THALES

Half-yearly financial report 2011

Report on business activity
Consolidated financial statements

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Half-yearly financial report
June 2011

TABLE OF CONTENTS

Declaration by person responsible for the half-yearly financial report

"I certify that, to the best of my knowledge, the condensed financial statements at 30 June 2011 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 2011

Luc Vigneron
Chairman & Chief Executive Officer

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Report on 2011 first-half business activity and results

- **Order intake: €5.24 bn**, up **+2%**
- **Revenues: €5.97 bn**, stable compared with first half of 2010
- **EBIT**[1]**: €303m** (**5.1%** of revenues, increasing by +48% in comparison with the first half of 2010), compared with €204m (3.4% of revenues) at 30 June 2010
- **Net income, Group share**[1]: **€173m**, vs. €138m in first half of 2010

Neuilly-sur-Seine, 27 July 2011 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to review the accounts for the first half of 2011. In that meeting, the Chairman and CEO of the Group, Luc Vigneron, stated: **"*During the first half of the year, growth in orders and revenues in the Aerospace & Transport sector offset a less dynamic environment in Defence & Security. Our EBIT is progressing significantly, thanks to better project execution and the initial results of our Probasis performance plan. This encouraging performance and the signing of an agreement with Airbus on the execution conditions of the A400M project put the Group on a favourable path for reaching its targets for 2011 and 2012.*"**

Key figures *(in millions of euros)*	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*[2]
Order intake	**5,241**	**5,144**	***+2%***	***+2%***
Order book	**24,335**	**25,418**[3]	***-4%***	***-3%***
Revenues	**5,968**	**5,955**	***+0%***	***+0%***
EBIT[1]	**303**	**204**	***+48%***	***+39%***
% of revenues	**5.1%**	**3.4%**		
Net income, Group share[1]	**173**	**138**	***+25%***	
Net debt	**175**	**595**		

[1] After restructuring and before impact of purchase price allocation (PPA). After PPA impact, amounting to €36 million compared with €41 million in the first half of 2010, the reported EBIT is €268 million compared with €164 million in the first half of 2010. The reported net income is €145 million compared with €106 million in the first half of 2010.

[2] In this report, "organic" means "on a like-for-like basis and with constant exchange rates"

[3] As of 31 December 2010

Order intake

New order intake for the first half of 2011 amounted to €5,241 million, slightly up from the first half of 2010 (+2%). This development reflects the positive dynamics of the Aerospace & Transport sector, which offset an ever more difficult environment in defence in Europe and in North America. The book-to-bill ratio stood at 0.96 over the second quarter, thus reaching 0.88 over the first six months of the year. Exchange rate variations had a negative impact of €-36 million on order intake, mainly related to the weakening of the US dollar.

The half-year order intake includes several orders with a unit value of more than €100 million, such as a contract for the security systems and the secure communications network of the new French Ministry of Defence complex (the "Balard" project), an order for in-flight entertainment systems with a major airline, and a contract for the Galileo European space programme. Orders of a unit value of less than €10 million have been stable over the half year and continue to represent more than half of the value of the order intake.

As of 30 June 2011, the consolidated order book reached €24,335 million, i.e. more than 22 months of revenues.

Order intake by business[1]

Order intake (in millions of euros)	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*	Book-to-bill
Defence & Security	**2,531**	**2,605**	***-3%***	-3%	0.77
Aerospace & Transport	**2,690**	**2,514**	***+7%***	+8%	1.02
Other and divested businesses	*20*	*25*	*n/a*	*n/a*	*n/a*
Order intake	**5,241**	**5,144**	***+2%***	*+2%*	*0.88*

Defence & Security order intake amounted to €2,531 million, 3% lower than in the first half of 2010. Thus, despite good performance in sonar, there was a marked contraction in order intake in Defence Mission Systems business, which had booked the Watchkeeper logistics support contract in the United Kingdom and naval export contracts in the first half of last year. Air Operations activities also posted a reduction in order intake during this first half year, despite the signing of air traffic management contracts in Europe and in Asia. On the other hand, C4I Systems experienced significant growth in order intake, with several orders for

[1] Refer to appendix for the definition of the business sectors

secure communications networks, including the "Balard" project for the French Defence ministry[1]. Likewise, Land Defence order intake advanced strongly, thanks to the signing of several contracts in the United States, in Australia (order for 101 Bushmaster vehicles), and in France.

Orders for the **Aerospace & Transport** sector reached €2,690 million, up 7% from the first half of 2010. Order intake for the Space business declined compared with the very high level of last year, despite the booking of a significant contract for the ground segment of the Galileo programme. Transportation Systems order intake remained stable compared with the same period last year, with several successes both in main lines (Hungary and Poland) and urban rail. Finally, the Avionics business posted higher orders, driven by Airbus, the growth in in-flight entertainment and support activities, and the continuation of growth in tubes & imaging sub-systems.

Orders intake by geographical area of origin

Order intake *(in millions of euros)*	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*	Book-to-bill
Area A	**1,653**	**1,766**	***-6%***	*-6%*	*0.82*
Area B	**947**	**1,067**	***-11%***	*-11%*	*0.80*
France	**2,641**	**2,308**	***+14%***	*+14%*	*0.95*
Other and divested businesses	-	*3*	*n/a*	*n/a*	*n/a*
Order intake	**5,241**	**5,144**	***+2%***	*+2%*	*0.88*

In **Area A**, order intake stood at €1,653 million, a decrease of 6% compared with the first half of 2010 when several major orders were received, particularly in the United Kingdom (Watchkeeper support) and the United States (in-flight entertainment). In those two countries, the order intake was down despite a significant new in-flight entertainment contract and an additional order on aircraft carriers in the United Kingdom. On the other hand, good performance was registered in Australia (protected vehicles, armaments, and air traffic management) as well as in Canada (C4I Systems and Transport businesses).

Area B order intake declined by 11% to €947 million compared with €1,067 million, mainly due to a strong reduction in space orders in Italy, a domain that benefited from very significant orders over the first six months of last year, and in Spain, where the orders received in Transport failed to reach last year's level. Conversely, order intake rose in Germany in the avionics, radio communications, and rail signalling businesses.

[1] This contract should also give rise to additional orders in the operational phase that have not been included at this stage in the Group order book.

Orders in **France** increased sharply (+14%) over the first half year to €2,641 million. Order intake from French companies active in avionics, tubes and imaging systems, and critical information systems rose substantially. Orders for defence activities are stable overall, with declines in optronics, air operations and airborne systems offset by increased orders in communications, armaments and sonar.

Revenues

Consolidated revenues were stable at **€5,968 million** at 30 June 2011, compared with €5,955 million at 30 June 2010. **Exchange rate fluctuations** impacted revenues by €-17 million, mainly as a result of the conversion into euros of revenues of subsidiaries based outside the euro zone. These fluctuations reflected the weakening of the US dollar (€-28 million) and sterling (€-12 million) against the euro, partially offset by a strengthening of the Australian dollar (+€25 million). Changes in the scope of consolidation[1] impacted revenues by +€12 million.

Revenues by business

Revenues *(in millions of euros)*	H1 2011	H1 2010	***Reported change***	*Organic change*
Defence & Security	**3,288**	**3,401**	***-3%***	*-4%*
Aerospace & Transport	**2,640**	**2,520**	***+5%***	*+5%*
Other and divested businesses	*40*	*34*	*n/a*	*n/a*
Revenues	**5,968**	**5,955**	***+0%***	*+0%*

The **Defence & Security** sector posted revenues €**3,288 million**, down 3% compared with €3,401 million in the first half of 2010.The revenues of the Defence Mission Systems are stable overall, thanks in particular to the Rafale programme in France and Watchkeeper in the United Kingdom. Likewise, Land Defence maintained stable revenues compared with the first half of 2010, supported by the growth in revenues from armaments and protected vehicles. The revenues of the C4I Systems division declined slightly due to lower billings for the civil security business. Finally, revenues from Air Operations decreased more markedly, both in defence as well as in air traffic management.

In the **Aerospace & Transport** sector, revenues reached **€2,640 million**, an increase of 5% compared with the first half of 2010. Revenues from Space activities increased in line with the progressive ramp up in billings on recent orders (CSO, Iridium, Eutelsat, etc.). Avionics revenues also rose with a confirmed upturn

[1] And, in particular, the consolidation as of December 31, 2010 of AAC (Advanced Acoustic Concepts, Inc.) in the United States

in support activities, an increase in Airbus sales (cockpit and cabin equipments), and the first billings on recently certified regional aircraft (ATR 600, SSJ). Finally, revenues for Tubes & Imaging Systems increased sharply, in line with the continued increase in orders in these short-cycle businesses. Revenues from Transportation Systems, by contrast, declined slightly, particularly due to lower activity on main lines in Germany and Switzerland and on urban rail in the United Kingdom.

