives, when efficient, are recognised directly in equity, until the hedged cash flows affect profit and loss.

	2014	2013
Cash flow hedge at 1 January	56.6	18.7
Changes in value	(277.0)	82.2
Reclassified to profit and loss	(12.0)	(12.8)
Scope and exchange variations	(22.8)	(9.1)
Gross variation	(261.8)	60.3
Deferred tax	86.7	(22.4)
Cash flow hedge at 31 December*	(118.5)	56.6

* A positive balance at closing means that the exchange rates of the derivative instruments documented as hedge are generally more favorable than the exchange rates prevailing at the date of closing.

f) Parent Company Dividends distribution

Dividends per share amounted to € 1.12 in 2013 and € 0.88 in 2012.

On 25 February 2015, the Board of Directors decided to offer the shareholders, who will be called in to a general meeting on 13 May 2015, the payment of a total amount of € [1.12] per share. Given the down payment of € 0.34 per share, the balance of € [0.78] per share will be distributed on xx May 2015.

Dividends paid in 2013 and 2014 are described below:

Full year	Approved by	Description	Dividend per share (euro)	Payout date	How paid	Total (€ million)
2014	Board of directors meeting on 16 September 2014	2014 interim dividend	0.34 €	12 Dec. 2014	Cash	€ 70.0 million
	Shareholders' meeting on 14 May 2014	Balance for 2013	0.85 €	30 May 2014	Cash	€ 172.8 million
	Total dividends paid in 2014					€ 242.8 million
2013	Board of directors meeting on 17 September 2013	2013 interim dividend	0.27 €	13 Dec. 2013	Cash	€ 54.9 million
	Shareholders' meeting on 24 May 2013	Balance for 2012	0.63 €	28 May 2013	Cash	€ 125.8 million
	Total dividends paid in 2013					€ 180.7 million
2012	Board of directors meeting on 29 November 2012	2012 interim dividend	0.25 €	14 Dec. 2012	Cash	€ 49.8 million

g) Non-controlling interests

This item principally includes Finmeccanica's share in the sub-group Thales Alenia Space (33%), as well as, from 1 January 2014, Siemens' and Philips Medical Systems International's interests in the company Trixell SAS (49%) and Raytheon's in Thales-Raytheon Systems Company SAS (50%).

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

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

8.2. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profit attributable to shareholders by the weighted average number of shares outstanding during the financial year, excluding treasury shares.

Diluted earnings per share take into account instruments that have a dilutive effect on earnings per share and exclude anti-dilutive instruments. The dilutive effect of share subscription options is calculated using the treasury stock method, taking into account the average market price for the share in the period in question.

		2014	2013
Numerator (in millions of euros):			
Net income (loss) attributable to shareholders of the parent company	(a)	714.2	573.4
Denominator (in thousands):			
Average number of shares outstanding	(b)	204,774	200,967
Share subscription options*		1,095	602
Diluted average number of shares outstanding	(c)	205,869	201,569
Earnings per share (in euros)	(a) / (b)	3.49	2.85
Diluted earnings per share (in euros)	(a) / (c)	3.47	2.84
Average share price		€ 44.38	€ 36.25

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

9. EMPLOYEE BENEFITS

9.1. CONSOLIDATED NUMBER OF EMPLOYEES

The consolidated number of employees includes all employees of fully consolidated companies and does not include the employees of companies accounted for under the equity method. At the end of 2014 it represents 60,781 employees (59,467 at the end of 2013).

The consolidated number of employees remains stable at comparable scope.

9.2. PERSONNEL EXPENSES

	2014	2013
Wages and salaries and social charges*	(5,268.3)	(5,260.4)
Defined benefit pension expense (note 9.3)	(172.5)	(154.5)
Share-based payment (note 9.4)	(15.0)	(14.7)
Total	(5,455.8)	(5,275.1)

*Defined contribution pension expense included

9.3. PENSION AND OTHER EMPLOYEES BENEFITS

The Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc.) and other long-term benefits (long-service benefits, long-service awards on departure, etc.). Apart from state plans, the plans that are set up to cover these benefits are either defined contribution plans or defined benefit plans.

▪ State plans

In certain countries, and particularly in France, the Group subscribes to state plans (Social Security State plans, compulsory additional plans such as ARRCO, AGIRC, etc.) for which the pension expense for the financial year is equal to the contributions called by, and thus payable to, such plans.

▪ Defined contribution plans

These plans guarantee employees benefits that are directly related to aggregate contributions paid, increased by the yield on investments made. The company's pension expense is thus limited to contributions paid.

▪ Defined benefit plans

There are two categories of countries within the Group:

- countries in which the funding of retirement is mainly based on defined contribution plans and where certain other long-term benefits (retirement awards, long-service awards) are of a defined benefit nature and for which external funding is not systematically put in place. France and Germany are notably included in this category;
- countries in which retirement and other long-term benefits are mainly funded externally: this category includes the UK and the Netherlands.

In the UK, the master plan "Thales UK Pension Scheme", provides a pension based on the average of salary and indexed to inflation. In 2002, this plan was closed to new entrants, who have a collective defined contribution pension scheme.

In the Netherlands, employees have a defined benefit plan, the indexation of which depends on the level of financing achieved, as assessed by the local prudential rules.

a) Provisions recognised in the balance sheet

	2014	2013
Net obligation at 1 January	(1,857.9)	(1,883.4)
Current service cost	(88.9)	(89.4)
Curtailments and settlements	6.5	4.4
Interest cost	(229.5)	(208.5)
Expected return on plan assets	157.9	144.0
Net interest	(71.6)	(64.5)
Fund cost	(5.5)	(5.1)
Actuarial gain & losses/other long-term benefits	(13.0)	0.1
Finance costs on pensions and other employee benefits	(90.1)	(69.5)
Total pension cost of the period	(172.5)	(154.5)
Actuarial gains & losses (other comprehensive income (loss) of the period)	(627.0)	(32.1)
Benefits and contributions	190.5	187.4
- Deficit payment in the United Kingdom	68.8	64.3
- Future service cash	121.7	123.1
Exchange rate variation	(70.1)	24.1
Changes in scope of consolidation and other	(19.8)	0.6
Net obligation at 31 December	(2,556.8)	(1,857.9)
Of which: Post-employment benefits	(2,370.6)	(1,694.8)
Other long-term benefits	(186.2)	(163.1)

b) Changes in defined benefit obligations and plan assets, by category of country

31 December 2014	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
Obligations at 1 January	(3,332.7)	(981.5)	(4,314.2)	(896.8)	(402.4)	(1,299.2)	(5,613.4)
Current service cost	(20.9)	(10.9)	(31.8)	(41.1)	(16.0)	(57.1)	(88.9)
Interest cost	(149.2)	(35.7)	(184.9)	(31.1)	(13.5)	(44.6)	(229.5)
Plan participant's contribution	(11.5)	(9.5)	(21.0)	--	--	--	(21.0)
Curtailments /settlements	--	6.5	6.5	--	8.1	8.1	14.6
Experience gains (losses)	(3.4)	11.5	8.1	(16.9)	0.8	(16.1)	(8.0)
Actuarial gains (losses)/ financial assumptions	(488.5)	(272.7)	(761.2)	(114.1)	(75.3)	(189.4)	(950.6)
Actuarial gains (losses)/ demographic assumptions	(0.7)	(28.3)	(29.0)	(8.0)	(4.4)	(12.4)	(41.4)
Actuarial gains (losses) on long –term benefits	--	(2.8)	(2.8)	(7.3)	(2.9)	(10.2)	(13.0)
Benefits paid by plan assets	128.1	29.1	157.2	2.2	4.3	6.5	163.7
Benefits paid by employer*	0.4	0.4	0.8	59.2	15.8	75.0	75.8
Scope, exch. rate var. and other	(257.0)	--	(257.0)	(18.1)	(8.9)	(27.0)	(284.0)
Obligations at 31 December	(4,135.4)	(1,293.9)	(5,429.3)	(1,072.0)	(494.4)	(1,566.4)	(6,995.7)
Plan assets at 1 January	2,553.9	958.0	3,511.9	121.9	121.7	243.6	3755.5
Expected return on plan assets	114.2	35.3	149.5	4.0	4.4	8.4	157.9
Employer's contribution*	92.9	14.2	107.1	3.5	4.1	7.6	114.7
Plan participants' contribution	11.5	9.5	21.0	--	--	--	21.0
Curtailments /settlements	--	--	--	--	(7.9)	(7.9)	(7.9)
Benefits paid by plan assets	(128.1)	(29.1)	(157.2)	(2.2)	(4.3)	(6.5)	(163.7)
Experience gains (losses)	158.0	214.0	372.0	1.5	(0.5)	1.0	373.0
Scope, exch. rate var. and other	186.6	(1.3)	185.5	(0.3)	3.2	2.9	188.4
Plan assets at 31 December	2,989.2	1,200.6	4,189.8	128.4	120.7	249.1	4,438.9
Net provisions at 31 December		(93.3)	(1,239.5)	(943.6)	(373.7)	(1,317.3)	(2,556.8)

