



**CONSOLIDATED FINANCIAL
STATEMENTS
AT 31 DECEMBER 2015**

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)	Notes	2015	2014
Sales	note 2	14,063.2	12,973.6
Cost of sales		(10,688.1)	(9,791.8)
Research and development expenses		(692.0)	(641.4)
Marketing and selling expenses		(980.9)	(914.4)
General and administrative expenses		(531.8)	(519.3)
Restructuring costs	note 10.4	(94.3)	(114.4)
Amortisation of intangible assets acquired (PPA)*	note 4.2	(111.6)	(103.7)
Income from operations	note 2	964.5	888.6
Disposal of assets, changes in scope of consolidation and other	note 3.2	53.4	248.9
Impairment of non-current operating assets		--	--
Income of operating activities before impact of equity affiliates		1,017.9	1,137.5
Share in net income (loss) of equity affiliates		112.8	(34.0)
Of which, share in net income (loss) of joint ventures	note 5.1	55.8	(83.5)
Of which, share in net income (loss) of associates	note 5.2	57.0	49.5
Income of operating activities after impact of equity affiliates		1,130.7	1,103.5
Financial interests on gross debt		(15.5)	(20.2)
Financial income from cash at bank and equivalents		19.3	22.4
Financial interests, net	note 6.1	3.8	2.2
Other financial income (expense)	note 6.1	(41.8)	(39.6)
Finance costs on pensions and other employee benefits	note 9.3	(60.1)	(90.1)
Income tax	note 7.1	(219.9)	(214.3)
Net income (loss)		812.7	761.7
Attributable to:			
Shareholders of the parent company		765.1	714.2
Non-controlling interests		47.6	47.5
Basic earnings per share (in euros)	note 8.2	3.68	3.49
Diluted earnings per share (in euros)	note 8.2	3.65	3.47

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015			2014		
	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)	765.1	47.6	812.7	714.2	47.5	761.7
Cumulative translation adjustment (note 8.1)	9.6	1.3	10.9	55.0	1.0	56.0
Deferred tax (note 7.2)	(1.3)	--	(1.3)	(0.7)	--	(0.7)
Joint-ventures (note 5.1)	11.6	--	11.6	23.9	--	23.9
Associates (note 5.2)	27.6	--	27.6	29.0	--	29.0
Net	47.5	1.3	48.8	107.2	1.0	108.2
Cash flow hedge (note 8.1)	(186.9)	(4.1)	(191.0)	(241.1)	(30.2)	(271.3)
Deferred tax (note 7.2)	44.3	1.4	45.7	84.8	10.4	95.2
Joint-ventures (note 5.1)	0.8	--	0.8	(5.8)	--	(5.8)
Associates (note 5.2)	(16.5)	--	(16.5)	(13.0)	--	(13.0)
Net	(158.3)	(2.7)	(161.0)	(175.1)	(19.8)	(194.9)
Financial assets available for sale	0.6	--	0.6	(0.2)	--	(0.2)
Joint-ventures (note 5.1)	--	--	--	0.3	--	0.3
Net	0.6	--	0.6	0.1	--	0.1
Items to be subsequently reclassified to P&L	(110.2)	(1.4)	(111.6)	(67.8)	(18.8)	(86.6)
Actuarial gains (losses) on pensions: subsidiaries (note 9.3)	268.9	2.6	271.5	(617.6)	(9.4)	(627.0)
Deferred tax (note 7.2)	5.9	(0.8)	5.1	86.3	3.1	89.4
Joint-ventures (note 5.1)	5.1	--	5.1	0.9	--	0.9
Associates (note 5.2)	(1.9)	--	(1.9)	(14.8)	--	(14.8)
Items that will not be reclassified to P&L	278.0	1.8	279.8	(545.2)	(6.3)	(551.5)
Other comprehensive income (loss) for the period, net of tax	167.8	0.4	168.2	(613.0)	(25.1)	(638.1)
Total comprehensive income (loss) for the period	932.9	48.0	980.9	101.2	22.4	123.6

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 31 December 2013	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
Impact of IFRIC interpretation 21 (note 1.1)	--	--	--	10.3	--	--	--	--	10.3	0.6	10.9
At 1 January 2014 restated *	203,254	617.2	3,826.6	(321.4)	56.6	1.5	(241.9)	(81.4)	3,857.2	238.8	4,096.0
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 restated *	205,964	623.5	3,889.9	(421.2)	(118.5)	1.6	(134.7)	(58.9)	3,781.7	299.1	4,080.8
Net income (loss)	--	--	--	765.1	--	--	--	--	765.1	47.6	812.7
Other comprehensive income (loss)	--	--	--	278.0	(158.3)	0.6	47.5	--	167.8	0.4	168.2
Total comprehensive income (loss) for 2015	--	--	--	1,043.1	(158.3)	0.6	47.5	--	932.9	48.0	980.9
Employee share issues	3,120	9.4	105.5	--	--	--	--	--	114.9	--	114.9
Parent company dividend distribution (note 8.1)	--	--	--	(234.0)	--	--	--	--	(234.0)	--	(234.0)
Third party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(51.3)	(51.3)
Share-based payments (note 9.4)	--	--	--	22.2	--	--	--	--	22.2	--	22.2
Acquisitions / disposals of treasury shares (note 8.1)	1,038	--	--	(15.0)	--	--	--	33.7	18.7	--	18.7
Other	--	--	--	9.3	--	--	--	--	9.3	0.1	9.4
Changes in scope of consolidation	--	--	--	0.2	--	--	--	--	0.2	--	0.2
At 31 December 2015	210,122	632.9	3,995.4	404.6	(276.8)	2.2	(87.2)	(25.2)	4,645.9	295.9	4,941.8

* New IFRIC interpretation 21, mentioned in note 1.1, prescribes a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

CONSOLIDATED BALANCE SHEET

(€ Million)

ASSETS	Notes	31/12/15	31/12/14 *
Goodwill, net	note 4.1	3,215.9	3,212.6
Other intangible assets, net	note 4.2	862.9	946.2
Tangible assets, net	note 4.2	1,696.7	1,557.0
Total non-current operating assets		5,775.5	5,715.8
Investment in joint ventures	note 5.1	1,126.4	1,104.2
Investment in associates	note 5.2	359.5	385.5
Non consolidated investments	note 6.3	71.1	60.4
Other non-current financial assets	note 6.3	131.2	138.4
Total non-current financial assets		1,688.2	1,688.5
Non-current derivatives - assets	note 6.5	36.2	44.1
Deferred tax assets	note 7.3	967.0	942.4
Non-current assets		8,466.9	8,390.8
Inventories and work in progress	note 10.1	2,560.8	2,437.6
Construction contracts: assets	note 10.2	2,042.6	1,996.4
Advances to suppliers	note 10.1	383.0	326.0
Accounts, notes and other current receivables	note 10.1	4,404.2	4,129.1
Current derivatives - assets	note 6.5	154.2	108.2
Total current operating assets		9,544.8	8,997.3
Current tax receivables		70.8	60.3
Current financial assets	note 6.2	27.5	56.8
Cash at bank and equivalents	note 6.2	3,450.2	2,481.4
Total current financial assets		3,477.7	2,538.2
Current assets		13,093.3	11,595.8
TOTAL ASSETS		21,560.2	19,986.6
EQUITY AND LIABILITIES	Notes	31/12/15	31/12/14 *
Capital, paid-in surplus and other reserves		4,758.3	3,975.3
Cumulative translation adjustment		(87.2)	(134.7)
Treasury shares		(25.2)	(58.9)
Total attributable to shareholders of the parent company		4,645.9	3,781.7
Non-controlling interests		295.9	299.1
Total equity	note 8.1	4,941.8	4,080.8
Financial debt: long-term	note 6.2	837.6	1,467.8
Pensions and other employee benefits	note 9.3	2,318.9	2,556.8
Deferred tax liabilities	note 7.3	257.9	265.3
Non-current liabilities		3,414.4	4,289.9
Advances received from customers on contracts	note 10.1	4,317.2	3,676.4
Refundable grants	note 10.1	127.6	130.4
Construction contracts: liabilities	note 10.2	1,021.0	1,072.3
Reserves for contingencies	note 10.4	1,022.9	1,038.0
Accounts, notes and other current payables	note 10.1	5,547.6	5,254.4
Current derivatives - liabilities	note 6.5	405.3	282.2
Total current operating liabilities		12,441.6	11,453.7
Current tax payables		63.7	54.0
Financial debt: short-term	note 6.2	698.7	108.2
Current liabilities		13,204.0	11,615.9
TOTAL EQUITY AND LIABILITIES		21,560.2	19,986.6

* New IFRIC interpretation 21, mentioned in note 1.1, prescribes a retrospective application. Consequently, the financial statements presented for comparative periods have been restated accordingly.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ Million)	Notes	2015	2014
Net income (loss)		812.7	761.7
Add (deduct):			
Income tax expense (gain)		219.9	214.3
Financial interests, net expense (gain)		(3.8)	(2.2)
Share in net (income) loss of equity affiliates (net of dividends received)		(112.8)	34.0
Dividends received from equity-accounted: joint ventures		51.8	44.6
Dividends received from equity-accounted: associates		31.6	25.1
Depreciation and amortisation of tangible and intangible assets	note 4.2	381.3	345.9
Depreciation and amortisation of intangible assets acquired	note 4.2	111.6	103.7
Provisions for pensions and other employee benefits	note 9.3	165.9	172.5
Loss (gain) on disposal of assets, change in scope of consolidation and other	note 3.2	(53.4)	(248.9)
Net allowances to restructuring provisions	note 10.4	(16.8)	(10.7)
Other items		54.9	25.6
Operating cash flows before working capital changes, interests and tax		1,642.9	1,465.6
Change in working capital requirement and in reserves for contingencies	note 10.1	143.0	(287.1)
Payment of contributions / pensions benefits (defined benefit plans):	note 9.3	(225.1)	(190.5)
- related to reduction of the UK deficit		(101.0)	(68.8)
- related to future service (recurrent contributions)		(124.1)	(121.7)
Financial interests paid		(25.3)	(31.4)
Financial interests received		34.5	17.0
Income tax paid		(102.3)	(98.4)
Net cash flows from operating activities	- I -	1,467.7	875.2
Capital expenditure on tangible and intangible assets		(473.4)	(472.6)
Proceeds from disposal of tangible and intangible assets		15.1	29.2
Net operating investment	note 11.2	(458.3)	(443.4)
Acquisitions of subsidiaries, net	note 11.3	(51.2)	(378.2)
Disposals of subsidiaries, net	note 11.3	87.8	4.4
Decrease (increase) in loans and other non current financial assets		23.3	21.9
Decrease (increase) in other current financial assets		15.2	152.7
Net financial investment		75.1	(199.2)
Net cash flows from investing activities	- II -	(383.2)	(642.6)
Parent company dividend distribution		(234.0)	(242.8)
Third party share in dividend distributions of subsidiaries		(51.3)	(130.9)
Increase in equity (exercise of subscription options)		116.2	75.0
Purchase/sale of treasury shares		9.2	3.2
Increase in financial debt		40.4	46.1
Repayment of financial debt		(2.5)	(94.2)
Net cash flows from financing activities	- III -	(122.0)	(343.6)
Effect of exchange rate variations and other	- IV -	6.3	28.7
Total increase (decrease) in cash at bank and equivalents	I+II+III+IV	968.8	(82.3)
Cash at bank and equivalents at beginning of period		2,481.4	2,563.7
Cash at bank and equivalents at end of period		3,450.2	2,481.4

The Group net cash position and its changes on both periods are presented in notes 6.2 and 11.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. ACCOUNTING STANDARDS FRAMEWORK

On 22 February 2016, the Board of Directors approved, and authorised for issue, Thales' consolidated financial statements for the year ended 31 December 2015. 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 18 May 2016.