Revenues by geographical area of origin

Revenues ***(in millions of euros)***	**H1 2011**	**H1 2010**	***Reported change***	Organic change
Area A	**2,009**	**2,073**	***-3%***	*-3%*
Area B	**1,178**	**1,184**	***-1%***	*+0%*
France	**2,782**	**2,695**	***+3%***	*+3%*
Other and divested businesses	*-1*	*3*	*n/a*	*n/a*
Revenues	**5,968**	**5,955**	***+0%***	***+0%***

Revenues for **Area A** amounted to **€2,009 million,** a slight decline compared with 30 June 2010 (-3%). The decline was particularly clear in the United Kingdom, in Transportation Systems and defence. In the Netherlands revenues were also down with lower billings on several naval export contracts. Conversely, Australia posted higher revenues (armaments), as did Canada with, in particular, the ramp-up of Transportation Systems export contracts signed in 2010.

Area B posted revenues of **€1,178 million**, virtually unchanged from the first half of 2010. This overall stability, however, masks some disparity from country to country. Thus, Germany and Italy posted good growth thanks to the Avionics and Space businesses, respectively. By contrast, revenues declined substantially in Switzerland, with lower billing in C4I Systems and Transportation Systems, as well as in Saudi Arabia, with less significant business in Transportation Systems.

In **France**, revenues increased by 3% to **€2,782 million**. This development resulted, in particular, from growth in revenues from French companies specialising in avionics, tubes & imaging systems, and space. On the other hand, with the exception of armaments and sonar, French companies active in defence posted declining revenues overall.

Results

EBIT[1], at **€303 million**, represents **5.1%** of revenues, compared with €204 million (3.4% of revenues) in the first half of 2010. This growth in EBIT[1] reflects, among others, improved project execution, with the non-occurrence of the negative variances on complex contracts that weighed on earnings in the first half of 2010.

Increased research and development costs, resulting from the more restrictive approach on capitalisation adopted since the beginning of 2010, reduced the EBIT[1] margin by about 30 basis points compared with the same period last year. The reform of the research tax credit in France further reduces the EBIT[1] ratio by about 30 basis points.

Restructuring costs increased very significantly to reach €78 million, i.e. 1.3% of revenues, compared with €47 million (0.8% of revenues) in the first half of 2010.

EBIT[1] by business

EBIT[1] *(in millions of euros)*	H1 2011	H1 2010	*Reported change*	*Organic change*
Defence & Security	**202**	**207**	***-3%***	***-7%***
in % of revenues	***6.1%***	***6.1%***		
Aerospace & Transport	**110**	**7**	***x15***	***x8***
in % of revenues	***4.2%***	***0.3%***		
Other and divested businesses	-9	-10	n/a	n/a
EBIT[1]	**303**	**204**	***+48%***	***+39%***
in % of revenues	**5.1%**	**3.4%**		

The **Defence & Security** sector posted EBIT[1] of **€202 million**, down 3%, though maintaining its margin rate unchanged at **6.1%** of revenues, despite sharply increased restructuring costs (€49 million compared with €17 million). The operating profitability on Air Operations, down sharply in the first half of 2011, was affected by lower volumes, increased research and development costs (development of the Ground Master military radar range), and increased restructuring costs. The EBIT[1] margin for the Land Defence business, like that for Defence Mission Systems, is down slightly, mainly because of sharply increased restructuring costs. By contrast, despite reduced revenues, C4I Systems posted clear growth in results thanks to better project execution and lower overheads.

[1] After restructuring and before impact of purchase price allocation (PPA).

The EBIT[1] of the **Aerospace & Transport** sector rose strongly to reach **€110 million** (**4.2%** of revenues) compared with €7 million for the first half of 2010. This improvement is the result of a sharp recovery in Avionics profitability. Indeed, despite a new reduction in the capitalisation of research and development costs, Avionics benefited from the new execution conditions for the A400M programme agreed with Airbus and the reduction in negative variances that had weighed on results in the first half of 2010. The Space business posted a practically stable EBIT[1] as the performance in France has offset a more difficult situation in Italy. Transport Systems results have declined because of a reduction in business seen during the first half and an unfavourable contract mix.

EBIT[1] by geographical area of origin

EBIT[1] ***(in millions of euros)***	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*
Area A ***in % of revenues***	**90** **4.5%**	**95** **4.6%**	***-6%***	***-8%***
Area B ***in % of revenues***	**15** **1.2%**	**49** **4.1%**	***-70%***	***-70%***
France ***in % of revenues***	**217** **7.8%**	**62** **2.3%**	***+250%***	***+193%***
Other and divested businesses	*-19*	*-2*		
EBIT[1] ***in % of revenues***	**303** **5.1%**	**204** **3.4%**	***+48%***	***+39%***

EBIT[1] for **Area A** declined 6% to **€90 million**, although maintaining a nearly stable EBIT[1] margin, at **4.5%** of revenues. Thus, the Netherlands and, to a lesser extent, the United States, posted a decline in their EBIT[1] due to a negative volume effect. Conversely, the United Kingdom posted an increase in its EBIT[1] despite the decline in business during the half year, mainly by controlling overheads and with less significant cost variances on contracts than in the first half of 2010. Finally, Australia improved its results thanks to better project execution.

In **Area B,** the EBIT[1] was down compared with the first half of 2010, at **€15 million**, i.e. **1.2%** of revenues. Indeed, the good performance in Spain only partially offset the decline in profitability in Italy and in Germany, where research and development costs are rising.

[1] After restructuring and before impact of purchase price allocation (PPA).

France posted a sharply increased EBIT[1], amounting to **€217 million** (7.8% of revenues), compared with €62 million in the first half of 2010. Despite a sharp increase in restructuring costs (reaching €59 million, i.e. more than double the amount seen in the same period last year) and in research and development costs, France has benefited from the improved results of Thales Avionics as well as lower overhead expenses.

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Net financial expense, at **€-57 million,** increased significantly from the first half of 2010 (€-34 million) due to deterioration in foreign exchange results linked to the mechanical impact of changes in the fair value of exchange rate derivatives (mainly euro/dollar). **Other components of pension charges** have remained practically unchanged, at **€-37 million**, compared with €-38 million during the first half of 2010. The **income of unconsolidated affiliates**[2] decreased to **€24 million** compared with €30 million in the first half of 2010, largely due to the disposal of the stake in Camelot in mid-2010.

The first half of 2011 thus resulted in a **net profit, Group share**[2] of **€173 million** (compared with €138 million in the first half of 2010), after a tax charge[2] of €65 million compared with €12 million in the first half of 2010.

Financial situation at 30 June 2011

Free operating cash flow for the first half of the year stood at €-265 million, compared with €-457 million for the first half of 2010, an improvement linked to the strict control of costs and working capital requirements.

At the end of June 2011, **net debt** reached €175 million, compared with a net cash position of €191 million at the end of December 2010, but in strong improvement compared with the level at the end of June 2010 (net debt of €595 million). **Shareholders' equity (excluding minority interests)** stood at €3,782 million compared with €3,807 million at the end of June 2010.

[1] After restructuring and before impact of purchase price allocation (PPA).
[2] Before impact of purchase price allocation (PPA)

Recent events

A400M Contract

Thales and Airbus signed on 11 July 2011 an agreement relating to the technical, operational, and commercial aspects of the A400M flight management system project, so as to redefine its functional specifications, schedule, and related contractual and financial terms, and which strengthens the basis for a long-term cooperation with Airbus. This agreement, which terms and conditions are confidential, is positive for Thales.

Taiwan arbitration

Thales has been notified of the decision of the Paris Court of Appeal on 9 June 2011, rejecting the petition filed by the company to set aside the award handed down on 3 May 2010 in the arbitration against Taiwan, in relation to the procurement of six Lafayette-class frigates.

The decision of the Court of Appeal is enforceable and led Thales to disburse on 11 July 2011 an amount of €166 million, i.e. 27.46% of the total, corresponding to its industrial stake in the supply contract. This payment is neutral on the company's financial results, as this litigation had already been fully provisioned in previous years.

Discussion with Safran

On 10 May 2011 Thales confirmed that discussions were currently taking place with Safran. These discussions are following on earlier exchanges between the two groups aimed at seeking to optimise their business portfolios so as to strengthen competitiveness on the international markets. If a potential agreement is reached, it would be presented to the Board of Directors and to employee representative bodies, and appropriate information would be communicated.