31 December 2013

	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
Obligations at 1 January	(3,207.5)	(995.3)	(4,202.8)	(870.2)	(419.9)	(1,290.1)	(5,492.9)
Current service cost	(22.9)	(12.4)	(35.3)	(38.9)	(15.2)	(54.1)	(89.4)
Interest cost	(135.4)	(33.6)	(169.0)	(26.6)	(12.9)	(39.5)	(208.5)
Plan participant's contribution	(8.9)	(9.2)	(18.1)	--	(0.6)	(0.6)	(18.7)
Curtailments / settlements	--	4.4	4.4	--	--	--	4.4
Experience gains (losses)	(5.5)	24.6	19.1	(10.1)	0.3	(9.8)	9.3
Actuarial gains (losses)/ financial assumptions	(44.2)	20.3	(23.9)	26.2	8.9	35.1	11.2
Actuarial gains (losses)/ demographic assumptions	(87.5)	(7.3)	(94.8)	(21.4)	(2.0)	(23.4)	(118.2)
Actuarial gains (losses) on long –term benefits	--	(0.5)	(0.5)	(4.2)	4.8	0.6	0.1
Benefits paid by plan assets	113.4	27.5	140.9	1.9	1.0	2.9	143.8
Benefits paid by employer*	--	--	--	45.3	19.4	64.7	64.7
Scope, exch. rate var. and other	65.8	--	65.8	1.2	13.8	15.0	80.8
Obligations at 31 December	(3,332.7)	(981.5)	(4,314.2)	(896.8)	(402.4)	(1,299.2)	(5,613.4)

Plan assets at 1 January	2,451.5	936.0	3,387.5	114.3	107.7	222.0	3,609.5
Expected return on plan assets	105.2	31.9	137.1	3.2	3.7	6.9	144.0
Employer's contribution*	95.8	19.5	115.3	3.3	4.1	7.4	122.7
Plan participants' contribution	8.9	9.2	18.1	--	0.6	0.6	18.7
Benefits paid by plan assets	(113.4)	(27.5)	(140.9)	(1.9)	(1.0)	(2.9)	(143.8)
Curtailments / settlements	--	--	--	--	--	--	--
Experience gains (losses)	61.8	(9.9)	51.9	3.5	10.2	13.7	65.6
Scope, exch. rate var. and other	(55.9)	(1.2)	(57.1)	(0.5)	(3.6)	(4.1)	(61.2)
Plan assets at 31 December	2,553.9	958.0	3,511.9	121.9	121.7	243.6	3,755.5
Net provisions at 31 December	(778.8)	(23.5)	(802.3)	(774.9)	(280.7)	(1,055.6)	(1,857.9)

* Contributions / benefits paid amount to € 190.5 million in 2014, compared to € 187.4 million in 2013. They should remain stable in 2014, at comparable scope and exchange rates: subject to the United Kingdom, of which the amount depends on negotiations which will take place in 2015 (note 9.3-e).

c) Actuarial assumptions used

The actuarial assumptions used are ascertained by actuaries according to special features of each country and each system. The most sensitive assumptions are the following:

2014	UK	Netherlands	France	Germany *
Inflation rate	2.86%	1.60%	1.60%	1.60%
Discount rate	3.68%	1.90%	1.50%	2.02%
Average duration of the plans	17 years	16 years	11 years	19 years
2013	UK	Netherlands	France	Germany *
Inflation rate	3.25%	2.00%	2.00%	2.00%
Discount rate	4.61%	3.69%	3.17%	3.77%
Average duration of the plans	17 years	16 years	11 years	19 years

* main country of the category « others »

The discount rates are obtained by reference to market yields on high quality bonds in each country (high quality corporate bonds with maturity dates equivalent to those of the plans being measured). In this context, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the concerned countries' commitments.

At 31 December 2014, the sensitivity of the net obligation to a change in the discount rate is as follows:

Sensitivity in basis points	+ 0.25%	- 0.25%	+ 0.50%	- 0.50%	+ 1.00%	- 1.00%
Decrease (increase) in net obligation (€ million)	299.3	(318.5)	597.5	(657.7)	1,092.6	(1,404.9)

In the UK, an increase (decrease) of the inflation rate of 25 basis points would generate an increase (decrease) of the commitment by € 115 million.

d) Return on plan assets

The actual return on plan assets in 2014 amounts to € 530.9 million (€ 209.6 million in 2013), which represents an average increase of 15 %. At 31 December 2014, plan assets are invested as follows:

	UK	Netherlands	Other countries	2014	2013
Fixed rate bonds	29%	60%	73%	39%	37.5%
Linked investments	16%	--	--	11%	8%
Equities	34%	33%	23%	34%	38%
Liquid alternative investments	10%	--	--	7%	6.5%
Illiquid alternatives (property...)	9%	7%	--	8%	6%
Liquidities	2%	--	4%	1%	4%
Total	100%	100%	100%	100%	100%

e) Financing

Thales is subjected to financing obligations due to defined benefit pension commitments (mainly in the UK and in the Netherlands).

In the UK, in accordance with the regulation in force, the financing level of pension commitments of the Thales UK scheme is measured every three years. Following this measurement, the opportunity of a new financing plan and/or the enforcement of guarantees in favour of the plan is decided, in coordination with the trustees.

This assessment, based on the underfunding at the end of 2011, was completed on March 30, 2013, and led to a slight increase in the annual contribution from £ 50 million to £ 52.6 million.

In addition, Thales UK Holding granted a guarantee covering future liabilities of the relevant subsidiaries in the United Kingdom under this financing plan. At 31 December 2014 the balance of the guarantee is £ 720.5 million, this amount will be reduced by any amount paid accordingly to the financing plan. This guarantee is underwritten by Thales (parent company).

This financing plan and the attached guarantees will be updated in 2015 on the basis of financing level valuation at 2014 end.

9.4. SHARE-BASED PAYMENT

Thales regularly granted its employees and managers, purchase and subscription options up until 2011. The decision was made in 2012 to stop granting options.

Also, Thales regularly granted free shares and/or performance shares in reference with the employees performance management policy.

