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Half-yearly financial report 2013

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Half-yearly financial report 2013

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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 2013 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, 25 July 2013

Jean-Bernard Lévy
Chairman & Chief Executive Officer

REPORT ON 2013 FIRST-HALF BUSINESS ACTIVITY AND RESULTS

In the first six months of 2013, results improved further thanks to the ongoing performance plan and the positive trend in sales. This encouraging performance enables the Thales Group to confirm all its 2013 objectives.

Adjusted key figures[1]

in millions of euros	H1 2013	H1 2012	*Total change*	***Organic change***[2]
Order intake	**5,728**	**6,115**[5]	-6%	**-3%**
Order book[3]	**28,946**	**29,849**[4]	-3%	**-2%**
Sales	**6,473**	**6,413**	+1%	**+4%**
EBIT[1] ***in % of sales***	**360** **5.6%**	**338** **5.3%**	+7%	**+9%**
Adjusted net income[1]	**225**	**215**	+5%	
Adjusted net income per share[1]	**1.12**	**1.08**	+4%	
Consolidated net income	**190**	**162**	+17%	
Net cash	**881**	**607**		

[1] In order to enable better monitoring and comparison of its financial and operating performance, Thales presents an adjusted net income, which is not strictly a GAAP measure, excluding non-operating and non-recurring items. Details of these adjustments can be found in the appendix.
[2] In this press release, "organic" means "on a like-for-like basis and at constant exchange rates".
[3] In 2013, the Group revised the rules for valuing the order book, especially in civil avionics, so that the approach provides a better reflection of the economic reality.
[4] Order book at 31 December 2012.

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Presentation of financial information

Accounting policies

The summary consolidated financial statements at 30 June 2013 have been drafted in accordance with IAS 34 (Interim Financial Reporting) and IFRS standards as adopted by the European Union on 30 June 2013 (available on http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm).

The interim financial statements follow accounting rules and methods identical to those adopted for the annual financial statements drawn up on 31 December 2012, as detailed in the 2012 registration document (note 1 of the notes to the consolidated financial statements), with the exception of the points described in paragraph 1.2 of the interim condensed consolidated financial statements at 30 June 2013, resulting from the first-time application of IAS 19 revised ("Employee Benefits").

Adjusted income statement

In order to better monitor and compare its financial and operating performance, Thales prepares an adjusted net income, a non-GAAP measure, which excludes non-operating and non-recurring items.

Thales excludes from the adjusted net income the "disposal of assets, changes in scope of consolidation and other" (as disclosed in the consolidated financial statements), "changes in fair value derivative exchange instruments" (booked in other financial income (expense) in the consolidated financial statements), actuarial gains/losses on other post-retirement benefits booked in "finance costs on pensions and other employee benefits" in the consolidated financial statements, net of corresponding tax impacts.

Readers are reminded that only the interim condensed consolidated financial statements are subject to a limited review by the Group's statutory auditors at 30 June, including EBIT provided in the adjusted data described in Note 3 "Segment Information" of the consolidated financial statements. Adjusted financial data other than that provided in Note 3 "Segment Information" of the consolidated financial statements is subject to the verification procedures applicable to all of the information provided in this report.

The impact of these adjustment entries on the income statement at 30 June 2013 and 30 June 2012 is set out in the following tables:

- Impact of adjustment entries on the income statement H1 2013 :

in millions of euros	Consolidated income statement H1 2013	Adjustments				Adjusted income statement H1 2013
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	*Gain (loss) on disposal of assets and other*	Change in fair value of derivative exchange instruments	Actuarial gains/losses on other post-retirement benefits	
Sales	**6,473**					**6,473**
Cost of sales	(4,970)					(4,970)
R&D	(307)					(307)
Selling, general and administrative expenses	(783)					(783)
Restructuring costs	(53)					(53)
Amortisation of intangible assets acquired (PPA)	(49)	49				-
Income from operations	**311**	**49**				**360**
Impairment of non-current operating assets						
Disposal of assets and other	10		(10)			-
Income of operating activities	**321**	**49**	**(10)**			**360**
Cost of net financial debt	*(2)*					*(2)*
Other financial income (expense)	*(16)*			*14*		*(2)*
Net financial expense	(18)			*14*		(4)
Finance costs on pensions and other employee benefits	(40)				*5*	(35)
Income tax	(85)	(17)	*1*	(5)	(2)	(108)
Share in income (loss) of equity affiliates	12					*12*
Net income (loss)	**190**	**32**	**(9)**	**9**	**3**	**225**

* Impact of adjustment entries on the income statement H1 2012 :

in millions of euros	Consolidated income statement H1 2012[1]	Adjustments				Adjusted income statement H1 2012
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	*Gain (loss) on disposal of assets and other*	Change in fair value of derivative exchange instruments	Actuarial gains/losses on other post-retirement benefits	
Sales	**6,413**					**6,413**
Cost of sales	(4,959)					(4,959)
R&D	(304)					(304)
Selling, general and administrative expenses	(772)					(772)
Restructuring costs	(40)					(40)
Amortisation of intangible assets acquired (PPA)	(55)	55				-
Income from operations	**283**	**55**				**338**
Impairment of non-current operating assets	-					-
Disposal of assets and other	(4)		4			-
Income of operating activities	**279**	**55**	**4**			**338**
Cost of net financial debt	*(8)*					*(8)*
Other financial income (expense)	*(16)*			*13*		*(3)*
Net financial expense	(24)			*13*		(11)
Finance costs on pensions and other employee benefits	(49)				7	(42)
Income tax	(55)	(19)	(1)	(4)	(2)	(81)
Share in income (loss) of equity affiliates	11					11
Net income (loss)	**162**	**36**	**3**	**9**	**5**	**215**

[1] After adjustments taking into account the first application of the IAS19 revised accounting standard.