Related party transactions

Main related party transactions are disclosed in the notes to 2010 consolidated financial statements (note19) included in the registration document.

Revenues with French Government amounted to € 991.8 million in the first half of 2011 (€ 869.8 million in the first half of 2010).

At 30 June 2011, overdue receivables bearing interests from the French defence procurement agency amounted to € 126.6 million (€ 450.6 million at 30 June 2010 and € 96.5 million at 31 December 2010).

Major risk and uncertainties in the second half of 2011 fiscal year

Except for the points mentioned in notes 2a and 19 of the consolidated financial statements at 30 June 2011, no relevant evolution of the risks and uncertainties described in the Directors' report on year 2010 ("C. Risk factors" page 14 and following of the 2010 registration document filed with the French Financial Markets Authority – Autorité des Marchés Financiers – on 5 April 2011) has been recorded.

Views for the current year

The performance of Thales during the first six months of the year is in line with the views for this year that the Group announced last February.

In this context, and on the basis of current trends, Thales confirms that, for the full year 2011, it expects a book-to-bill ratio of about 1 and a slight growth in revenues. Beyond that date, a decrease in defence orders is to be expected, due to the budgetary situation of the main customers of the Group.

Moreover, the improvement in profitability seen in the first half as well as the agreements reached on the Group's main complex contracts, including the A400M, are consolidating the ability of Thales to reach the 5% EBIT margin target set for 2011. The EBIT margin objective for 2012 remains unchanged at 6%.

APPENDIX

> Segment definitions

Businesses – operating sectors (IFRS 8)

- **Defence & Security:** C4I Systems for Defence & Security, Defence Mission Systems, Land Defence, Air Operations
- **Aerospace & Transport:** Avionics, Transport 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, Western Asia, Southern Asia
- **France**

> Order intake by destination – H1 2011

(in millions of euros)	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*	**H1 2011 %**
France	1,438	1,074	***+34%***	*+34%*	*27%*
UK	412	536	***-23%***	*-22%*	*8%*
Other European countries	1,455	1,436	***+1%***	*+1%*	*28%*
Total Europe	**3,305**	**3,046**	***+9%***	***+9%***	**63%**
North America	566	610	***-7%***	*-6%*	*11%*
Australia	382	266	***+44%***	*+32%*	*7%*
Asia	364	427	***-15%***	*-18%*	*7%*
Near and Middle East	418	570	***-27%***	*-24%*	*8%*
Rest of world	206	225	***-8%***	*-7%*	*4%*
Total outside Europe	**1,936**	**2,098**	***-8%***	***-7%***	**37%**
Order intake	**5,241**	**5,144**	***+2%***	***+2%***	***100%***

> Consolidated revenues by destination – H1 2011

(in millions of euros)	**H1 2011**	**H1 2010**	***Reported change***	*Organic change*	**H1 2011 in %**
France	1,588	1,309	***+21%***	*+21%*	*27%*
UK	732	767	***-5%***	*-3%*	*12%*
Other European countries	1,497	1,530	***-2%***	*-3%*	*25%*
Total Europe	**3,817**	**3,606**	***+6%***	***+6%***	**64%**
North America	580	590	***-2%***	*+0%*	*10%*
Australia	303	272	***+11%***	*+3%*	*5%*
Asia	545	548	***-1%***	*+0%*	*9%*
Near and Middle East	448	600	***-25%***	*-24%*	*8%*
Rest of world	275	339	***-19%***	*-18%*	*4%*
Total outside Europe	**2,151**	**2,349**	***-9%***	***-8%***	**36%**
Consolidated revenue	**5,968**	**5,955**	***+0%***	*+0%*	***100%***

> Order book by destination – H1 2011

(in millions of euros)	**H1 2011**	**December 2010**	**H1 2011 in %**
France	6,890	6,815	*28%*
UK	3,614	4,053	*15%*
Other European countries	6,054	6,214	*25%*
Total Europe	**16,558**	**17,082**	**68%**
North America	2,244	2,300	*9%*
Australia	899	863	*4%*
Asia	1,872	2,123	*8%*
Near and Middle East	1,605	1,755	*6%*
Rest of world	1,157	1,295	*5%*
Total outside Europe	**7,777**	**8,336**	**32%**
Total order book	**24,335**	**25,418**	***100%***

> Order book by business – H1 2011

(in millions of euros)	**H1 2011**	**December 2010**	***Reported change***	***Organic change***
Defence & Security	13,365	14,310	***-7%***	*-5%*
Aerospace & Transport	10,898	11,022	***-1%***	*+0%*
Other and divested businesses	*72*	*86*	***-15%***	*-13%*
Total	**24,335**	**25,418**	***-4%***	***-3%***

> Impact of purchase price allocation (PPA)

(in millions of euros)	**H1 2011 excluding PPA**	**PPA impact**	**H1 2011 published**
Amortisation of intangible assets acquired	-	(36)	(36)
EBIT	**303**	**(36)**	**268**

Income tax	(65)	12	(53)
Share in net income (loss) of equity affiliates	24	(4)	20
Net income, Group share	**173**	**(28)**	**145**

> Net cash flow – H1 2011

(in millions of euros)	**H1 2011**	**H1 2010**
Operating cash flow	**500**	**390**
Change in WCR and contingency reserves	(575)	(633)
Payment of pension benefits and scheme settlements	(50)	(35)
Income tax paid	(32)	(38)
Net operating cash flow	**(157)**	**(316)**
Net operating investments	(108)	(141)
of which capitalized R&D	*(2)*	*(18)*
Free operating cash flow	**(265)**	**(457)**
Net (acquisitions)/disposals	(18)	(5)
Deficit payments on pensions in the UK	(29)	(32)
Cash dividends	(14)	(98)
Net cash flow	**(326)**	**(592)**

THALES

CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2011

CONTENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ million)

	Notes	2011 First half	2010 First half	2010 Full year
Revenues	note 5	**5,968.1**	**5,955.5**	**13,124.8**
Cost of sales		(4,584.8)	(4,705.6)	(11,028.6)
Research and development expenses		(291.6)	(274.3)	(612.3)
Marketing and selling expenses		(452.0)	(459.6)	(915.7)
General and administrative expenses		(258.8)	(265.0)	(529.7)
Restructuring costs		(77.7)	(46.6)	(130.1)
Amortisation of intangible assets recognised at fair value on business combination	note 13	(35.5)	(40.8)	(81.7)
Income from operations (EBIT)	note 5	**267.7**	**163.6**	**(173.3)**
Impairment of non current operating assets	note 6	(3.8)	(4.1)	(9.8)
Gain (loss) on disposal of assets and other	note 7	7.8	(7.4)	(22.3)
Income of operating activities		**271.7**	**152.1**	**(205.4)**
Financial interest on gross debt		(44.4)	(40.9)	(81.3)
Financial income from cash at bank and equivalents		19.7	10.6	24.0
Cost of net financial debt		(24.7)	(30.3)	(57.3)
Other financial income (expense)	note 8	(32.3)	(4.0)	(15.3)
Other components of pension charge	note 9	(36.8)	(38.2)	(104.6)
Income tax	note 10	(52.6)	1.4	220.5
Share in net income (loss) of equity affiliates	note 14	19.9	25.4	54.5
Net income (loss)		**145.2**	**106.4**	**(107.6)**
Attributable to:				
Owners of the parent company		**146.0**	**106.4**	**(107.6)**
Non-controlling interests		(0.8)	--	--
Basic earnings per share (in euros)	note 11	0.75	0.54	(0.55)
Diluted earnings per share (in euros)	note 11	0.75	0.54	(0.55)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ million)

	2011 First half		2010 First half		2010 Full year	
	Total attributable to:		Total attributable to:		Total attributable to:	
	Owners of the parent company	*Non-controlling interests*	**Owners of the parent company**	*Non-controlling interests*	**Owners of the parent company**	*Non-controlling interests*
Net income (loss)	**146.0**	*(0.8)*	**106.4**	--	**(107.6)**	--
Cumulated translation adjustments	(94.2)	*(0.4)*	226.0	*0.7*	163.4	*0.5*
Net foreign investments' hedge	1.8	--	(3.2)	--	(1.2)	--
Deferred tax	(0.6)	--	1.1	--	0.4	--
	(93.0)	*(0.4)*	223.9	*0.7*	162.6	*0.5*
Cash flow hedge	115.8	--	(273.2)	*(0.1)*	(87.4)	--
Deferred tax	(34.8)	--	89.9	--	31.3	--
	81.0	--	(183.3)	*(0.1)*	(56.1)	--
Financial assets available for sale	(0.3)	--	(5.3)	--	(4.7)	--
Deferred tax	--	--	--	--	--	--
	(0.3)	--	(5.3)	--	(4.7)	--
Total other comprehensive income (loss), net of tax	**(12.3)**	*(0.4)*	**35.3**	*0.6*	**101.8**	*0.5*
Total comprehensive income (loss) for the period	**133.7**	*(1.2)*	**141.7**	*0.6*	**(5.8)**	*0.5*

