THALES

# Half-yearly financial report

# 2010

## Report on business activity
## Consolidated financial statements

# Half-yearly financial report June 2010

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

*"I certify that, to the best of my knowledge, the summarised financial statements at 30 June 2010 have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the company and of all the entities taken as a whole included in the consolidation, and that the attached half-yearly business report presents a fair view of the significant events that occurred during the first six months of the financial year, their impact on the financial statements, the main related party transactions as well as a description of the main risks and uncertainties for the remaining six months of the financial year."*

Neuilly-sur-Seine, 29 July 2010

**Luc Vigneron**
Chairman & Chief Executive Officer

THALES

## Report on 2010 first-half business activity and results

- **Revenues: €5.96 billion,** an increase of **+4%** (+1% organic increase[1])
- **Order intake: €5.14 billion,** a decrease of **-12%** (-14% organic decrease[1]), after two very good years in 2008 and 2009, benefiting from a strong intake of orders of unit value over €100 million
- **EBIT**[2]**: €204 million** (**3.4%** of revenues) compared with €68 million in first half of 2009
- **Net income, Group share: €138 million** compared with €12 million in first half of 2009

The Board of Directors of Thales met on 28 July 2010 to review the results for the first half of 2010. The Group's Chairman and Chief Executive Officer, Luc Vigneron, said: ***"With growing pressure on public spending in Europe and North America, our first-half results are fully in line with what we expected at the beginning of the year. Thales has begun to turn around its results and continues to be focused on improving performance and deploying a dynamic growth strategy in emerging countries' economies****."*

| **Key figures at 30 June 2010** ***(in millions of euros)*** | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Order intake** | **5,144** | **5,860** | ***-12%*** | *-14%* |
| **Order book** | **24,903** | **24,731**[3] | ***+1%*** | *-3%* |
| **Revenues** | **5,955** | **5,744** | ***+4%*** | *+1%* |
| **EBIT (after restructuring)** | **204** | **68** | ***+199%*** | *+134%* |
| ***% of revenues*** | **3.4%** | **1.2%** | | |
| **Net income, Group share** | **138** | **12** | | |
| **Net debt** | **595** | **886** | | |

1 In this report, "organic" means "on a like-for-like basis and with constant exchange rates".
2 Before impact of purchase price allocation (PPA) (see details in appendix).
3 At 31 December 2009.

## Order intake

**New order intake** for the first half of 2010 amounted to €5,144 million, down 12% (-14% organically) compared with the same period of 2009, which benefited from large orders, in particular on export markets. The book-to-bill ratio stood at 0.86 at 30 June 2010. Exchange rate variations had a positive impact of €119 million on order intake, €67 million of which was related to changes in the value of the Australian dollar.

The order intake figures include three orders with a unit value of more than €100 million: two satellites for an affiliate of Gazprom in Russia, a logistic support contract for the Watchkeeper UAV programme in the United Kingdom, and a major order for in-flight entertainment systems. Orders with a unit value of less than €100 million, which had been the most affected by the economic environment in 2009, recorded a slight upturn in the first half of 2010.

At 30 June 2010, the consolidated order book stood at €24,903 million, which is practically the same as at 31 December 2009 and continues to represent approximately 23 months of revenues.

### Order intake by business[1]

| **2010 first-half order intake** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* | Book-to-bill |
|---|---|---|---|---|---|
| **Defence & Security** | **2,605** | **3,104** | ***-16%*** | *-19%* | 0.76 |
| **Aerospace & Transport** | **2,514** | **2,731** | ***-8%*** | *-9%* | 1.00 |
| *Other and divested businesses* | *25* | *25* | *N/A* | *N/A* | |
| **Order intake** | **5,144** | **5,860** | ***-12%*** | *-14%* | 0.86 |

**Defence & Security** order intake amounted to €2,605 million, 16% lower than in the first half of 2009 (-19% organically). Overall, after the very strong order intake in 2009 (partly as a result of national stimulus plans), the expected pressure on defence orders was confirmed in the first half of 2010. Air Operations recorded a substantial reduction in order intake at 30 June, with the Asian orders for civil radars that were booked in the first quarter only partly offsetting the absence of major military orders (in the first half of 2009, the Air Operations business had booked the replication contracts on the LOC1 programme with NATO and the GM400 contracts with Finland). New orders for C4I Systems were also substantially lower than in the first half of 2009, when order intake had been particularly high (with the Mexico City urban security project and several communication system contracts in export markets). Nevertheless, order intake by the critical

[1] refer to appendix for the definition of the business segments

information systems business stabilised in the first half of 2010. By contrast, growth in order intake was particularly strong in Defence Mission Systems, with the Watchkeeper integrated logistic support contract and the Rafale modernisation and support contracts. Land Defence order intake was also higher, with several new optronics orders.

**Aerospace & Transport** orders amounted to €2,514 million, a 8% decrease (-9% organically) compared with the same period of 2009, but the book-to-bill ratio nevertheless remains at 1. Despite orders for four new satellites, including two for Gazprom, space orders declined markedly compared with the first half of 2009, when several major contracts (Globalstar, Cygnus) had been awarded. The contract with Iridium in the United States for an 81-satellite constellation is not included in the orders of this first-half, as it is expected to be effective only in the second half of 2010 once financing arrangements have been finalised. Transportation System orders were also markedly lower than in the first half of 2009, when this business had booked major contracts (North-South Railway contract in Saudi Arabia, high-speed train lines in Spain), and despite the award of a contract to upgrade signalling systems on New York's Flushing Line. In contrast, the Avionics business saw a strong increase in order intake, with good momentum in in-flight entertainment systems (B787 for Qatar Airways, B777 for Saudi Arabian Airlines), higher orders for helicopter avionics, and an improvement in tubes and medical imaging systems.

### Order intake by geographical area of origin[1]

| **2010 first-half order intake** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* | Book-to-bill |
|---|---|---|---|---|---|
| **Area A** | **1,766** | **1,311** | ***+35%*** | *+24%* | 0.85 |
| **Area B** | **1,067** | **1,522** | ***-30%*** | *-31%* | 0.90 |
| **France** | **2,308** | **3,024** | ***-24%*** | *-24%* | 0.86 |
| *Other and divested businesses* | *3* | *3* | *N/A* | *N/A* | |
| **Order intake** | **5,144** | **5,860** | ***-12%*** | *-14%* | 0.86 |

In **Area A**, order intake stood at **€1,766 million** at 30 June 2010, an increase of 35% (24% organically) over the first half of 2009. A particularly significant increase in new orders was recorded in the United States, with the contracts for in-flight entertainment systems and upgrades to the New York subway mentioned above. Order intake in the Netherlands rose sharply, with the signing of several new naval support contracts. By contrast, order intake in the United Kingdom was slightly lower than in the first half of 2009, despite the support contract for the Watchkeeper UAV system.

[1] refer to appendix for the definition of the geographical areas

In **Area B**, order intake stood at **€1,067 million** at 30 June 2010, a decrease of 30% (-31% organically) over the first half of 2009, when Saudi Arabia and Spain had booked several major orders for signalling systems (North-South Railway and Mecca metro in Saudi Arabia, high-speed rail lines in Spain), which were only partly offset by the Porto metro contract in Portugal and the Bangalore metro contract in India booked in 2010. By contrast, naval and air traffic management contracts pushed order intake higher in Germany. New orders booked in Italy were significantly lower because of a relative decrease in space orders (the Cygnus contract for the International Space Station had been booked in 2009).

New orders in **France** fell, as expected, with first-half order intake amounting to **€2,308 million**, a decrease of -24% compared with the same period of 2009, when French units had booked a number of major orders (several satellites, the Mexico City urban security contract, GM400 radars for Finland, and the LOC1 replications). Nevertheless, in addition to several satellite orders, a significant flow of smaller contracts was recorded in the first half. These include systems for combat aircraft, optronics, defence communications, avionics for military helicopters, civil radars, and tubes and medical imaging systems.

## Revenues

**Consolidated revenues** amounted to **€5,955 million** at 30 June 2010, compared with €5,744 million at 30 June 2009, an organic increase of **+4%** (+1% organically). **Exchange rate fluctuations** impacted revenues by +€158 million, primarily as a result of the conversion into euros of the revenues of subsidiaries based outside the euro zone. The main fluctuations involved the strengthening of the Australian dollar (+€71 million), the Canadian dollar (+€25 million), the US dollar and sterling against the euro. Changes in the scope of consolidation[1] impacted revenues by +€16 million.

### Revenues by business

| **H1 2010 revenues** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Defence & Security** | **3,401** | **3,338** | ***+2%*** | *-1%* |
| **Aerospace & Transport** | **2,520** | **2,369** | ***+6%*** | *+4%* |
| *Other and divested businesses* | *34* | *37* | *N/A* | *N/A* |
| **Revenues** | **5,955** | **5,744** | ***+4%*** | *+1%* |

[1] Consolidation of CMT Medical Technologies from 1 July 2009, and of 50% of Sapura Thales Electronics from 1 June 2010

**Defence & Security** revenues amounted to **€3,401** million compared with €3,338 million for the first half of 2009, representing a 2% increase (-1% in organic terms). Land Defence systems revenues remained stable, despite lower sales by the missiles business. C4I Systems revenues were also stable, despite lower business volumes in tactical radios in the United States and a persistently difficult climate in critical information systems. Defence Mission Systems revenues also fell slightly, with lower billings on the Rafale programme and despite growth in sonar revenues (FREMM and NH90 in France, ALFS in the United States). By contrast, the Air Operations business recorded strongly higher revenues following the orders booked last year (GM400 radars, LOC1 replication contracts).

**Aerospace & Transport** revenues amounted to €2,520 million, up 6% (4% organically) compared with the first half of last year. Overall space revenues were stable. The Transportation Systems business recorded higher revenues, in particular as a result of billings on the rail contracts booked last year in Saudi Arabia. Avionics revenues were also higher as the result of an uptick in billings for in-flight entertainment systems, which offset lower sales for regional aircraft (and to a lesser extent for Airbus, with a combined contract mix and pricing effect), and continuing softness in support markets. Increased revenues of tubes and imaging systems, reflecting the recent upturn in orders in these short-cycle activities, contributed to the revenue growth in avionics.