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

1.1 BASIS OF PREPARATION OF THE 2015 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 2015¹.

These principles, described in note 14, are consistent with those applied for the year ended 31 December 2014, with the exception of the first time adoption of the new IFRIC interpretation 21 and the amendment to IAS1 described hereafter.

a) IFRIC interpretation 21 (Levies)

IFRIC interpretation 21 (Levies) has been adopted by the European Union in June 2014 and is retrospectively applicable for the Group from 1 January 2015.

This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what is the obligating event that gives rise to pay a levy and when a liability should be recognised. In particular, a liability should be recognised progressively only if the obligating event occurs over time.

The Group is mainly affected by levies in France (C3S levy based on French companies turnover as well as property taxes). Application of this new text leads to:

- recognise C3S levies one year later than previously done (due at 1 January N for levy related to N-1 turnover);
- recognise C3S levies as well as some property taxes fully at 1 January, while they used to be recognised linearly over the year.

The 2014 consolidated balance sheet have been restated accordingly (impacts have been determined at opening of the first presented period, at 1 January 2014):

Consolidated balance sheet at 31 December 2014	31/12/14 Published	IFRIC 21 impacts *	31/12/14 Restated
Non current assets	8,394.9	(4.1)	8,390.8
Current assets	11,595.8	--	11,595.8
Total assets	19,990.7	(4.1)	19,986.6
Equity, shareholders of the parent company	3,771.4	10.3	3,781.7
Non-controlling interest	298.5	0.6	299.1
Non current liabilities	4,289.9	--	4,289.9
Current liabilities	11,630.9	(15.0)	11,615.9
Total equity and liabilities	19,990.7	(4.1)	19,986.6

The interpretation does not have any impact on the 2014 profit and loss account.

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

b) Other standards applicable in 2015

The amendment to IAS 1 (Presentation of financial statements), that aims at improving the relevance of information provided in the financial statements, has been early adopted by the Group.

Moreover, IFRS annual improvements for 2011-2013 cycle, mandatorily applicable in 2015, have no impact on the Group's financial statements.

1.2 NEW MANDATORY STANDARDS APPLICABLE AFTER 31 DECEMBER 2015

The following standards have been adopted by IASB and will be applicable for periods indicated below, subject to their adoption by the European Union:

Standard	Description	First application	Adoption EU
IFRS 15 (Revenue from contracts with customers)	Replaces standards IAS 18 (revenue) and IAS 11 (construction contracts) and linked interpretations	1 January 2018	In progress
IFRS 9 (Financial instruments)	Replaces all standards related to financial instruments	1 January 2018	In progress
IFRS 16 (Leases)	Replaces IAS 17. Removes distinction between operating leases and financial leases, all contracts being recognised on the balance sheet.	1 January 2019	In progress
Amendments to IAS 16 (tangible assets) and IAS 38 (intangible)	Aim at clarifying the acceptable amortization methods	1 January 2016	Yes
Amendment to IFRS 11 (Joint arrangements)	Relates to accounting for acquisitions of interests in joint arrangements	1 January 2016	Yes
Amendment to IAS 19 (Employee benefits)	Clarifies the accounting treatment of contribution from employees (or third parties) prescribed by a system's clauses in order to contribute to financing the benefits	1 January 2016	Yes
Annual IFRS improvements: cycle 2012-2014	Slightly amends IFRS 5, IFRS7, IAS 19 and IAS 34	1 January 2016	Yes

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

The Group has set up a project structure to analyse the differences between IFRS 15 (Revenue from contracts with customers) and existing standards (IAS 18 – Revenue and IAS 11 – Construction contracts).

In particular, the Group is carefully studying the new recognition criteria for sales recognised using the percentage of completion method: conditions for gradual transfer of control and appropriate methods to measure percentage of completion of contracts.

1.3 CONVERSION

Main exchange rates used to translate financial statements of entities when their functional currency is not the Euro are the following:

	31 december 2015		31 december 2014		31 december 2013	
Euros	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.4897	1.4837	1.4829	1.4723	1.5423	1.3936
Sterling Pound	0.7340	0.7242	0.7789	0.8031	0.8337	0.8501
U.S. Dollar	1.0887	1.1046	1.2141	1.3211	1.3791	1.3308

1.4 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 incomes, 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 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, particularly for the following matters.

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-c). 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. The recoverable amount of goodwill by each 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-e) 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 sales 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-j. 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 recognised 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-b: 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 presented business segments are described in note 14-a.

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 business segment below, corresponds to income from operations increased by the share in net income of equity affiliates. It excludes the amortisation of acquired intangible assets (purchase price allocation PPA).

The *adjusted net income*, as defined in note 14-a, is considered as relevant by the Group because it enables the exclusion of non-recurring items.

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

2015	Aerospace	Transport	Defence & Security	Oth. elim and non allocated	Thales
Consolidated order backlog *	9,766.4	4,841.5	17,611.0	73.2	32,292.1
Consolidated order intake	6,278.5	2,826.0	9,704.0	71.4	18,879.9
Consolidated sales	5,381.4	1,519.2	7,084.4	78.2	14,063.2
Inter segment sales	81.5	10.4	264.5	(356.4)	--
Total sales	5,462.9	1,529.6	7,348.9	(278.2)	14,063.2
EBIT	517.7	(36.9)	760.2	(25.3)	1,215.7
<i>Of which, in DCNS</i>	--	--	--	21.9	21.9
<i>Of which, DCNS excluded</i>	517.7	(36.9)	760.2	(47.2)	1,193.8
Capital expenditures	161.5	11.4	104.8	195.7	473.4
Dep. and amort. of tangible and intang. assets	162.3	7.9	106.1	105.0	381.3

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 order intake	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

* At the end of the period

Data related to order backlog, new orders and sales appearing in the "Other, elim and non allocated" column relate to corporate activities (Thales parent company, Thales Global Services, Group R&D centers, facilities management), and to the elimination of transactions between the business segments.

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

2.2 ADJUSTED RESULTS

Adjusted results are determined as follows:

	2015 Published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2015 Adjusted
Income from operations	964.5	111.6	--	--	--	1,076.1
share in net income (loss) of equity affiliates	112.8	26.8	--	--	--	139.6
EBIT						1,215.7
Impairment of non-current operating assets	--	--	--	--	--	--
Disposal of assets and other	53.4	--	(53.4)	--	--	--
Net financial interests	3.8	--	--	--	--	3.8
Other financial income (expense)	(41.8)	--	--	32.2	--	(9.6)
Financial income on pension and other	(60.1)	--	--	--	(12.4)	(72.5)
Income tax	(219.9)	(38.0)	(1.4)	(11.1)	4.0	(266.4)
<i>Effective tax rate</i>	25.4%					26.7%
Less, non-controlling interests' income	(47.6)	(12.4)	--	(1.7)	--	(61.7)
Net income (expense), Group share	765.1	88.0	(54.8)	19.4	(8.4)	809.3

<i>Average number of shares outstanding</i>	208,112		208,112
Net income (expense) per share, Group share	3.68		3.89

	2014 Published	Amort. of acquired intangible assets	Disposal of assets and other	Change in fair value/ dérivatives	Actuarial gains & losses/other long-term benefits	2014 Adjusted
Income from operations	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>	28.2%					29.0%
Less, non-controlling interests' income	(47.5)	(14.8)	--	0.2	--	(62.1)
Net income (expense), Group share	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 share	3.49		2.75

2.3 INFORMATION BY COUNTRY/REGION OF DESTINATION

Consolidated order intake (direct and indirect) by country / region of destination	2015	2014
France	4,101.9	3,593.8
United Kingdom	2,226.6	1,325.9
Rest of Europe	3,483.2	3,173.0
Europe	9,811.7	8,092.7
North America	1,364.0	1,036.2
Australia and New Zealand	1,525.2	967.0
Middle East	3,726.4	1,929.0
Asia	1,982.3	1,701.4
Rest of the world	470.3	636.7
Emerging markets	6,179.0	4,267.1
Total	18,879.9	14,363.0

Sales (direct and indirect) by country / region of destination	2015	2014
France	3,420.5	3,419.0
United Kingdom	1,382.1	1,314.4
Rest of Europe	3,039.8	2,937.5
Europe	7,842.4	7,670.9
North America	1,533.4	1,349.7
Australia and New Zealand	725.6	667.3
Middle East	1,430.6	911.8
Asia	1,898.3	1,823.4
Rest of the world	632.9	550.5
Emerging markets	3,961.8	3,285.7
Total	14,063.2	12,973.6

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.

	2015	2014
Construction contracts	7,009.8	6,270.6
Sales of goods and equipment	3,405.9	3,344.2
Services	3,550.5	3,267.6
Other	97.0	91.2
Total	14,063.2	12,973.6

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

In 2015:

- In March 2015, Thales sold its 22% stake in Cloudwatt to Orange, for an amount of € 8.9 million. Into the consolidated financial statements, the gain on this disposal amounts to € 1.1 million.
- In August 2015, Thales sold its 30% stake in ESG Elektroniksystem-und Logistik GmbH to Munich investment holding for an amount of € 75.2 million. In the consolidated financial statements, the gain on this disposal amounts to € 47.2 million.
- In October 2015, Thales signed an agreement to acquire Vormetric, a leading provider of data protection solutions, for an amount of \$ 400 million (€ 353 million), aiming at strengthening its cybersecurity capabilities.