THALES

CONSOLIDATED BALANCE SHEET

(€ million)

ASSETS	Notes	30/06/11	31/12/10
Goodwill, net	note 12	3,049.0	3,044.9
Other intangible assets, net	note 13	770.8	832.9
Tangible assets, net	note 13	1,301.7	1,347.2
Total non-current operating assets		5,121.5	5,225.0
Share in net assets of equity affiliates	note 14	673.3	681.9
Available-for-sale investments		119.2	102.1
Loans and other financial assets		142.2	163.5
Total non-current financial assets		934.7	947.5
Fair value of derivatives: financial debt management	note 17	1.6	8.7
Pension and other employee benefits	note 9	71.4	79.6
Deferred tax assets		880.0	954.7
Non-current assets		**7,009.2**	**7,215.5**
Inventories and work in progress		2,387.8	2,301.9
Construction contracts: assets		2,164.9	2,057.7
Advances to suppliers		364.3	366.5
Accounts, notes and other current receivables		3,922.0	3,981.0
Fair value of derivatives: currency risk management		261.8	184.6
Total current operating assets		9,100.8	8,891.7
Current tax receivables		52.3	54.4
Fair value of derivatives : financial debt management	note 17	18.8	11.6
Current accounts with affiliated companies	note 17	87.6	88.8
Marketable securities	note 17	7.8	7.9
Cash at bank and equivalents	note 17	2,648.1	2,750.5
Total current financial assets		2,762.3	2,847.2
Current assets		**11,915.4**	**11,804.9**
TOTAL ASSETS		**18,924.6**	**19,020.4**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30/06/11	31/12/10
Capital, paid-in surplus and other reserves		4,134.9	3,932.7
Cumulative translation adjustment		(213.6)	(120.6)
Treasury shares		(139.8)	(140.3)
Total attributable to owners of the parent company		3,781.5	3,671.8
Non-controlling interests		10.6	9.5
Total equity	note 15	**3,792.1**	**3,681.3**
Financial debt: long-term	note 17	1,380.5	1,434.1
Fair value of derivatives : financial debt management	note 17	11.6	12.7
Pension and other employee benefits	note 9	846.2	874.7
Deferred tax liabilities		193.8	194.9
Non-current liabilities		**2,432.1**	**2,516.4**
Advances received from customers on contracts		3,371.0	3,448.7
Refundable grants		174.5	173.3
Construction contracts: liabilities		1,347.1	1,365.7
Reserves for contingencies	note 16	1,325.7	1,458.3
Accounts, notes and other current payables		4,769.3	4,956.6
Fair value of derivatives: currency risk management		136.5	152.9
Total current operating liabilities		11,124.1	11,555.5
Current tax payables		30.0	37.5
Financial debt: short-term	note 17	1,311.9	973.6
Current accounts with affiliated companies	note 17	234.4	256.1
Total current financial liabilities		1,546.3	1,229.7
Current liabilities		**12,700.4**	**12,822.7**
TOTAL EQUITY AND LIABILITIES		**18,924.6**	**19,020.4**

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)

	Notes	**2011 First half**	**2010 First half**	**2010 Full year**
Net income (loss)		145.2	106.4	(107.6)
Add (deduct):				
Income tax expense (gain)		52.6	(1.4)	(220.5)
Share in net (income) loss of equity affiliates (net of dividends received)		(4.8)	(12.9)	(28.9)
Depreciation and amortisation of tangible and intangible assets	note 13	200.2	207.4	444.6
Provisions for pensions and other employee benefits	note 9	69.7	69.4	167.4
Impairment of non-current operating assets	note 6	3.8	4.1	9.8
Gain (loss) on disposals of assets and other	note 7	(7.8)	7.4	22.3
Net allowances to restructuring provisions		33.8	(3.5)	22.0
Other items		6.9	13.5	22.3
Operating cash flows before working capital changes		499.6	390.4	331.4
Change in working capital requirements and in reserves for contingencies (a)		(574.7)	(633.5)	461.3
Payment of contributions / pension benefits (defined benefit plans):	note 9	(78.9)	(66.3)	(163.2)
- deficit payment in the UK		*(28.5)*	*(31.4)*	*(57.0)*
- future service cash		*(50.4)*	*(34.9)*	*(106.2)*
Income tax (paid) received		(32.4)	(38.0)	(106.7)
Net cash flows from operating activities	**- I -**	**(186.4)**	**(347.4)**	**522.8**
Capital expenditure	note 18-a	(111.5)	(144.4)	(315.2)
Proceeds from disposal of tangible and intangible assets		3.4	3.4	6.4
Net operating investments		(108.1)	(141.0)	(308.8)
Acquisitions	note 18-b	(37.2)	(6.1)	(20.0)
Disposals	note 18-b	19.6	0.9	107.4
Change in loans		4.5	(12.3)	(5.0)
Change in current accounts with affiliated companies		(2.8)	(11.1)	11.2
Decrease (increase) in marketable securities		1.6	(3.3)	(2.9)
Net financial investment		(14.3)	(31.9)	90.7
Net cash flows from investing activities	**- II -**	**(122.4)**	**(172.9)**	**(218.1)**
Dividends paid in cash		(14.3)	(97.7)	(97.7)
Increase (decrease) in equity	note 18-c	1.1	0.3	1.2
Increase in financial debt		342.3	852.8	778.6
Repayment of financial debt		(87.7)	(274.4)	(267.6)
Net cash flows from financing activities	**- III -**	**241.4**	**481.0**	**414.5**
Effect of exchange rate variations	- IV -	(35.0)	100.8	71.2
Total increase (decrease) in cash at banks and equivalents	**I+II+III+IV**	**(102.4)**	**61.5**	**790.4**
Cash at banks and equivalents at beginning of period		2,750.5	1,960.1	1,960.1
Cash at banks and equivalents at end of period		**2,648.1**	**2,021.6**	**2,750.5**

(a) Including changes in proceeds from sale of government non-recourse receivables (€ -39.5 million in the first half of 2011, € +157.9 million in the first half of 2010, and € +46.2 million in 2010). The 2010 first half increase is directly linked to late payments by the French defence procurement agency (note 20) that have been solved by the end of 2010.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ million)

First half 2011 :

	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 owners of the parent company**	Non controlling interests	**Total**
At 1 January 2011	***195,365***	**597.2**	**3,656.8**	**(373.7)**	**51.6**	**0.8**	**(120.6)**	**(140.3)**	**3,671.8**	**9.5**	**3,681.3**
Net income (loss)	--	--	--	146.0	--	--	--	--	**146.0**	(0.8)	**145.2**
Other comprehensive income (loss)	--	--	--	--	81.0	(0.3)	(93.0)	--	**(12.3)**	(0.4)	**(12.7)**
Total comprehensive income (loss) first half 2011	--	--	--	**146.0**	**81.0**	**(0.3)**	**(93.0)**	--	**133.7**	**(1.2)**	**132.5**
Employee share issues	*26*	0.2	0.6	--	--	--	--	--	**0.8**	--	**0.8**
Share-based payments (note 15-b)	--	--	--	7.7	--	--	--	--	**7.7**	--	**7.7**
Dividends paid in shares	*3,211*	9.6	73.8	(83.4)	--	--	--	--	--	--	--
Dividends paid in cash	--	--	--	(14.3)	--	--	--	--	**(14.3)**	--	**(14.3)**
Acquisitions / disposals of treasury shares	*29*	--	--	(21.1)	--	--	--	0.5	**(20.6)**	--	**(20.6)**
Other	--	--	--	3.5	0.1	--	--	--	**3.6**	0.4	**4.0**
Changes in scope of consolidation	--	--	--	(1.2)	--	--	--	--	**(1.2)**	1.9	**0.7**
At 30 June 2011	***198,631***	**607.0**	**3,731.2**	**(336.5)**	**132.7**	**0.5**	**(213.6)**	**(139.8)**	**3,781.5**	**10.6**	**3,792.1**

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	**Total attrib. to owners of the parent company**	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**
Employee share issues	*50*	0.1	1.3	--	--	--	--	--	**1.4**	--	**1.4**
Dividends paid in cash	--	--	--	(97.7)	--	--	--	--	**(97.7)**	--	**(97.7)**
Share-based payments (note 15-b)	--	--	--	8.7	--	--	--	--	**8.7**	--	**8.7**
Acquisitions / disposals of 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**
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**

Dividends per share amounted to € 0.50 in 2011 and 2010. 2010 dividend was paid fully in cash. 2011 dividend was paid either fully in cash or fully in new Thales shares, at the option of the shareholders. On 21 June 2011, 3,210,810 new shares were issued, carrying dividend rights as from 1 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

On 27 July 2011, the Board of Directors approved, and authorised for issue, Thales' condensed interim consolidated financial statements for the period ended 30 June 2011. Thales (parent company) 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 2011 have been prepared in accordance with IAS 34 "Interim financial reporting" and with IFRS standards as approved by the European Union at 30 June 2011 (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 2010 except for the changes described in note 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 2011 of the actuarial valuation performed at 31 December 2010 without any change in the actuarial assumptions.