Order intake

in millions of euros	**H1 2013**	**H1 2012**	*Total change*	***Organic change[1]***
<u>**Order intake**</u>				
Aerospace	**1,767**	**1,927**	-8%	***-2%***
Transport	**736**	**845**	-13%	***-12%***
Defence & Security	**2,994**	**3,018**	-1%	***+1%***
DCNS	**202**	**283**	-29%	***-29%***
Other	29	42	n/a	*n/a*
Total	**5,728**	**6,115**	-6%	***-3%***

New orders in the first half of 2013 totalled **€5,728 million**, down 6% (-3% on an organic basis[1]) compared to the same period in 2012. At 30 June 2013, **the consolidated order book** amounted to **€28,946 million**, still representing around two years of sales. The book-to-bill ratio was 0.88 in the first half of 2013 (0.99 for the second quarter of 2013 only).

Eight large **orders, each valued at more than €100 million**, were received in the first half. In the Aerospace segment, the Group won two important contracts: one for simulation and training services for UK A400M crews and the other from the European Space Agency (ESA) as prime contractor for the 2016 and 2018 missions of the Exomars scientific programme. In Transport, two major mainline rail signalling orders were signed, in South Africa and Egypt. In Defence & Security, Thales won a sensor system support contract for the UK Royal Navy, a contract for a French military communication network, and two contracts in the Middle East, one for air defence and one for critical infrastructure security. **Orders for amounts of less than €10 million** continue to account for over half of the orders by value.

Over the first half of 2013, **order intake in emerging markets** rose by 6% organically, reaching **€1,594 million** and representing 28% of total order intake, vs. 25% over the first half of 2012.

Orders for the **Aerospace** segment amounted to **€1,767 million**, compared to €1,927 million at the end of June 2012 (-2% on an organic basis). The Avionics business benefited from the above-mentioned simulation contract for over €100 million and the continued growth of onboard avionics activities for Airbus and regional airlines, as well as support activities. However, in-flight entertainment orders failed to match the high level witnessed in the first half 2012. The Space business saw an increase in orders, with several successes in

[1] The foreign exchange impact on order intake was negative at -€47 million, primarily because of the appreciation of the Australian dollar, the pound sterling and the American dollar, to a lesser extent, against the euro.

observation and exploration satellites from institutional clients (Exomars programmes for the ESA and Cosmo-Skymed for the Italian space agency).

In **Transport**, orders totalled **€736 million**, compared to €845 million in the first half of 2012, which had benefited from major orders (Denmark, Singapore). Several commercial successes should be noted in the first half: mainline rail signalling contracts in South Africa (Cape region), Egypt (Cairo–Alexandria line) and Poland, and urban rail signalling in Canada (Ottawa metro) and China.

In **Defence & Security**, the level of orders was stable at **€2,994 million** compared to €3,018 million at the end of June 2012. Orders for Secure Information and Communication Systems were down, especially in radio activities which had the first tranche of the software radio Contact contract notified in France in the first half of 2012. Despite recent successes in air traffic management in Africa and air defence in the Middle East, Land & Air Systems saw a decline in orders compared to the first half of 2012 which had benefited from a significant radar systems contract in the Netherlands and several export naval contracts. However, orders for Mission Defence Systems increased sharply, driven by the sensor system support contract for the UK Royal Navy.

Orders at **DCNS** totalled **€202 million** at 30 June 2013 compared to €283 million at 30 June 2012. The main orders in the period were follow-on contracts for the French FREMM multi-mission frigates and submarine programmes.

Sales

in millions of euros	**H1 2013**	**H1 2012**	*Total change*	***Organic change*** [1]
Sales				
Aerospace	**2,027**	**2,051**	-1%	***+5%***
Transport	**603**	**640**	-6%	***-5%***
Defence & Security	**3,229**	**3,189**	+1%	***+3%***
DCNS	**571**	**489**	+17%	***+17%***
Other	43	44	n/a	*n/a*
Total	**6,473**	**6,413**	+1%	***+4%***

[1] The foreign exchange impact on sales was negative at -€54 million, primarily because of the appreciation of the Australian dollar and the pound sterling against the euro.

Group sales totalled **€6,473 million** at 30 June 2013, which represents an increase of **4%** at constant scope and exchange rates[1].

In the **Aerospace** segment, sales totalled **€2,027 million**, up **5%** on an organic basis compared to the first half of 2012. At constant scope, Avionics activities significantly increased over the half-year, particularly flight avionics, both in original equipment and support activities, as well as in-flight entertainment. Military simulation activities also recorded increased sales (A400M, FSTA air tankers in the UK). In addition, tubes and imaging activities also made a positive contribution to sales. Space activities showed a slight decline in sales, as the increase in observation and exploration activities did not offset the downturn in telecommunications activities after the completion of a number of contracts.

The **Transport** segment posted sales of **€603 million**, down compared to 30 June 2012 (€640 million). The orders booked over the last eighteen months have not yet had a significant impact on sales, especially in the mainline rail signalling activity.

Sales in the **Defence & Security** segment came to **€3,229 million** in the first six months of the year, up **3%** on an organic basis. In particular, the Mission Defence Systems activities saw a major advance in the period, thanks particularly to increased sales for the French Rafale programme (ramp up of the 4th tranche, support activities), UK tactical drones and sonars. Secure Information and Communication Systems recorded a slight increase in the period, boosted by radio communication (ramp up of Contact contract in France) and cyber-security activities. By contrast, Land & Air Systems recorded lower sales at 30 June 2013, particularly in air defence and weapons activities.

DCNS sales were **€571 million** at 30 June 2013, up 17% compared to 30 June 2012; in particular sales were higher for the French FREMM frigate programme and the Russian BPC projection and command ship.

[1] The foreign exchange impact on sales was negative at -€54 million, primarily because of the appreciation of the Australian dollar and the pound sterling against the euro.

Adjusted results

Adjusted income from operations / EBIT

in millions of euros	H1 2013	H1 2012	*Total change*	*Organic change*
EBIT				
Aerospace	**168**	**117**	+44%	***+47%***
in % of sales	*8.3%*	*5.7%*		
Transport	**6**	**24**	-75%	***-72%***
in % of sales	*1.0%*	*3.8%*		
Defence & Security	**198**	**191**	+4%	***+5%***
in % of sales	*6.1%*	*6.0%*		
DCNS	**36**	**37**	-4%	***-4%***
in % of sales	*6.3%*	*7.6%*		
Other	**-48**	**-31**	n/a	*n/a*
Total	**360**	**338**	+7%	***+9%***
in % of sales	**5.6%**	**5.3%**		

EBIT, at **€360 million**, represented 5.6% of sales compared to €338 million (5.3% of sales) in the first half of 2012. This 6.6% increase in EBIT (+8.7% on an organic basis), despite higher restructuring costs than in the first half of 2012 (€53 million vs. €40 million), reflects the ongoing deployment of Thales's performance plan. The Group has also maintained its self-funded R&D effort, which grew by 7% on an organic basis.