The acquisition, subject to various regulatory approvals, should be completed in the first quarter of 2016. The entity will be fully consolidated into the Group financial statements.

In 2014:

- 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.

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. This resulted in a 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%. 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. This resulted in goodwill of € 63.3 million.

- In June 2014 Thales completed the acquisition for \$ 392.5 million (€ 287.4 million) of the US company Live TV from JetBlue. Live TV is the market leader in TV and broadband connectivity for aircraft. The company is fully consolidated at 30 June 2014. The provisional goodwill amounted to € 86.5 million after taking into account adjustments to the opening balance sheet and allocation of the purchase price to acquired assets and liabilities. The allocation of the purchase price was finalized in June 2015 and resulted in an adjustment of the goodwill of € +3.6 million.

- 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 amount of £ 6.5 million (of which £ 5 million (€ 6.2 million) paid at 31 December 2014 and the balance in 2015).

- 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.

- At the end of December 2014, Thales acquired the cyber security services and secure communications activities of Alcatel-Lucent for an amount of € 40.6 million, of which € 37.7 million paid on the 31st December 2014 and the balance in 2015.

The goodwill amounts to € 20.3 million, after taking into account adjustments to the opening balance sheet and allocation of the purchase price to acquired assets and liabilities.

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

	2015	2014
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:	42.3	(2.2)
ESG Elektroniksystem-und Logistik GmbH (30%)	47.2	--
Other	(4.9)	(2.2)
Disposal of other assets:	1.0	15.0
Real estate assets	0.7	14.4
Equipments	0.3	0.6
Impact of curtailments and settlements of pensions plans and long-term benefits (note 9.3)	10.1	6.5
Total	53.4	248.9

(a) In June 2014 the shareholders' agreements of both joint ventures, Thales-Raytheon Systems SAS and Trixell have been amended (note 3.1). Consequently, Thales now controls these companies, 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 goodwill related to the full consolidation of the entity (note 4.1).

4. TANGIBLE AND INTANGIBLE ASSETS

4.1 GOODWILL

a) Change in goodwill

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

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

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

	31/12/13	Acquisitions	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	162.1	--	--	11.9	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	105.6	--	--	9.4	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 (increased by € 3.6 million in 2015) 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. The goodwill was allocated in 2015 for an amount of € 19 million.

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

b) Impairment tests

Goodwill is subject to annual impairment tests in accordance with the Group budgetary schedule. 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.

At the end of 2015, as in 2014, impairment tests were performed with the initial assumption of a 8.5% discount rate for every CGU (the latter presenting a similar level of risk, taking CGU specific risks into consideration in the projections).

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 operating income from the three-year strategic plans, with a 2% limited growth).

In some specific cases (recent acquisitions, non-normative annual results etc.), terminal value is based on projections carried out on an appropriate duration. Thus, given the additional difficulties in the implementation of some projects of its Transport activities, the Group completed, in late June 2015, an update of forecast data for the period 2015-2020. As part of the period ended 30 June, forecast cash flows and the CGU terminal value were re-estimated accordingly. These tests were updated at the end of the year 2015.

At the end of 2015, the overall recoverable amount of the Group's activities remains higher than its carrying amount.

c) Sensitivity of values in use

Tests of sensitivity allow to confirm accounting values: a 1% increase of the discount rate, a 1% decrease of the growth rate or a 2% decrease of the operational profitability of the Group CGUs would not lead to book significant additional impairments.

4.2 OTHER TANGIBLE AND INTANGIBLE ASSETS

a) Change in net tangible and intangible assets

	Acquired intangible assets (PPA)	Develop- ment costs	Other intangible assets	Tangible assets	Total
Net value at 1 January 2014	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 acquired intangible assets	(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
Acquisitions / capitalisations	--	15.0	54.9	403.5	473.4
Disposals	--	--	--	(15.1)	(15.1)
Amortisation of acquired intangible assets	(111.6)	--	--	--	(111.6)
Other depreciation and amortisation	--	(42.0)	(38.2)	(301.1)	(381.3)
Scope, foreign exchange rates and other	45.3	3.1	(9.8)	52.4	91.0
Net value at 31 December 2015	649.2	123.3	90.4	1,696.7	2,559.6

b) Detail of the balance sheet items

	31/12/15			31/12/14	01/01/14
	Gross	Depreciation and impairment	Net	Net	Net
Acquired technologies	668.7	(329.0)	339.7	385.8	50.9
Customer relationship: long-term	486.5	(247.4)	239.1	269.0	231.7
Customer relationship: backlog	276.3	(241.0)	35.3	47.0	--
Other	65.1	(30.0)	35.1	13.7	13.7
Acquired intangible assets (business combinations)	1,496.6	(847.4)	649.2	715.5	296.3
Development costs	960.6	(837.3)	123.3	147.2	130.3
Other	685.6	(595.2)	90.4	83.5	101.2
Intangible assets	3,142.8	(2,279.9)	862.9	946.2	527.8
Lands	52.8	(1.5)	51.3	50.1	51.6
Buildings	1,424.6	(808.3)	616.3	600.7	521.1
Plants and equipment	2,331.8	(1,743.1)	588.7	577.1	472.1
Other	1,111.6	(671.2)	440.4	329.1	277.5
Tangible assets	4,920.8	(3,224.1)	1,696.7	1,557.0	1,322.3

4.3 COMMITMENTS RELATED TO OPERATION LEASES

Binding lease and rental commitments at 31 December 2015 and 2014 are analysed below:

	Rent payable			
	Total	< 1 year	1 to 5 years	> 5 years
31 December 2015	1,361.0	215.2	615.9	529.9
31 December 2014	1,482.5	207.7	641.7	633.1

5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

5.1 JOINT VENTURES

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

	Investments in Joint Ventures		Share in net income (loss)		Share in oth.comprehensive income	
	31/12/15	31/12/14	2015	2014	2015	2014
DCNS (35%)	680.9	678.6	(3.5)	(142.3)	2.2	(139.6)
Other joint ventures *	445.5	425.6	59.3	58.8	71.1	59.7
Total	1,126.4	1,104.2	55.8	(83.5)	73.3	(79.9)

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

b) Change in investment in joint ventures

	31/12/15	31/12/14
Investment at opening	1,104.2	1,412.5
Share in net income (loss) of joint ventures	55.8	(83.5)
Cumulative translation adjustment	11.6	23.9
Cash-flow hedge	0.8	(5.8)
Financial assets available for sale	--	0.3
Actuarial gains (losses) on pensions	5.1	(14.8)
Share in other comprehensive income (loss)	73.3	(79.9)
Dividends paid	(51.8)	(44.6)
Changes in scope*	--	(171.9)
Other	0.7	(11.9)
Investment at closing	1,126.4	1,104.2

* In 2014, 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.

c) DCNS summarized financial information

Thales has a 35% stake in the share capital of DCNS, a company jointly controlled with the French State. DCNS is a French industrial group specialised in naval defence, nuclear energy and marine infrastructures.

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

Summarized balance sheet at 100%	31/12/15	31/12/14
Non current assets	2,599.4	2,671.6
Current assets	7,527.4	6,309.7
Total assets	10,126.8	8,981.3

Restated equity attrib. to the shareholders of the company	1,111.2	1,104.5
Non-controlling interests	22.4	32.0
Non current liabilities	710.7	724.9
Current liabilities	8,282.5	7,119.9
Total equity and liabilities	10,126.8	8,981.3

Cash at bank and equivalents	2,296.3	1,428.6
Available-for-sale investments	424.2	566.1
Non current financial liabilities	(192.8)	(187.4)
Net cash (debt)	2,527.7	1,807.3

Integration in Thales	31/12/15	31/12/14
Restated equity attrib. to the shareholders of the company	1,111.2	1,104.5
% of Thales' interests	35%	35%
Thales' share	388.9	386.6
Goodwill	292.0	292.0
Share in net assets of the joint venture	680.9	678.6

Summarized profit and loss account at 100%	2015	2014
Sales	3,038.8	3,065.9
Income from operating activities after impact of equity affiliates*	(51.0)	(617.8)
Financial interests. net	20.8	36.4
Tax	10.3	163.7
Restated net income*	(19.9)	(417.7)
<i>Of which. attrib. to the shareholders of the company</i>	<i>(9.9)</i>	<i>(406.5)</i>
<i>Of which. non-controlling interests</i>	<i>(10.0)</i>	<i>(11.2)</i>

Integration in Thales	2015	2014
Restated net income. attrib. to the shareholders of the company	(9.9)	(406.5)
% of Thales' interests	35%	35%
Share in income (loss) of the joint venture	(3.5)	(142.3)
<i>Of which. impact of PPA</i>	<i>(25.4)</i>	<i>(25.3)</i>
<i>Of which. share in income (loss) before PPA</i>	<i>21.9</i>	<i>(117.0)</i>
Dividends received from the joint venture	--	3.0

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

d) Commitments toward joint ventures

At 31 December 2015, the outstanding of sureties, endorsements and guarantees, given by Thales parent company to support its joint ventures amounts to € 332.9 million (€ 259.8 million at 31 December 2014).