**Revenues by geographical area of origin**

| **H1 2010 revenues** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Area A** | **2,073** | **1,869** | ***+11%*** | *+3%* |
| **Area B** | **1,184** | **1,097** | ***+8%*** | *+6%* |
| **France** | **2,695** | **2,773** | ***-3%*** | *-3%* |
| *Other and divested businesses* | *3* | *5* | *N/A* | *N/A* |
| **Revenues** | **5,955** | **5,744** | ***+4%*** | *+1%* |

In **Area A** , revenues amounted to **€2,073 million**, up 11% (3% organically) compared with the first half of 2009. Growth was particularly strong in the United Kingdom, the United States and the Netherlands. The increase in revenues in the United Kingdom was driven by higher billings on the FSTA tanker aircraft contract, among others. In the United States, where revenues were markedly higher, increases in in-flight entertainment and air traffic management offset the decrease in tactical radios. Finally, the Netherlands recorded a strong increase in revenues as a result of higher billings on naval contracts with Morocco and Denmark.

In **Area B**, revenues amounted to **€1,184 million**, up 8% (6% organically) compared with the first half of 2009. The improvement was driven by Italy and Saudi Arabia, while revenues in Germany were stable. Revenues also grew in Italy, driven by billings on the Dubai metro programme. In Saudi Arabia, the increase in revenues reflects billings on the transport contracts signed the year before. These positive developments offset lower revenues in Spain, where Transportation Systems billings had been particularly high in 2009 as a result of the high-speed rail contracts.

In **France**, revenues decreased slightly (-3%) to **€2,695 million**. Revenues from airborne systems, optronics and avionics units fell significantly, largely because of contract milestones on defence programmes and the persistently poor climate in commercial aviation. Space revenues were practically identical as work continued on the Yahsat programme in the United Arab Emirates and the Globalstar constellation project. By contrast, solid revenue growth was recorded by French units active in sonar (with projects in France and the United States), surface radar (NATO projects, COOPANS air traffic management project in Europe), military simulation, and tubes and imaging systems.

## Results

**EBIT**[1] stood at **€204 million**, or **3.4%** of revenues, compared with 68 M€ (1.2% of revenues) for the same period of last year. This three-fold increase in EBIT mainly reflects lower negative cost variances on contracts compared with the same period of 2009, particularly in Aerospace & Transport.

The introduction of more stringent criteria for capitalising research and development expenses reduces EBIT margin by approximately 0.5 percentage points. Restructuring costs amounted to €47 million, or 0.8% of revenues, compared with €42 million (0.7% of revenues) for the first half of 2009.

### EBIT by business

| **EBIT H1 2010** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Defence & Security** | **207** | **192** | ***+8%*** | *+5%* |
| ***in % of revenues*** | ***6.1%*** | ***5.8%*** | | |
| **Aerospace & Transport** | **7** | **-106** | ***ns*** | *ns* |
| ***in % of revenues*** | ***0.3%*** | ***-4.5%*** | | |
| *Other and divested businesses* | *-10* | *-18* | *N/A* | *N/A* |
| **EBIT** | **204** | **68** | ***+199%*** | *+134%* |
| ***en % of revenues*** | **3.4%** | **1.2%** | | |

[1] Before impact of purchase price allocation (PPA)

**Defence & Security** recorded EBIT of **€207 million**, which represents 6.1% of revenues and a 8% increase (5% organically) over the first half of 2009. This slight overall increase is a result of varied performances by the individual segments making up the Defence & Security business. In C4I Systems, profitability was affected by lower volumes in tactical communications in the United States, the difficult climate in critical information systems, the progressive ramp-up of the civil security activities and higher research and development costs. Land Defence systems also recorded lower profitability for the first half of 2010 as a result of the lower sales by the missiles business mentioned above, as well as high marketing and sales expenses and research and development costs recorded during this period. By contrast, Air Operations improved profitability as a result of higher volumes, particularly in air traffic control. Profitability also strongly improved at Defence Mission Systems compared with the first half of 2009, when large provisions had been booked for naval electronic warfare contracts and the Meltem maritime patrol and surveillance programme for Turkey.

**Aerospace & Transport** recorded positive EBIT of **€7 million** (0.3% of revenues), compared with a loss of €-106 million for the first half of 2009. This return to profitability essentially results from the significant reduction of losses in Avionics thanks to a sharp drop in negative cost variances on contracts (a charge of €-102 million had been booked at 30 June 2009 for the A400M programme). Lower negative cost variances on ticketing contracts also led to a significant improvement in the profitability of the Transportation Systems businesses, despite restructuring costs in France and lower profitability from signalling activities. Finally, the profitability of the space businesses continued to improve, reflecting a better contract mix.

### EBIT by geographical area of origin

| **EBIT H1 2010** *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Area A** | **95** | **75** | ***+28%*** | *+18%* |
| ***in % of revenues*** | **4.6%** | **4.0%** | | |
| **Area B** | **49** | **70** | ***-30%*** | *-35%* |
| ***in % of revenues*** | **4.1%** | **6.4%** | | |
| **France** | **62** | **-61** | ***ns*** | *ns* |
| ***in % of revenues*** | **2.3%** | **-2.2%** | | |
| *Other and divested businesses* | *-2* | *-16* | | |
| **EBIT** | **204** | **68** | ***+199%*** | *+134%* |
| ***in % of revenues*** | **3.4%** | **1.2%** | | |

**Area A** recorded EBIT of **€95 million** (4.6% of revenues), an increase of 28% (18% organically). This improvement was driven by the United States, the Netherlands and Canada. In the United States and the Netherlands, the improvement in EBIT was primarily the result of higher business volumes (in-flight entertainment, naval), while ebbing development costs in civil aeronautics boosted profitability in Canada.

**Area B** recorded EBIT of **€49 million** (4.1% of revenues), a decrease of 30% (35% in organic terms) compared with the first half of 2009, with good performance in Italy only partly offsetting lower profitability in Spain and Germany and an increase of €11 million in restructuring charges.

**France** recorded EBIT of **€62 million** (2.3% of revenues), compared with a loss of €-61 million in the first half of 2009. Most of this improvement is the result of a sharp reduction in negative cost variances on contracts compared with the first half of 2009. In addition, profitability was markedly higher in the space business and, to a lesser extent, in the tubes and medical imaging systems business. These improvements were nonetheless offset by the persistently unfavourable business climate in civil aeronautics, and by the reduction, as expected, of business volumes in several segments of the defence market (military avionics and onboard systems, optronics, support, missile electronics).

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**Income of operating activities** includes a €35 million charge for the award handed down on 3 May 2010 in the arbitration against the Republic of China Navy (Taiwan)[1], as well as a capital gain of €33 million related to the sale of the 20% stake held by Thales in Camelot Group plc[1], the operator of the UK national lottery

**Net financial expense** amounted to **€-34 million**, which is significantly lower than in the first half of 2009 (€-60 million), particularly as a result of exchange rate fluctuations in highly volatile currency markets. **Other components of pension charges** amounted to **€-38 million**, compared with €-59 million for the first half of 2009, when a non-recurring expense of €17 million had been recognised for the United Kingdom. **Equity in income of unconsolidated affiliates**[2] remained practically unchanged at **€30 million,** compared with €29 million at 30 June 2009.

**Net income, Group share**[3] for the first half of 2010 increased substantially to **€138 million** (compared with €12 million for the first half of 2009), after a tax expense[1] of €12 million (compared with tax income[2] of €33 million for the first half of 2009).

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1 See below, "Recent events"
2 Before impact of purchase price allocation (PPA)
3 Before impact of purchase price allocation (PPA)

## Financial situation at 30 June 2010

**Free operating cash flow**[1] for the first half of the year stood at **€-457 million**, compared with €-20 million for the first half of 2009. This evolution results from the impact of a €-187 million net increase of late payments by the French Ministry of Defence (after sale of receivables) compared with the first half of 2009 and of early inflows of cash of about €200 million, initially scheduled for early 2010 but received at the end of 2009.

At 30 June 2010, **net debt** stood at **€595 million**, compared with €91 million at the end of December 2009, but was still lower than at 30 June 2009 (€886 million), and **shareholders' equity (excluding minority interests)** amounted to **€3,807 million**, compared with €3,895 million at 30 June 2009. Thales has access to confirmed, undrawn bank credit lines for an amount of €1,500 million maturing at end-2011 with no prepayment provisions linked to ratings or financial covenants. Despite being downgraded recently by one notch by Standard & Poors and Moody's, the long-term ratings of Thales (BBB+/A2, outlook stable) continue to reflect a high-quality financial profile and put the Group on a footing that is similar to or higher than its peers.

## Recent events

### Arbitration against the Republic of China Navy (Taiwan)

Thales has been notified of the award handed down on 3 May 2010 in the arbitration against the Republic of China Navy (Taiwan). This award was made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991 by Thomson-CSF (now Thales) for the supply of six Lafayette frigates to Taiwan.

The total amount of the award is set at US$482 million and €82 million bearing interest as from August 2001, as well as around €15 million bearing interest as from 3 May 2010, i.e. a total of around €630 million (including interest).

The company has filed a petition for nullity with the Paris Court of Appeal.

The Thales share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. In view of the provisions booked earlier, an additional amount of €35 million (before tax) has been recorded in the financial statements at 30 June 2010.

[1] Operating cash flow plus changes in working capital requirement (WCR) and reserves for contingencies, less payment of pension benefits (excluding deficit payments on pensions in the UK), less tax, less net operating investments: see details in annex

### Sale of interest in Camelot Group plc (United Kingdom)

At the end of June 2010, the United Kingdom's National Lottery Commission approved the sale of Thales's 20% interest in Camelot Group plc, the operator of the UK national lottery, to the Canadian pension fund Ontario Teachers Pension Plan. A capital gain of €33 million has been recognised in the accounts at 30 June 2010.

### Related party transactions

Main related party transactions are disclosed in the notes to 2009 consolidated financial statements (note 19) included in the annual report.

Revenues with French Government amounted to € 870 million in the first half of 2010 (€ 900 million in the first half of 2009).

At 30 June 2010, overdue receivables bearing interests from the French defense procurement agency amounted to € 450 million (€ 45 million at 31 December 2009).

### Major risk and uncertainties in the second half of 2009 fiscal year

Compared with the risks and uncertainties described in the Directors ' report on year 2008 (« B. Risk factors», page 15 and following), no relevant evolution has been recorded except in relation with the arbitration procedure mentioned above.

### Views for the current financial year

With continuing uncertainty in the global economy, growing pressure on public spending and a still fragile commercial aeronautics sector, Thales's performance is fully in line with the full-year guidance given at the start of the year.

EBIT has markedly recovered, largely due to a sizeable reduction in negative cost variances on contracts, which had significantly affected the Group's profitability in 2009. However, uncertainties remain on a number of complex aeronautical and ticketing programmes and, in particular, as to the outcome of ongoing discussions with the Turkish defence ministry on the Meltem project, and with Airbus on the A400M programme. These could have a material impact on the results of these programmes during the current financial year.