In 2014, the Group stopped free shares grants and replaced them with a Units plan (see paragraph e-). These different plans are described below. At 31 December 2014, the following options, shares and units were outstanding:

- 117,800 share purchase options at a weighted average exercise price of € 42.76,
- 5,841,789 share subscription options at a weighted average exercise price of € 36.58, of which 658,682 performance shares,
- 1,831,191 free shares, of which 521,801 performance shares,
- 704,800 units, of which 280,250 performance units.

a) Expenses related to share-based payments

In the consolidated statements, the benefit granted to the beneficiaries of stock options, free shares and units is recognised as an operating expense. This breaks down as follows:

Grant date	Initial number of options, shares and units granted	Fair value at grant date	Initial Fair value (€ million)	Remaining fair value at 31/12/2014	2014 Expense	2013 Expense
Share subscription options:						
15/09/11	435,300	€ 25.20	2.3	--	0.2	(0.6)
23/09/10	471,850	€ 26.40	2.8	--	--	(0.3)
25/06/09	1,600,340	€ 31.93	11.2	--	--	(0.1)
Total				--	0.2	(1.0)
Free shares*:						
17/09/13	724,290	€ 39.16	22.8	14.4	(5.2)	(1.6)
20/12/12	718,290	€ 27.47	16.1	7.4	(3.5)	(4.0)
15/09/11	630,990	€ 25.20	13.0	2.1	(2.5)	(3.2)
23/09/10	631,730	€ 26.40	13.6	--	(2.2)	(3.2)
25/06/09	334,980	€ 31.93	8.7	--	--	(1.0)
Total				23.9	(13.4)	(13.0)
Units **: 						
16/09/14	706,970	€ 42.42	24.2	23.4	(1.8)	--
				23.4	(1.8)	--
Company savings scheme					--	(0.7)
Total					(15.0)	(14.7)
Of which, counterpart:						
Equity					14.1	14.7
Debt					0.9	--

* The fair value of free shares plans takes into account a distribution rate of 2.5% of future results.

**The fair value of the plan, according to a Monte-Carlo model, takes into account a volatility assumption of 22% and a distribution rate of 2.7% of future results. The amount is presented before social charges.

b) Outstanding purchase option plans

Date of board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/13	Options exercised in 2014	Options cancelled in 2014	Number of options outstanding at 31/12/14
25/11/2008	from 25 Nov. 2012 to 24 Nov. 2018	€ 38.50	37,800	--	--	37,800
04/07/2007	from 4 July 2011 to 3 July 2017	€ 44.77	80,000	--	--	80,000

c) Outstanding subscription option plans

Date of board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/13	Options granted in 2014	Options exercised in 2014	Options cancelled in 2014(b)	Number of options outstanding at 31/12/14
15/09/2011 (a)	from 15 Sept.2015 to 14 Sept. 2021	€ 26.34	384,200	--	--	(73,368)	310,832
23/09/2010 (a)	from 23 Sept. 2014 to 22 Sept. 2020	€ 26.34	441,350	--	(92,000)	(1,500)	347,850
25/06/2009	from 25 June 2013 to 24 June 2019	€ 32.88	1,057,881	--	(194,185)	(6,204)	857,492
01/07/2008	from 1 st July 2012 to 30 June 2018	€ 38.50	1,322,360	--	(192,943)	(20,700)	1,108,717
04/07/2007	from 4 July 2011 to 3 July 2017	€ 44.77	1,362,250	--	(103,055)	(33,840)	1,225,355
09/11/2006	from 09 Nov. 2010 to 08 Nov. 2016	€ 36.47	1,522,655	--	(343,045)	(19,000)	1,160,610
30/06/2005	from 30 June 2009 to 29 June 2015	€ 34.01	1,217,420	--	(374,100)	(12,387)	830,933
01/07/2004	from 1 st July 2008 to 30 June 2014	€ 29.50	877,945	250	(797,083)	(81,112)	--
01/07/2003	from 1 st July 2007 to 30 June 2013	€ 25.70	200 (c)	--	(200)	--	--

(a) Performance shares

(b) Including, for the involved plans, written-off options when performance targets are not, partially or totally, achieved (in 2014 73,368 written-off options)

(c) Due to an on-going succession dossier

Conditions of exercise

All options are granted for a ten-year period, at no discount to the market price.

Stock purchase and subscription stock options granted between 1 July 2004 and 23 September 2010 can already be exercised in full.

The options granted on 23 September 2010 and 15 September 2011 are contingent upon the achievement of internal performance targets over the three following financial years. The performance criteria are EBIT, operating cash flow and order intake, with a weighting of 60%, 25% and 15% respectively.

Options are validated by third once the Board of Directors has approved the Group consolidated accounts of the related periods. The number of options validated will not exceed the number of shares initially allotted. For all beneficiaries, the exercise of options will only be possible as from the fourth anniversary date of the grant.

d) Plan of free shares and/or performance shares awards

Free shares and/or performance shares awards Plans have been implemented since 2007.

Until 2011, the Chairman (the only "mandataire social": legally responsible as defined by the French Commercial Code), and 21 executives (including Executive Committee) could not benefit from these plans. Since 2012, only the Chairman could not benefit from these plans.

These plans are divided in two sub plans:

Free shares:

All designated beneficiaries of the plan will be granted shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Performance shares:

The shares granted are subject to the attainment of internal performance conditions over three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements. The number of shares vested will not exceed the number of shares initially allotted.

- Shares granted in 2010, 2011 and 2012:
 - the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60 %, 25% and 15 % weighting respectively;
 - all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Within the two sub-plans, beneficiaries who are French tax residents or who pay social contributions in France will then have to observe a two-year lock-in period during which shares may not be sold. The lock-in period does not apply to beneficiaries who are not French tax residents.

- Shares granted in 2013:
 - the three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60 %, 15% and 25% weighting respectively;
 - all designated beneficiaries of this sub-plan will be granted validated shares at the end of a four-year vesting period subject to compliance with the employment conditions stipulated under the plan's rules.

Due to French legislation changes, the lock-in period of two years no longer apply to beneficiaries who are French tax residents.

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/13	Adjustments posterior to closing	Shares cancelled in 2014 (b)	Shares delivered in 2014	Number of free shares at 31/12/14
17/09/2013	du 17/09/2013 au 17/09/2017	€ 39.16	422,040	--	(7,930)	(320)	413,790
			298,100 (a)	--	(57,137)	--	240,963
20/12/2012	du 20/12/2012 au 20/12/2016	€ 27.47	475,580	1,090	(18,020)	(250)	458,400
			228,500 (a)	--	(50,646)	--	177,854
15/09/2011	du 15/09/2011 au 15/09/2015	€ 25.20	456,350	320	(19,100)	(370)	437,200
			135,290 (a)	450	(32,756)	--	102,984
23/09/2010	du 23/09/2010 au 23/09/2014	€ 26.40	440,490	--	(14,990)	(425,500)	--
			127,250 (a)	--	(5,400)	(121,850)	--

(a) Performance shares

(b) Including, for the involved plans, written-off shares when performance targets are not, partially or totally, achieved (120,759 written-off shares in 2014).

e) Units or performance units grant, indexed to the value of the Thales share

A plan defined in units indexed to the value of the Thales share, including units subject to performance conditions, has been implemented in 2014. This plan is divided into two sub plans.

Units plan subject to presence conditions

Each granted unit gives right to the settlement of a monetary value at the end of a four-year vesting period, subject to compliance with the employment conditions stipulated under the plan's rules.

This monetary value will be calculated at the end of the vesting period, and will be set equal to the average daily opening share price over the vesting period. The extreme stock market price variations in the increase or in the reduction will be neutralized.

At the end of the vesting period, the amount owed to the beneficiaries who meet the presence conditions is equal to the number of granted units multiplied by the value of the unit. Half of the payment will be done in shares, while the other half will be paid in cash.

Units plan subject to presence conditions and performance conditions

Performance units follow the same rules as units regarding the vesting period and the presence conditions, but the number of units finally allocated will depend on the attainment of internal performance conditions over the three financial years following the allocation date. The rights are validated by third during the Board meeting closing the three years financial statements.

The number of granted validated units will not exceed the number initially allotted.

The three criteria used are EBIT, operating cash flows and order intake, each of these criteria having a 60%, 15% and 25% weighting respectively.

Date of the allocation decision	Vesting period	Share price at grant date	Number of units at 31/12/13	Units allocated in 2014	Units cancelled in 2014 (b)	Units delivered in 2014	Number of units at 31/12/14
16/09/2014	From 16/09/2014 to 16/09/2018	€ 42.42	--	425,920	(1,370)	--	424,550
			--	281,050	(800)	--	280,250(a)

(a) Units subject to performance conditions

(b) Including, for the involved plans, written-off units when performance targets are not, partially or totally, achieved.