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 to get counter-guarantees by the other shareholder in proportion to its interest.

e) Transactions with joint ventures (related party)

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

	2015	2014
Sales	575.8	505.4
Purchases	178.5	199.7
Loans and financial assets	44.2	40.9
Financial debts	13.8	9.3

5.2 ASSOCIATES

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

a) Changes in investment in associates

	31/12/15	31/12/14
Investment in associate at opening	385.5	246.8
Share in net income (loss) of associates	57.0	49.5
Cumulative translation adjustment	27.6	29.0
Cash-flow hedge	(16.5)	(13.0)
Actuarial gains (losses) on pensions	(1.9)	0.9
Total comprehensive income (loss)	66.2	66.4
Dividends paid	(31.6)	(25.1)
Dividends declared, not paid	(2.2)	(5.7)
Changes in scope *	(58.5)	110.3
Other	0.1	(7.2)
Interests at closing	359.5	385.5

* Thales-Raytheon Systems LLC in 2014, Cloudwatt and ESG Elektroniksystem-und Logistik GmbH in 2015

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

	2015	2014
Interest expense:		
- on gross debt	(37.2)	(37.5)
- on interest rate swaps	21.7	17.3
	(15.5)	(20.2)
Interest income / cash at bank and equivalents	19.3	22.4
Total	3.8	2.2

b) Other financial income (expense)

	2015	2014
Foreign exchange gains (losses)	4.4	2.0
Change in fair value of derivative exchange instruments*	(32.2)	(12.3)
Cash flow hedge inefficiency / foreign exchange instruments	(6.9)	(1.8)
Net foreign exchange gains (losses)	(34.7)	(12.1)
Dividends received	5.0	2.3
Net financial costs on operating loans/debts	1.8	(5.3)
Impairment of investments in shares (available-for-sale), loans and financial assets	(7.9)	(3.3)
Expenses related to confirmed credit line, not used	(2.2)	(5.4)
Other	(3.8)	(15.8)
Total	(41.8)	(39.6)

* Includes the variation of forward points fair value (€ -15.5 million in 2015 and € +6.8 million in 2014), the time value of the derivatives qualified for hedge accounting (€ -6.3 million in 2015 and € -6.0 million in 2014), and also includes the fair value variation of derivatives non qualified for hedge accounting.

6.2 NET CASH (NET DEBT)

The Group's net cash is as follows:

	31/12/15	31/12/14
Current financial assets	27.5	56.8
Cash at bank and equivalents	3,450.2	2,481.4
Cash and other short-term financial assets (I)	3,477.7	2,538.2
Long-term financial debt	837.6	1,467.8
Short-term financial debt	698.7	108.2
Fair value of interest rate derivatives *	(36.2)	(44.1)
Total gross financial debt (II)	1,500.1	1,531.9
Net Cash (I – II)	1,977.6	1,006.3

* 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 and 14-h).

a) Current financial assets

	31/12/15	31/12/14
Current accounts receivable with affiliated companies	17.5	34.0
Marketable securities	6.3	3.7
Accrued interests	3.7	19.1
Current financial assets	27.5	56.8

b) Cash at bank and equivalents

At 31 December 2015, the cash recorded under consolidated assets amounts to € 3,450.2 million (€ 2,481.4 million in 2014). It includes:

- € 2,949.8 million held by the parent company and available for immediate use (€ 2,051.4 million in 2014). These amounts include € 2,585.2 million (€1,725.6 million in 2014) of short-term deposits, euros market funds, negotiable debt securities, other investments with maturities of less than 3 months;
- € 500.4 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 (€430.0 million in 2014).

c) Gross financial debt

	31/12/15	31/12/14
Bond maturity 2021	314.0	314.8
Bond maturity 2018	504.3	504.1
Bond maturity 2016	605.6	611.4
Project financing debt*	19.4	30.4
Current accounts payable with affiliated companies	28.4	13.2
Subscription commitments	5.4	53.2
Other borrowings	18.4	8.3
Bank overdrafts	24.3	23.8
Accrued interests	16.5	16.8
Fair value of interest rate derivatives (note 6.5)	(36.2)	(44.1)
Gross financial debt	1,500.1	1,531.9

* Non-recourse, or limited recourse debt for which interest and principal repayments are covered by project sales contractually due by the 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	Effective
					(excluding effect of hedging)	
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%

Breakdown of gross financial debt by maturity

31/12/15	Total	Contractual cash flows scheduled in:				
		2016	2017	2018	2018	>2019
Gross financial debt *	1,500.1	689.6	7.0	501.7	5.5	296.3
Contractual maturity date	1,543.1	693.4	15.8	514.5	9.5	309.9

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

* After deduction of interest rate derivatives' fair value

Breakdown of gross financial debt by currency

	31/12/15	31/12/14
Euro	1,453.6	1,461.2
Pound sterling	19.8	20.4
US Dollar	7.6	22.7
Other	19.1	27.6
Total	1,500.1	1,531.9

After incidence of the corresponding derivative instruments.

6.3 NON CURRENT FINANCIAL ASSETS

a) Non-consolidated available-for-sale investments

	31/12/15	31/12/14
Investments held by Thales International Offsets *	28.2	28.2
Investments held by Thales Corporate Ventures (venture capital)	4.5	4.2
Other	38.4	28.0
Total	71.1	60.4

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

b) Non current financial assets

	31/12/15	31/12/14
Loans to related parties	67.5	69.1
Loans and other financial assets at amortised cost	52.1	46.6
Loans and other financial assets at fair value	19.4	30.6
Gross value	139.0	146.3
Depreciation	(7.8)	(7.9)
Net	131.2	138.4

6.4 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

a) Financial assets

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

Methods used to measure fair value

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

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

Trade receivables, as detailed in note 10.1, are accounted for as financial assets and evaluated at amortised cost in accordance with IAS 32/39.

b) Financial liabilities

At 31 December 2015:	At amortised cost	At fair value			Total
		Financial liabilities	Derivatives		
			Hedge accounting	Not qualified for hedge accounting	
Non-current financial liabilities:					
Financial debt-long-term	809.6	28.0	--	--	837.6
Non-current derivatives, liability	--	--	--	--	--
Current financial liabilities:					
Current derivatives, liability	--	--	392.7	12.6	405.3
Financial debt-short-term	690.5	8.2	--	--	698.7
Total		36.2	392.7	12.6	

Methods used to measure fair value

Valuation based on observable market data (level 2)	36.2	392.7	12.6	441.5
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At 31 December 2014:	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	1,423.7	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
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As detailed in 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 the carrying amount, except for financial debts.

The fair value of debt obligation is measured on the basis of quoted prices (Level 1). The fair value of other financial debts is determined for each loan by discounting future cash flows at 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 € 1,545.2 million at 31 December 2015 and € 1,596.8 million at 31 December 2014.

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 2015 and 2014.

6.5 FINANCIAL RISKS

The financial risks management policy is described in details into the Group management report (chapter 1 of the 2015 registration document, § 1.1.2).

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:

	31/12/15		31/12/14	
	Assets	Liabilities	Assets	Liabilities
Non-current derivatives:				
- foreign exchange derivatives	--	--		
- interest rate derivatives	36.2	--	44.1	--
Current derivatives:				
- foreign exchange derivatives	154.2	402.0	108.2	278.2
- interest rate derivatives	--	3.3	--	4.0
Foreign exchange derivatives, net	(247.8)		(170.0)	
Interest rate derivatives, net	32.9		40.1	

• 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.

At 31 December 2014 and 2015, the amount of derivatives in the portfolio can be analysed as follows:

Foreign exchange derivatives	31/12/15					31/12/14	
	USD	GBP	Other	Total	Market value	Total	Market value
Negotiations and trade operations hedges							
Hedge accounting:							
Forward currency sales	4,808.8	718.2	2,267.0	7,794.0	(223.0)	6,178.2	(151.3)
Forward currency purchases	1,852.6	808.9	1,375.9	4,037.4		3,117.8	
Currency sales (call and put options)	45.9	--	--	45.9	0.8	93.7	0.5
Currency purchases (call and put options)	--	--	--	--		51.5	
Not qualified for hedge accounting:							
Forward currency sales	13.8	--	--	13.8	(0.7)	9.5	--
Forward currency purchases	0.5	98.7	--	99.2		5.5	
Currency sales (call and put options)	86.1	19.4	66.3	171.8	0.8	163.3	1.5
Currency purchases (call and put options)	31.4	12.4	54.4	98.2		148.5	
Hedges related to cash pooling:							
Currency sales: foreign exchange swaps	32.6	--	169.1	201.7	7.7	222.9	(1.3)
Currency purchases: foreign exchange swaps	--	597.2	612.0	1,209.2		973.9	
Hedges related to net foreign assets (hedge accounting):							
Currency sales: foreign exchange swaps	382.1	--	135.1	517.2	(33.4)	369.2	(19.4)
Currency purchases: foreign exchange swaps	--	339.9	--	339.9		325.9	
Net asset					(247.8)		(170.0)

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.

Regarding the derivative instruments designated 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 € 153 million at 31 December 2015 compared to € 132 million at 31 December 2014.

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 € 1 million at 31 December 2015, compared to € 2 million at 31 December 2014.

• Interest rates

Thales is exposed to interest rates 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. At 31 December 2014 and 2015, the amount of derivatives in the portfolio can be analysed as follows:

Interest rate derivatives	31/12/15		31/12/14	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable-rate payable):				
- swaps related to bond with maturity 2021	300.0	19.9	300.0	21.0
- swaps related to bond with maturity 2018	300.0	8.1	300.0	8.3
- swaps related to bond with maturity 2016	400.0	8.2	400.0	14.8
		36.2		44.1
Cash flow hedge (financing of projects at variable-rate swapped to fixed-rate)	19.4	(2.4)	23.1	(3.4)
Swaps not designated as hedge:				
- cross-currency swap with fixed-rate payable, related to a loan	16.0	(0.5)	2.1	--
- swap with fixed-rate payable, related to a loan	8.7	(0.4)	11.1	(0.6)
Net asset		32.9		40.1

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

31/12/2015	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Gross financial debt *	(612.1)	(77.5)	(792.2)	(18.3)	(1,404.3)	(95.8)
Financial assets, cash at bank and equivalents	--	3,477.7	--	--	--	3,477.7
Net exposure before impact of derivative instruments	(612.1)	3,400.2	(792.2)	(18.3)	(1,404.3)	3,381.9
Hedging derivatives	395.5	(395.5)	585.3	(585.3)	980.8	(980.8)
Net exposure after impact of derivative instruments	(216.6)	3,004.7	(206.9)	(603.6)	(423.5)	2,401.1

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

* After deduction of interest rate derivatives fair value

Based on the average net cash (taking into account hedging instruments), a 1% rise in interest rates would increase financial income by € 11.4 million in 2015 (€ 8.4 million in 2014).

b) Client Credit risks

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' 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' sales, profitability and financial position.

To mitigate these risks, Thales conducts regular analyses 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' sales. Thales works with a large number of countries. Some of them 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 2015, only two customers accounted for annual sales in excess of € 500 million: the French government (approx. € 2.5 billion in 2015, as in 2014) and the British State (approx. € 1 billion in 2015, as in 2014). At 31 December 2015, these two countries still have first-class or high quality ratings (France AA by Standard & Poor's and Aa2 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 2015 and 2014, the ageing of these accounts and notes receivable is as follows:

At 31 December 2015 Overdue accounts & notes receivables not depreciated	Total	Accounts and notes receivables overdue:		
		< 3 months	3 to 6 months	> 6 months
State and assimilated	132.1	101.1	8.5	22.5
Others	377.7	246.4	51.6	79.7

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

- **Credit risks related to banking counterparts**

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

Thales Group trades OTC derivatives with first class banks under agreements which provide offset of the 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 2015	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	190.4	--	190.4	(172.0)	--	18.4
Derivatives – Liabilities	405.3	--	405.3	(172.0)	--	233.3

c) Liquidity risks

Thales' liquidity risk corresponds to the risk of being unable to face its monetary needs. It depends particularly on 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' 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 2020) as backup for the commercial paper programme and representing, as such, a financing reserve.