EBIT for the **Aerospace** segment continued to rise and came to **€168 million** (8.3% of sales), compared to €117 million (5.7% of sales) in the first half of 2012. In Avionics, despite higher self-funded R&D costs, the marked improvement in results is mainly due to improved project execution and a favourable volume impact. Space activities also recorded improved EBIT over the period thanks to better project execution.

The **Transport** segment recorded **€6 million** of EBIT (1% of sales), down compared to 30 June 2012 (€24 million, 3.8% of sales). The decline in results compared to the same period in the previous year is due to an unfavourable mix and volume effect over this first half-year, with the decline in sales on mainline rail signalling, as well as an unsatisfactory execution on some contracts. However, over the whole year, the Transport segment is expected to post results close to the 2012 level.

EBIT for the **Defence & Security** segment slightly improved to **€198 million** (6.1% of sales) over the six-month period, compared to €191 million at 30 June 2012 (6% of sales). Defence Mission Systems recorded higher EBIT over the first half, thanks to lower project variances and a positive volume effect. EBIT for Secure Information and Communication Systems also increased at 30 June 2013, despite higher restructuring costs. By contrast, EBIT for Land & Air Systems was lower, mainly due to an unfavourable volume effect in the period.

DCNS posted EBIT of **€36 million** at 30 June 2013, down 4% compared to 30 June 2012. The lower operating margin during this half was mainly due to difficulties in the execution of civil nuclear projects.

Adjusted income of operating activities

Adjusted income of operating activities came to **€360m** compared with €338m at 30 June 2012 (+7%), in line with the increase in EBIT, as disposal of assets, change in scope and other was limited, at €10m compared with -€4m at 30 June 2012.

Adjusted financial result

The adjusted net financial expense came to **–€4 million** compared to –€11 million at the end of June 2012. This notably included the favourable conditions for the bond issued in April 2013 to refinance the March 2009 issue. **Adjusted finance costs of pension and other benefits** came to **-€35 million** compared to **-**€42 million at the end of June 2012.

Adjusted net income

Income from equity-accounted companies was stable at **€12 million**, compared to €11 million in the same period the previous year.

The first half of 2013 closed with **adjusted net profit, Group share** of **€225 million** (compared to €215 million in the first half of 2012), after adjusted net income tax of €108 million compared to €81 million in the first half of 2012, giving an effective tax rate of 33% compared to 28% in the same period of the previous year. **Adjusted net earnings per share** came to **€1.12** compared to €1.08 at the end of June 2012**.**

Consolidated results

EBIT

Consolidated EBIT (after restructuring) came to **€311m** compared with €283m at 30 June 2012. This increase reflects the points mentioned above (see paragraph “Adjusted income from operations / EBIT), and accounting for the impact of purchase price allocation (PPA), which came to €49m compared with €55m at the end of June 2012.

Income of operating activities

Consolidated income of operating activities came to **€321m**, up significantly from the first half of 2012 (+15%), under the combined effect of the increase in EBIT and recognition of higher gains from disposals, following the revaluation of DCNS’s investment in OpenHydro.

Financial results

Net financial expense came to **-€18m** compared with -€24m at 30 June 2012, especially as a result of the favourable conditions for the April 2013 bond issue to refinance the March 2009 issue. **Other components of the pension expense** came to **-€40m** compared with -€49m at the end of June 2012.

Net income

Consolidated net income, Group share, was up **€190m** at 30 June 2013, compared with €162m at the end of the first half 2012, the tax expense amounting to -€85m compared with -€55m at 30 June 2012.

Financial position at 30 June 2013

Following significant cash receipts at the end of 2012, **free cash-flow from operations**[1] was lower than in the first half of 2012 and came to **-€399 million** compared to -€202 million at 30 June 2012.

in millions of euros	H1 2013	H1 2012
Operating cash flow	**561**	**521**
Change in working capital requirements and in reserves for contingencies	(667)	(464)
Payment of contributions / pension benefits	(60)	(48)
Net financial interest paid	(20)	(21)
Income tax paid	(40)	(53)
Net operating cash flow	**(226)**	**(65)**
Net operating investments	(173)	(137)
o/w capitalized R&D	*13*	*6*
Free operating cash flow	**(399)**	**(202)**
Net (acquisitions)/disposals	(80)	5
Deficit payments on pensions in the UK	(31)	(31)
Dividends	(126)	(106)
FX and others	(11)	35
Change in net cash	**(647)**	**(299)**

At the end of June 2013, **net cash** came to **€881 million** compared to net cash of €1,528 million at the end of December 2012 and €607 million at the end of June 2012.

Group **equity** amounted to **€3,635 million** compared to €3,541 million[2] at the end of December 2012.

[1] Operating cash flow + changes in working capital requirement (WCR) and reserves for contingencies – net financial interests paid – payment of pension benefits (excluding deficit payments on pension in the United Kingdom) – tax – net operating investments.
[2] Restated to take into account of the application of the accounting standard IAS19R.

Related party transactions

Main related party transactions are disclosed in note 19 to 2012 consolidated financial statements included in the 2012 registration document.

Sales with the French Ministry of Defence amounted to €1,339m in the first half of 2013 compared with €1,265m in the first half of 2012.

At 30 June 2013, mature receivables bearing interest on overdue payments from the French defence procurement agency amounted to €50m (compared with €63m at 30 June 2012 and €185m at 31 December 2012).

Major risk and uncertainties in the second half of 2012 fiscal year

There has been no relevant evolution of the risks and uncertainties described in the Directors' report on year 2012 (« 1.1.2 Risk factors » page 15 *et seq* of the 2012 registration document filed with the Autorité des Marchés Financiers – *the French Financial Markets Authority* – on 3 April 2013).