Overall, Thales confirms its expectations for the full year: stable revenues, lower order intake compared with the very high level achieved in 2009, and an EBIT margin of between 3% and 4%.

**APPENDIX**

## > Segment definitions

***Businesses***

**Defence& Security**: Defence & Security C4I systems, Defence Mission Systems, Land Defence, Air Operations

**Aerospace & Transport**: Avionics, Transportation Systems, Space

***Geographical areas***

**Area A:** USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe, Northern Asia

**Area B** Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Rest of Europe, Middle East & Africa, West Asia, South Asia

**France**

## > Order intake – H1 2010 by destination

| *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* | **H1 2010 in %** |
|---|---|---|---|---|---|
| France | 1,074 | 1,154 | ***-7%*** | *-7%* | 21% |
| UK | 536 | 555 | ***-3%*** | *-6%* | 10% |
| Other European countries | 1,436 | 1,754 | ***-18%*** | *-19%* | 28% |
| **Total Europe** | **3,046** | **3,463** | ***-12%*** | ***-13%*** | **59%** |
| North America | 610 | 566 | ***+8%*** | *+4%* | 12% |
| Asia Pacific | 693 | 678 | ***+2%*** | *-8%* | 13% |
| Near and Middle East | 570 | 618 | ***-8%*** | *-8%* | 11% |
| Rest of world | 225 | 535 | ***-58%*** | *-58%* | 5% |
| **Total outside Europe** | **2,098** | **2,397** | ***-12%*** | ***-16%*** | **41%** |
| Order intake | **5,144** | **5,860** | ***-12%*** | ***-14%*** | **100%** |

## > Consolidated revenues – H1 2010 by destination

| *(in millions of euros)* | **H1 2010** | **H1 2009** | ***Total change*** | *Organic change* | **H1 2010 en %** |
|---|---|---|---|---|---|
| France | 1,309 | 1,399 | ***-6%*** | *-7%* | 22% |
| UK | 767 | 662 | ***+16%*** | *+13%* | 13% |
| Other European countries | 1,530 | 1,556 | ***-2%*** | *-2%* | 26% |
| **Total Europe** | **3,606** | **3,617** | ***-0%*** | ***-1%*** | **61%** |
| North America | 590 | 546 | ***+8%*** | *+4%* | 10% |
| Asia Pacific | 820 | 734 | ***+12%*** | *-2%* | 14% |
| Near and Middle East | 600 | 532 | ***+13%*** | *+11%* | 10% |
| Rest of world | 339 | 315 | ***+8%*** | *+6%* | 5% |
| **Total outside Europe** | **2,349** | **2,127** | ***+10%*** | ***+4%*** | **39%** |
| **Consolidated revenues** | **5,955** | **5,744** | ***+4%*** | *+1%* | **100%** |

## > Order book by destination – at 30 June 2010

| *in millions of euros* | **30 June 2010** | **31 Dec 2009** | *%* |
|---|---|---|---|
| France | 6,388 | 6,608 | 26% |
| UK | 4,200 | 4,065 | 17% |
| Other European countries | 5,952 | 5,990 | 23% |
| **Total Europe** | **16,540** | **16,663** | **66%** |
| North America | 1,434 | 1,281 | 6% |
| Asia Pacific | 3,203 | 3,072 | 13% |
| Near and Middle East | 2,188 | 2,154 | 9% |
| Rest of world | 1,538 | 1,561 | 6% |
| **Total outside Europe** | **8,363** | **8,068** | **34%** |
| **Order book** | **24,903** | **24,731** | **100%** |

## > Order book by business – at 30 June 2010

| *in millions of euros* | 30 June 2010 | 31 Dec 2009 | ***Total change*** | *Organic change* |
|---|---|---|---|---|
| **Defence & Security** | 15,032 | 15,223 | ***-1%*** | *-5%* |
| **Aerospace & Transport** | 9,801 | *9,408* | ***+4%*** | *+0%* |
| *Other and divested businesses* | *70* | *100* | ***-30%*** | *-36%* |
| **Total** | **24,903** | **24,731** | ***+1%*** | ***-3%*** |

## > Impact of purchase price allocation (PPA)

| *in millions of euros* | **H1 2010 before PPA** | PPA impact | **H1 2010 published** |
|---|---|---|---|
| Cost of sales | -4,706 | -- | -4,706 |
| Amortisation of intangible assets acquired | -- | -41 | -41 |
| **EBIT** | **204** | **-41** | **164** |
| Income tax | -12 | 14 | 1 |
| Equity in income of unconsolidated affiliates | 29 | -4 | 25 |
| **Net income, Group share** | **138** | **-31** | **106** |

## > Net cash flow – H1 2010

| *in millions of euros* | **H1 2010** | **H1 2009** |
|---|---|---|
| **Operating cash flow** | **390** | **197** |
| Change in WCR and contingency reserves | -633 | 42 |
| Payment of pension benefits and scheme settlements | -35 | -35 |
| Income tax paid | -38 | -46 |
| **Net operating cash flow** | **-316** | **158** |
| Net operating investments | -141 | -178 |
| *of which capitalised R&D* | *18* | *48* |
| **Free operating cash flow** | **-457** | **-20** |
| Net (acquisitions)/disposals | -5 | -149 |
| Deficit payments on pensions in the UK | -32 | -28 |
| Dividends | -98 | -205 |
| **Net cash flow** | **-592** | **-402** |

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# CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2010

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)

| | Notes | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|---|
| **Revenues** | note 5 | **5,955.5** | **5,743.6** | **12,881.5** |
| Cost of sales | | (4,705.6) | (4,692.4) | (10,633.4) |
| Research and development expenses | | (274.3) | (254.9) | (550.5) |
| Marketing and selling expenses | | (459.6) | (439.7) | (901.9) |
| General and administrative expenses | | (265.0) | (253.6) | (543.4) |
| Restructuring costs | | (46.6) | (42.2) | (116.1) |
| Amortisation of intangible assets recognised at fair value on business combination | note 13 | (40.8) | (42.2) | (84.4) |
| **Income from operations/EBIT** | note 5 | **163.6** | **18.6** | **51.8** |
| Impairment of non current operating assets | note 6 | (4.1) | (5.3) | (260.1) |
| Gain (loss) on disposal of assets and other | note 7 | (7.4) | 5.6 | (1.0) |
| **Income of operating activities** | | **152.1** | **18.9** | **(209.3)** |
| Financial interest on gross debt | | (40.9) | (47.9) | (91.6) |
| Financial income from cash at bank and equivalents | | 10.6 | 14.8 | 26.0 |
| Cost of net financial debt | | (30.3) | (33.1) | (65.6) |
| Other financial income (expense) | note 8 | (4.0) | (27.4) | (44.9) |
| Other components of pension charge | note 9 | (38.2) | (58.5) | (105.1) |
| Income tax | note 10 | 1.4 | 50.0 | 175.3 |
| Share in net income (loss) of equity affiliates | note 14 | 25.4 | 24.7 | 48.0 |
| **Net income (loss)** | | **106.4** | **(25.4)** | **(201.6)** |
| Of which : | | | | |
| **Net income (loss), Group share** | | **106.4** | **(25.3)** | **(201.8)** |
| Non controlling interests | | -- | (0.1) | 0.2 |
| Basic earnings per share (in euros) | note 11 | 0.54 | (0.13) | (1.03) |
| Diluted earnings per share (in euros) | note 11 | 0.54 | (0.13) | (1.03) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ Million)

| | 2010 First half | | 2009 First half | | 2009 Full year | |
|---|---|---|---|---|---|---|
| | **Group Share** | *Non-controlling interests* | **Group Share** | *Non-controlling interests* | **Group Share** | *Non-controlling interests* |
| **Net income (loss)** | **106.4** | -- | **(25.3)** | *(0.1)* | **(201.8)** | *0.2* |
| Cumulated translation adjustment, excluding hedge impact | 226.0 | *0.7* | 129.9 | *0.5* | 119.1 | *0.6* |
| Net foreign investments' hedge | (3.2) | -- | (4.9) | -- | (3.8) | -- |
| Deferred tax | 1.1 | -- | 1.5 | -- | 1.3 | -- |
| | 223.9 | *0.7* | 126.5 | *0.5* | 116.6 | *0.6* |
| Cash flow hedge | (273.2) | *(0.1)* | 61.1 | -- | 70.8 | -- |
| Deferred tax | 89.9 | -- | (18.3) | -- | (19.4) | -- |
| | (183.3) | *(0.1)* | 42.8 | -- | 51.4 | -- |
| Financial assets available for sale | (5.3) | -- | -- | -- | 1.5 | -- |
| Deferred tax | -- | -- | -- | -- | -- | -- |
| | (5.3) | -- | -- | -- | 1.5 | -- |
| **Total other comprehensive income (loss), net of tax** | **35.3** | *0.6* | **169.3** | *0.5* | **169.5** | *0.6* |
| **Total comprehensive income (loss) for the period** | **141.7** | *0.6* | **144.0** | *0.4* | **(32.3)** | *0.8* |