The parent company's financing programmes are rated by Standard & Poor's and Moody's. At the date of publication, Thales' credit risk ratings were as follows:

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

The decrease of Thales' credit risk rating would not trigger the financial covenants included in its financing contracts. The coming into effect of the unique clause of accelerated repayment would only apply in the event that the French State would no longer hold its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA² would exceed 3.

A decrease of Thales' 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' credit risk ratings would lead to a decrease in the applicable margin (with a minimum threshold). Other fundings do not provide "covenants" based on financial ratios.

²EBITDA, 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 amortization of goodwill. This figure is determined in accordance with French accounting principles.

7. INCOME TAX

Determination of the income tax charge takes into account the specific local rules, 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

	2015	2014
Current tax*	(197.9)	(159.3)
Deferred tax	(22.0)	(55.0)
Total	(219.9)	(214.3)

* This amount excludes operational taxes, mainly composed of property taxes, the company value-added contribution (cotisation sur la valeur ajoutée des entreprises – CVAE) in France (€ 69.0 million in 2015 and € 67.5 million in 2014), as well as the social solidarity contribution. All these taxes are recorded as operational expenses within net operating income.

Effective tax rate

	2015	2014
Net income (loss)	812.7	761.7
Less: income tax	219.9	214.3
Less: share in net income (loss) of equity affiliates	(112.8)	34.0
Less: disposal of assets, changes in scope of consolidation and other	(53.4)	(248.9)
Profit before tax, disposals and impact of equity affiliates	866.4	761.1
Average tax rate	31.3%	32.0%
Theoretical tax gain (expense)	(271.5)	(243.6)
Reconciliation items:		
- Tax credits *	69.6	72.0
- Other non taxable items	(7.5)	(1.5)
- Variation of previously unrecognised deferred tax assets	30.1	2.3
- Taxes not taken into account in the theoretical rate**	(15.9)	(16.7)
- Prior year adjustments	(9.4)	(14.2)
- Impact of dividends paid	(13.8)	(14.1)
- Impact of change in the deferred tax rate	(1.4)	1.5
- Tax related to disposal of assets, changes in scope of consolidation and oth.	1.4	0.5
- Other	(1.5)	(0.5)
Actual tax gain (expense)	(219.9)	(214.3)
Effective tax rate	25.4%	28.2%

The average tax 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 is calculated by applying the local tax rate to the income before tax.

Thus, the average tax rate depends on the contribution of the different countries to the Group's income before tax. France, where the tax rate amounts to 34.43% before additional contributions, represents more than 70 % of the income before tax in 2015, as in 2014.

* Includes:

- The effect of not taxing research tax credits (€ 153.5 million in 2015, € 151.4 million in 2014) and tax credit for encouraging competitiveness and jobs (CICE), recorded in the non-taxable income of operations;
- The fiscal benefits related to the research, recorded in the income tax (including Australia and Netherlands).

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

7.2 DEFERRED TAX ALLOCATED TO EQUITY

Entities fully consolidated	2015		2014	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	7.0	--	53.9	--
Net foreign investments hedge	3.9	(1.3)	2.1	(0.7)
Cash flow hedge	(191.0)	45.7	(271.3)	95.2
Available-for-sale investments	0.6	--	0.1	--
Items subsequently reclassified to P&L	(179.5)	44.4	(215.5)	94.5
Actuarial gains and losses/pensions - United Kingdom	140.6	43.5	(334.6)	--*
Actuarial gains and losses/pensions - Other countries	130.9	(38.4)	(292.4)	89.4
Items not subsequently reclassified to P&L	271.5	5.1	(627.0)	89.4
Payment in shares		0.5		1.0
Total deferred tax allocated to equity		50.0		184.9

* Depreciation of deferred taxes related to pensions in the UK, partially reversed in 2015.

7.3 TAX ASSETS AND LIABILITIES PRESENTED IN THE BALANCE SHEET

	01/01/15	Income (expense)	Recognised through equity	Cash flow impact	Changes in exch. rate, scope and other	31/12/15
Current income tax assets	60.3	--	--	10.5	--	70.8
Current income tax liabilities	(54.0)	(197.9)	--	91.8	96.4	(63.7)
Current income tax, net	6.3	(197.9)	--	102.3	96.4	7.1
Deferred tax assets	942.4	(41.3)	50.0	--	15.9	967.0
Deferred tax liabilities	(265.3)	19.3	--	--	(11.9)	(257.9)
Deferred tax, net	677.1	(22.0)	50.0	--	4.0	709.1
Total		(219.9)	50.0	102.3		

	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	798.4	(74.3)	184.9	--	33.4	942.4
Deferred tax liabilities	(149.1)	19.3	--	--	(135.5)	(265.3)
Deferred tax, net	649.3	(55.0)	184.9	--	(102.1)	677.1
Total		(214.3)	184.9	98.4		

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 01/01/2015	(Expense)/ Income of the period	Recognised through equity	Changes in exch. rate, scope and other	At 31/12/2015
Temporary differences:	838.3	21.7	(33.6)	20.3	846.7
- Pensions and other employee benefits	608.4	(20.5)	(81.9)	25.1	531.1
- Intangible assets	(126.2)	24.0	--	(10.8)	(113.0)
- Reserve for losses at completion	131.3	(12.8)	--	0.1	118.6
- Other	224.8	31.0	48.3	5.9	310.0
Tax loss carry-forwards	316.1	(73.8)	--	5.7	248.0
Total	1,154.4	(52.1)	(33.6)	26.0	1,094.7
Part not recognised in the balance sheet	(477.3)	30.1	83.6	(22.0)	(385.6)
Total net deferred tax assets	677.1	(22.0)	50.0	4.0	709.1

	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:	659.3	10.8	251.8	(83.6)	838.3
- 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	231.2	20.2	82.1	(108.7)	224.8
Tax loss carry-forwards	376.4	(68.1)	--	7.8	316.1
Total	1,035.7	(57.3)	251.8	(75.8)	1,154.4
Part not recognised in the balance sheet	(386.4)	2.3	(66.9)	(26.3)	(477.3)
Total net deferred tax assets	649.3	(55.0)	184.9	(102.1)	677.1

• Expiration of tax losses carried-forward

Total tax losses carried-forward represent a potential tax saving of € 248.0 million at 31 December 2015 (€ 316.1 million at 31 December 2014). Corresponding expiry dates are:

	31/12/2015		31/12/2014
2016	0.4	2015	0.5
2017-2020	1.0	2016-2019	0.1
Beyond 2020	29.7	Beyond 2019	27.1
Without any time limit	216.9	Without any time limit	288.4
Total	248.0	Total	316.1
Of which not recognised in the balance sheet	(165.4)	Of which not recognised in the balance sheet	(157.9)
Net deferred tax asset	82.6	Net deferred tax asset	158.2
<i>Of which, in France</i>	<i>56.8</i>	<i>Of which, in France</i>	<i>107.9</i>

Only deferred tax assets related to tax losses which the Group expects to recover, in accordance with note 14-i, are recognised in the balance sheet. In particular, the Group takes into account potential restriction of tax losses carried-forward.

8. EQUITY AND EARNINGS PER SHARE

8.1 EQUITY

a) Share capital

The share capital of Thales parent company amounts to € 632,884,212 and is made of 210,961,404 shares with an individual value of € 3, compared with 207,841,111 shares at 31 December 2014. This represents an increase of 3,120,293 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 2015, 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 839,254 of its own shares at 31 December 2015. They are accounted for as a € 25.2 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 2014 and 2015:

	2015	2014
Treasury shares at 1 January	1,876,732	2,490,177
Purchases as part of the liquidity contracts	807,144	2,146,816
Sales as part of the liquidity contracts	(822,144)	(2,216,116)
Transfer to employees as part of the employee share purchase offering	(457,596)	--
Delivery of free shares	(535,532)	(544,145)
Exercise of share purchase options	(29,350)	--
Treasury shares at 31 December	839,524	1,876,732

At 31 December 2015, as in 2014, relating to the liquidity contract entrusted to Kepler Cheuvreux, the liquidity account had the following means:

	2015	2014
Number of shares at 31 December	9,000	24,000
Value (million euros)	31.9	29.8

d) Translation adjustment

Translation adjustment results 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.

This translation adjustment is 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:

	2015	2014
Translation adjustment at 1 January	(134.7)	(241.9)
Changes in value	9.6	56.0
Reclassified to profit and loss	--	(1.0)
Gross variation	9.6	55.0
Deferred tax	(1.3)	(0.7)
Joint-ventures and associates	39.2	52.9
Translation adjustment at 31 December	(87.2)	(134.7)
Of which:		
Hedge of net foreign investments	3.9	3.0

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 impact profit and loss.

	2015	2014
Cash flow hedge at 1 January	(118.5)	56.6
Changes in value	(308.7)	(219.7)
Reclassified to profit and loss	121.7	(11.6)
Scope and exchange variations	0.1	(9.8)
Gross variation	(186.9)	(241.1)
Deferred tax	44.3	84.8
Joint-ventures and associates	(15.7)	(18.8)
Cash flow hedge at 31 December*	(276.8)	(118.5)

* A negative balance at closing means that the exchange rates of the derivative instruments designated as a hedge are generally less favorable than the exchange rates prevailing at the date of closing.

f) Parent Company Dividends distribution

Dividends per share amounted to € 1.12 in 2014, as in 2013.

On 22 February 2016, the Board of Directors decided to offer the shareholders, who will be convened to a general meeting on 18 May 2016, the payment of a total amount of € 1.36 per share. Given the down payment of € 0.35 per share, the balance of € 1.01 per share will be distributed on 30 May 2016.