• Income taxes

For interim accounts, the tax charge (current and deferred) is calculated by applying to the accounting period, 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

• Standards and interpretations applicable from 1 January 2011 :

New standards and interpretations applicable from 1 January 2011, as listed page 34 of the 2010 registration document[1], have not had any significant impact on the interim consolidated financial statements of the Group at June 30, 2011.

• Standards and interpretations issued by the IASB but not yet approved by the European Union :

In the first half of 2011, the IASB published four new standards and revised two standards. If adopted by the European Union, these new regulations will apply as from 1 January 2013.

• Consolidated Financial Statements (IFRS10):

This new standard replaces IAS 27 now only dealing with the separate financial statements, and SIC 12 (Consolidation - Special Purpose Entities). IFRS 10 defines control as power to direct the activities of another entity in order to generate returns for itself.

• Joint Arrangements (IFRS 11):

This new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers".

IFRS 11 classifies joint arrangements into two types: joint operations and joint ventures. The proportionate consolidation (method used by Thales up to now) will no more be possible for joint ventures. The relating investment will be accounted for under the equity method, according to Revised IAS 28, dealing with consolidation of associates and joint ventures.

[1] Amendment to IAS 32 (Classification of Rights Issues), Amendment to IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction), IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments) and Improvements to IFRS, published in May 2010.

• Disclosure of Interests in other Entities (IFRS 12):

IFRS 12 incorporates into a single standard the disclosures relating to investments in subsidiaries, joint arrangements, associates and in unconsolidated structured entities.

• Fair Value Measurement (IFRS 13):

This new standard provides guidelines on how to measure fair value.

• Presentation of Financial Statements (IAS 1 revised):

The revised standard changes concern mainly the presentation of other items of comprehensive income.

• Employee Benefits (IAS 19 revised):

The main changes to the current standard concern mainly:

- Options for accounting for actuarial gains and losses: the amended standard requires that actuarial gains and losses must be fully recognised in other comprehensive income. The “corridor” method, used by the Group up to now, will no more be permitted.

- Recognition of past service cost: the amended standard provides that past service cost is recognised immediately in P&L at the date the plan amendment occurs, whether the rights would be acquired or not;

- Disclosures on defined benefit plans, their characteristics and risks associated with them.

The process of determining the potential impact of these new regulations on the financial statements is in progress. The Group believes that at this stage of the analysis, the impacts of these standards can not be known with sufficient accuracy.

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 higher 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 2011 first half

2011 background:

Contracts and activities mentioned in the notes of the 2010 registration document saw the following developments:

• Following the discussions initiated in early 2010 on the Meltem maritime patrol aircraft program, Thales and the Turkish Ministry of Defence signed an agreement on 3 March 2011. As expected at the end of 2010, this agreement rescopes all engineering and schedule aspects of the contract. It also provides for financial compensation to be paid by Thales (penalties and additional work to be undertaken free of charge). Consequently, the financial assumptions taken into account in the 2010 financial statements were maintained at 30 June 2011.

• Thales and Airbus signed on 11 July 2011 an agreement relating to the technical, operational, and commercial aspects of the A400M flight management system project, so as to redefine its functional specifications, schedule, and related contractual and financial terms, and which strengthens the basis for long-term cooperation with Airbus. This agreement, which terms and conditions are confidential, is positive for Thales.

Discussion with Safran:

On 10 May 2011 Thales confirmed that discussions were currently taking place with Safran. These discussions are following on earlier exchanges between the two groups aimed at seeking to optimise their business portfolios so as to strengthen their competitiveness on international markets. If a potential agreement is reached, it would be presented to the Board of Directors and employee representative bodies, and appropriate information would be communicated.

b) Changes in scope of consolidation

In First Half 2011:

• In January 2011, Telespazio acquired for € 53.3 million (€ 17.6 million at 33%) British Group Vega Space and space activities of Elsag Datamat.

• No other significant change occurred during the first half of 2011.

In 2010:

• At the end of December 2010, DRS Sonar Systems LLC, a DRS/Thales joint venture, acquired, for an amount of $ 38 million, Advanced Acoustic Concepts, Inc. (AAC), a technical leader in the fields of sonar systems, sonar signal processing, acoustic training systems, and open architecture system and software integration. This company was consolidated under the proportionate method as from 31 December 2010.

• At the beginning of October, Thales Alenia Space sold its stake in Indra Espacio to Indra Sistemas for € 39.2 million, and accounted for a € 13.8 million gain on disposal (corresponding to € 9.2 million at 67%).

• 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 British lottery, to the Canadian pension fund Ontario Teachers' Pension Plan.
In July, Thales received, for its share, an amount of cash of £ 75.1 million and accounted for a € 33.5 million gain on disposal in its 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 31 December 2010, a valuation of the option has been made. Taking into account a discount of illiquidity, this value is not significant.

The agreement also contains contingent remuneration clauses related to certain contracts being obtained and to certain conditions of operational performance, which were not applicable at 31 December 2010.

3. ADJUSTED CONSOLIDATED PROFIT AND LOSS ACCOUNT

In order to monitor and compare the Group's economic performances, the consolidated profit and loss account 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:

	2011 First half	2010 First half	2010 Full year
Amortisation of intangible assets acquired	(35.5)	(40.8)	(81.7)
Income from operations (EBIT)	**(35.5)**	**(40.8)**	**(81.7)**
Deferred tax	12.2	13.8	27.8
Share in net income (loss) of equity affiliates	(4.1)	(4.1)	(8.2)
Net income (Loss)	**(27.4)**	**(31.1)**	**(62.1)**

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

	2011 First half	2010 First half	2010 Full year
Revenues	**5,968.1**	**5,955.5**	**13,124.8**
Cost of sales	(4,584.8)	(4,705.6)	(11,028.6)
Research and development expenses	(291.6)	(274.3)	(612.3)
Marketing and selling expenses	(452.0)	(459.6)	(915.7)
General and administrative expenses	(258.8)	(265.0)	(529.7)
Restructuring costs	(77.7)	(46.6)	(130.1)
Income from operations (EBIT)	**303.2**	**204.4**	**(91.6)**
Impairment of non-current operating assets	(3.8)	(4.1)	(9.8)
Gain (loss) on disposal of assets and other	7.8	(7.4)	(22.3)
Income of operating activities	**307.2**	**192.9**	**(123.7)**
Financial interest on gross debt	(44.4)	(40.9)	(81.3)
Financial income from cash and equivalents	19.7	10.6	24.0
Cost of net financial debt	(24.7)	(30.3)	(57.3)
Other financial income (expense)	(32.3)	(4.0)	(15.3)
Other components of pension charge	(36.8)	(38.2)	(104.6)
Income tax	(64.8)	(12.4)	192.7
Share in net income (loss) of equity affiliates	24.0	29.5	62.7
Net income (loss)	**172.6**	**137.5**	**(45.5)**
Attributable to:			
Owners of the parent company	**173.4**	**137.5**	**(45.5)**
Non-controlling interests	(0.8)	--	--

4. INFORMATION ON A LIKE-FOR-LIKE BASIS WITH CONSTANT EXCHANGE 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:

	2010 First Half adjusted	Change in consolidation scope (a)	Exchange rate change (b)	Organic growth	2011 First Half adjusted
Revenues	**5,955.5**	**12.1**	**(17.4)**	**17.9**	**5,968.1**
Cost of sales	(4,705.6)	(9.8)	26.2	104.4	(4,584.8)
Research and development expenses	(274.3)	--	0.7	(18.0)	(291.6)
Marketing and selling expenses	(459.6)	(0.7)	1.8	6.5	(452.0)
General and administrative expenses	(265.0)	(0.6)	1.1	5.7	(258.8)
Restructuring costs	(46.6)	--	--	(31.1)	(77.7)
Income from operations (EBIT)	**204.4**	**1.0**	**12.4**	**85.4**	**303.2**

(a) Companies acquired in 2011 first half and 2010 second half are excluded from the restated 2011first half profit and loss account.
Companies sold in 2010 are excluded from 2010 restated results. The accounts of companies sold in 2011 first half have been restated in order to impact profit and loss for an identical period in 2011 and in 2010.