Outlook for the current year[1]

Thales confirms the outlook described in its 28 February 2013 press release issued for 2012 annual results.

Despite the continuing unfavourable economic environment in Europe, Thales is anticipating a slight upturn in orders in 2013, largely due to the expected performance in the emerging countries.

Sales should remain stable overall, with growth in civil activities offsetting a less favourable situation in defence.

Lastly, a continuing drive to improve performance is expected to enable the Group to post a further improvement in EBIT[2], which should increase between 5% and 8% compared to 2012.

[1] Excluding exceptional export contracts.
[2] After restructuring and before impact of purchase price allocation (PPA).

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Appendix

Operating segments (*IFRS 8*)

- **- Aerospace** Avionics, Space
- **- Transport** Ground Transportation Systems
- **- Defence & Security:** Secure Information and Communications Systems, Land & Air Systems, Defence Mission Systems
- **- DCNS:** DCNS proportionally consolidated at 35%

Order intake by destination – H1 2013

(in millions of euros)	H1 2013	H1 2012	*Reported change*	*Organic change*	H1 2013 in %
France	1,320	1,561	*-15%*	*-14%*	23%
United Kingdom	911	371	*+145%*	*+154%*	16%
Other European countries	1,090	1,481	-26%	-22%	19%
Europe	**3,321**	**3,413**	***-3%***	***+1%***	**58%**
United States and Canada	**442**	**655**	***-33%***	***-32%***	**8%**
Australia & New Zealand	**371**	**489**	**-24%**	**-21%**	**6%**
Asia	683	815	*-16%*	*-11%*	12%
Middle East	633	564	*+12%*	*+13%*	11%
Rest of the World	278	179	*+55%*	*+59%*	5%
Emerging markets	**1,594**	**1,558**	***+2%***	***+6%***	**28%**
Order intake	**5,728**	**6,115**	***-6%***	***-3%***	**100%**

Consolidated sales by destination – H1 2013

(in millions of euros)	**H1 2013**	**H1 2012**	*Reported change*	*Organic change*	**S1 2013 en %**
France	1,961	1,927	*+2%*	*+4%*	*30%*
United Kingdom	765	763	*+0%*	*+4%*	12%
Other European countries	1,178	1,298	-9%	-4%	18%
Europe	**3,904**	**3,988**	***-2%***	***+1%***	**60%**
United States and Canada	**699**	**620**	***+13%***	***+13%***	**11%**
Australia & New Zealand	**361**	**351**	**+3%**	**+7%**	**5%**
Asia	890	844	*+6%*	*+9%*	14%
Middle East	362	316	*+15%*	*+18%*	6%
Rest of the World	257	294	*-12%*	*-12%*	4%
Emerging markets	**1,509**	**1,454**	***+4%***	***+6%***	**24%**
Sales	**6,473**	**6,413**	***+1%***	***+4%***	**100%**

Order intake and sales – Q2 2013

(in millions of euros)	**Q2 2013**	**Q2 2012**	*Total change*	***Organic change***
Order intake				
Aerospace	**863**	**977**	-12%	***-2%***
Transport	**425**	**218**	+95%	***+100%***
Defence & Security	**2,254**	**2,042**	+10%	***+13%***
DCNS	**125**	**234**	-47%	***-47%***
Other	11	20	n/s	***n/s***
Total	**3,678**	**3,491**	**+5%**	***+10%***
Sales				
Aerospace	**1,169**	**1,167**	+0%	***+7%***
Transport	**363**	**385**	-6%	***-4%***
Defence & Security	**1,846**	**1,875**	-2%	***+1%***
DCNS	**313**	**275**	+14%	***+14%***
Other	27	27	n/s	*n/s*
Total	**3,718**	**3,729**	**-0%**	***+3%***

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2013

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INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)

	Notes	2013 First half	2012 First half *	2012 Full year *
Sales	**note 3**	**6,473.3**	**6,412.7**	**14,158.1**
Cost of sales		(4,970.0)	(4,958.9)	(10,868.1)
Research and development expenses		(306.5)	(304.2)	(687.4)
Marketing and selling expenses		(472.1)	(466.7)	(942.4)
General and administrative expenses		(311.7)	(304.8)	(615.2)
Restructuring costs		(52.7)	(40.3)	(117.8)
Amortisation of intangible assets acquired (PPA)	note 3	(48.6)	(55.1)	(111.5)
Income from operations (EBIT)	**note 3**	**311.7**	**282.7**	**815.7**
Impairment of non-current operating assets	note 4	--	--	(14.7)
Disposal of assets, change in scope of consolidation and other	note 5	9.7	(3.4)	123.4
Income of operating activities		**321.4**	**279.3**	**924.4**
Financial interest on gross debt		(18.0)	(30.6)	(56.1)
Financial income from cash at bank and equivalents		15.9	22.7	42.5
Cost of net financial debt		(2.1)	(7.9)	(13.6)
Other financial income (expense)	note 6	(16.4)	(16.0)	(52.9)
Finance costs on pensions and other employee benefits	note 7	(40.7)	(49.4)	(99.0)
Income tax	note 8	(84.8)	(55.2)	(196.9)
Share in net income (loss) of equity affiliates		12.4	11.1	23.8
Net income (loss)		**189.8**	**161.9**	**585.8**
Attributable to:				
Owners of the parent company		**189.5**	**162.4**	**585.5**
Non-controlling interests		0.3	(0.5)	0.3
Basic earnings per share (in euros)	note 9	0.95	0.82	2.94
Diluted earnings per share (in euros)	note 9	0.95	0.82	2.94

* Restated to take into account IAS 19 R first adoption (see note 1.2)

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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ Million)