## CONSOLIDATED BALANCE SHEET

(€ Million)

| ASSETS | Notes | 30/06/10 | 31/12/09 |
|---|---|---|---|
| Goodwill, net | note 12 | 3,017.0 | 2,986.9 |
| Other intangible assets, net | note 13 | 893.7 | 925.3 |
| Tangible assets, net | note 13 | 1,369.0 | 1,338.3 |
| Total non current operating assets | | 5,279.7 | 5,250.5 |
| Share in net assets of equity affiliates | note 14 | 687.9 | 711.0 |
| Available-for-sale investments | | 95.2 | 101.9 |
| Loans and other financial assets | | 184.1 | 171.9 |
| Total non current financial assets | | 967.2 | 984.8 |
| Fair value of derivatives: interest rate risk management | note 17 | 36.2 | 24.8 |
| Pension and other employee benefits | note 9 | 68.2 | 66.0 |
| Deferred tax assets | | 812.6 | 678.0 |
| **Non current assets** | | **7,163.9** | **7,004.1** |
| Inventories and work in progress | | 2,490.8 | 2,210.8 |
| Construction contracts: assets | | 2,427.6 | 2,243.2 |
| Advances to suppliers | | 438.4 | 342.4 |
| Accounts, notes and other current receivables | | 4,027.2 | 3,934.8 |
| Fair value of derivatives: currency risk management | | 188.4 | 172.6 |
| Total current operating assets | | 9,572.4 | 8,903.8 |
| Current tax receivables | | 35.1 | 40.4 |
| Receivable on disposal of Camelot Group plc | note 2 | 92.0 | -- |
| Current accounts with affiliated companies | note 17 | 118.3 | 94.8 |
| Marketable securities | note 17 | 8.5 | 4.4 |
| Cash at bank and equivalents | note 17 | 2,021.6 | 1,960.1 |
| Total current financial assets | | 2,240.4 | 2,059.3 |
| **Current assets** | | **11,847.9** | **11,003.5** |
| **TOTAL ASSETS** | | **19,011.8** | **18,007.6** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 30/06/10 | 31/12/09 |
|---|---|---|---|
| Capital, paid-in surplus and other reserves | | 4,011.0 | 4,168.3 |
| Cumulative translation adjustment | | (59.3) | (283.2) |
| Treasury shares | | (144.8) | (141.5) |
| Shareholders' equity | | 3,806.9 | 3,743.6 |
| Non controlling interests | | 10.8 | 10.2 |
| **Total shareholders' equity and non controlling interests** | note 15 | **3,817.7** | **3,753.8** |
| Financial debt: long-term | note 17 | 1,655.8 | 1,651.6 |
| Pension and other employee benefits | note 9 | 862.2 | 856.7 |
| Deferred tax liabilities | | 244.1 | 258.6 |
| **Non-current liabilities** | | **2,762.1** | **2,766.9** |
| Advances received from customers on contracts | | 3,748.6 | 3,849.4 |
| Refundable grants | | 170.5 | 172.8 |
| Construction contracts: liabilities | | 961.0 | 882.7 |
| Reserves for contingencies | note 16 | 1,225.3 | 1,129.8 |
| Accounts, notes and other current payables | | 4,826.7 | 4,736.0 |
| Fair value of derivatives: currency risk management | | 324.8 | 100.7 |
| Total current operating liabilities | | 11,256.9 | 10,871.4 |
| Current tax payables | | 50.9 | 92.2 |
| Financial debt: short- term | note 17 | 943.3 | 326.4 |
| Current accounts with affiliated companies | note 17 | 180.9 | 196.9 |
| Total current financial liabilities | | 1,124.2 | 523.3 |
| **Current liabilities** | | **12,432.0** | **11,486.9** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **19,011.8** | **18,007.6** |

## Consolidated statement of cash flows

(€ Million)

| | Notes | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|---|
| Net income (loss) | | 106.4 | (25.4) | (201.6) |
| Add (deduct): | | | | |
| Income tax expense (gain) | | (1.4) | (50.0) | (175.3) |
| Share in net (income) loss of equity affiliates (net of dividends received) | | (12.9) | (13.3) | (21.5) |
| Depreciation and amortisation of tangible and intangible assets | note 13 | 207.4 | 195.1 | 420.8 |
| Provisions for pensions and other employee benefits | note 9 | 69.4 | 87.1 | 162.6 |
| Impairment of non current operating assets | note 6 | 4.1 | 5.3 | 260.1 |
| Gain (loss) on disposals of assets and other | note 7 | 7.4 | (5.6) | 1.0 |
| Net allowances to restructuring provisions | | (3.5) | (7.1) | 12.1 |
| Other items | | 13.5 | 10.8 | 26.6 |
| Operating cash flows before working capital changes | | 390.4 | 196.9 | 484.8 |
| Change in working capital requirements and in reserves for contingencies (a) | | (633.5) | 42.1 | 924.6 |
| Payment of contributions / pension benefits (defined benefit plans): | note 9 | (66.3) | (62.1) | (156.2) |
| *- deficit payment in the UK* | | *(31.4)* | *(27.6)* | *(57.6)* |
| *- future service cash* | | *(34.9)* | *(34.5)* | *(98.6)* |
| Income tax (paid) received | | (38.0) | (45.9) | (98.2) |
| **Net cash flows from operating activities** | **- I -** | **(347.4)** | **131.0** | **1,155.0** |
| Capital expenditure | note 18-a | (144.4) | (180.4) | (418.9) |
| Proceeds from disposal of tangible and intangible assets | | 3.4 | 2.1 | 5.8 |
| Net operating investments | | (141.0) | (178.3) | (413.1) |
| Acquisitions | note 18-b | (6.1) | (141.9) | (148.0) |
| Disposals | note 18-b | 0.9 | (6.9) | -- |
| Change in loans | | (12.3) | 13.9 | 4.1 |
| Change in current accounts with affiliated companies | | (11.1) | (3.6) | (32.0) |
| Decrease (increase) in marketable securities | | (3.3) | 10.2 | 24.0 |
| Net financial investment | | (31.9) | (128.3) | (151.9) |
| **Net cash flows from investing activities** | **- II -** | **(172.9)** | **(306.6)** | **(565.0)** |
| Dividends paid | | (97.7) | (204.7) | (204.7) |
| Increase (decrease) in shareholders' equity and non controlling interests | note 18-c | 0.3 | 10.3 | 21.6 |
| Increase in debt | | 852.8 | 922.4 | 1,125.2 |
| Repayment of debt | | (274.4) | (423.9) | (1,103.9) |
| **Net cash flows from financing activities** | **- III -** | **481.0** | **304.1** | **(161.8)** |
| Effect of exchange rate variations | - IV - | 100.8 | 52.2 | 32.1 |
| **Total increase (decrease) in cash at banks and equivalents** | **I+II+III+IV** | **61.5** | **180.7** | **460.3** |
| Cash at banks and equivalents at beginning of period | | 1,960.1 | 1,499.8 | 1,499.8 |
| **Cash at banks and equivalents at end of period** | | **2,021.6** | **1,680.5** | **1,960.1** |

(a) Including changes in proceeds from sale of government non-recourse receivables (€ +157.9 million in the first half of 2010, € -58.1 million in the first half of 2009 and € -50.1 million in 2009). The 2010 first half increase is directly linked to late payments by the French defence procurement agency (note 20).

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND NON CONTROLLING INTERESTS

(€ Million)

### First half 2010 :

| | *Number of shares outstanding (thousands)* | Share capital | Paid-in surplus | Retained earnings | Cash Flow hedge | AFS invest -ments | Cumulative translation adjustment | Treasury shares | Share-holders' equity | Non controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | ***195,467*** | **597.1** | **3,655.3** | **(197.3)** | **107.7** | **5.5** | **(283.2)** | **(141.5)** | **3,743.6** | **10.2** | **3,753.8** |
| Net income (loss) | -- | -- | -- | 106.4 | -- | -- | -- | -- | **106.4** | -- | **106.4** |
| Other comprehensive income (loss) | -- | -- | -- | -- | (183.3) | (5.3) | 223.9 | -- | **35.3** | 0.6 | **35.9** |
| **Total comprehensive income (loss) first half 2010** | **--** | **--** | **--** | **106.4** | **(183.3)** | **(5.3)** | **223.9** | **--** | **141.7** | **0.6** | **142.3** |
| Capital increase | *50* | 0.1 | 1.3 | -- | -- | -- | -- | -- | **1.4** | -- | **1.4** |
| Dividends (a) | -- | -- | -- | (97.7) | -- | -- | -- | -- | **(97.7)** | -- | **(97.7)** |
| Share based payments (note 15-b) | -- | -- | -- | 8.7 | -- | -- | -- | -- | **8.7** | -- | **8.7** |
| Changes in treasury shares | *(177)* | -- | -- | (1.9) | -- | -- | -- | (3.3) | **(5.2)** | -- | **(5.2)** |
| Other | -- | -- | -- | 6.3 | -- | -- | -- | -- | **6.3** | (0.2) | **6.1** |
| Changes in scope of consolidation | -- | -- | -- | 6.7 | 1.4 | -- | -- | -- | **8.1** | 0.2 | **8.3** |
| **Total transactions with shareholders** | ***(127)*** | **0.1** | **1.3** | **(77.9)** | **1.4** | **--** | **--** | **(3.3)** | **(78.4)** | **--** | **(78.4)** |
| **At 30 June 2010** | ***195,340*** | **597.2** | **3,656.6** | **(168.8)** | **(74.2)** | **0.2** | **(59.3)** | **(144.8)** | **3,806.9** | **10.8** | **3,817.7** |

### First half 2009 :

| | *Number of shares outstanding (thousands)* | Share capital | Paid-in surplus | Retained earnings | Cash Flow hedge | AFS invest -ments | Cumulative translation adjustment | Treasury shares | Share-holders' equity | Non controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | ***194,981*** | **596.2** | **3,647.8** | **194.6** | **56.3** | **4.0** | **(399.8)** | **(150.2)** | **3,948.9** | **2.9** | **3,951.8** |
| Net income (loss) | -- | -- | -- | (25.3) | -- | -- | -- | -- | **(25.3)** | (0.1) | **(25.4)** |
| Other comprehensive income (loss) | -- | -- | -- | -- | 42.8 | -- | 126.5 | -- | **169.3** | 0.5 | **169.8** |
| **Total comprehensive income (loss) first half 2009** | **--** | **--** | **--** | **(25.3)** | **42.8** | **--** | **126.5** | **--** | **144.0** | **0.4** | **144.4** |
| Capital increase | *36* | 0.1 | 0.9 | -- | -- | -- | -- | -- | **1.0** | -- | **1.0** |
| Dividends (a) | -- | -- | -- | (204.7) | -- | -- | -- | -- | **(204.7)** | -- | **(204.7)** |
| Share based payments (note 15-b) | -- | -- | -- | 9.6 | -- | -- | -- | -- | **9.6** | -- | **9.6** |
| Changes in treasury shares | *(14)* | -- | -- | (0.4) | -- | -- | -- | -- | **(0.4)** | -- | **(0.4)** |
| Other | -- | -- | -- | (3.2) | -- | -- | -- | -- | **(3.2)** | 0.2 | **(3.0)** |
| Changes in scope of consolidation | -- | -- | -- | -- | -- | -- | -- | -- | **--** | 0.8 | **0.8** |
| **Total transactions with shareholders** | ***22*** | **0.1** | **0.9** | **(198.7)** | **--** | **--** | **--** | **--** | **(197.7)** | **1.0** | **(196.7)** |
| **At 30 June 2009** | ***195,003*** | **596.3** | **3,648.7** | **(29.4)** | **99.1** | **4.0** | **(273.3)** | **(150.2)** | **3,895.2** | **4.3** | **3,899.5** |

(a) Dividends per share amounted to € 0.50 in 2010 and € 1.05 in 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**All amounts included in these notes are expressed in € million except for per share data.**

On 28 July 2010 the Board of Directors approved, and authorised for issue, Thales' condensed interim consolidated financial statements for the period ended 30 June 2010. Thales is a listed French *société anonyme*, registered with the Nanterre registrar of companies (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552,059,024.