Dividends paid in 2014 and 2015 are described below:

Full year	Approved by	Description	Dividend per share (euro)	Payout date	How paid	Total (€ million)
2015	Board of directors meeting on 17 September 2015	2015 interim dividend	€ 0.35	Dec. 2015	Cash	€ 73.3 million
	Shareholder's meeting on 13 May 2015	Balance for 2014	€ 0.78	May 2015	Cash	€ 160.7 million
	Total dividends paid in 2015					€ 234.0 million
2014	Board of directors meeting on 16 September 2014	2014 interim dividend	€ 0.34	Dec. 2014	Cash	€ 70.0 million
	Shareholders' meeting on 14 May 2014	Balance for 2013	€ 0.85	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	Dec. 2013	Cash	€ 54.9 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 interest in Thales-Raytheon Systems Company SAS (50%).

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

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

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 non-dilutive instruments. The dilutive effect of share subscription and share purchase options, of free shares and units awarding, is calculated using the treasury stock method, taking into account the average market price for the share over the period said.

		2015	2014
Numerator (in millions of euros):			
Net income (loss) attributable to shareholders of the parent company	(a)	765.1	714.2
Denominator (in thousands):			
Average number of outstanding shares	(b)	208,112	204,774
Share subscription and share purchase options*		1,403	1,100
Free shares and units plans **		1,421	1,447
Diluted average number of outstanding shares	(c)	210,936	207,321
Earnings per share (in euros)	(a) / (b)	3.68	3.49
Diluted earnings per share (in euros)	(a) / (c)	3.63	3.44

Average share price	€ 57.86	€ 44.38
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* Only options plans of which the exercise price is lower than the average share price are used for diluted earnings per share calculation.

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

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 2015 it represents 61,848 employees (60,781 at the end of 2014).

9.2 PERSONNEL EXPENSES

	2015	2014
Wages and salaries and social charges*	(5,640.0)	(5,351.9)
Defined benefit pension expense (note 9.3)	(115.9)	(88.9)
Share-based payment (before social security contributions - note 9.4)	(28.1)	(15.0)
Total	(5,784.0)	(5,455.8)

*Profit-sharing, incentive plans and defined contribution pension expenses 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 charge for the company is thus limited to the 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 mainly includes the UK.

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

In the Netherlands, employees had a defined benefit plan, the indexation of which depended on the level of financing achieved, as assessed by the local prudential rules. In late 2015, this plan's regulation has been amended in agreement with social partners and the plan was turned into a collective defined contribution plan. Future contributions from the employer no longer depend on the pension fund's financial condition. At 31 December 2015, the remaining provision mainly relates to an early-retirement plan.

a) Provisions recognised in the balance sheet

	2015	2014
Provision at 1 January	(2,556.8)	(1,857.9)
Current service cost	(115.9)	(88.9)
Amendments and settlements	10.1	6.5
Interest cost	(213.5)	(229.5)
Expected return on plans assets	146.8	157.9
Net interest	(66.7)	(71.6)
Fund cost	(5.8)	(5.5)
Actuarial gain & losses/other long-term benefits	12.4	(13.0)
Finance costs on pensions and other employee benefits	(60.1)	(90.1)
Total pension cost of the period	(165.9)	(172.5)
Actuarial gains & losses (other comprehensive income (loss) of the period)	271.5	(627.0)
Benefits and contributions	225.1	190.5
- Deficit payment in the United Kingdom	101.0	68.8
- Future service cash	124.1	121.7
Exchange rate variation	(77.6)	(70.1)
Changes in scope of consolidation and other	(15.2)	(19.8)
Provision at 31 December	(2,318.9)	(2,556.8)
Of which: Post-employment benefits	(2,138.2)	(2,370.6)
Other long-term benefits	(180.7)	(186.2)

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

31 December 2015	Externally funded countries			Countries mainly internally funded			Total
	UK	Netherlands	Total	France	Other	Total	
Obligations at 1 January	(4,135.4)	(1,293.9)	(5,429.3)	(1,072.0)	(494.4)	(1,566.4)	(6,995.7)
Current service cost	(25.7)	(18.0)	(43.7)	(48.8)	(23.4)	(72.2)	(115.9)
Interest cost	(160.7)	(24.3)	(185.0)	(15.8)	(12.7)	(28.5)	(213.5)
Plans participant's contribution	(12.7)	(9.8)	(22.5)	--	(1.7)	(1.7)	(24.2)
Amendments /settlements	7.7	1,238.0	1,245.7	--	--	--	1,245.7
Experience gains (losses)	(21.5)	5.0	(16.5)	(32.5)	3.2	(29.3)	(45.8)
Actuarial gains (losses)/ financial assumptions	154.1	45.8	199.9	66.2	20.5	86.7	286.6
Actuarial gains (losses)/ demographic assumptions	--	--	--	--	2.5	2.5	2.5
Actuarial gains (losses) on long –term benefits	--	0.3	0.3	7.9	4.2	12.1	12.4
Benefits paid by plans assets	151.6	29.4	181.0	2.4	8.1	10.5	191.5
Benefits paid by employer*	0.6	0.3	0.9	52.0	18.3	70.3	71.2
Scope, exch. rate var. and other	(252.5)	0.2	(252.3)	(1.6)	(52.6)	(54.2)	(306.5)
Obligations at 31 December	(4,294.5)	(27.0)	(4,321.5)	(1,042.2)	(528.0)	(1,570.2)	(5,891.7)
Plans assets at 1 January	2,989.2	1,200.6	4,189.8	128.4	120.7	249.1	4,438.9
Expected return on plans assets	118.0	22.8	140.8	2.0	4.0	6.0	146.8
Employer's contribution*	124.5	19.5	144.0	3.2	6.9	10.1	154.1
Plans participants' contribution	12.7	9.8	22.5	--	1.7	1.7	24.2
Amendments /settlements	--	(1,235.6)	(1,235.6)	--	--	--	(1,235.6)
Benefits paid by plans assets	(151.6)	(29.4)	(181.0)	(2.4)	(8.1)	(10.5)	(191.5)
Experience gains (losses)	8.1	13.6	21.7	7.8	(1.3)	6.5	28.2
Scope, exch. rate var. and other	173.7	(1.3)	172.4	0.2	35.1	35.3	207.7
Plans assets at 31 December	3,274.6	0.0	3,274.6	139.2	159.0	298.2	3,572.8
Provisions at 31 December	(1,019.9)	(27.0)	(1,046.9)	(903.0)	(369.0)	(1,272.0)	(2,318.9)

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)
Plans participant's contribution	(11.5)	(9.5)	(21.0)	--	--	--	(21.0)
Amendments /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 plans 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)
Plans assets at 1 January	2,553.9	958.0	3,511.9	121.9	121.7	243.6	3,755.5
Expected return on plans 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
Plans participants' contribution	11.5	9.5	21.0	--	--	--	21.0
Amendments /settlements	--	--	--	--	(7.9)	(7.9)	(7.9)
Benefits paid by plans 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	186.8	(1.3)	185.5	(0.3)	3.2	2.9	188.4
Plans assets at 31 December	2,989.2	1,200.6	4,189.8	128.4	120.7	249.1	4,438.9
Provisions at 31 December	(1,146.2)	(93.3)	(1,239.5)	(943.6)	(373.7)	(1,317.3)	(2,556.8)

* Contributions / benefits paid amount to € 225.1 million in 2015, compared to € 190.5 million in 2014.

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:

2015	UK	Netherlands *	France	Germany **
Inflation rate	3.02%	--	1.60%	1.60%
Discount rate	3.96%	--	2.03%	2.61%
Average duration of the plans	17 years	--	11 years	19 years
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

* main pension plan liquidated in 2015

** 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). For each country, the Group refers to the Iboxx Corporate AA index, adjusted in accordance with the duration of the commitments.

At 31 December 2015, 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%	-1%
Decrease (increase) in provision (€ million)	219.2	(228.6)	423.4	(473.9)	799.5	(1,008.7)

In the UK, an increase of the inflation rate of 25 basis points would generate an increase of the commitment by € 106.7 million. A decrease of the inflation rate of 25 basis points would generate a decrease of the commitment by € 103.4 million.

d) Return on plans assets

In 2015, plans assets have an actual average return of 4%, compared to 14% in 2014. At 31 December 2015, plans assets are invested as follows:

	2015	2014
Fixed rate bonds	36%	39%
Linked investments	11%	11%
Equities	31%	34%
Liquid alternative investments	9%	7%
Illiquid alternatives (property...)	12%	8%
Liquidities	1%	1%
Total	100%	100%

e) Funding

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

In accordance with the regulations in force, the funding level of its pension commitments is measured every three years. Following this measurement, the appropriateness of a new funding plan and/or the establishment of guarantees in favour of the plan is decided, in consultation with the trustees.

In 2015, negotiations were entered into ahead of the evaluation of the funding level of the Thales UK scheme, the main Thales plan in the UK, in order to set the annual contribution for future years. These negotiations should end in 2016. The contribution increase during 2015 is not representative of the future annual contribution as it takes into account the mechanical effect of the decrease in discount rates between 2011 and 2014, before any negotiation.

In addition, Thales Holdings UK Plc granted a guarantee covering future liabilities of the relevant subsidiaries in the United Kingdom under this funding plan. At 31 December 2015 the balance of the guarantee was £ 779 million, this amount will be reduced by any amount paid in accordance with the funding plan. This guarantee is underwritten by Thales (Parent Company).

9.4 SHARE-BASED PAYMENT

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

Between 2007 and 2013, Thales granted free shares and/or performance shares in line with the employee performance management policy.

Since 2014, the Group stopped free shares grants and replaced them with Units plans indexed to the value of the Thales share, including units subject to performance conditions.

Each unit granted gives the 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 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. Extreme stock market price variations, whether increases or reductions, 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 unit value. Half of the payment will be satisfied in shares, while the other half will be paid in cash.

At 31 December 2015, the following options, shares and units were outstanding:

- 88,450 share purchase options at a weighted average exercise price of € 44.17,
- 2,615,865 share subscription options at a weighted average exercise price of € 36.32, of which 399,948 performance shares,
- 1,263,137 free shares, of which 407,507 performance shares,
- 1,300,510 units, of which 507,600 performance units.

In addition, in 2015 the Group implemented an employee share purchase plan the characteristics of which are described in paragraph f below.