	2013 First half		2012 First half *		2012 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) for the period	**189.5**	*0.3*	**162.4**	*(0.5)*	**585.5**	*0.3*
Cumulative translation adjustments	(57.4)	*(0.2)*	41.0	--	7.4	*(0.1)*
Net foreign investments' hedge	1.9	--	(1.2)	--	(0.9)	--
Deferred tax	(0.6)	--	0.4	--	0.3	--
Net (a)	(56.1)	*(0.2)*	40.2	--	6.8	*(0.1)*
Cash flow hedge	(16.4)	--	(66.1)	--	68.4	--
Deferred tax	2.5	--	14.0	--	(26.9)	--
Net (b)	(13.9)	--	(52.1)	--	41.5	--
Financial assets available for sale	0.4	--	0.3	--	0.5	--
Deferred tax	--	--	--	--	--	--
	0.4	--	0.3	--	0.5	--
Items to be subsequently reclassified to P&L	**(69.6)**	***(0.2)***	**(11.6)**	--	**48.8**	***(0.1)***
Actuarial gains & losses	60.0	*(0.1)*	(471.7)	*(1.1)*	(321.9)	*(0.8)*
Deferred tax	6.5	--	68.7	*0.3*	77.1	*0.2*
Items that will not be reclassified to P&L	**66.5**	***(0.1)***	**(403.0)**	***(0.8)***	**(244.8)**	***(0.6)***
Other comprehensive income (loss) for the period, net of tax	**(3.1)**	***(0.3)***	**(414.6)**	***(0.8)***	**(196.0)**	***(0.7)***
Total comprehensive income (loss) for the period	**186.4**	***0.0***	**(252.2)**	***(1.3)***	**389.5**	***(0.4)***

* Restated to take into account IAS 19 R first adoption (see note 1.2)

The contribution of companies consolidated under the equity method registered in the "Other comprehensive income" amounted to:

(a) € -0.1 million in the first half of 2013, € +2.8 million in the first half of 2012 and € -1.4 million in 2012 included in the cumulative translation adjustment change ;

(b) € -10.7 million in the first half of 2013, € -12.8 million in the first half of 2012 and € -16.3 million in 2012 included in the cash flow hedge reserve variation.

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INTERIM CONSOLIDATED BALANCE SHEET

(€ Million)

ASSETS	Notes	30/06/2013	31/12/2012*	01/12/2012*
Goodwill, net	note 10	3,484.4	3,411.2	3,402.6
Other intangible assets, net	note 11	1,148.4	1,172.0	1,329.5
Tangible assets, net	note 11	1,501.7	1,505.3	1,493.9
Total non-current operating assets		6,134.5	6,088.5	6,226.0
Share in net assets of equity affiliates		145.1	148.6	157.5
Available-for-sale investments		140.1	207.0	117.8
Loans and other non-current financial assets		127.5	108.6	138.6
Fair value of interest rate derivatives	note 14	21.1	23.5	6.5
Other non-current financial assets		185.8	148.4	244.5
Total non-current financial assets		619.5	636.1	664.9
Deferred tax assets		991.0	995.7	984.5
Non current assets		**7,745.0**	**7,720.3**	**7,875.4**
Inventories and work in progress		2,759.6	2,478.9	2,426.9
Construction contracts: assets		2,041.5	2,082.6	2,305.3
Advances to suppliers		859.9	785.6	896.6
Accounts, notes and other current		4,740.0	4,831.8	4,709.5
Fair value of foreign currency derivatives	note 15	108.0	124.1	122.5
Total current operating assets		10,509.0	10,303.0	10,460.8
Current tax receivables		49.0	55.7	50.1
Loans and other current financial assets	note 14	276.2	333.4	260.4
Other current financial assets	note 14	169.2	387.0	430.2
Cash at bank and equivalents	note 14	2,226.5	2,518.3	1,923.1
Total current financial assets		2,671.9	3,238.7	2,613.7
Current assets		**13,229.9**	**13,597.4**	**13,124.6**
TOTAL ASSETS		**20,974.9**	**21,317.7**	**21,000.0**

EQUITY AND LIABILITIES	Notes	30/06/2013	31/12/2012*	01/12/2012*
Capital, paid-in surplus and other reserves		3,873.8	3,735.2	3,526.5
Cumulative translation adjustment		(162.3)	(106.2)	(113.0)
Treasury shares		(76.3)	(87.9)	(115.2)
Total attributable to owners of the parent company	note 12	3,635.2	3,541.1	3,298.3
Non-controlling interests		30.8	10.4	10.5
Total equity		**3,666.0**	**3,551.5**	**3,308.8**
Financial debt: long-term	note 14	1,594.2	850.6	1,494.6
Fair value of interest rate derivatives	note 14	7.7	--	--
Pensions and other employee benefits	note 7	1,822.6	1,925.1	1,602.2
Deferred tax liabilities		371.2	383.4	401.1
Non-current liabilities		**3,795.7**	**3,159.1**	**3,497.9**
Advances received from customers on		4,906.8	4,988.4	4,810.3
Refundable grants		178.0	179.6	181.9
Construction contracts: liabilities		1,147.4	1,345.0	1,355.6
Reserves for contingencies	note 13	1,135.1	1,206.5	1,230.5
Accounts, notes and other current payables		5,624.0	5,738.2	5,940.6
Fair value of foreign currency derivatives	note 15	103.9	104.0	178.8
Total current operating liabilities		13,095.2	13,561.7	13,697.7
Current tax payables		54.8	48.1	58.5
Financial debt: short-term	note 14	363.2	997.3	437.1
Current liabilities		**13,513.2**	**14,607.1**	**14,193.3**
TOTAL EQUITY AND LIABILITIES		**20,974.9**	**21,317.7**	**21,000.0**

* Restated to take into account IAS19R first adoption (see note 1.2)