## 1. ACCOUNTING POLICIES

### 1.1) Condensed interim consolidated financial statements

The condensed interim consolidated financial statements at 30 June 2010 have been prepared in accordance with IAS 34 "Interim financial reporting" and with IFRS standards as approved by the European Union at 30 June 2010 (available on the following intranet address: http://ec.europa.eu/internal_market/accounting/ias_fr.htm).

The condensed interim consolidated financial statements are prepared using accounting policies which are identical to those used to prepare the full-year financial statements at 31 December 2009 exept for the changes described in 1.2

The measurement procedures used for the condensed interim consolidated financial statements are the followings:

**• Pension provisions**

The figures used to determine the pension provisions are based on an extrapolation at 30 June 2010 of the actuarial valuation performed at 31 December 2009 without any change in the actuarial assumptions.

**• Income taxes**

For interim accounts, the tax charge (current and deferred) is calculated by applying, company by company, the annual estimated average tax rate for the current tax year.

**• Impairment of goodwill**

For interim accounts, impairment tests performed at the end of the previous year are updated to take into account changes in recoverable amounts and in net assets at the end of the period. Impairment that may be recognised in the first half of the year is not reversible.

### 1.2) New IFRS standards and interpretations

**• Application of the revised standards IFRS 3 et IAS 27 from 1 January 2010:**

The IFRS 3 – Business Combinations – and IAS 27 – Consolidated and Separate Financial Statements – revised standards as adopted by European Union on June 3, 2009 are effective from 1 January 2010.

The standards IFRS 3 and IAS 27 revised are applied prospectively. Deals completed prior to 1 January 2010 are not restated. Business combinations completed prior to 1 January 2010, were accounted for in accordance with the principles described in note *1-b – Business combinations* included in the notes to the Group consolidated financial statements (2009 Annual Report page 34).

Accounting principles applicable from now on for transactions within the scope of these standards are described hereafter:

*Acquisition method (purchase accounting) :*

• Business combinations are accounted for using the acquisition method. Under this method:

- the identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date,
- the non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share in the acquiree's net identifiable assets. This option is available on a transaction by-transaction basis.

• Acquisition-related costs are recognised in profit and loss as incurred (and no more included in goodwill).

• Any contingent consideration assumed in a new business combination is measured at fair value at the acquisition date even if it is not probable. Subsequent changes to the fair value of the contingent consideration beyond twelve months from the acquisition date will be recognised in the profit and loss account (and no longer included in the Goodwill) if the contingent consideration is a financial liability.

*Goodwill :*

- At the acquisition date, the goodwill is measured as the difference between:
  - the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquiree; and
  - the net fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date.
- Goodwill can be adjusted within the twelve months following the acquisition date to take into account the final estimate of the acquired assets and liabilities recognised.
- Negative goodwill is immediately recognised in “other operating income (expense)”. Goodwill related to controlled enterprises 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 test. 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.

*Deferred tax :*

- If the potential benefit of the acquiree’s income tax loss carry-forwards or other deferred tax assets does not satisfy the criteria for separate recognition when a business combination is initially accounted for, but is subsequently realized, the acquirer will recognise the resulting deferred tax income in profit or loss. Goodwill is no more adjusted consequently. This new rule applies from 1 January 2010 to all business combinations (including those prior to 2010).

*Changes in a parent’s ownership interest in a subsidiary:*

- An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.
- Loss of control is accounted for in gain or loss on disposal which is calculated on the whole stake at the operation date. The residual stake is kept and revalued at its fair value through the profit and loss account when the loss of control occurred.
- Changes in a parent’s ownership interest in a subsidiary that do not result in a change of control is accounted for as changes in equity, with no impact on profit or loss account.

**• Other IFRS standards and IFRIC interpretations applicable from 1 January 2010:**

The new IFRS and interpretations effective from 1 January 2010, listed in *note 1 – Accounting policies* of the Group consolidated financial statements (2009 Annual Report pages 33 and 34), had no material impact on the Group condensed interim consolidated financial statements at 30 June 2010.

**• Early application of standards:**

The Group has not early adopted standards and interpretations that are not yet mandatory effective at 1 January 2010.

## 1.3) Seasonality of business

In accordance with accounting policies, revenues are recognised, as at year end, over the period of their realisation.

In previous years the level of business has been highest in the last quarter, particularly in the month of December. The seasonality of the business has led to revenues and income from operations being generally lower in the first half of the year. The company has noted that this phenomenon is of a recurring nature, even if its extent varies from year to year.

## 2. MAIN EVENTS

### a) Main events of 2010 first half

In December 2009, Thales announced a new organisation to simplify its operations, foster transverse synergies and commercial reactivity, and to increase performance.

The Group's organisation structure is now a two-dimensional matrix by Division and by Area. Divisions are in charge of defining business strategies and priorities of research and development, product policy and industrial policy worldwide, in line with the long-term profitability objectives set by Corporate. The two main businesses are as follows:

- Defence and Security (Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations);
- Aerospace and Transport (Avionics, Space and Transportation Systems).

Areas are responsible for implementing these global strategies and policies in line with the Group's short-term profitability objectives. Their remit also includes the management of the commercial relationship with local customers and order intakes, revenues and results for these activities. Three Geographic Areas have been delimited:

- Area A: USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe and Northern Asia
- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, West & South Asia
- France

Segment information is provided in note 5.

### b) Changes in scope of consolidation

**In First Half 2010:**

At the end of June 2010, the United Kingdom's National Lottery Commission approved the sale of Thales's 20% stake in Camelot Group Plc, the operator of the Brithish lottery, to the Canadian pension fund Ontario Teachers' Pension Plan. In its 2010 half-year financial consolidated statements, Thales accounted for a € 33.3 million gain on disposal and a € 92 millions receivable paid in cash early in July 2010.

No other significant change occurred during the first half of 2010.

**In 2009:**

In February 2009, Thales bought for € 20.3 million, via a tender offer, a 94.6% stake in CMT Medical Technologies Ltd, an Israeli company specialised in medical imaging. This company is consolidated as from 1st July 2009[1].

In accordance with the contractual agreements, the purchase price of Alcatel Alenia Space shares was reassessed in 2009 in the context of a procedure involving all the parties. This procedure led Thales to pay an additional purchase consideration of € 129.6[2] million to Alcatel-Lucent in May 2009. This additional payment is recorded as a goodwill increase in the financial consolidated statements.

The shareholders' agreement dated 30 January 2007 between the French State and Thales gives Thales the possibility to increase its stake in DCNS from 25% to 35%, through the exercise of a call option. This option can be exercised during a three-year period as from 29 March 2009. At 30 June 2010, the value of this option is not significant.

The agreement also contains contingent remuneration clauses related to certain contracts being obtained and to certain conditions of operational performance, which are not applicable at 30 June 2010.

[1] By simplification, and because not significant on financial consolidated statements

[2] This additional purchase consideration was determined on the basis of a valuation of 67% of Thales Alenia Space shareholders' equity of € 724.5 million, which represents an additional amount of € 124.5 million in excess of the € 600 million initial fixed price, plus € 5.1 million financial interests.

## 3. ADJUSTED CONSOLIDATED PROFIT AND LOSS ACCOUNT

In order to monitor and compare the Group's economic performances, the consolidated profit and loss accounts is restated from the adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations.

These adjustment entries are mainly related to the 2007 acquisition/contribution transactions: space, transportation and security activities of Alcatel-Lucent, and acquisition of a 25% stake in DCNS.

The effect of PPA over the three disclosed periods is analysed as follows:

| | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|
| Cost of sales | -- | (7.4) | (14.8) |
| Amortisation of intangible assets acquired | (40.8) | (42.2) | (84.4) |
| **Income from operations** | **(40.8)** | **(49.6)** | **(99.2)** |
| Deferred tax | 13.8 | 16.8 | 33.6 |
| Share in net income (loss) of equity affiliates | (4.1) | (4.1) | (8.2) |
| **Net Income (Loss)** | **(31.1)** | **(36.9)** | **(73.8)** |

The **adjusted profit and loss account** over the three disclosed periods can be analysed as follows:

| | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|
| **Revenues** | **5,955.5** | **5,743.6** | **12 881,5** |
| Cost of sales | (4,705.6) | (4,685.0) | (10,618.6) |
| Research and development expenses | (274.3) | (254.9) | (550.5) |
| Marketing and selling expenses | (459.6) | (439.7) | (901.9) |
| General and administrative expenses | (265.0) | (253.6) | (543.4) |
| Restructuring costs | (46.6) | (42.2) | (116.1) |
| **Income from operations** | **204.4** | **68.2** | **151.0** |
| Impairment of non current operating assets | (4.1) | (5.3) | (260.1) |
| Gain (loss) on disposal of assets and other | (7.4) | 5.6 | (1.0) |
| **Income of operating activities** | **192.9** | **68.5** | **(110.1)** |
| Financial interest on gross debt | (40.9) | (47.9) | (91.6) |
| Financial income from cash and equivalents | 10.6 | 14.8 | 26.0 |
| Cost of net financial debt | (30.3) | (33.1) | (65.6) |
| Other financial income (expense) | (4.0) | (27.4) | (44.9) |
| Other components of pension charge | (38.2) | (58.5) | (105.1) |
| Income tax | (12.4) | 33.2 | 141.7 |
| Share in net income (loss) of equity affiliates | 29.5 | 28.8 | 56.2 |
| **Net income (loss)** | **137.5** | **11.5** | **(127.8)** |
| Of which : | | | |
| **Net income (loss), Group share** | **137.5** | **11.6** | **(128.0)** |
| Non controlling interests | -- | (0.1) | 0.2 |

## 4. INFORMATION ON A LIKE-FOR-LIKE BASIS WITH CONSTANT EXCHANGES RATES

On the basis of the adjusted profit and loss account, results in both scope of consolidation and foreign exchange rates can be analysed as follows:

| | **2009 First Half adjusted** | Change in scope of consolidation (a) | Exchange rate variation (b) | Organic growth | **2010 First Half adjusted** |
|---|---|---|---|---|---|
| **Revenues** | **5,743.6** | **15.6** | **157.5** | **38.8** | **5,955.5** |
| Cost of sales | (4,685.0) | (7.9) | (119.1) | 106.4 | (4,705.6) |
| Research and development expenses | (254.9) | (2.1) | (4.3) | (13.0) | (274.3) |
| Marketing and selling expenses | (439.7) | -- | (8.0) | (11.9) | (459.6) |
| General and administrative expenses | (253.6) | (0.7) | (8.4) | (2.3) | (265.0) |
| Restructuring costs | (42.2) | -- | (0.7) | (3.7) | (46.6) |
| **Income from operations** | **68.2** | **4.9** | **17.0** | **114.3** | **204.4** |

(a) Companies acquired in 2010 first half and 2009 second half are excluded from the restated 2010 profit and loss account.
Companies sold in 2009 are excluded from 2009 restated results. The accounts of companies sold in 2010 first half have been restated in order to impact profit and loss for an identical period in 2010 and in 2009.