9.5. COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS

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

	2014	2013
Short-term benefits:		
- Fixed compensation	4.3	4.0
- Variable compensation	2.9	2.8
- Employer's social security contribution	2.5	3.1
- Contract termination benefits resulting from contract commitments	--	3.1
- Employer's social security contribution / contract termination benefits	--	1.0
- Compensation for attendance at Board meetings	0.6	0.6
Other benefits:		
- Post employment benefits	1.7	1.2
- Share-based payments	0.7	0.5

9.6. FRENCH STATUTORY TRAINING ENTITLEMENT

In accordance with the requirements of French legislation dated 4 May 2004 relating to professional training, French companies in the Group grant their employees a training entitlement of at least 20 hours per calendar year, which may be held concurrently for a maximum of six years and capped at 120 hours.

Thales has signed an agreement regarding anticipation of changes in employment, professional development and training that is applicable to all its French subsidiaries. This agreement stipulates the manner in which the statutory training entitlement can be exercised within the enterprise. It recalls that this entitlement guarantees employees access to training for their maintenance in employment or changes therein or for the development of their skills. In this respect, training initiatives contributing to the professional development of employees envisaged in the training programme are counted as part of the statutory training entitlement. In consequence, as the costs incurred benefit the enterprise, no provision has been recognised.

10. CURRENT OPERATING ASSETS AND LIABILITIES

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

Contracts under IAS 11 are subject to a specific classification in the consolidated balance sheet: for each contract, the balances of unbilled revenues, work-in-progress and provisions for risks and charges are presented in the assets or liabilities in the "Construction Contracts" (note 14-d).

The Group may transfer trade receivables, mainly from the French State. At 31 December 2014, the transferred receivables amounted to € 210.7 million (€ 136.3 million at 31 December 2013). The change in overdue payments on constant perimeter amounts to € + 69 million in 2014 (€ +130.3 in 2013)

As these transfers, which are without recourse in case of payment default by the debtor, involve the transfer of substantially all corresponding risks and rewards, those receivables are derecognised. The following risks and rewards are not transferred to the bank (within the meaning of IFRS 7): the dilution risk and the remuneration received under the recovery mandate.

10.1. EVOLUTION OF CURRENT OPERATING ASSETS AND LIABILITIES

	01/01/13	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/13	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/14
Inventories and work-in-progress	2,111.2	43.1	(30.2)	2,124.1	188.7	124.8	2,437.6
Construction contracts: assets	2,029.5	15.6	(49.9)	1,995.2	(91.0)	92.2	1,996.4
Advances to suppliers	231.0	55.7	(1.5)	285.2	29.3	11.5	326.0
Accounts, notes & other current receivables	3,888.1	(94.9)	16.8	3,810.0	223.4	95.7	4,129.1
Derivative instruments – assets	119.1	57.6	(0.2)	176.5	(8.1)	(60.2)	108.2
Current operating assets	8,378.9	77.1	(65.0)	8,391.0	342.3	264.0	8,997.3
Advances received from cust. on contracts	(3,741.2)	(45.4)	47.3	(3,739.3)	220.5	(157.6)	(3,676.4)
Refundable grants	(148.1)	4.4	0.7	(143.0)	12.9	(0.3)	(130.4)
Construction contracts: liabilities	(1,267.9)	176.3	17.7	(1,073.9)	18.5	(16.9)	(1,072.3)
Reserve for contingencies	(1,156.2)	52.8	77.3	(1,026.1)	22.4	(34.3)	(1,038.0)
Accounts, notes & other current payables	(4,836.6)	55.3	34.4	(4,746.9)	(318.8)	(203.7)	(5,269.4)
Derivative instruments - liabilities	(92.5)	19.4	0.2	(72.9)	--	(209.3)	(282.2)
Current operating liabilities	(11,242.5)	262.8	177.6	(10,802.1)	(44.5)	(622.1)	(11,468.7)
Restructuring provision*	177.2	(39.2)	0.3	138.3	(10.7)	6.6	134.2
Increase (Decrease) in WCR & reserves for contingencies		300.7			287.1		

*To be excluded from reserves for contingencies.

10.2. CONSTRUCTION CONTRACTS

Balances presented in the balance sheet are analysed as follows:

	31/12/14	31/12/13
Construction contracts: assets	1,996.4	1,995.2
Construction contracts: liabilities	(1,072.3)	(1,073.9)
Net	924.1	921.3

This balance is analysed as follows:

Work-in-progress on construction contracts	898.1	889.6
Unbilled receivables on construction contracts	1,346.0	1,326.2
Reserves for losses at completion on construction contracts*	(518.2)	(590.1)
Other reserves on construction contracts	(801.8)	(704.4)
Net	924.1	921.3
Advances received from customers on construction contracts	2,679.2	2,790.8

* The variations of reserves for losses at completion between 2013 and 2014 are mainly explained by the utilisation of reserves booked during the previous years.

10.3. MATURITY OF CURRENT RECEIVABLES AND PAYABLES

Balances presented in the balance sheet are analysed as follows:

	31/12/14			31/12/13
	Total	< 1 year	> 1 year	
Accounts and unbilled receivables, gross	3,019.6	2,803.5	216.1	2,585.9
Provisions on accounts & notes receivable	(109.2)	(71.3)	(37.9)	(103.6)
Accounts and unbilled receivables, net	2,910.4	2,732.2	178.2	2,582.3
Other tax receivables (excluding income tax)	923.6	605.6	318.0	924.2
Other debtors and prepaid expenses, gross	296.7	246.2	50.5	310.3
Related provisions	(1.6)	(1.9)	0.3	(6.8)
Net	1,218.7	849.9	366.8	1,227.7
Accounts, notes and other current receivables	4,129.1	3,582.1	547.0	3,810.0
Accounts and notes payable	2,177.8	2,167.8	10.0	1,899.9
Accrued holiday pay and social	1,368.1	1,364.7	3.4	1,297.6
Other tax payables (excluding income tax)	657.7	656.3	1.4	603.6
Other creditors and accrued liabilities	1,065.8	984.4	81.4	945.8
Accounts, notes and other current payables	5,269.4	5,173.2	96.2	4,746.9

Changes in depreciations:	31/12/13	Net depreciation (reversal)	Utilisation	Scope, exch. And other	31/12/14
Depreciation on accounts & notes receivable	(103.6)	(7.0)	8.9	(7.4)	(109.2)
Depreciation on other receivable	(6.8)	(0.7)	5.6	0.3	(1.6)

10.4. RESERVES FOR CONTINGENCIES (excluding construction contracts)

	31/12/13	Increase	Utilisation	Reversal	Scope, exch. rate and other	31/12/14
Restructuring (a)	138.3	92.7	(101.9)	(1.5)	6.6	134.2
Litigation	135.2	51.9	(18.0)	(23.2)	(3.4)	142.5
Guarantees	242.4	67.5	(77.7)	(20.8)	19.5	230.9
Losses at completion	51.6	56.8	(32.4)	(6.6)	(0.3)	69.1
Provisions on contracts	163.4	66.9	(34.5)	(24.5)	0.3	171.6
Other (b)	295.2	63.2	(59.8)	(12.5)	3.6	289.7
Total	1,026.1	399.0	(324.3)	(89.1)	26.3	1,038.0

	01/01/13	Increase	Utilisation	Reversal	Scope, exch. rate and other	31/12/13
Restructuring (a)	177.2	70.7	(105.2)	(4.7)	0.3	138.3
Litigation	120.5	45.1	(19.2)	(2.9)	(8.3)	135.2
Guarantees	257.6	85.0	(64.3)	(26.0)	(9.9)	242.4
Losses at completion	72.8	35.2	(49.0)	(9.9)	2.5	51.6
Provisions on contracts	209.1	38.7	(29.3)	(10.2)	(44.9)	163.4
Other (b)	319.0	72.3	(61.3)	(17.8)	(17.0)	295.2
Total	1,156.2	347.0	(328.3)	(71.5)	(77.3)	1,026.1

(a) The net restructuring costs are as follows:

	2014	2013
Increase in reserves during the period	(92.7)	(70.7)
Reversal in reserves during the period	103.4	109.9
Expenses during the period	(125.1)	(160.8)
Restructuring costs net	(114.4)	(121.6)

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

10.5. BONDS AND WARRANTIES LINKED TO COMMERCIAL CONTRACTS

Within the context of its activity, the Group regularly responds to invitations to bid. When requested by the customer, bid bonds are delivered in order to demonstrate the definitive nature of the bid and to provide for indemnification to the customer if the Group fails to meet its commitments. At 31 December 2014, bid bonds issued amounted to € 81.5 million (€ 57.6 million at 31 December 2013).