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. Amounts (before social security contributions) are 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 31/12/2015	2015 Expense***	2014 Expense***
Share subscription options:						
15/09/11	435,300	€ 25.20	2.3	--	--	0.2
Total				--	--	0.2
Free shares*:						
17/09/13	724,290	€ 39.16	22.8	9.2	(5.4)	(5.2)
20/12/12	718,290	€ 27.47	16.1	3.6	(3.7)	(3.5)
15/09/11	630,990	€ 25.20	13.0	--	(2.0)	(2.5)
23/09/10	631,730	€ 26.40	13.6	--	--	(2.2)
Total					(11.1)	(13.4)
Units **::						
16/09/14	706,970	€ 42.42	24.2	16.1	(8.1)	(1.8)
17/09/15	608,840	€ 61.75	30.8	28.4	(2.4)	--
Total					(10.5)	(1.8)
Company savings scheme					(6.5)	--
Total					(28.1)	(15.0)
Of which, counterpart:						
Equity					22.2	14.1
Debt					5.9	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 plans, according to a Monte-Carlo model, takes into account the following assumptions, respectively in 2014 and 2015: volatility of 22% then 23%, distribution rate of future results of 2.7% then 2% and risk free rates of 0.14% then 0.10%.

*** Before social security contributions.

b) Outstanding purchase option plans

Date of board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/14	Options exercised in 2015	Options cancelled in 2015	Number of options outstanding at 31/12/15
25/11/2008	from 25 Nov. 2012 to 24 Nov. 2018	€ 38.50	37,800	(29,350)	--	8,450
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 31/12/14	Options exercised in 2015	Options cancelled in 2015(b)	Number of options outstanding at 31/12/15
15/09/2011 (a)	from 15 Sept. 2015 to 14 Sept. 2021	€ 26.34	312,444	(82,561)	(5,050)	224,833
23/09/2010 (a)	from 23 Sept. 2014 to 22 Sept. 2020	€ 26.34	347,850	(170,835)	(1,900)	175,115
25/06/2009	from 25 June 2013 to 24 June 2019	€ 32.88	857,492	(341,653)	(1,140)	514,699
01/07/2008	from 1 st July 2012 to 30 June 2018	€ 38.50	1,108,717	(421,032)	(28,470)	659,215
04/07/2007	from 04 July 2011 to 03 July 2017	€ 44.77	1,225,355	(718,420)	(5,320)	501,615
09/11/2006	from 09 Nov. 2010 to 08 Nov. 2016	€ 36.47	1,160,610	(616,422)	(3,800)	540,388
30/06/2005	from 30 June 2009 to 29 June 2015	€ 34.01	830,933	(769,370)	(61,563)	--

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

(b) Including, for the involved plans, options written-off when performance targets are not, partially or totally, achieved (73,368 options written-off in 2014 on the 2011 plan after final adjustment)

d) Plans of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/14	Shares cancelled in 2015 (b)	Shares delivered in 2015	Number of free shares at 31/12/15
17/09/2013	from 17/09/2013 to 17/09/2017	€ 39.16	413,790	(7,180)	(600)	406,010
			240,963 (a)	(7,260)	--	233,703
20/12/2012	from 20/12/2012 to 20/12/2016	€ 27.47	458,400	(7,830)	(950)	449,620
			177,854 (a)	(4,050)	--	173,804
15/09/2011	from 15/09/2011 to 15/09/2015	€ 25.20	437,200	(3,730)	(433,470)	--
			102,984 (a)	(2,422)	(100,562)	--

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

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

e) Plans of units indexed to the value of the Thales share

Date of the allocation decision	Vesting period	Share price at grant date	Number of units at 31/12/14	Units allocated in 2015	Units cancelled in 2015 (b)	Units delivered in 2015	Number of units at 31/12/15
16/09/2014	from 16/09/2014 to 16/09/2018	€ 42.42	424,550	--	(7,180)	(330)	417,040
			280,250 (a)	--	(4,650)	--	275,600
17/09/2015	from 17/09/2015 to 17/09/2019	€ 61.75	--	376,840	(970)	--	375,870
			--	232,000 (a)	--	--	232,000

(a) Plans contingent upon the achievement of internal performance targets over the three financial years following the attribution date.

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

f) Employee share purchase plan

Following the decision of the Board of Directors on 25 February 2015, the Group implemented a Thales share purchase plan reserved to its employees with a discount compared to the average market price plus an employer contribution. The shares delivered were existing treasury shares.

The subscription price of € 49.85, set on 16 October 2015, corresponds to the average of the opening price of Thales shares on Euronext Paris over the twenty trading days preceding this date, discounted by 20%.

The employees also received an employer contribution corresponding to one free share for two acquired shares up to twenty four shares purchased and one free share for four acquired shares from twenty five to seventy two shares purchased, within the limit of twenty four matching shares.

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

Thus, in 2015, 311,403 shares were subscribed by employees at the subscription price of € 49.85 and 146,193 bonus shares were received. The delivery of shares to UK based employees will be finalised in early 2016.

In the consolidated financial statements, the cost of this plan is measured according to the French CNC (Conseil National de la Comptabilité) recommendation, taking the five-year lock-up period into account. This approach measures the share according to a replication strategy in which the market participant would sell the share at the end of the five-year lock-up period and would borrow the necessary amount to immediately buy a free share by financing the loan by the future sale and dividends paid out during the lock-up period.

Accounting cost: hypothesis taken	
Five-year free risk interest rate	0.17%
Spread of the banking system (retail)	5.53%
Financing rate for an employee	5.70%
Cost of security loan (repo)	1.0%
Cost for the Group (M€)	€ 6.5 M*

* before social contributions (€1.7 million) and administrative charges

9.5 COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS

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

	2015	2014
Short-term benefits:		
- Fixed compensation	4.4	4.3
- Variable compensation	3.0	2.9
- Employer's social security contribution	2.6	2.5
- Contract termination benefits resulting from contract commitments	2.1	--
- Employer's social security contribution / contract termination benefits	0.7	--
- Compensation for attendance at Board meetings	0.6	0.6
Other benefits:		
- Post employment benefits	1.3	1.7
- Share-based payments	1.0	0.7

10. CURRENT OPERATING ASSETS AND LIABILITIES

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

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

The Group may sell trade receivables, mainly from the French State, and commercial papers. At 31 December 2015, the sold receivables amounted to € 103.7 million (€ 230.0 million at 31 December 2014). The change in overdue payments at constant perimeter amounts to € -126.3 million in 2015 (€ +69 million in 2014).

As these sales, 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 retained by Thales (within the meaning of IFRS 7): the part of dilution risk not transferred to the bank and the remuneration received under the recovery mandate.

10.1 EVOLUTION OF CURRENT OPERATING ASSETS AND LIABILITIES

	01/01/14	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/14	Change in WCR and provisions	Ex. rate var. chg in scope and reclass.	31/12/15
Inventories and work-in-progress	2,124.1	188.7	124.8	2,437.6	98.3	24.9	2,560.8
Construction contracts: assets	1,995.2	(91.0)	92.2	1,996.4	25.1	21.1	2,042.6
Advances to suppliers	285.2	29.3	11.5	326.0	52.0	5.0	383.0
Accounts, notes & other current receivables	3,810.0	223.4	95.7	4,129.1	330.2	(55.1)	4,404.2
Derivative instruments – assets	176.5	(8.1)	(60.2)	108.2	46.3	(0.3)	154.2
Current operating assets	8,391.0	342.3	264.0	8,997.3	551.9	(4.4)	9,544.8
Advances received from cust. on contracts *	(3,739.3)	220.5	(157.6)	(3,676.4)	(599.6)	(41.2)	(4,317.2)
Refundable grants	(143.0)	12.9	(0.3)	(130.4)	2.2	0.6	(127.6)
Construction contracts: liabilities	(1,073.9)	18.5	(16.9)	(1,072.3)	57.6	(6.3)	(1,021.0)
Reserve for contingencies	(1,026.1)	22.4	(34.3)	(1,038.0)	50.8	(35.7)	(1,022.9)
Accounts, notes & other current payables	(4,731.9)	(318.8)	(203.7)	(5,254.4)	(189.1)	(104.1)	(5,547.6)
Derivative instruments - liabilities	(72.9)	--	(209.3)	(282.2)	--	(123.1)	(405.3)
Current operating liabilities	(10,787.1)	(44.5)	(622.1)	(11,453.7)	(678.1)	(309.8)	(12,441.6)
Restructuring provision**	138.3	(10.7)	6.6	134.2	(16.8)	(1.1)	116.3
Increase (Decrease) in WCR & reserves for contingencies		287.1			(143.0)		

* Advances received on construction contracts respectively amount to € 2,790.8 million, € 2,679.2 million and € 3,262.8 million at 1 January 2014, 31 December 2014 and 2015.

** To be excluded from reserves for contingencies.

10.2 RESERVES FOR CONTINGENCIES (excluding construction contracts)

	31/12/14	Increase	Utilisation	Reversal	Scope. exch. rate and other	31/12/15
Restructuring (a)	134.2	81.2	(91.1)	(6.9)	(1.1)	116.3
Litigation	142.5	32.9	(27.3)	(20.4)	--	127.7
Guarantees	230.9	63.3	(50.1)	(13.0)	8.6	239.7
Losses at completion	69.1	40.9	(24.2)	(9.5)	(0.2)	76.1
Provisions on contracts	171.6	32.9	(37.6)	(10.6)	(8.9)	147.4
Other (b)	289.7	74.3	(38.3)	(22.2)	12.2	315.7
Total	1,038.0	325.5	(268.6)	(82.6)	10.6	1,022.9

	01/01/14	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

(a) The net restructuring costs are as follows:

	2015	2014
Increase in reserves during the period	(81.2)	(92.7)
Reversal in reserves during the period	98.0	103.4
Expenses during the period	(111.1)	(125.1)
Restructuring costs net	(94.3)	(114.4)

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

10.3 MATURITY OF CURRENT RECEIVABLES AND PAYABLES

Balances presented in the balance sheet are analysed as follows:

	31/12/15			31/12/14
	Total	< 1 year	> 1 year	
Accounts and unbilled receivables, gross	3,189.2	3,043.9	145.3	3,019.6
Provisions on accounts & notes receivable	(102.2)	(57.5)	(44.7)	(109.2)
Accounts and unbilled receivables, net	3,087.0	2,986.4	100.6	2,910.4
Other tax receivables (excluding income tax)	966.6	653.7	312.9	923.6
Other debtors and prepaid expenses, gross	351.7	300.4	51.3	296.7
Related provisions	(1.1)	(1.1)	--	(1.6)
Net	1,317.2	953.0	364.2	1,218.7
Accounts, notes and other current receivables	4,404.2	3,339.4	464.8	4,129.1
Accounts and notes payable	2,297.5	2,291.4	6.1	2,177.8
Accrued holiday pay and social	1,406.5	1,395.1	11.4	1,368.1
Other tax payables (excluding income tax)	697.5	697.5	--	657.7
Other creditors and accrued liabilities	1,146.1	1,054.2	91.9	1,065.8
Accounts, notes and other current payables	5,547.6	5,438.2	109.4	5,269.4

Changes in depreciations:	31/12/14	Net depreciation (reversal)	Utilisation	Scope, exch. and other	31/12/15
Depreciation on accounts & notes receivable	(109.2)	(10.3)	13.2	4.1	(102.2)
Depreciation on other receivable	(1.6)	0.4	--	0.1	(1.1)

10.4 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 indemnify the customer if the Group fails to meet its commitments. At 31 December 2015, bid bonds issued amounted to € 66.2 million (€ 81.5 million at 31 December 2014).