(b) The exchange rate change is determined as follows: 2010 first half results of foreign subsidiaries are translated at 2011 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 than the subsidiary's functional currency.

5. SEGMENT INFORMATION

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 regularly reviews the operating performances of the two market segments.

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 non-governmental (infrastructure operators, aircraft manufacturers), includes Avionics, Space and Transportation Systems divisions.

Geographic Areas are defined as follows:

• Area A: USA, Canada, United Kingdom, 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.

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

2011 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	10,897.7	13,364.6	72.7	**24,335.0**	**--**	**24,335.0**
Consolidated new order	2,689.7	2,531.1	20.6	**5,241.4**	**--**	**5,241.4**
Consolidated revenues	2,639.8	3,288.2	40.1	**5,968.1**	**--**	**5,968.1**
Inter-segment revenues	34.9	174.6	(209.5)	**--**	**--**	**--**
Total revenues	2,674.7	3,462.8	(169.4)	**5,968.1**	**--**	**5,968.1**
Income from operations (b)	110.2	201.5	(8.5)	**303.2**	(35.5)	**267.7**

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**

(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 € 55.4 million in the first half of 2011 and € 71.9 million in the first half of 2010. Decrease is mainly linked to new French tax legislation in 2011.

b) Information by geographical areas

2011 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	7,586.4	4,014.8	12,733.8	--	**24,335.0**	--	**24,335.0**
Consolidated new order	1,652.8	947.1	2,641.4	0.1	**5,241.4**	--	**5,241.4**
Consolidated revenues	2,009.2	1,178.1	2,781.6	(0.8)	**5,968.1**	--	**5,968.1**
Inter-areas revenues	92.2	157.0	388.0	(637.2)	**--**	--	**--**
Total revenues	2,101.4	1,335.1	3,169.6	(638.0)	**5,968.1**	--	**5,968.1**
Income from operations	89.8	14.6	217.0	(18.2)	**303.2**	(35.5)	**267.7**

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**

(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) and Thales International SAS In addition, the income from operations which is not allocated includes the cost of share-based payment.

c) **Revenues by country / region of destination * :**

	2011 First Half	2010 First Half
France	1,588.4	1,308.6
United Kingdom	731.5	767.4
Rest of Europe	1,497.5	1,529.7
North America	579.5	590.2
Middle East	447.8	599.7
Asia and Pacific	848.2	820.1
Africa and Latin America	275.2	339.8
Total	**5,968.1**	**5,955.5**

* direct and indirect

6. IMPAIRMENT ON ASSETS

	2011 First Half	2010 First Half	2010 Full Year
Development costs	--	--	--
Goodwill	(3.8)	(4.1)	(8.2)
Other tangible and intangible assets	--	--	(1.6)
Total	**(3.8)**	**(4.1)**	**(9.8)**

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

	2011 First Half	2010 First Half	2010 Full Year
Disposal of investments:	**6.6**	**35.2**	**40.8**
Camelot Group Plc (20% stake)	--	33.3	33.5
Indra Espacio	--	--	9.2
Transfer of spaces activities to TAS France	6.3	--	--
Other	0.3	1.9	(1.9)
Disposal of other assets:	**1.2**	**(4.0)**	**(9.3)**
Real estate assets	1.4	1.1	(8.3)
Other	(0.2)	(5.1)	(1.0)
Loss on the L'Aquila earthquake, net (a)	--	**(3.6)**	**(3.8)**
Additional provision on litigation (b)	--	**(35.0)**	**(50.0)**
Total	**7.8**	**(7.4)**	**(22.3)**

(a) Thales Alenia Space's production site at L'Aquila (Italy) was seriously damaged by the earthquake of 7 April 2009. 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 € -3.8 million has been booked in 2010.

(b) This amount includes:

- € 35 million for additional provision relating to the award handed down on 3 May 2010, in the arbitration against the Republic of China (Taïwan), as detailed in note 19.
- € 15 million for a provision relating to a contract linked with the one mentioned above, in the arbitration against the Navy of the Republic of China (Taïwan), as detailed in note 19.

8. OTHER FINANCIAL INCOME (EXPENSE)

	2011 First Half	2010 First Half	2010 Full Year
Foreign exchange gains (losses)	(3.5)	(1.6)	(5.4)
Change in fair value of foreign currency derivative instruments	(32.1)	--	3.8
Cash flow hedge inefficiency / foreign exchange instruments	(2.0)	(3.9)	(4.6)
Net foreign exchange gains (losses)	(37.6)	(5.5)	(6.2)
Net interest income on non-financial receivables and payables	2.6	5.5	9.2
Dividends received	3.7	3.7	5.0
Impairment of investments in shares (available-for-sale)	--	(4.6)	(4.1)
Impairment of loans	2.0	(1.7)	(9.1)
Other	(3.0)	(1.4)	(10.1)
Total	**(32.3)**	**(4.0)**	**(15.3)**

9. PENSIONS AND OTHER EMPLOYEE BENEFITS

	2011 First Half	2010 First Half	2010 Full Year
Current service cost	**(32.9)**	**(31.2)**	**(62.7)**
Interest cost	**(107.2)**	**(107.1)**	(216.4)
Expected return on plan assets	**83.6**	**80.2**	161.0
Schemes amendments, curtailments and settlements	**--**	**--**	(1.8)
Amortisation of scheme amendments	**(8.0)**	**(5.9)**	(19.6)
Amortisation of actuarial gains (losses)	**(5.2)**	**(5.4)**	(14.9)
Effect of minimum funding requirement (IFRIC 14)	**--**	**--**	(12.9)
Other components of pension charge	**(36.8)**	**(38.2)**	**(104.6)**
Defined benefit plans: total cost	**(69.7)**	**(69.4)**	**(167.3)**

	2011 First Half	2010 First Half	2010 Full Year
Net provisions at 1 January	**(795.1)**	**(790.7)**	**(790.7)**
Defined benefit plans: total cost	**(69.7)**	**(69.4)**	**(167.3)**
Benefits and contributions	**78.9**	**66.3**	**163.2**
- Deficit payment in the UK	28.5	31.4	57.0
- Future service cash	50.4	34.9	106.2
Exchange rate variation	**(0.6)**	**(3.4)**	**(7.4)**
Change in scope of consolidation and other	**11.7**	**3.2**	**7.1**
Net provisions at closing date	**(774.8)**	**(794.0)**	**(795.1)**
Of which: Assets	71.4	68.2	79.6
Liabilities	(846.2)	(862.2)	(874.7)

10. INCOME TAX

	2011 First Half	2010 First Half	2010 Full Year
Net income (loss)	145.2	106.4	(107.6)
Less: income tax	52.6	(1.4)	(220.5)
Less: equity in income of unconsolidated affiliates	(19.9)	(25.4)	(54.5)
Profit before tax	**177.9**	**79.6**	**(382.6)**
Average tax rate	33.5%	27.0%	36.1%
Theoretical tax gain (expense)	**(59.7)**	**(21.5)**	**138.0**
Non taxable items	22.1	34.6	50.0
Change in deferred tax not recorded as an asset	(8.4)	(11.5)	1.0
Prior year adjustment	(0.1)	4.6	27.2
Other	(6.5)	(4.8)	4.3
Income tax	**(52.6)**	**1.4**	**220.5**

11. EARNINGS PER SHARE

		2011 First Half	2010 First Half	2010 Full Year
Numerator (in millions of euros) :				
Net income (loss), attrib. to owners of the parent company	(a)	146.0	106.4	(107.6)
Denominator (in thousands) :				
Average number of shares outstanding (b)		195,562	195,422	195,915
Share options*		115	181	129
Diluted average number of shares outstanding (c)		195,677	195,603	196,044
Earnings per share (in euros)	**(a) / (b)**	**0.75**	**0.54**	**(0.55)**
Diluted earnings per share (in euros)	**(a) / (c)**	**0.75**	**0.54**	**(0.55)**
Average share price *		28.04€	29.45€	28.29€

* Except for the July 2003 and the September 2010 plans, the share purchase and subscription options plans are antidilutive, due to the average share price. Consequently, they have been excluded from diluted earnings per share calculation.