From the signature of a contract up until its completion, the Group may deliver performance bonds to its customers, using a bank as an intermediary, in order to guarantee the due and proper completion of the contract (and if not, to provide for payment of damages to the customer). At 31 December 2014, performance bonds amounted to € 1,902.9 million (€ 1,624.9 million at 31 December 2013).

Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued, on a contract-by-contract basis, and are included in the cost to completion of the contract. Otherwise, any potential risk is estimated, on a contract-by-contract basis, and provided for in the Group financial statements if necessary.

In order to finance contract completion, the Group receives advances from its customers, based on contractual terms that are booked as a liability in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer's request, an advance payment bond. At 31 December 2014, advance payment bonds amounted to € 1,882.0 million (€ 1,640.8 million at 31 December 2013).

During the contractual warranty period, the Group evaluates and accrues for warranty costs in order to guarantee the conformity of goods sold to the customer. In most cases, the provisional retention of payment contractually applied during this period can be replaced by setting up, using a bank as intermediary, a warranty retention bond. At 31 December 2014, warranty retention bonds amounted to € 259.3 million (€ 214.3 million at 31 December 2013).

The maturity dates of these commitments are:

	< 1 year	1 to 5 year	> 5 year	Total
Bid bonds	77.4	4.1	--	81.5
Performance bonds	546.5	1,132.9	223.5	1,902.9
Advance payment bonds	782.8	904.3	194.9	1,882.0
Warranty retention bonds	170.4	45.1	43.8	259.3
Other bank bonds	61.9	17.5	80.6	160.0
Total	1,639.0	2,103.9	542.8	4,285.7

In addition, Thales may, on behalf of its subsidiaries, grant so-called "parent company guarantees" to third parties without using a bank as an intermediary. At 31 December 2014, these "corporate" guarantees amount to € 12,767.7 million (€ 11,182.4 million at 31 December 2013).

These guarantees include all commitments given on behalf of Thales Alenia Space, which are subject to a counter guarantee of Finmeccanica up to its stake in the capital of Thales Alenia Space (33%).

11. CASH FLOWS

11.1. CHANGES IN NET CASH (NET DEBT)

	2014	2013
Net cash (debt) at 1 January	1,077.3	929.9
Net cash flow from operating activities	1,465.6	1,329.7
Changes in WCR and reserves for contingencies	(287.1)	(300.7)
Pensions recurrent contributions, interest and taxes paid	(234.5)	(194.1)
Net operating investments	(443.4)	(358.2)
Operating Free cash-flow	500.6	476.7
Acquisitions of subsidiaries	(378.2)	(44.0)
Disposal of subsidiaries	4.4	8.9
Reduction of UK pension deficits	(68.8)	(64.3)
Variation of loans	21.9	(14.3)
Dividends paid	(242.8)	(180.7)
Third party share in dividend distributions of subsidiaries	(130.9)	(31.9)
Treasury shares and exercise of subscription options	78.2	90.5
Net cash (debt) of acquired/disposed companies	33.6	3.4
Exchange rate variation: translation and financing operations	63.8	(74.2)
Debt / investments in shares (available-for-sale) and other	47.2	(22.7)
Net cash (deb) at 31 December (note 6 .2)	1,006.3	1,077.3

11.2. OPERATING INVESTMENT

Only acquisitions and disposals of tangible and intangible assets that resulted in a cash flow are presented in the cash flow statement. This may include capitalisation of development costs (note 4.2).

11.3. NET FINANCIAL INVESTMENT

Acquisitions of subsidiaries	2014	2013
Live TV	(287.4)	--
Activites of cyber security and secure communications of Alcatel lucent	(37.7)	--
Capital increase of the joint-venture ACSI	(12.5)	--
Cloudwatt: partial release of capital	(8.9)	--
Space activities in the UK (SEA)	(6.2)	--
Remaining earn-out of Sysgo AG	(5.3)	--
Additionnal acquisition of Amper Programmas (51%)	(4.0)	--
Capital increase of a real estate company (SMBPE)	--	(16.1)
Capital increase of Thales CETC Avionics Co Ltd	--	(7.8)
Capital increase of Air Tanker	--	(7.1)
Other	(16.2)	(13.0)
Net investment	(378.2)	(44.0)

Disposals of subsidiaries	2014	2013
Repayment of FCPR Thales Ventures	1.5	6.6
Other	2.9	2.3
Net disposal	4.4	8.9

12. LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation.

To prevent disputes or limit their impact, Thales policy is to systematically seek alternative methods of settlement. This policy is reviewed on a regular basis to take into account changes in the company's core areas of business and is backed by employee training programmes.

In addition, Thales implemented a procedure several years ago to centralise all civil and criminal litigation and claims. These are handled by the Corporate Legal Affairs Department, with the support of the Group companies concerned.

At the end of 2002, a group of French manufacturers, including Thales and one of its subsidiaries, collectively received a request for arbitration relating to the execution of old contracts. In proportion to each industrial partner's involvement, Thales would have been liable for around 20% of the total claim of \$ 260 million. Under an agreement signed in 2003, the client withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of € 226 million. Industrial partners are strongly challenging this claim and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision. This procedure is still in process.

13. EVENTS AFTER REPORTING PERIOD

No significant events after reporting period.

14. ACCOUNTING POLICIES

a) Presentation of the financial statements

Consolidated Profit and Loss account

Expenses in the income statement are presented analytically by destination.

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

- gains and losses on disposal of intangible or tangible assets, businesses or investments,
- impact of changes in the scope on the consolidated net income (note 14-c) ;
- impact of curtailments/settlements of pension plans and other long-term benefits;
- impairment of non-current operating assets;
- other operating income (expense) resulting from events that are unusual because of their frequency, their nature and their amount.

Consolidated Balance Sheet

A significant portion of the Group's activities in its different business segments has long-term operating cycles. Accordingly, assets (liabilities) that are usually realised (settled) within the entities' operating cycles (inventory, accounts receivable and payable, advances, reserves, etc.) are classified in the consolidated balance sheet as current assets and liabilities, without distinction between the amounts due within one year and those due after one year.

Consolidated statement of Cash Flows

The statement of the cash flows enables the analysis of the balance sheet items "Cash at bank and equivalents", as defined in the note 14-j. The statement of cash flows is prepared using the indirect method, starting with the consolidated net income and is broken down into three categories:

- net cash flows from operating activities (including interest and taxes);
- net cash flows from investing activities, including net operating investment (acquisition and disposal of tangible and intangible assets, capitalisation of development costs) and net financial investment;
- net cash flows from financing activities including dividends paid, capital subscriptions in the context of the exercise of options by employees, purchase/sales of treasury shares, issuance and repayment of financial debts, changes in bank overdrafts...

The Group also presents the changes in its net cash, which is a non-GAAP balance and includes gross financial debt, net of cash at bank, cash equivalents and investments immediately available. The change in net cash, presented in note 11.1, particularly underlines the "operating Free cash-flow", which is defined by the net cash flows from operating activities reduced by the net operating investment, plus the payment of the UK pension deficits.