(b) The exchange rate change is determined as follows: 2009 first half results of foreign subsidiaries are translated at 2010 first half average exchange rates. The exchange difference thus obtained is adjusted to take into account the effect of changes in currency rates on transactions denominated in a different currency from the subsidiary's functional currency.

## 5. SEGMENT INFORMATION

As described in note 2, from the beginning of 2010, the Group's organisation structure is a two-dimensional matrix by Division and by Area. The chief operating decision maker reviews regularly their operating performances.

In accordance with IFRS 8, the Group has decided to report segment financial information by operating divisions because they are the basis of the Group strategy.

These divisions are combined in two main businesses:

• Defence & Security, whose customer base is primarily governments (States, public agencies…), includes Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations divisions.

• Aerospace & Transport, whose customers are mainly civilian (infrastructure operators, aircraft manufacturers), includes Avionics, Space and Transportation Systems divisions.

Information presented hereafter follow the same accounting standards as those used in the financial consolidated statements. Only adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations are excluded from income from operations reviewed. Operating income consequently corresponds to the adjusted consolidated income from operations, as described in note 3.

a) **Information by business sectors**

| 2010 First Half | Aerospace and Transport | Defence and Security | Other, elim and non allocated (a) | Total Segment and other | PPA | Thales |
|---|---|---|---|---|---|---|
| Consolidated order backlog at 30 June | 9,800.5 | 15,031.6 | 71.1 | 24,903.2 | -- | 24,903.2 |
| Consolidated new order | 2,513.5 | 2,605.4 | 24.8 | 5,143.7 | -- | 5,143.7 |
| Consolidated revenues | 2,519.7 | 3,400.6 | 35.2 | 5,955.5 | -- | 5,955.5 |
| Inter-segment revenues | 34,3 | 130,3 | (164,6) | -- | -- | -- |
| Total revenues | 2,554.0 | 3,530.9 | (129.4) | 5,955.5 | -- | 5,955.5 |
| Income from operations (b) | 7.1 | 207.4 | (10.1) | 204.4 | (40.8) | 163.6 |

| 2009 First Half restated | Aerospace and Transport | Defence and Security | Other, elim and non allocated (a) | Total Segment and other | PPA | Thales |
|---|---|---|---|---|---|---|
| Consolidated order backlog at 30 June | 9,523.7 | 14,257.3 | 40.0 | 23,821.0 | -- | 23,821.0 |
| Consolidated new order | 2,730.9 | 3,104.4 | 25.0 | 5,860.3 | -- | 5,860.3 |
| Consolidated revenues | 2,369.0 | 3,338.1 | 36.5 | 5,743.6 | -- | 5,743.6 |
| Inter-segment revenues | 45,9 | 161,6 | (207,5) | -- | -- | -- |
| Total revenues | 2,414.9 | 3,499.7 | (171.0) | 5,743.6 | -- | 5,743.6 |
| Income from operations (b) | (106.3) | 192.4 | (17.9) | 68.2 | (49.6) | 18.6 |

(a) The "Other, eliminations and non allocated amounts" column corresponds to the elimination of transactions between the two operating segments and includes figures relating to corporate activities: Group R&D activities, facilities management, holding companies and businesses sold during the prior year. The income from operations non-allocated includes the corporate income from operations which is not billed to segments, the cost of vacant premises and the expense related to share-based payments.

(b) Group income from operations includes tax credits related to research expenses amounting to € 71.9 million in the first half of 2010 and € 70.1 million in the first half of 2009.

On the first half 2009, the income from operations has been mainly impacted by higher estimated development costs for the A400M flight management system, leading to a further provision of €102m.

In the financial statements of 2009, Thales made a specific communication on that point and about the Meltem programme on maritime patrol and surveillance aircrafts with the Turkish Ministry of Defence, in the note 16 of the consolidated financial statements

At the end of June 2010, uncertainties remain on a number of complex aeronautical and ticketing programmes and, in particular, as to the outcome of ongoing discussions with the Turkish defence ministry on the Meltem project, and with Airbus on the A400M programme. These uncertainties could have a material impact on the results of these programmes during the current financial year.

## b) Information by geographical areas

| 2010 First Half | Area A | Area B | France | Other, elim and non allocated (a) | Total areas and other | PPA | Thales |
|---|---|---|---|---|---|---|---|
| Consolidated order backlog at 30 June | 8,960.4 | 4,399.1 | 11,543.6 | 0.1 | 24,903.2 | -- | 24,903.2 |
| Consolidated new order | 1,766.1 | 1,066.8 | 2,308.4 | 2.4 | 5,143.7 | -- | 5,143.7 |
| Consolidated revenues | 2,073.0 | 1,184.0 | 2,695.4 | 3.1 | 5,955.5 | -- | 5,955.5 |
| Inter-areas revenues | 131.8 | 158.5 | 358.3 | (648.6) | -- | -- | -- |
| Total revenues | 2,204.8 | 1,342.5 | 3,053.7 | (645.5) | 5,955.5 | -- | 5,955.5 |
| Income from operations | 95.5 | 49.2 | 62.0 | (2.3) | 204.4 | (40.8) | 163.6 |

| 2009 First Half restated | Area A | Area B | France | Other, elim and non allocated (a) | Total areas and other | PPA | Thales |
|---|---|---|---|---|---|---|---|
| Consolidated order backlog at 30 June | 8,257.1 | 4,371.5 | 11,190.7 | 1.7 | 23,821.0 | -- | 23,821.0 |
| Consolidated new order | 1,311.2 | 1,521.7 | 3,023.5 | 3.9 | 5,860.3 | -- | 5,860.3 |
| Consolidated revenues | 1,868.6 | 1,097.1 | 2,772.6 | 5,3 | 5,743.6 | -- | 5,743.6 |
| Inter-areas revenues | 92.6 | 157.3 | 362.3 | (612.2) | -- | -- | -- |
| Total revenues | 1,961.2 | 1,254.4 | 3,134.9 | (606.9) | 5,743.6 | -- | 5,743.6 |
| Income from operations | 74.5 | 70.4 | (61.2) | (15.5) | 68.2 | (49.6) | 18.6 |

•

(a) The "other, eliminations and non allocated amounts" column corresponds to the elimination of transactions between the three areas and includes figures related to Thales (parent company), Thales International Offset, and Thales International S.A. In addition, the income from operations which is not allocated includes the cost of share-based payment.

Geographic Areas are as follows:

- Area A: USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe and Northern Asia
- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, West & South Asia
- France

## c) Revenues (direct and indirect) by country / region of destination :

| | 2010 First Half | 2009 First Half |
|---|---|---|
| France | 1,308.6 | 1,399.2 |
| United Kingdom | 767.4 | 661.5 |
| Rest of Europe | 1,529.7 | 1,555.8 |
| North America | 590.2 | 545.8 |
| Middle East | 599.7 | 531.8 |
| Asia and Pacific | 820.1 | 734.4 |
| Africa and Latin America | 339.8 | 315.1 |
| **Total** | **5,955.5** | **5,743.6** |

## 6. IMPAIRMENT ON ASSETS

| | 2010 First Half | 2009 First Half | 2009 Full Year |
|---|---|---|---|
| Development costs (a) | -- | -- | (240.0) |
| Goodwill | (4.1) | (5.3) | (17.4) |
| Other tangible and intangible assets | -- | -- | (2.7) |
| **Total** | **(4.1)** | **(5.3)** | **(260.1)** |

(a) Impairment losses for 2009 mainly included:

- € 158.3 million related to avionics for civil aircraft and the A400M.
- € 43.6 million related to in-flight entertainment activities.
- € 25.5 million related to simulation activities.

## 7. GAIN (LOSS) ON DISPOSAL OF ASSETS AND OTHER

| | 2010 First Half | 2009 First Half | 2009 Full Year |
|---|---|---|---|
| **Disposal of investments :** | **35.2** | **4.3** | **12.1** |
| Minority investments of Telespazio | -- | 2.0 | 7.1 |
| Camelot Group Plc (20% stake) | 33.3 | -- | -- |
| Other | 1.9 | 2.3 | 5.0 |
| **Disposal of tangible and intangible assets :** | **(4.0)** | **1.3** | **(3.0)** |
| Real estate assets | 1.1 | -- | -- |
| Other | (5.1) | 1.3 | (3.0) |
| **Loss on the L'Aquila earthquake, net** (a) | **(3.6)** | -- | **(10.1)** |
| **Additional provision on litigation (note 19)** | **(35.0)** | | |
| **Total** | **(7.4)** | **5.6** | **(1.0)** |

(a) Thales Alenia Space's production site at L'Aquila (Italy) was seriously damaged by the earthquake of 7 April 2009. A temporary solution was implemented to progressively rebuild production capacities and to pursue work on programmes mainly in L'Aquila, but also in Rome and Milan. The Group share of the total net loss related to the disaster was recognised in 2009 and amounted to € -10.1 million, after taking into account insurance claims. An additional cost of € -3.6 million has been booked on the first half 2010.

(b) Addtionnal provision relating to the award handed down on 3 May 2010, in the arbitration against the Republic of China Navy (Taiwan), as detailed in note 19.