12. GOODWILL

	31/12/10 Net	Acquisitions	Disposal	Impairment	Exch rate var. & other	30/06/11 Net
Avionics	317.5	--	--	--	(1.4)	316.1
Transportation Systems	875.4	--	--	--	--	875.4
Space	467.2	20.0	--	--	--	487.2
Aerospace and Transport	**1,660.1**	**20.0**	**--**	**--**	**(1.4)**	**1,678.7**
Defence & Security C4I Systems	585.0	--	--	(3.8)	(6.1)	575.1
Defence Mission Systems	475.3	--	--	--	(2.8)	472.5
Land Defence	274.3	--	--	--	(1.4)	272.9
Air Operations	41.8	--	--	--	(0.3)	41.5
Defence and Security	**1,376.4**	**--**	**--**	**(3.8)**	**(10.6)**	**1,362.0**
Other	**8.4**	**--**	**--**	**--**	**(0.1)**	**8.3**
Total	**3,044.9**	**20.0**	**--**	**(3.8)**	**(12.1)**	**3,049.0**

13. TANGIBLE AND INTANGIBLE ASSETS

	31/12/10 Net	Changes in scope	Acquisition	Disposal	Deprec.	Exch rate var. & other	30/06/11 Net
Customer relationships: long-term	294.9	--	--	--	(13.0)	(0.3)	281.6
Acquired technologies	134.2	--	--	--	(14.8)	(0.1)	119.3
Customer relationships : backlog	28.2	--	--	--	(7.0)	--	21.2
Other	12.3	--	--	--	(0.7)	(0.5)	11.1
Intangible assets acquired in the context of business combinations	**469.6**	**--**	**--**	**--**	**(35.5)**	**(0.9)**	**433.2**
Development costs	236.7	--	1.7	--	(17.5)	(4.6)	216.3
Other	126.6		7.4		(16.2)	3.5	121.3
Intangible assets (excl. goodwill)	**832.9**	**--**	**9.1**	**--**	**(69.2)**	**(2.0)**	**770.8**
Tangible assets	**1,347.2**	**--**	**102.4**	**(3.4)**	**(131.0)**	**(13.5)**	**1,301.7**
Total	**2,180.1**	**--**	**111.5**	**(3.4)**	**(200.2)**	**(15.5)**	**2,072.5**

14. EQUITY AFFILIATES

	Ownership %		**Share in net assets**		**Share in income (loss)**		
	30 June 2011	31 Dec. 2010	**30 June 2011**	31 Dec. 2010	**2011 First Half**	2010 First Half	2010 Full Year
Aviation Communications & Surveillance Syst.	**30**	30	**51.9**	58.0	**1.7**	1.5	4.7
Camelot (sold in June 2010)	**--**	--	**--**	--	**--**	3.4	3.4
DCNS	**25**	25	**540.7**	538.9	**11.5**	10.5	27.6
DpiX	**20**	20	**17.2**	18.2	**0.3**	0.2	0.5
Elettronica	**33**	33	**35.6**	32.1	**3.5**	4.0	6.7
ESG Elektroniksystem & Logistik GmbH	**30**	30	**19.1**	19.9	**1.6**	2.6	4.7
Indra Espacio (sold in October 2010)	**--**	**--**	**--**	--	**--**	0.5	0.7
Other	**--**	**--**	**8.8**	14.8	**1.3**	2.7	6.2
Total			**673.3**	**681.9**	**19.9**	**25.4**	**54.5**

15. SHAREHOLDERS' EQUITY

a) <u>Share capital</u>

At 30 June 2011, the share capital of Thales is comprised of 202,319,357 shares with a par value of € 3. Since 1 January 2011, 3,237,330 shares were issued, of which 26,520 with the exercise of stock options and 3,210,810 as 2010 dividend payment.

Distribution of capital and voting rights :	**30/06/11**			**31/12/10**		
	Number of shares	**% capital**	**% voting rights**	**Number of shares**	**% capital**	**% voting rights**
T.S.A. and its subsidiary Sofivision	54,786,654	27.08%	41,75%	53,746,948	27,00%	41.86%
French State (including one golden share)	2,060	--	--	2,022	--	--
Sogepa	--	--	--	5,214	--	--
Public sector	**54,788,714**	**27.08%**	**41,75%**	**53,754,184**	**27,00%**	**41.86%**
Dassault Aviation	52,531,431	25.96%	20.41%	51,539,524	25.89%	20.27%
Thales	3,688,399	1.82%	--	3,717,478	1.87%	--
Employees	5,736,562	2.84%	4.41%	5,811,663	2.92%	4.54%
Other shareholders	85,574,251	42.30%	33.43%	84,259,178	42.32%	33.33%
Total number of Thales shares	**202,319,357**	**100.00%**	**100.00%**	**199,082,027**	**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, free shares and action with the discount card company savings plans. The fair value of such instruments 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.

• Company saving Plans

In May 2011, the Group has implemented an employee share purchase offering with a discount to the market price. Acquired shares will be delivered to Thales Corporate mutual fund (FCPE) on 28 July 2011, with a five years lock-up period.This plan includes:

- a classic share formula, allowing employees to receive a 20% discount compared to the reference price (€ 28.88) and an employer contribution corresponding to 1 extra share for every 10 purchased up to a maximum of 5 extra shares.

- a share protected formula. In this formula, the employee initial investment is guaranteed; the employee receives 1.61 times the "protected average increase " in the Thales share price over the lock-up period. In return, he gives up the dividends issued by Thales during the lock-up period and the discount (15% of the reference price on the shares acquired by the FCPE) as well as part of the performance.

The cost of the classic share plan is valued taking into account the five years lock-up period, as recommended by the CNC (Conseil National de la Comptabilité). The CNC approach values the restricted shares through a replication strategy whereby the employee would sell the restricted shares forward at the end of the five years lock-up period, borrow enough money to buy unrestricted shares immediately, and use the proceeds of the forward sell to finance the loan. In the case of the share protected formula, the approach is to determine the benefit provided to employee who would sell the option corresponding to the structuration, less the financing cost of the acquired shares and the structuring fees.

The result is a total cost of € 0.5 million.

Plan features:	**Classic share formula**		**Share protected formula**
	Discounted shares	**Employer's contribution**	
Launch date	11 May 2011		
Plan maturity	5 years		
Reference price	€ 28.877		
Number of shares subscribed*	530,769	22,314	107,554
Discount to face value	20%	100%	15%
Subscription price	€ 23.11	--	€ 24.55

Assumptions:	**Classic share formula**		**Share protected formula**
	Discounted shares	**Employer's contribution**	
Interest rate on market participant (in fine)	**6.73%**		
Five years risk-free rate	**2.91%**		
Interest rate for borrowing securities (repo)	**1.00%**		
Multiple	**--**	**--**	**1.61**
Structuring fees	**--**	**--**	**3%**
Cost of the lock-up	**24.75%**	**24.75%**	**--**
Opportunity gain	**N/A**	**N/A**	**--****
Total cost for the Group (% discount)	**--****	**75.25%**	**--****
Total cost for the Group (€ million)	**--**	**0.5**	**--**

* Moreover, a specific offer was opened to UK employees through a "Share Incentive Plan" whose features are :
- Subscription by employees is limited to £ 1,500;
- The final amount of subscriptions will only be known on 31 October 2011;
- The employee will benefit from employer's contributions of one extra share for every five purchased;
- The value of shares purchased will be to the lowest opening price of 22 June 2011 and 31 October 2011;
- Shares delivery is to be made on 3 November 2011;
- The number of shares offered (including employer's contributions in shares) is 52,000 shares.

** Because negative.

• **Expenses related to share-based payments**:

Grant date	Initial number of options / shares	Fair value at grant date	Fair value at 30/06/11	2011 First Half expense	2010 First Half expense	2010 Full Year expense
09/11/06	2,223,950	(23.5)	--	--	0.5	0.7
04/07/07	1,654,530	(15.6)	--	0.2	0.7	1.1
01/07/08	1,688,076	(11.2)	(0.4)	0.5	1.0	1.9
25/11/08	71,700	(0.3)	--	--	0.1	0.1
25/06/09	1,600,340	(11.2)	(1.8)	1.2	2.6	5.1
23/09/10	471,850	(2.8)	(1.8)	0.7	--	0.3
Total options			**(4.0)**	**2.6**	**4.9**	**9.2**
04/07/07	312,435	(11.5)	--	0.9	1.5	3.0
01/07/08	317,705	(9.3)	(2.3)	0.9	1.2	2.4
25/06/09	334,980	(8.7)	(4.3)	1.1	1.1	2.2
23/09/10	631,730	(13.6)	(11.0)	1.7	--	0.9
Total free shares			**(17.6)**	**4.6**	**3.8**	**8.5**
Company savings			**--**	**0.5**	**--**	**--**
Total			**(21.6)**	**7.7**	**8.7**	**17.7**

c) Treasury shares

Thales Parent Company held 3,688,399 of its own shares at 30 June 2011 (3,717,478 at 31 December 2010). In the consolidated financial statements, treasury shares are subtracted from consolidated equity for an amount of € -139.8 million at 30 June 2011 (€ -140.3 million at 31 December 2010).