Segment information

The Group is organised along three Business Sectors that operating performances, from internal reporting, are regularly reviewed by the Chairman and Chief Executive Officer, together with the Senior Executive Vice-President Chief Finance Officer, in order to allocate resources on this basis.

Those sectors are described below:

- The *Aerospace* operating segment combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services especially with non governmental customers (aircraft manufacturers, airlines, satellite operators...) and also, to a lesser extent, with governmental customers (states, space agencies and other paragonovernmental organisations);
- The *Transport* operating segment comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- The *Defence and Security* operating segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively governmental defense customer base.

The indicators regularly reviewed by the Group's executives follow the same accounting policies as those used for the consolidated financial statements, with the following exceptions:

EBIT corresponds to income from operations added to the share in net income of equity affiliates excluding the amortisation of intangible assets acquired (purchase price allocation *PPA*) recorded when significant businesses are combined.

The *adjusted net income* is regarded as relevant by the Group because it enables non-recurring items to be excluded. It corresponds to the consolidated net income attributable to shareholders of the parent company, less the following elements, net of the corresponding tax impacts:

- Amortisation of intangible assets acquired (PPA);
- Disposal of assets, changes in scope of consolidation and other;
- Changes in fair value of derivative foreign exchange instruments, recognised in “other financial income”;
- Actuarial gains and losses on long-term employee benefits, included in “financial income on pensions and other employee benefits”.

The *adjusted net income per share* corresponds to the adjusted net income attributable to shareholders of the parent company, divided per the average number of outstanding shares during the considered period.

Commitments and Contingencies

Information regarding commitments and contingencies are presented in the following notes:

- Note 4.4: commitments related to operation leases;
- Note 9.6: social commitments, French statutory training entitlement;
- Note 10.5: bonds and warranties linked to commercial contracts.

Related parties

The Group has identified the following related parties: shareholders of Thales (parent company), especially the French State and Dassault Aviation, companies controlled by the same shareholders, companies under joint control, companies under significant influence, directors and senior corporate officers.

The main provisions concerning the shareholders' agreement (governing relations between Public Sector and the industrial partner within Thales), the convention on the protection of national strategic interests and the specific convention are described in part 3 of the 2013 registration document, which remain the same in 2014.

The information related to transactions with related parties are presented in the following notes:

- Sales with the French State (mainly with DGA: French defence procurement agency) in note 6.5-b;
- Transactions with companies under joint control and their joint shareholders in note 5.1-f.

The transactions with the other related parties are not significant.

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

b) Foreign currencies

Presentation currency for the consolidated financial statements

The Group's consolidated financial statements are presented in euros.

Functional currency

The functional currency of an entity is the currency of the economic environment in which it primarily operates. In most cases, the functional currency is the local currency. However, for certain entities the functional currency may be different from the local currency since it reflects the currency of the main tradings and of the economic environment of the entity.

Financial statements translation of foreign subsidiaries which functional currency is different from euro (presentation currency)

The financial statements of companies which functional currency is different from euro are translated using the following methods:

- Balance sheet items are translated at the exchange rates prevailing at balance sheet dates,
- Profit and loss items and the statement of cash flows are translated at the average exchange rates for the year,
- Translation adjustments are directly recognised in equity as comprehensive income within the “cumulative translation adjustment” account, then reclassified in profit and loss at the date of disposal.

Main closing and average exchange rates used for translation purposes:

	31/12/2014		31/12/2013		31/12/2012	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Euros						
Australian Dollar	1.4829	1.4723	1.5423	1.3936	1.2712	1.2447
Sterling Pound	0.7789	0.8031	0.8337	0.8501	0.8161	0.8119
U.S. Dollar	1.2141	1.3211	1.3791	1.3308	1.3194	1.2932

In addition, the Group owns foreign currency-denominated financial instruments in order to hedge its net investment in foreign subsidiaries. The corresponding translation differences are recognised through equity under the “cumulative translation adjustment” caption until the date of disposal. On this date, they will be recognised in profit and loss.

Translation of transactions in foreign currencies

Transactions in foreign currencies are translated at the exchange rate prevailing at the transaction date.

At each accounting closing date:

- Non-monetary assets and liabilities denominated in foreign currencies are recorded at the historical rate prevailing on the date of the transaction;
- Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. The resulting exchange differences are recognised in exchange profit or loss account. However if the monetary assets and liabilities are an additional net investment in a foreign operation, the exchange differences are directly recognised in equity.

The Group uses derivative instruments to hedge the foreign exchange risk associated with its activities. When a hedge is shown to be effective, hedge accounting is applied in the following manner:

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

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

c) Scope of consolidation and changes in scope

Scope of consolidation

The financial statements of significant subsidiaries directly or indirectly controlled by Thales have been fully consolidated.

The control exists when the Group has power over the entity acquired (or created), is exposed or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of significant joint ventures by Thales or in which the Group has significant influence (associates) are accounted for under the equity method.

A joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined as the contractually agreed sharing of control over an entity that exists only in cases where decisions about the relevant activities require the unanimous consent of the parties sharing the control.

The significant influence is characterised by the right to take part in decisions concerning financial and operating policies of the entity, without controlling or jointly controlling these policies.

Transactions between fully consolidated companies are eliminated, whether or not they affect consolidated profit and loss. The gains and losses from transaction between a fully consolidated company and a joint venture or an associate are only accounted for, in the consolidated statements of the Group, to the extent of the interest held by a third party in the joint venture or the associate.

Business combination

Business combinations are accounted for under the acquisition method as described in the IFRS 3 standard. Under this method, the Group recognises assets acquired and liabilities taken identifiable at their fair value, at their date of takeover, and any non-controlling interest in the acquiree.

Those non-controlling interests are measured either at fair value or at the proportionate share of the identifiable net assets. The Group determines case-by-case the option they wish to apply.

Acquisition-related costs (valuation fees, consulting fees...) are recognised in profit and loss within other operating expenses as incurred.

Any contingent consideration assumed in a new business combination is measured at fair value at the acquisition date even if it is not probable. Subsequent changes to the fair value of the contingent consideration beyond twelve months from the acquisition date will be recognised in the profit and loss account.

The goodwill is measured as the difference between the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquiree and the net fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. Goodwill can be adjusted in the twelve months following the acquisition date to take into account definitive estimates of the acquired assets and liabilities recognised.

Negative goodwill is immediately recognised in "other operating income (expense)". Goodwill related to controlled companies is recognised in balance sheet assets under the "intangible assets" caption. Goodwill related to companies accounted for under the equity method is recognised under the "share in net assets of equity affiliates" caption.

Goodwill is not amortised but is subject, each year, to impairment. Goodwill impairment is booked as an expense in the line "impairment of non current operating assets" and cannot be reversed. Goodwill impairment related to equity affiliates is accounted for in "share in net income (loss) of equity affiliates" and can be reversed.

Step acquisition and changes in a parent's ownership interest in a subsidiary:

In the context of a step acquisition, an acquirer must measure again any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

When an interest in an associate becomes an interest in a joint venture and conversely the equity method is still used and these changes in interests don't need to be measured again at the fair value.

Loss of control is accounted for in gain or loss at disposal which is calculated on the whole stake owned at the transaction date. The investment remaining in the former subsidiary is measured at its fair value through the profit and loss account at the date when the control is lost.

Changes in a parent's ownership interest in a subsidiary that do not result in a change of control (added acquisition or disposal) are accounted for as changes in equity (transactions between the Group and the minorities), with no impact on profit or loss account.

d) Revenues

The Group's revenues can be divided into two main accounting categories: sales of goods and services, and construction contracts.

Revenues are measured at the fair value of the consideration received or receivable. When the deferral of payment has a material effect on the determination of such fair value, the amount at which revenues are recognised is adjusted to take the financial impact of the deferral of payment into account.