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(€ Million)	Notes	2013 First half	2012 First half*	2012 Full year*
Net income (loss)		**189.8**	**161.9**	**585.8**
Add (deduct):				
Income tax expense (gain)		84.8	55.2	196.9
Cost of net financial debt		2.1	7.9	13.6
Share in net (income) loss of equity affiliates (net of dividends received)		(8.9)	(7.5)	(7.3)
Depreciation and amortisation of tangible and intangible assets	note 11	210.8	227.5	481.0
Provisions for pensions and other employee benefits	note 7	89.5	87.4	166.9
Impairment of non current operating assets	note 4	--	--	14.7
Disposal of assets, change in scope of consolidation and other	note 5	(9.7)	3.4	(123.4)
Net allowances to restructuring provisions		(9.2)	(21.1)	(22.0)
Other items		12.4	5.8	39.8
Operating cash flows bef. working capital changes, interests and tax		**561.6**	**520.5**	**1,346.0**
Change in working capital requirements and in reserves for contingencies	note 15-a	(666.7)	(463.5)	12.8
Payment of contributions / pensions benefits (defined benefit plans):	note 7	(91.2)	(79.4)	(177.0)
- *deficit payment in the UK*		*(31.1)*	*(31.3)*	*(63.5)*
- *future service cash*		*(60.1)*	*(48.1)*	*(113.5)*
Financial interests (paid) received		(20.1)	(20.7)	(36.8)
Income tax (paid) received		(40.2)	(53.5)	(125.1)
Net cash flows from operating activities	**- I -**	**(256.6)**	**(96.6)**	**1,019.9**
Capital expenditure on tangible and intangible assets		(187.6)	(142.8)	(437.3)
Proceeds from disposal of tangible and intangible assets		14.2	6.3	22.4
Net operating investments		**(173.4)**	**(136.5)**	**(414.9)**
Acquisitions of subsidiaries, net of cash acquired	note 15-b	(37.8)	(33.8)	(92.2)
Disposals of subsidiaries, net of cash disposed	note 15-b	--	30.2	234.2
Decrease (increase) in loans and other non current financial assets		(57.0)	65.4	113.7
Decrease (increase) in loans and other current financial assets		278.6	(70.7)	(53.6)
Net financial investment		**183.8**	**(8.9)**	**202.1**
Net cash flows from investing activities	**- II -**	**10.4**	**(145.4)**	**(212.8)**
Dividends paid in cash	note 12-c	(125.8)	(105.6)	(155.4)
Increase in equity (exercise of subscription options)		27.6	--	0.2
Purchase/sale of treasury shares		0.8	14.8	17.8
Increase in financial debt		838.6	153.1	146.4
Repayment of financial debt		(765.7)	(245.8)	(230.6)
Net cash flows from financing activities	**- III -**	**(24.5)**	**(183.5)**	**(221.6)**
Effect of exchange rate variations and other	- IV -	(21.1)	13.2	9.7
Total increase (decrease) in cash at bank and equivalents	**I+II+III+IV**	**(291.8)**	**(412.3)**	**595.2**
Cash at bank and equivalents at beginning of period		2,518.3	1,923.1	1,923.1
Cash at bank and equivalents at end of period		**2,226.5**	**1,510.8**	**2,518.3**

* Restated to take into account IAS19R first adoption (see note 1.2)

The Group net cash position and its change on both periods are presented in note 14-b.

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ Million)

First half 2013 :

	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 31 December 2012	*199,544*	**607.0**	**3,731.6**	**340.6**	**18.7**	**1.6**	**(35.4)**	**(87.9)**	**4,576.2**	**10.2**	**4,586.4**
Restatments IAS 19 R (note 1.2)	--	--	--	(964.3)	--	--	(70.8)	--	(1,035.1)	0.2	(1,034.9)
At 1 January 2013 (restated) *	*199,544*	**607.0**	**3,731.6**	**(623.7)**	**18.7**	**1.6**	**(106.2)**	**(87.9)**	**3,541.1**	**10.4**	**3,551.5**
Net income (loss)	--	--	--	189.5	--	--	--	--	**189.5**	0.3	**189.8**
Other comprehensive income (loss)	--	--	--	66.5	(13.9)	0.4	(56.1)	--	**(3.1)**	(0.3)	**(3.4)**
Total comprehensive income (loss) first half 2013	**--**	**--**	**--**	**256.0**	**(13.9)**	**0.4**	**(56.1)**	**--**	**186.4**	**0.0**	**186.4**
Employee share issues	*1420*	4.3	34.5	--	--	--	--	--	**38.8**	--	**38.8**
Dividends (note 12-c)	--	--	--	(125.8)	--	--	--	--	**(125.8)**	--	**(125.8)**
Share-based payments	--	--	--	7.4	--	--	--	--	**7.4**	--	**7.4**
Acquisitions / disposals of treasury shares	*329*	--	--	(28.8)	--	--	--	11.6	**(17.2)**	--	**(17.2)**
Other	--	--	--	3.2	--	--	--	--	**3.2**	0.2	**3.4**
Changes in scope of consolidation	--	--	--	1.3	--	--	--	--	**1.3**	20.2	**21.5**
At 30 June 2013	*201,293*	**611.3**	**3,766.1**	**(510.4)**	**4.8**	**2.0**	**(162.3)**	**(76.3)**	**3,635.2**	**30.8**	**3,666.0**

First half 2012 :

	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 2012	*198,786*	**607.0**	**3,731.4**	**(20.9)**	**(22.8)**	**1.1**	**(60.4)**	**(115.2)**	**4,120.2**	**9.7**	**4,129.9**
Restatments IAS 19 R (note 1.2)	--	**--**	**--**	(769.3)	--	--	(52.6)	--	**(821.9)**	0.8	**(821.1)**
At 1 January 2012 (restated)*	***198,786***	**607.0**	**3731.4**	**(790.2)**	**(22.8)**	**1.1**	**(113.0)**	**(115.2)**	**3,298.3**	**10.5**	**3,308.8**
Net income (loss), restated (note 1.2)	**--**	**--**	**--**	162.4	**--**	**--**	**--**	**--**	**162.4**	(0.5)	**161.9**
Other comprehensive income (loss), restated (note 1.2)	**--**	**--**	**--**	(403.0)	(52.1)	0.3	40.2	**--**	**(414.6)**	(0.8)	**(415.4)**
Total comprehensive income (loss) first half 2012 (restated)*	--	**--**	**--**	**(240.6)**	**(52.1)**	**0.3**	**40.2**	**--**	**(252.2)**	**(1.3)**	**(253.5)**
Employee share issues	*1*	**--**	**--**	--	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Dividends (note 12-c)	--	**--**	**--**	(105.6)	**--**	**--**	**--**	**--**	**(105.6)**	**--**	**(105.6)**
Share-based payments	**--**	**--**	**--**	6.7	**--**	**--**	**--**	**--**	**6.7**	**--**	**6.7**
Acquisitions / disposals of treasury shares	*382*	**--**	**--**	0.6	**--**	**--**	**--**	9.7	**10.3**	**--**	**10.3**
Other	**--**	**--**	**--**	(1.0)	--	**--**	**--**	**--**	**(1.0)**	(0.3)	**(1.3)**
Changes in scope of consolidation	**--**	**--**	**--**	(12.4)	**--**	**--**	**--**	**--**	**(12.4)**	1.3	**(11.1)**
At 30 June 2012 (restated)*	***199,169***	**607.0**	**3,731.4**	**(1,142.5)**	**(74.9)**	**1.4**	**(72.8)**	**(105.5)**	**2,944.1**	**10.2**	**2,954.3**

* Restated to take into account IAS19R first adoption (see note 1.2)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

On 24 July 2013, the Board of Directors approved and authorised for issue Thales' condensed interim consolidated financial statements for the period ended 30 June 2013.