## 8. OTHER FINANCIAL INCOME (EXPENSE)

| | 2010 First Half | 2009 First Half | 2009 Full Year |
|---|---|---|---|
| Foreign exchange gains (losses) | (1.6) | (2.6) | (10 .5) |
| Change in fair value of foreign currency derivative instruments | -- | (24.7) | (37.3) |
| Cash flow hedge inefficiency / foreign exchange instruments | (3.9) | (2.1) | (5.3) |
| Net foreign exchange gain (loss) | (5.5) | (29.4) | (53.1) |
| Net interest income (expense) on non-financial receivables and payables | 5.5 | 3.5 | 6.0 |
| Dividends received | 3.7 | 3.4 | 6.1 |
| Impairment of available-for-sale investments | (4.6) | (0.3) | -- |
| Impairment of loans | (1.7) | -- | 0.9 |
| Other | (1.4) | (4.6) | (4.8) |
| **Total** | **(4.0)** | **(27.4)** | **(44.9)** |

## 9. PENSIONS AND OTHER EMPLOYEE BENEFITS

| | 2010 First Half | 2009 First Half | 2009 Full Year |
|---|---|---|---|
| **Current service cost** | (31.2) | (28.6) | (57.5) |
| Interest cost | (107.1) | (101.6) | (204.6) |
| Expected return on plan assets | 80.2 | 72.2 | 140.5 |
| Curtailments and settlements | -- | (16.6) | (12.0) |
| Past service cost | (5.9) | (5.6) | (17.0) |
| Amortisation of actuarial gains(losses) | (5.4) | (6.9) | (12.0) |
| **Other components of pension charge** | (38.2) | (58.5) | (105.1) |
| **Defined benefit plans: total cost** | (69.4) | (87.1) | (162.6) |

| | 2010 First Half | 2009 First Half | 2009 Full Year |
|---|---|---|---|
| **Net provisions at 1 January** | **(790.7)** | **(803.5)** | **(803.5)** |
| **Defined benefit plans: total cost** | **(69.4)** | **(87.1)** | **(162.6)** |
| **Benefits and contributions** | **66.3** | **62.1** | **156.2** |
| - Deficit payment in the UK | 31.4 | 27.6 | 57.6 |
| - Future service cash | 34.9 | 34.5 | 98.6 |
| **Exchange rate variation** | **(3.4)** | **(2.9)** | **(5.9)** |
| **Change in scope of consolidation and other** | **3.2** | **23.0** | **25.1** |
| **Net provisions at closing date** | **(794.0)** | **(808.4)** | **(790.7)** |
| **Of which:** Assets | 68.2 | 46.5 | 66.0 |
| Liabilities | (862.2) | (854.9) | (856.7) |

## 10. INCOME TAX

| | **2010** First Half | **2009** First Half | **2009** Full Year |
|---|---|---|---|
| Net income (loss) | 106.4 | (25.4) | (201.6) |
| Less: income tax | (1.4) | (50.0) | (175.3) |
| Less: equity in income of unconsolidated affiliates | (25.4) | (24.7) | (48.0) |
| **Profit before tax and unconsolidated affiliates** | 79.6 | (100.1) | (424.9) |
| Average tax rate | 27.0% | 36.5% | 38.1% |
| **Theoretical tax income (expense)** | (21.5) | 36.5 | 161.9 |
| Permanent differences | 33.9 | 25.3 | 49.4 |
| Variation of deferred tax assets non-recognised in the balance sheet | (11.5) | (8.7) | (22.7) |
| Reduction of goodwill due to the recognition of deferred tax assets | -- | (1.5) | (26.4) |
| Other | 0.5 | (1.6) | 13.1 |
| **Income tax** | 1.4 | 50.0 | 175.3 |

## 11. EARNINGS PER SHARE

| | | 2010 First Half | 2009 Firs Half | 2009 Full Year |
|---|---|---|---|---|
| **Numerator (in millions of euros) :** | | | | |
| Net income (loss), group share | (a) | 106.4 | (25.3) | (201.8) |
| Diluted net income (loss), group share | (b) | 106.4 | (25.3) | (201.8) |
| **Denominator (in thousands) :** | | | | |
| Average number of shares outstanding | (c) | 195,422 | 194,970 | 195,054 |
| Share options | | 181 | 429 | 434 |
| Diluted average number of shares outstanding | (d) | 195,603 | 195,399 | 195,488 |
| **Earnings per share (in euros)** | **(a) / (c)** | **0.54** | **(0.13)** | **(1.03)** |
| **Diluted earnings per share (in euros)** | **(b) / (d)** | **0.54** | **(0.13)** | **(1.03)** |

## 12. GOODWILL

Following Thales new organisation, goodwills have been reallocated to new operating divisions. This reallocation has been performed on the basis of transferred activities or, if needed, using the related value method. This reallocation has no impact on impairment tests at 31 December 2009.

| | 31/12/09 Net | Acquisitions | Disposal | Impairment | Exch rate var. & other | 30/06/10 Net |
|---|---|---|---|---|---|---|
| Avionics | 352.9 | -- | -- | -- | 3.4 | 356.3 |
| Transportation Systems | 871.0 | -- | -- | -- | 0.1 | 871.1 |
| Space | 467.2 | -- | -- | -- | -- | 467.2 |
| **Aerospace and Transport** | **1,691.1** | **--** | **--** | **--** | **3.5** | **1,694.6** |
| Defence & Security C4I Systems | 566.7 | -- | -- | (4.1) | 18.8 | 581.4 |
| Defence Mission Systems | 411.4 | -- | -- | -- | 6.3 | 417.7 |
| Land Defence | 269.1 | -- | -- | -- | 4.0 | 273.1 |
| Air Operations | 40.6 | -- | -- | -- | 1.2 | 41.8 |
| **Defence and Security** | **1,287.8** | **--** | **--** | **(4.1)** | **30.3** | **1,314.0** |
| **Other** | **8.0** | **--** | **--** | **--** | **0.4** | **8.4** |
| **Total** | **2,986.9** | **--** | **--** | **(4.1)** | **34.2** | **3,017.0** |

## 13. TANGIBLE AND INTANGIBLE ASSETS

| | 31/12/09 Net | Changes in scope | Acquisition | Disposal | Deprec. | Exch rate var. & other | 30/06/10 Net |
|---|---|---|---|---|---|---|---|
| Customer relationships: long-term | 320,9 | -- | -- | -- | (13.0) | 0.6 | 308.5 |
| Customer relationships : backlog | 53.0 | -- | -- | -- | (12.4) | -- | 40.6 |
| Acquired technologies | 163.4 | -- | -- | -- | (14.6) | 0.2 | 149.0 |
| Other | 13.3 | -- | -- | -- | (0.8) | 1.1 | 13.6 |
| Intangible assets acquired in the context of business combination | 550.6 | -- | -- | -- | (40.8) | 1.9 | 511.7 |
| Development costs | 253.7 | | 18.3 | | (20.9) | 11.9 | 263.0 |
| Other | 121.0 | 0.2 | 5.7 | (0.4) | (15.0) | 7.5 | 119.0 |
| Intangible assets (excl. goodwill) | 925.3 | 0.2 | 24.0 | (0.4) | (76.7) | 21.3 | 893.7 |
| Tangible assets | 1,338.3 | 0.8 | 120.4 | (3.0) | (130.7) | 43.2 | 1,369.0 |
| Total | 2,263.6 | 1.0 | 144.4 | (3.4) | (207.4) | 64.5 | 2,262.7 |

## 14. EQUITY IN UNCONSOLIDATED AFFILIATES

| | Ownership % | | Net equity | | Income (loss) | | |
|---|---|---|---|---|---|---|---|
| | 30 June 2010 | 31 Dec. 2009 | 30 June 2010 | 31 Dec. 2009 | 2010 First Half | 2009 First Half | 2009 Full Year |
| Aviation Communications & Surveillance Syst. | 30 | 30 | 63.9 | 54.9 | 1.5 | 1.6 | 4.6 |
| Camelot (sold in 2010 – note 2 ) | -- | 20 | -- | 50.0 | 3.4 | 4.3 | 6.4 |
| DCNS | 25 | 25 | 521.9 | 520.2 | 10.5 | 11.2 | 23.5 |
| DpiX | 20 | 20 | 19.5 | 16.4 | 0.2 | 1.1 | 1.3 |
| Elettronica | 33 | 33 | 34.3 | 30.4 | 4.0 | 3.4 | 6.1 |
| Indra Espacio | 33 | 33 | 16.8 | 16.3 | 0.5 | 1.0 | 1.2 |
| Other | -- | -- | 31.5 | 22.8 | 5.3 | 2.1 | 4.9 |
| **Total** | | | 687.9 | 711.0 | 25,4 | 24.7 | 48.0 |

## 15. SHAREHOLDERS' EQUITY

### a) Share capital

At 30 June 2010, the share capital of Thales is comprised of shares with a par value of € 3. The share capital is presented below:

| | 30/06/10 | | | 31/12/09 | | |
|---|---|---|---|---|---|---|
| | Number of shares | % capital | % voting rights | Number of shares | % capital | % voting rights |
| T.S.A. and its subsidiary Sofivision | 52,670,906 | 26.46% | 41.25% | 52,670,906 | 26.46% | 41.60% |
| French State (including one golden share) | 2,022 | -- | -- | 2,022 | -- | -- |
| Sogepa | 1,081,256 | 0.54 % | 0.85 % | 1,081,256 | 0.54 % | 0.85 % |
| **Public sector** | 53,754,184 | 27.00 % | 42.10 % | 53,754,184 | 27.00 % | 42.45 % |
| **Dassault Aviation** | 51,539,524 | 25.89% | 20.18% | 51,539,524 | 25.90% | 20.35% |
| **Thales** | 3,734,537 | 1.88 % | -- | 3,556,693 | 1.79 % | -- |
| **Employees** | 5,923,210 | 2.97% | 4.59% | 5,965,354 | 3.00 % | 3.76 % |
| **Other shareholders** | 84,122,772 | 42.26% | 33.13% | 84,208,177 | 42.31 % | 33.44 % |
| **Total number of Thales shares** | 199,074,227 | 100.00 % | 100.00 % | 199,023,932 | 100.00 % | 100.00 % |

### b) Share-based payments

The Group measures the amount of the benefit granted to employees receiving purchase and subscription stock options and free shares. The fair value of such instruments, measured using a binomial model, is determined at the grant date. The amounts thus obtained are taken to profit and loss over the vesting period of the rights and the corresponding expense is included in the income from operations.

Expenses related to share-based payments [1]:

| Grant date | Initial number of options / shares | Fair value at grant date | Fair value at 30/06/10 | 2010 First Half expense | 2009 First Half expense | 2009 Full Year expense |
|---|---|---|---|---|---|---|
| 01/07/03 | 3,034,200 | (21.3) | -- | -- | -- | -- |
| 01/07/04 | 2,638,750 | (21.4) | -- | -- | -- | -- |
| 30/06/05 | 2,201,500 | (19.5) | -- | -- | 0.2 | 0.2 |
| 09/11/06 | 2,223,950 | (23.5) | (0.1) | 0.5 | 1.6 | 2.8 |
| 04/07/07 | 1,654,530 | (15.6) | (0.6) | 0.7 | 1.9 | 3.3 |
| 01/07/08 | 1,688,076 | (11.2) | (1.7) | 1.0 | 2.9 | 6.1 |
| 25/11/08 | 71,700 | (0.3) | (0.1) | 0.1 | 0.1 | 0.2 |
| 25/06/09 | 1,600,340 | (11.2) | (5.5) | 2.6 | 0.1 | 3.3 |
| **Total options** | | **(124.0)** | **(8.0)** | **4.9** | **6.8** | **15.9** |
| 04/07/07 | 312,435 | (11.5) | (3.0) | 1.5 | 1.6 | 3.1 |
| 01/07/08 | 317,705 | (9.3) | (4.7) | 1.2 | 1.2 | 2.4 |
| 25/06/09 | 334,980 | (8.7) | (6.5) | 1.1 | -- | 1.1 |
| **Free shares** | | **(29.5)** | **(14.2)** | **3.8** | **2.8** | **6.6** |
| 24/04/08 | 2,519,280 | (5.0) | -- | -- | -- | -- |
| **Company savings** | | **(5.0)** | **--** | **--** | **--** | **--** |
| **Total** | | **(158.5)** | **(22.2)** | **8.7** | **9.6** | **22.5** |

[1] Plans granted after 7 November 2002 (date of first application of the standard).