Sales of goods and services

Revenues from the sales of goods and services together with royalty and licence income are recognised when the future economic benefits will likely flow to the Group and when the amount of revenues can be measured reliably. The following specific criteria must also be satisfied in order for sales to be recognised:

- Revenues from the sale of goods are recognised when the company has transferred the principal risks and rewards inherent to ownership of the goods to the purchaser.
- Revenues related to the rendering of services are recognised according to the percentage-of-completion of the transaction.

The costs related to the service provided (sale of goods or services rendered) are recognised in the statement of income at the same time as the corresponding sales.

Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or of a group of assets, which are interrelated in terms of their design, technology, function, purpose or use.

According to its characteristics, a notified construction contract can either be accounted for separately, be segmented into several components which are each accounted for separately, or be combined with another construction contract in progress in order to form a single construction contract for accounting purposes in respect of which revenues and expenses will be recognised.

Revenues and expenses on construction contracts are recognised in accordance with the technical percentage of completion method. However, when there is no significant time difference between technical percentage of completion and contractual dates of transfer of ownership, the percentage of completion is determined according to the contractual transfer of ownership.

Penalties for late payment or relating to improper execution of a contract are recognised as a deduction from revenues. In the balance sheet, provisions for penalties are deducted from assets related to the contract.

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

Selling, administrative and interest expenses are directly charged to the profit and loss account in the financial year in which they are incurred.

Estimates of work remaining on loss-making contracts do not include revenues from claims made by the Group, except when it is highly probable that such claims will be accepted by the customer.

Progress payments received on construction contracts are deducted from contract assets as the contract is completed. Progress payments received before the corresponding work has been performed are classified in "Advances received from customers on contracts" in balance sheet liabilities.

The cumulative amount of costs incurred and profit recognised, reduced by recognised losses and progress billings, is determined on a contract-by-contract basis. If this amount is positive it is categorised as "Construction contracts: assets" in balance sheet assets. If it is negative it is categorised as "Construction contracts: liabilities" in balance sheet liabilities.

e) Inventories and work-in-progress

In the consolidated balance sheet, work-in-progress related to construction contracts is included in the "Construction contracts: assets" caption or the "Construction contracts: liabilities" caption.

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

When significant, the cost of debt incurred during the construction of a qualifying asset is incorporated in the value of the asset. When the funding is specific, the loan rate is used, otherwise the Group's rate is used.

f) Research and development expenses

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

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

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

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

Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in notes 4 and 14-i. These impairment losses can be reversed. Impairment losses reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group benefits from tax credits related to research carried out by its subsidiaries. Such tax credits are considered as operating grants and are thus included in the income from operations, when their obtention does not depend on the realisation of a taxable income. Should the opposite occur, they are recorded in deduction of the income tax expense.

g) Restructuring

Provisions for restructuring costs are made when restructuring programs have been agreed and approved by Group management and have been announced before the balance sheet date, resulting in an obligating event of the Group to the third parties in question, as long as the Group does not expect consideration for these costs.

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

h) Tangible and intangible fixed assets

Intangible assets

The Group's intangible assets mainly include:

- Goodwill (note 14-c),
- Assets acquired in business combinations, primarily acquired technologies, customer relationships and the order backlog. These assets are recognised at fair value and amortised over their useful lives. The fair value of the assets is based on the market value. If no active market exists, the Group uses methods based on forecasts of the present value of the expected future operating cash flows (excess earnings method, royalty method...).
- Capitalised development costs (note 14-f)

Intangible assets are submitted to impairment tests (see note 14-i).

Tangible assets

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

- 20 years for buildings,
- 1 to 10 years for plant and equipment,
- 5 to 10 years for other tangible fixed assets (vehicles, fixtures, etc...).

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

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

Assets acquired through finance lease arrangements that transfer substantially all the risks and rewards associated with ownership of the asset are recognised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments. Such assets are depreciated in accordance with the methodology described above. The corresponding debt is recognised in liabilities.

i) Impairment of non-current assets

Every time events or circumstances indicate that a tangible or an intangible asset may be impaired, and systematically at each annual balance sheet date for goodwill and intangible assets with indefinite useful lives, impairment tests are performed. These assets (mainly goodwill and intangible assets relating to business combination) are allocated to cash generating units (CGU). The scope of a CGU cannot be broader than that of an operational division, before aggregation if any, as defined by IFRS 8

These tests consist in ensuring that the recoverable amount of each of the Group's CGU is at least equal to the corresponding net assets (including goodwill). The recoverable amount of an asset is the highest of its fair value less costs to sell and its value in use. Value in use is determined on the basis of discounted future operating cash flows over a three-year period and a terminal value. This calculation is based on data from the strategic plans prepared in accordance with Group procedures.

The discount rate used is calculated on the basis of the Group's weighted average cost of capital adjusted if necessary for the specific risks attributable to each business sector. This rate is mainly based on the market risk-free rate, on risk factors inherent in the Group's businesses, on the Group's marginal interest rate and on specific risks for which cash flows have not been adjusted.

Assumptions used concerning growth in sales and terminal values are based on a reasonable approach in line with specific data available for each business sector (generally terminal value is based on the weighted average of the income from operations from the three-year strategic plans and the growth is limited to 2%).

Impairment tests of capitalised development costs (note 14-f) are performed, project-by-project, on the basis of discounted future operating cash flows related to the project.

j) Financial assets, financial liabilities and derivatives

Financial assets

Financial assets are initially recorded at fair value. They are later estimated at either fair value or amortised cost, depending on the category they fall into, as defined by IAS 39.

- Investments are designated as "available-for-sale" assets and measured at fair value. As the Group holds no listed companies on regulated market, the fair value is determined using valuation models provided by independent third parties, or by reference to the net equity contribution held by the Group. Failing this, securities are recognised at cost. Changes in fair value are recognised directly in equity. If an impairment indicator is identified, impairment is recognised in "other financial income (expense)". Such impairments are only written back to profit and loss at the date of disposal of the security in question.
- Receivables and financial loans are recognised at amortised cost. They are subject to impairment if an impairment indicator is identified. Such impairment, recognised in the "other financial income (expense)" caption, can subsequently be reversed through profit and loss if the conditions which led to the impairment loss being recognised cease to exist.
- Other financial assets are estimated at fair value, with variations recognised in the P&L account. They include money market funds and other mutual funds, and interest rates products (certificates of deposit, term deposits, medium-term negotiable notes...)
- "Cash at bank and equivalents" includes cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value)

Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective borrowing rate of interest. Upon initial recognition, premiums, redemption and issuance costs are recorded as an increase of the nominal value of the loans concerned. These premiums and issuance costs are included in the calculation of effective interest rate and are recognised in the income statement on an actuarial basis over the life of the loan.

Derivatives

The Group uses financial instruments to manage and reduce its exposure to risks of changes in interest rates and foreign exchange rates. Derivatives are stated at their fair value in the balance sheet. In order to be eligible for hedge accounting, financial instruments must have the two following characteristics:

- at the date of origination of the financial instrument, the existence of a hedging relationship must be formal and documented,

- the hedge must be expected to be effective. Effectiveness must be capable of being measured in a reliable manner, and must be able to be demonstrated, over the entire period of the hedge relationship as initially determined.

Accounting policies in respect of foreign exchange derivatives are presented in note 14-b. Financial instruments relating to interest rate hedges are hedge-accounted as either fair value hedges or cash flow hedges:

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

In the case of fair value hedge relationships, the financial liabilities hedged by the interest rate derivatives are remeasured to the extent of risk hedged. Changes in value of hedged item are recognised in profit and loss of the period and are offset by symmetrical changes of the interest rate derivatives. In the case of cash flow hedge relationships, changes in fair value of interest rate derivatives shown in the balance sheet are recognised directly through equity, for the effective portion thereof, until such time as the hedged flows affect profit and loss.

k) Deferred taxation

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value. The effects of changes in the corporation tax rate are recorded in the profit and loss account for the financial year in which the change was decided, unless the underlying transactions were recognised directly through equity. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are not recognised in the balance sheet if the company concerned does not reasonably expect to recover the tax asset. To assess its ability to recover deferred tax assets, the Group takes into account future taxable results of the tax entities concerned on a generally five-year forecast, non-recurring past events and tax strategies specific to each country.

l) Pension and other employee benefits

In accordance with local legislation and practice in the countries in which it operates, the Group grants its employees post-employment benefits (pensions, retirement awards, medical care, etc.) and other long-term benefits (long-service benefits, long-service awards on departure, etc...). For defined contribution schemes and state plans, contributions paid by the Group are in full discharge of the Group's liability and are recognised as an expense for the period.