Thales (parent company) is a listed French *société anonyme*, registered with the Nanterre registrary 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 2013 have been prepared in accordance with IAS 34 "Interim financial reporting" and with IFRS standards as approved by the European Union at 30 June 2013 (available on the following intranet address: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

The interim condensed consolidated financial statements are prepared using accounting policies which are identical to those used to prepare the full-year financial statements at 31 December 2012 (see note 1 of the financial consolidated statements in the 2012 registration document), with the exception of the two following IFRS standards:

- IAS19 "Employee Benefits" (revised) : see paragraph 1.2 hereafter ;
- IFRS 13 "Fair Value Measurement" : this new standard has no impact on the consolidated accounts. Additional information required is presented in note 17.

The specific characteristics for preparing the interim condensed financial statements are the following:

Measurement procedures used for the interim condensed consolidated financial statements:

• *Pension and other employee benefits*

Pension costs for interim periods are calculated on the basis of the actuarial valuations performed at the end of the prior year. If necessary, these valuations are adjusted to take into account curtailments, settlements or other major non-recurring events during the period. Furthermore, amounts recognised in the balance sheet in respect of defined benefit plans are adjusted, if necessary, in order to reflect material changes impacting the yield on investment-grade corporate bonds in the geographic area concerned (the benchmark used to determine the discount rate) and the actual return on plan assets.

• *Income taxes*

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

• *Impairment of goodwill*

Impairment tests are performed for each annual closing using the methodology described in paragraph 1-f of the 2012 registration document, and whenever there is an indication of impairment. Impairment that may be recognised in the first half of the year is not reversible.

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, and particularly in December. The seasonality of 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.

1.2) First-time adoption of Employee Benefits (IAS19 revised)

This revised standard, retrospectively applicable, has the following impacts:

The Group's net obligations are fully recognised at each closing date. Consequently:

- Actuarial gains and losses, so as past service costs not recognised at 1 January 2012 have been booked through retained earnings, net of tax.
- As the "corridor" option is no longer allowed, actuarial gains and losses arising as from 1 January 2012 are recognised in "Other comprehensive income", with no subsequent reclassification to P&L.
- As from 1 January 2012, past service cost must be recognised immediately in P&L at the date the plan amendment occurs. Financial impact is part of income of operating activities (note 5).

In the consolidated income statement:

- Expected return on plan assets is calculated using the same rate as the discount rate used to determine the obligation. Remeasurement related to the actual return is recognised in "Other comprehensive income" and cannot be taken to profit subsequently.
- Only administrative costs related to the cost of managing plan assets can be deducted from actual return on asset.

Because of the retrospective application of the IAS 19 revised standard, and for comparability reasons, the consolidated financial statements of 2012 and of the first half of 2012 have been restated accordingly.

The detailed impacts of the first time adoption of the standard are the following:

- ***Impact on 2012 consolidated equity***

	2012 Full year	2012 First half
Unrecognised actuarial gain/loss	(595.2)	(595.2)
Unrecognised past service cost	(198.2)	(198.2)
Assets ceiling (Netherlands)	(42.4)	(42.4)
Total at 1 January 2012	**(835.8)**	**(835.8)**
Deferred tax	14.7	14.7
Adjustment of Equity at 1 January 2012	**(821.1)**	**(821.1)**
Of which, Retained earnings	*(768.5)*	*(768.5)*
Of which, Cumulative transaction adjustment	*(52.6)*	*(52.6)*
Impact on pensions cost , before tax	52.8	25.2
Tax	(3.0)	(1.4)
2012 Net Income impact	**49.8**	**23.8**
Other comprehensive income (loss), before tax	(322.7)	(472.8)
Tax	77.3	69.0
2012 Other comprehensive income (loss), net of tax	**(245.4)**	**(403.8)**
Changes in exchange rate variation 2012	**(18.2)**	**(30.6)**
Impact on Equity at 31 December 2012	**(1,034.9)**	**(1,231.7)**
Of which, Retained earnings	(964.1)	(1,148.5)
Of which, Cumulative transaction adjustment	(70.8)	(83.2)

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- ***Impact on 2012 provision for pensions and other employee benefits***

2012 Full year	2012 Full year (published)	Adjustments	2012 Full year (restated)
Amount recognised in assets at 1 January	117.0	(117.0)	--
Amount recognised in equity & liabilities at 1January	(883.4)	(718.8)	(1,602.2)
Net obligation at 1 January	**(766.4)**	**(835.8)**	**(1,602.2)**
Current service cost	**(77.2)**	**--**	**(77.2)**
Curtailments and settlements	**--**	**9.3**	**9.3**
Interest cost	(230.4)	--	(230.4)
Expected return on plan assets	162.4	(8.2)	154.2
Net Interest	(68.0)	(8.2)	(76.2)
Administrative costs	--	(7.5)	(7.5)
Schemes amendments, curtailments and settlements	6.1	(6.1)	--
Amortisation of scheme amendments	(17.9)	17.9	--
Amortisation of actuarial gains (losses)	(47.4)	47.4	--
Actuarial gains & losses / other long-term benefits	(15.3)	--	(15.3)
	(74.5)	51.7	(22.8)
Finance costs on pensions and other employee benefits	**(142.5)**	**43.5**	**(99.0)**
Total pensions cost of the period	**(219.7)**	**52.8**	**(166.9)**
Actuarial gains & losses (Other comprehensive loss of the period)	**--**	**(322.7)**	**(322.7)**
Benefits and contributions	**177.0**	**--**	**177.0**
Deficit payments (United Kingdom)	*63.5*	--	*63.5*
Future service cash	*113.5*	--	*113.5*
Exchange rate variation	**2.2**	**(18.2)**	**(16.0)**
Change in scope of consolidation and other	**5.7**	**--**	**5.7**
Net obligation at 31 December	**(801.2)**	**(1,123.9)**	**(1,925.1)**
Of which:			
Amount recognised in assets at 31 December	103.7	**(103.7)**	**--**
Amount recognised in equity & liabilities at 31 December	(904.9)	(1,020.2)	(1,925.1)