### c) Treasury shares

Thales Parent Company held 3,734,537 of its own shares at 30 June 2010 (3,556,693 at 31 December 2009). In the consolidated financial statements, treasury shares are subtracted from consolidated shareholder's equity for an amount of € -144.8 million at 30 June 2010 (€ -141.5 million at 31 December 2009).

## 16. RESERVES FOR CONTINGENCIES

| | 31/12/09 | Changes in exchange rates and other | Increase | Reversal | 30/06/10 |
|---|---|---|---|---|---|
| **Restructuring** | **118.6** | 2.1 | 39.9 | (43.4) | 117.2 |
| **Provisions on contracts:** | **704.4** | 67.0 | 144.6 | (132.4) | 783.6 |
| - Guarantees | 248.1 | 10.5 | 39.5 | (34.5) | 263.6 |
| - Litigation | 210.8 | 23.7 | 43.8 | (19.1) | 259.2 |
| - Estimated losses on long-term contracts | 98.3 | 3.3 | 27.2 | (45.2) | 83.6 |
| - Other | 147.2 | 29.5 | 34.1 | (33.6) | 177.2 |
| **Other reserves for contingencies** | **306.8** | 5.1 | 47.0 | (34.4) | 324.5 |
| **Total** | **1,129.8** | 74.2 | 231.5 | (210.2) | 1, 225.3 |

## 17. NET FINANCIAL DEBT

| | 30/06/2010 | 31/12/09 |
|---|---|---|
| Long-term financial debt | 1,655.8 | 1,651.6 |
| Short-term financial debt | 943.3 | 326.4 |
| Current accounts payable with affiliated companies | 180.9 | 196.9 |
| Fair value of derivatives: interest rate risk management | (36.2) | (24.8) |
| **Total gross financial debt (I)** | **2,743.8** | **2,150.1** |
| Current accounts receivable with affiliated companies | 118.3 | 94.8 |
| Marketable securities | 8.5 | 4.4 |
| Cash at bank and equivalents | 2,021.6 | 1,960.1 |
| **Cash and other short-term financial assets (II)** | **2,148.4** | **2,059.3** |
| **Net financial debt (I-II)** | **595.4** | **90.8** |

**- Gross financial debt**

| | 30/06/10 | 31/12/09 |
|---|---|---|
| Bond, maturity 2013 | 602.7 | 601.9 |
| Bond, maturity 2011 | 797.2 | 785.6 |
| Commercial paper | 812.8 | 149.9 |
| Project financing debt | 205.6 | 199.5 |
| Borrowings from financial institutions | 59.7 | 115.0 |
| Other borrowings | 36.6 | 49.1 |
| Capital lease obligations | 19.1 | 20.5 |
| Current accounts with affiliated companies | 180.9 | 196.9 |
| Bank overdrafts | 36.4 | 22.7 |
| Accrued interest | 29.0 | 33.8 |
| Fair value of derivatives: interest rate risk management (a) | (36.2) | (24.8) |
| **Gross financial debt** | **2,743.8** | **2,150.1** |

(a) In accordance with IAS 39, the value of borrowings takes into account changes in the fair value of hedged risk. This change in value of the debt is offset by changes in the value of swaps used as hedges, which are recognised on the "fair value of derivatives: interest rate risk management" line.

| Nature of borrowings: | Nominal value | Maturity date | Rate | | | |
|---|---|---|---|---|---|---|
| | | | Nature | | Nominal / Effective (excluding effect of hedging) | |
| Bond, maturity date 2013 | € 600 M | April 2013 | Fixed | Including € 200 M swapped to floating rate | 4.375% | 4.5757% |
| Bond, maturity date 2011 | € 500 M<br>€ 275 M<br>(cplt Jan 09) | July 2011 | Fixed | Including € 575 M swapped to floating rate | 4.375% | 4.4776%<br>5.75% |
| Project financing debt | Non-recourse, or limited recourse, debt whose interest costs and repayment is covered by the share of project revenues which is guaranteed contractually by customers. The debt comprises fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020. | | | | | |

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

| | ***Moody's*** | ***Standard & Poor's*** |
|---|---|---|
| ***Medium and long-term loans*** | A2 | BBB+ |
| ***Outlook*** | Outlook stable | Outlook stable |
| ***Commercial paper & short-term loans*** | Prime-1 | A2 |

At the end of 2009, Moody's long-term rating was A1 and Standard & Poor's Thales's long-term rating was A-.

A decrease of Thales's credit risk ratings has no impact on the terms and conditions of committed financings, since they are not linked to financial covenants included in financing contracts. Pursuant to the credit facility documents, clauses providing for accelerated repayment only apply in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3.

# 18. STATEMENT OF CASH FLOWS

**a) Capital expenditure**

Only capital expenditure paid during the period is presented in the statement of cash flows. It includes capitalised development costs for an amount of € 18.3 million in the first half of 2010, € 48.3 million in the first half of 2009 and € 113.2 million in 2009.

**b) Net financial investment**

| **Acquisitions:** | **2010 First half** | **2009 First half** | **2009 Full year** |
|---|---|---|---|
| Additional purchase consideration / Alcatel Alenia Space (note 2) | -- | (129.6) | (129.6) |
| CMT Medical technologies Ltd | -- | (20.3) | (20.3) |
| Other | (6.1) | 3.1 | (5.5) |
| **Acquisitions** | **(6.1)** | **(146.8)** | **(155.4)** |
| **- Cash position of companies acquired** | -- | 4.9 | 7.4 |
| **Acqusitions, net** | **(6.1)** | **(141.9)** | **(148.0)** |

| Disposals: | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|
| Other | 0.9 | (1.7) | 5.3 |
| **Disposals** | **0.9** | **(1.7)** | **5.3** |
| - Cash position of companies sold | -- | (5.2) | (5.3) |
| **Disposals, net** | **0.9** | **(6.9)** | **--** |

**c) Increase (decrease) in shareholders' equity and minority interests**

| | 2010 First half | 2009 First half | 2009 Full year |
|---|---|---|---|
| Increase in capital / exercise of stock options | 5.5 | 0.4 | 4.6 |
| Sale (purchase) of treasury shares | (5.2) | 9.9 | 17.0 |
| **Total** | 0.3 | 10.3 | 21.6 |

## 19. LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation. Litigations mentioned in last year's annual report have evolved as follows:

Thales has been notified of the award handed down on 3 May 2010, in the arbitration against the Republic of China Navy (Taiwan). This award was made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991 by Thomson-CSF (now Thales) for the supply of six Lafayette frigates to Taiwan.The total amount of the award is set to US$ 482 million and € 82 million, bearing interest as from August 2001; as well as around € 15 million, bearing interest as from 3 May 2010, i.e. a total of around € 630 million (including interest).

The company has filed petition for nullity in front of the Paris Court of Appeal.

The Thales share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. In view of the provisions booked earlier, an additional amount of € 35 million (before tax) has been recorded in the financial statements at 30 June 2010.

No other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the company is aware) have had significant effects on the company and/or group's financial position or profitability since the start of 2010.

## 20. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in the notes to 2009 consolidated financial statements (note 19) included in the annual report.

Revenues with French Government amounted to € 870 million in the first half of 2010 (€ 900 million in the first half of 2009).

At 30 June 2010, overdue receivables bearing interests from the French defense procurement agency amounted to € 450 million (€ 45 million at 31 December 2009).

MAZARS ERNST & YOUNG Audit

*This is a free translation into English of the statutory auditors' review report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

# Thales

Head office : 45, rue de Villiers 92200 Neuilly-sur-Seine
Public Company with capital of €597,219,681
Siret n°: 552 059 024

Period from January 1 to June 30, 2010

**Statutory auditors’ review report**
**on the first half-yearly financial information**

**MAZARS**
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61, rue Henri-Regnault
92075 La Défense Cedex
S.A. au capital de € 8.320.000

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

**ERNST & YOUNG Audit**
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S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

# Thales

Period from January 1 to June 30, 2010

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

To the Shareholders,

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

- our review of the accompanying condensed half-yearly consolidated financial statements of Thales, for the period from January 1 to June 30, 2010, and
- the verification of the information contained in the interim management report.

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

## 1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists in making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that the financial statements, taken as a whole, are free from material misstatements, as we would not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that these condensed half-yearly consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – IFRS as adopted by the European Union applicable to interim financial information.

Without modifying the conclusion expressed above, we draw your attention to the matters set out in:

- note 1. “Accounting policies” to the condensed half-yearly consolidated financial statements, which details the new standards and interpretations adopted by Thales Group beginning after January 1, 2010;

- notes 2.a) "Main events of 2010 first half", 5. "Segment information" and 12. "Goodwill" to the condensed half-yearly consolidated financial statements which detail the change of presentation of the information by segment and the goodwills reallocation, following the new organization of the group. The group has decided to report segment financial information by operating divisions aggregated into two business sectors: "Defence & Security" and "Aerospace & Transport";

- note 5 (a) "Information by business sectors" to the condensed half-yearly consolidated financial statements which details the uncertainties surrounding two contracts of the business sectors Defence & Security and Aerospace & Transportation ;

- note 19 “Litigation” to the condensed half-yearly consolidated financial statements, which details the provision relating to the arbitration request submitted by a client of the group.

## 2. Specific verification

We have also verified the information provided in the interim management report in respect of the condensed half-yearly consolidated financial statements that were the object of our review.

We have no matters to report on the fairness and consistency of this information with the condensed half-yearly consolidated financial statements.

Courbevoie and Paris-La Défense, July 29, 2010

The statutory auditors
*French original signed by*

MAZARS | ERNST & YOUNG Audit

Jean-Louis Simon | Michel Gauthier | Nour-Eddine Zanouda