Under the defined benefit plans, the Group measures and recognises the corresponding commitments as follows:

- Obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning financial discounting, inflation, mortality, staff turnover rates...
- Changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between previous actuarial assumptions and what has actually occurred – give rise to actuarial gains and losses.

Actuarial gains and losses regarding post-employment benefits are fully recognised in « Other comprehensive income », and not subsequently taken to P&L. Where appropriate, adjustments from the ceiling to net assets relating to overfunded plans follow the same method.

Actuarial gains and losses regarding other long-term benefits are recognised immediately in the financial result (note 9.3).

- Past service cost and reductions/settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income (note 3).
- Net interest expense, determined based on the discount rate of obligations, is recognised in the financial result.

m) Share-based payments

Plans of free shares settled in shares

Between 2007 and 2013 Thales granted free shares and/or performance shares to its employees. These allotments give rise to an expense representing the fair value of services received at the grant date. This payroll expense is recognized against equity.

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

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

The expense is recognized on a straight-line basis over the vesting period. The expense is adjusted over the vesting period to reflect any losses of rights.

Share unit plans indexed to the value of the Thales share

A share unit plan indexed to the value of the Thales share and of which some are performance shares, was implemented in 2014. At the maturity date the beneficiaries will receive the value about half of which is determined in lieu of payment of shares and cash-settled share-based payment.

The proportion delivered in shares follows the same accounting policies as those applied to plans of free shares. The accounting treatment applicable to cash-settled share-based payment is governed by IFRS 2. Under this policy, the services acquired and the liability incurred are measured at fair value. Until the liability is settled, debt is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in income of the period. The remeasurement of the liability at the reporting date takes into account any changes in the value of the underlying shares, as well as whether or not the presence conditions and performance criteria have been met.

The payment of compensation is subject to presence conditions, the corresponding expense is recorded over the vesting period on a straight-line basis.

Company savings plans

Employee share offerings with a discount to the market price proposed within Company savings plans do not include any vesting period of the rights but they are subjected to a legal five-year lock-up period. Valuation of the advantage granted to the employees takes into account the cost of the five-year lock-up period.

The expense related to share based payments is included in income from operations and a corresponding credit is recognised increasing retained earnings. Thus it has no effect on the overall amount of equity.

15. FEES PAID TO AUDITORS

The fees paid to auditors in 2013 and 2014 are presented in the table below (a):

	Mazars				E Y			
	Amount pre-tax		%		Amount pre-tax		%	
	2014	2013	2014	2013	2014	2013	2014	2013
Audit								
Auditing, certification, examination of individual and consolidated accounts (b)								
- Issuer	695	695	13%	13%	770	804	15%	15%
- Subsidiaries fully consolidated	4,123	3,905	75%	73%	3,596	3,916	71%	70%
Other efforts and services directly associated with the assignment of auditor (c)								
- Issuer	302	256	5%	5%	106	140	2%	2%
- Subsidiaries fully consolidated	410	506	7%	9%	318	360	7%	7%
Sub-total	5,530	5,348	100%	100%	4,790	5,220	95%	94%
Other services rendered by the networks subsidiaries fully consolidated (d)								
Legal, tax-related, social-security-related	5	11	--	--	272	342	5%	6%
Other (if > 10% of audit fees)	--	--	--	--	--	--	--	--
Sub-total	5	11	--	--	272	342	5%	6%
Total	5,535	5,359	100%	100%	5,062	5,562	100%	100%

- (a) With regard to the period under consideration, these are services performed in respect of a financial year charged to the Income Statement.
- (b) Including the services of independant experts or members of the auditors' network which the auditor uses in connection with certifying the financial statements.
- (c) This heading includes diligences and services directly associated that are rendered to the issuer or its subsidiaries:
- by the auditor in compliance with the provisions of article 10 of the French Code of Conduct for statutory auditors ;
 - by a member of the network in compliance with the provisions of articles 23 and 24 of the French Code of Conduct for statutory auditors.
- (d) These are services not relating to certification rendered, in compliance with the provisions of article 24 of the French Code of Conduct for statutory auditors, by a member of the network to the subsidiaries of the issuers whose financial statement are being certified.

16. OTHER DISCLOSURES

The German group companies Thales Transportation Systems GmbH, Thales Security Solutions & Services GmbH, Electronic Signalling Services (ESS) GmbH and Thales Immobilien Deutschland GmbH, all located at 1 Thalesplatz, 71254 Ditzingen have claimed an exemption from their obligation to publish their respective German financial statements for the fiscal year 2013 by reference to section 264 paragraph 3 German Commercial Code.

17. LIST OF MAIN CONSOLIDATED COMPANIES

(excl. Thales SA, the parent company)

(excl. Thales SA, the parent company)	Country	% stake	
		31/12/14	31/12/13
1. CONSOLIDATED SUBSIDIARIES			
LiveTV LLC	United States	100%	--
TDA Armements SAS	France	100%	100%
Thales Alenia Space SAS	France	67%	67%
Thales Alenia Space Italia SpA	Italy	67%	67%
Thales Air Systems SAS	France	100%	100%
Thales Australia Ltd	Australia	100%	100%
Thales Austria GmbH	Austria	100%	100%
Thales Avionics SAS	France	100%	100%
Thales Avionics Inc.	United States	100%	100%
Thales Avionics Electrical Systems SAS	France	100%	100%
Thales Canada Inc.	Canada	100%	100%
Thales Communications & Security SAS	France	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales Espana Grp, S.A.U.	Spain	100%	100%
Thales Electron Devices SAS	France	100%	100%
Thales Italia SpA	Italy	100%	100%
Thales Nederland B.V.	Netherlands	99%	99%
Thales Norway A.S.	Norway	100%	100%
Thales Optronique SAS	France	100%	100%
Thales Transportation Systems GmbH	Germany	100%	100%
Thales Ground Transportation Systems UK Ltd	United Kingdom	100%	100%
Thales-Raytheon Systems Company SAS *	France	50%	--
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Trixell SAS *	France	51%	--
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd **	United Kingdom	100%	100%
2.JOINT CONTROL (UNDER EQUITY METHOD)			
Air Command Systems International SAS (ACSI)	France	50%	50%
Citylink Telecommunications Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Junghans Microtec GmbH	Germany	45%	45%
Samsung Thales Co. Ltd	South Korea	50%	50%
Sofradir SAS	France	50%	50%
Thales-Raytheon Systems Company LLC *	United States	--	50%
Thales-Raytheon Systems Company SAS *	France	--	50%
Trixell SAS *	France	--	51%
3. SIGNIFICANT INFLUENCE (UNDER EQUITY METHOD)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Cloudwatt	France	22%	22%
Elettronica SpA	Italy	33%	33%
ESG Elektroniksystem- und Logistik GmbH	Germany	30%	30%
Thales-Raytheon Systems Company LLC *	United States	50%	--
Telespazio SpA	Italy	33%	33%

* Further to the change in shareholders' agreement leading to the exclusive control of Thales-Raytheon Systems Company SAS and Trixell SAS, in accordance with IFRS 10 (note 3)

** In 2014 Thales UK Ltd includes activities of former Thales Air Defence Ltd, Thales Avionics Ltd, Thales Naval Ltd, Thales Optronics Ltd, Thales Underwater Systems Ltd And Thales Training & Simulation Ltd.