16. RESERVES FOR CONTINGENCIES

Reserve on contingencies and losses on completion relating to construction contracts are classified within "Construction Contracts" balance sheet items.
Reserves for contingencies presented below include provisions on other contracts (IAS 18 - sale of goods and services).

	31/12/10	Reclas-sifications**	Increase	Utilisation	Reversal	Scope and exchange rate var.	30/06/11
Restructuring	**140.1**	(0.5)	78.7	(43.1)	(1.8)	(0.6)	**172.8**
Litigation	**298.1**	19.2	11.3	(9.8)	(7.7)	(10.9)	**300.2**
Guarantees	**274.6**	17.2	47.7	(47.3)	(8.4)	(3.9)	**279.9**
Losses at completion	**180.3**	(40.9)	33.0	(44.4)	(3.4)	(1.5)	**123.1**
Provisions on contracts	**195.6**	(46.9)	30.1	(21.5)	(8.1)	(2.3)	**146.9**
Other *	**369.6**	(60.4)	31.0	(29.9)	(5.0)	(2.5)	**302.8**
Total	**1,458.3**	**(112.3)**	**231.8**	**(196.0)**	**(34.4)**	**(21.7)**	**1,325.7**

* Includes technical provisions of insurance companies, provisions for tax and social risks, liability guarantees, environment and others.
** Reclassifications within the provisions or to construction contracts balance sheet items.

17. NET FINANCIAL DEBT

	30/06/11	31/12/10
Long-term financial debt	1,380.5	1,434.1
Short-term financial debt	1,311.9	973.6
Current accounts payable with affiliated companies	234.4	256.1
Fair value of derivatives: interest rate risk management (a)	(8.8)	(7.6)
Total gross financial debt (I)	**2,918.0**	**2,656.2**
Current accounts receivable with affiliated companies	87.6	88.8
Marketable securities	7.8	7.9
Cash at bank and equivalents (b)	2,648.1	2,750.5
Cash and other short-term financial assets (II)	**2,743.5**	**2,847.2**
Net financial debt (I-II)	**174.5**	**(191.0)**

(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. At 30 June 2011 this amount included € 11.6 million reported in non-current liabilities (€ 12.7 million at 31 December 2010), € 1.6 million in non-current assets (€ 8.7 million at 31 December 2010) and € 18.8 million in current assets (€ 11.6 million at 31 December 2010).

(b) Of which € 1,324.7 million debt securities, mutual funds within 3 months and other short term investments (€ 1,389.0 million at December 31, 2010).

Gross financial debt :	30/06/11	31/12/10
Bond, maturity 2016	583.2	582.0
Bond, maturity 2013	599.3	605.4
Bond, maturity 2011	789.7	782.5
Commercial paper	351.1	49.8
Project financing debt	170.3	191.1
Borrowings from financial institutions	44.4	53.2
Other borrowings	67.9	47.3
Capital lease obligations	17.8	18.6
Current accounts with affiliated companies	234.4	256.1
Bank overdrafts	35.0	44.7
Accrued interest	33.7	33.1
Fair value of derivatives: interest rate risk management	(8.8)	(7.6)
Gross financial debt	**2,918.0**	**2,656.2**

Nature of borrowings:	Nominal value	Maturity date	Rate			
			Nature		Nominal /	Effective (excluding effect of hedging)
Bond, maturity date 2016	€ 600 M	October 2016	Fixed	Including € 400 M swapped to floating rate	2.75%	2.912%
Bond, maturity date 2013	€ 600 M	April 2013	Fixed	Including € 200 M swapped to floating rate	4.375%	4.576%
Bond, maturity date 2011	€ 500 M € 275 M (Jan 09)	July 2011	Fixed	Including € 575 M swapped to floating rate	4.375%	4.478% 5.750%
Treasury notes	Borrowings issued at fixed rates, variable rates processed by interest rate swaps. Given their short term, these loans are treated as floating rate loans.					
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.					

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 € 1.7 million in the first half of 2011, € 18.3 million in the first half of 2010 and € 43.4 million in 2010.

b) Net financial investment

Investments in subsidiaries and associates	**2011 First half**	**2010 First half**	**2010 Full year**
Vega Space Ltd & Elsa Datamat (via Telespazio 33%)	(17.6)	--	--
Société Européenne de Systèmes Optiques	(14.6)	--	--
Advanced Acoustic Concepts, Inc (49%)	--	--	(14.1)
Other	(5.0)	(6.1)	(8.6)
Investments in subsidiaries and associates	**(37.2)**	**(6.1)**	**(22.7)**
- Cash position of companies acquired	--	--	2.7
Investments in subsidiaries and associates, net	**(37.2)**	**(6.1)**	**(20.0)**

Disposals of subsidiaries and affiliates:	**2011 First half**	**2010 First half**	**2010 Full year**
Camelot Group Plc	--	--	87.7
Indra Espacio (50% of the price- balance paid in January 2011)	13.1	--	13.1
Faceo (Repayment of the credit set-up in 2007 for the disposal to Apax Partners).	--	--	7.5
Other	6.5	0.9	2.9
Disposals of subsidiaries and affiliates	**19.6**	**0.9**	**111.2**
- Cash position of companies sold	--	--	(3.8)
Disposals of subsidiaries and affiliates, net	**19.6**	**0.9**	**107.4**

c) Increase (decrease) in shareholders' equity and non controlling interests

	2011 First half	**2010 First half**	**2010 Full year**
Increase in capital / exercise of stock options	0.2	5.5	5.7
Sale (purchase) of treasury shares	0.9	(5.2)	(4.5)
Total	**1.1**	**0.3**	**1.2**

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 decision of the Paris Court of Appeal on 9 June 2011, rejecting the petition filed by the company to set aside the award handed down on 3 May 2010 in the arbitration against the Republic of China (Taiwan), in relation to the procurement of six Lafayette-class frigates. This award was made as a result of an alleged breach of the terms pertaining to the use of intermediaries.

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 of other related costs, bearing interest as from 3 May 2010, i.e. a total of around € 630 million (including interest).

The decision of the Court of Appeal led Thales to disburse on 11 July 2011 an amount of € 166 million, i.e. 27.46% of the total, corresponding to its industrial stake in the supply contract. This payment is neutral on the company's financial results, as this litigation had already been fully provisioned in previous years.

Thales has also been informed by DCNI that the Republic of China Navy (Taiwan) initiated arbitration proceedings against DCNI during the second half of 2010 with respect to a contract related to the contract mentioned above. This arbitration is related to an alleged breach of the terms pertaining to the use of intermediaries contained in the contract. In its 2010 financial statements, Thales has booked a provision of € 15 million, which corresponds to the company's industrial share in the related contract.

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 2011.

20. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in the notes to 2010 consolidated financial statements (note19) included in the registration document.

Revenues with French Government amounted to € 991.8 million in the first half of 2011 (€ 869.8 million in the first half of 2010).

At 30 June 2011, overdue receivables bearing interests from the French defence procurement agency amounted to € 126.6 million (€ 450.6 million at 30 June 2010 and € 96.5 million at 31 December 2010).

21. EVENTS AFTER THE BALANCE SHEET DATE

The company is not aware of any significant events that occurred since closing the accounts, except those mentioned in notes 2a and 19.

THIS IS A FREE TRANSLATION INTO ENGLISH OF THE STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS 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 STANDARDS APPLICABLE IN FRANCE. THIS REPORT ALSO INCLUDES INFORMATION RELATING TO THE SPECIFIC VERIFICATION OF INFORMATION GIVEN IN THE GROUP'S INTERIM MANAGEMENT REPORT.

Thales

Head office : 45, rue de Villiers 92200 Neuilly-sur-Seine
Public Company with capital of €606,958,071
Siret n°: 552 059 024

Period from January 1 to June 30, 2011

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

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92400 Courbevoie
S.A. au capital de € 8.320.000

Commissaire aux Comptes
Membre de la compagnie
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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, 2011

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, 2011, 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 2.a) "Main events of 2011 first half" to the condensed half-yearly consolidated financial statements which details the background of the 2011 first half closing and describes the developments of the discussions between Thales and its clients about the contracts Meltem and A400M;

- 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 28, 2011

The statutory auditors
French original signed by

MAZARS	ERNST & YOUNG Audit
Jean-Louis Simon	Michel Gauthier

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