From the signature of a contract up until its completion, the Group may also deliver performance bonds to the benefit of 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 2015, performance bonds amounted to € 2,038.6 million (€ 1,902.9 million at 31 December 2014).

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, estimated on a contract-by-contract basis, is provided for in the Group financial statements as necessary.

In order to finance contract execution, the Group may receive advance payments from its customers, in accordance with contractual terms, which 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 provide, at the customer's request, an advance payment bond. At 31 December 2015, advance payment bonds amounted to € 2,183.4 million (€ 1,882.0 million at 31 December 2014).

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 2015, warranty retention bonds amounted to € 115.2 million (€ 259.3 million at 31 December 2014).

The maturity dates of these commitments are:

	< 1 year	1 to 5 year	> 5 year	31/12/15	31/12/14
Bid bonds	62.4	3.8	--	66.2	81.5
Performance bonds	609.2	1,246.7	182.7	2,038.6	1,902.9
Advance payment bonds	935.4	1,103.6	144.4	2,183.4	1,882.0
Warranty retention bonds	69.9	13.7	31.6	115.2	259.3
Other bank bonds	64.8	36.0	74.2	175.0	160.0
Total	1,741.7	2,403.8	432.9	4,578.4	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 2015, these "corporate" guarantees amounted to € 14,688.3 million (€12,767.7 million at 31 December 2014), representing an increase amounting to € 1,920 million, of which € 667 million is due to the variation of exchange rates.

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

11. CASH FLOWS

11.1 CHANGES IN NET CASH (NET DEBT)

	2015	2014
Net cash (debt) at 1 January	1,006.3	1,077.3
Net cash flow from operating activities	1,642.9	1,465.6
Changes in WCR and reserves for contingencies	143.0	(287.1)
Pensions recurrent contributions, interest and taxes paid	(217.2)	(234.5)
Net operating investments	(458.3)	(443.4)
Operating Free cash-flow	1,110.4	500.6
Acquisitions of subsidiaries	(51.2)	(378.2)
Disposal of subsidiaries	87.8	4.4
Reduction of UK pension deficits	(101.0)	(68.8)
Variation of loans	23.3	21.9
Dividends paid	(234.0)	(242.8)
Third party share in dividend distributions of subsidiaries	(51.3)	(130.9)
Treasury shares and exercise of subscription options	125.4	78.2
Net cash (debt) of acquired/disposed companies	--	33.6
Exchange rate variation: translation and financing operations	26.6	63.8
Debt / investments in shares (available-for-sale) and other	35.3	47.2
Total variation	971.3	(71.0)
Net cash (debt) at 31 December (note 6.2)	1,977.6	1,006.3

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	2015	2014
Live TV	--	(287.4)
Visionix additional price	(12.9)	--
Tronics Stake (19,7%)	(10.3)	--
Activites of cyber security and secure communications of Alcatel lucent	(2.7)	(37.7)
Capital increase of the joint-venture ACSI	--	(12.5)
Capital increase of an real estate company	(7.4)	--
Cloudwatt: partial release of capital	(1.3)	(8.9)
Space activities in the UK (SEA)	(2.1)	(6.2)
Remaining earn-out of Sysgo AG	--	(5.3)
Additionnal acquisition of Amper Programmas (51%)	--	(4.0)
Other	(14.5)	(16.2)
Net investment	(51.2)	(378.2)

Disposals of subsidiaries	2015	2014
ESG Elektroniksystem- und Logistik GmbH (30%)	75.2	--
Cloudwatt (22%)	8.9	--
Other	3.7	4.4
Net disposal	87.8	4.4

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 dispute resolution mechanisms. 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 commercial 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 from a common customer claiming an amount which allegedly should not be below the \$ 260 million figure and for which the group of French manufacturers might be jointly liable towards the claimant. This request for arbitration is related to the execution of old contracts by the group of French manufacturers. Pursuant to an agreement signed by all the parties in 2003, the claimant withdrew its request for arbitration.

In November 2012, the claimant filed a new request for arbitration for a revised amount of € 226 million of which Thales' share would be around 28% of the amount claimed. The manufacturers are strongly disputing this demand and at this date it is not possible to evaluate any potential financial risk. Consequently, Thales has not recognised any provision.

This process is still pending.

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

13. EVENTS AFTER REPORTING PERIOD

To the knowledge of the Group, no significant event has occurred after the reporting date.

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-b);
- impact of amendments, curtailments or 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 cash flows enables the analysis of the balance sheet items "Cash at bank and equivalents", as defined in the note 14-h. 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 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 Segments whose operating performances, based on 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 and to measure operating performance of these sectors.

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 mainly 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 which develop equipment, systems and services for the armed and security forces as well as the protection of networks and infrastructures, mainly with a governmental defence 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 acquired intangible assets (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 acquired intangible assets (*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.

The calculation of these indicators is set out in notes 2.1 and 2.2.

Commitments and Contingencies

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

- Note 4.3: commitments related to operation leases;
- Note 9.3-e: commitments related to pensions;
- Note 10.4: 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.

Section 4.3.3.3 of the 2014 Registration Document describes the main provisions concerning the shareholders' agreement governing relations between the French State (“Public Sector”) and Dassault Aviation (“industrial partner”) within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

Information related to transactions with related parties 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-e.

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

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.

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.

c) Sales

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

Sales 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 sales are recognised is adjusted to take the financial impact of the deferral of payment into account.

Sales of goods and services

Sales 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 sales can be measured reliably. The following specific criteria must also be satisfied in order for sales to be recognised:

- Sales 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;
- Sales 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 sales and expenses will be recognised.

Sales 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 sales. 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 sales 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.

d) 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.

e) Research and development expenses

A significant share of research and development expenses is funded by customers and government agencies. Internally funded research and development expenses are charged to the profit and loss account as incurred, except for project development costs which meet the criteria 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 note 4. 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.

f) 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.

g) Tangible and intangible fixed assets

Intangible assets

The Group's intangible assets mainly include:

- Goodwill (note 14-b),
- 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-e)

Intangible assets are submitted to impairment tests.

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.

h) 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. The fair value corresponds to the market price for shares quoted on a regulated market. For other shares, the fair value is usually determined using valuation models provided by independent third parties, or by reference to the net equity contribution held by the Group. 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 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.

Financial instruments relating to exchange rates eligible for hedge accounting are accounted for as follows:

- 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.

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.

i) Deferred taxation

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

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.

j) Pension and other employee benefits

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, measured in cases of amendments or curtailments of plans, as well as settlements of plans are fully recognised in the profit and loss accounts in the period in which they occurred, within the operating income.

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

k) 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. When appropriate, 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 and in 2015. 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, 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.

As 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 (option plans, free share and Company savings plan) 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 2015 and 2014 are presented in the table below (a):

	Mazars				E Y			
	Amount pre-tax		%		Amount pre-tax		%	
	2015	2014	2015	2014	2015	2014	2015	2014
Audit								
Auditing, certification, examination of individual and consolidated accounts (b)								
- Issuer	730	695	13%	13%	732	770	14%	15%
- Subsidiaries fully consolidated	4,019	4,123	74%	75%	3,681	3,596	71%	71%
Other efforts and services directly associated with the assignment of auditor (c)								
- Issuer	279	302	5%	5%	123	106	2%	2%
- Subsidiaries fully consolidated	414	410	8%	7%	287	318	6%	7%
Sub-total	5,442	5,530	100%	100%	4,823	4,790	93%	95%
Other services rendered by the networks subsidiaries fully consolidated (d)								
Legal, tax-related, social-security-related	--	5	--	--	371	272	7%	5%
Other (if > 10% of audit fees)	--	--	--	--	--	--	--	--
Sub-total	--	5	--	--	371	272	7%	5%
Total	5,442	5,535	100%	100%	5,194	5,062	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 directly associated services which 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 and Electronic Signalling Services (ESS) GmbH, located at 1 Thalesplatz, 71254 Ditzingen have claimed an exemption from their obligation to publish their respective German financial statements for the fiscal year 2015 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)		% stake	
	Country	31/12/15	31/12/14
1. CONSOLIDATED SUBSIDIARIES			
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 Components Corporation	United States	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Electronic Systems GmbH	Germany	100%	100%
Thales e-Security, Inc	United States	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 Polska Sp. z.o.o.	Poland	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%	50%
Thales Rail Signalling Solutions AG	Switzerland	100%	100%
Thales Security Solutions & Services Company	Saudi Arabia	100%	100%
Thales Services SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales Systèmes Aéroportés SAS	France	100%	100%
Thales Transport & Security (Hong-Kong) Ltd	Hong-Kong	100%	100%
Thales Transport & Security Ltd	United Kingdom	100%	100%
Thales Training & Simulation SAS	France	100%	100%
Trixell SAS	France	51%	51%
Thales Underwater Systems SAS	France	100%	100%
Thales UK Ltd	United Kingdom	100%	100%
2. JOINT CONTROL (UNDER EQUITY METHOD)			
Thales-Raytheon Systems Air and Missile Defense Command and Control SAS (TRS AMDC2)	France	50%	50%
Citylink Telecommunications Holding Ltd	United Kingdom	33%	33%
DCNS	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Hanwha Thales Co. Ltd	South Korea	50%	50%
Sofradir SAS	France	50%	50%
3. SIGNIFICANT INFLUENCE (UNDER EQUITY METHOD)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Holdings Ltd	United Kingdom	13%	13%
Cloudwatt	France	--	22%
Elettronica SpA	Italy	33%	33%
ESG Elektroniksystem- und Logistik GmbH	Germany	--	30%
Thales-Raytheon Systems Company LLC	United States	50%	50%
Telespazio SpA	Italy	33%	33%