- ***Impact on first half of 2012 provision for pensions and other employee benefits***

2012 First half	2012 First half (published)	Adjustment	2012 First half (restated)
Net obligation at 1 January	**(766.4)**	**(835.8)**	**(1,602.2)**
Current service cost	**(38.0)**	**--**	**(38.0)**
Curtailments and settlements	**--**	**--**	**--**
Interest cost	(114.2)	--	(114.2)
Expected return on plan assets	79.8	(3.4)	76.4
Net Interest	(34.4)	(3.4)	(37.8)
administrative costs	--	(3.7)	(3.7)
Schemes amendments, curtailments and settlements	(8.6)	8.6	--
Amortisation of actuarial gains (losses)	(23.7)	23.7	--
Actuarial gains & losses / other long-term benefits	(7.9)	--	(7.9)
	(40.2)	28.6	(11.6)
Finance costs on pensions and other employee benefits	**(74.6)**	**25.2**	**(49.4)**
Total pensions cost of the period	**(112.6)**	**25.2**	**(87.4)**
Actuarial gains & losses (Other comprehensive loss of the period)	**--**	**(472.8)**	**(472.8)**
Benefits and contributions	**79.4**	**--**	**79.4**
Deficit payments in the United Kingdom	31.3	--	31.3
Future service cash	48.1	--	48.1
Exchange rate variation	**1.5**	**(30.6)**	**(29.1)**
Change in scope of consolidation and other	**(0.4)**	**--**	**(0.4)**
Net obligation at 30 June	**(798.5)**	**(1,314.0)**	**(2,112.5)**

1.3) New IFRS standards mandatorily applicable from 30 June 2013

New standards and interpretations issued by the IASB but not yet mandatorily applicable are described in the *Accounting policies* note of the consolidated financial statements in the 2012 registration document.

In addition, IFRIC 21 "Levies" was published in May 2013. This new interpretation, providing guidance on when to recognise a liability for a levy imposed by a government, is currently being considered by the Group.

2. MAIN EVENTS

a) Group Organisation

As from 1 April 2013, the Group has set up a new matrix organisation based on:

- Six Global Business Units (GBU) combined in three operating segments : Aerospace (Avionics, Space), Transport (Ground Transportation Systems), Defence & Security (Secure Communications & Information Systems, Land and Air Systems, Defence Mission Systems), and DCNS, held for 35 % by the Group.

- An international organisation divided between the major industrial countries (Germany, Australia & New-Zealand, Canada, the United Stated, France, the Netherlands and the United Kingdom), other European countries and emerging countries.

b) Changes in scope of consolidation

During the first half of 2013:

- In March 2013, DCNS increased its interest in the capital of OpenHydro, an Irish start-up specialised in marine turbines, from 11 % to 62 %, for an amount of € 130.2 million (€ 45.6 million at 35 %).The financial investment, net from the entity acquired treasury, amounted to € 61.9 million (€ 21.7 million at 35 %). As from this date, OpenHydro is fully consolidated in DCNS accounts, whereas its shares were previously accounted for under the equity method. Moreover, previously-held shares were measured again at fair value at the date of the transaction for an amount of € 6.9 million (€ 2.4 million at 35 %).

No other significant changes in scope occurred during the first half of 2013.

In 2012:

- In January 2012, Thales acquired Areva's 10% stake of Sofradir for € 24 million, increasing its participation from 40% to 50%. From now on the company, jointly owned with Safran, is accounted for under the proportionate consolidation method at 50% (40 % until the end of 2011).
- In April 2012, Thales finalized the acquisition of 51% of the American SATCOM company Tampa Microwave for $ 18.6 million (€ 14.3 million). Thales has a call option for the 49% remaining, which is exercisable in 2014.
- In August 2012, Thales signed an agreement with L-3 Communications for the sale of its civil fixed-wing flight simulation business and aircrew training activities for £ 84.2 million (€ 103.8 million). Thales recognised a capital gain of € 18.6 million from the sale.
- In November 2012, Thales acquired for € 24.4 million Sysgo AG, the European leader in real-time, highly secure operating systems. The company will be consolidated as of 1 January 2013.
- In December 2012, Thales sold for € 100 million its 49 % stake in the joint venture Diehl Air Cabin GmbH to its joint shareholder Diehl Group. Thales recognised a capital gain of € 73.4 million from the sale.
- At the end of December 2012, Thales finalized the acquisition for $ 30.7 million (€ 23.3 million) of the Helmet Mounted Display (HDM) and motion tracking businesses from Gentex Corporation, activities gathered under the name of "Visionix". The company will be consolidated as of 1 January 2013.

3. Segment information

As described in note 2, Thales has set up, as from the 1 April 2013, a new organisation. At 30 June 2013, activities of the Group were structured as follows :

- The *Aerospace* operating segment combines the "Avionics" and "Space" Global Business Units that develop on-board systems, solutions and services both with governmental (States, Civil Security Organisations, Space agencies) and non-governmental (aircraft manufacturers, airlines, satellite operators) customer bases;
- The *Transport* operating segment comprises the "Ground Transportation Systems" Global Business Unit that develops systems and services for an exclusively civil customer base of ground transportation infrastructure operators;
- The *Defense and Security* operating segment combines the "Secure Communications and Information Systems", "Land and Air Systems" and "Defence Mission Systems" Global Business Units that develop equipments, systems and services for the armed and security forces as well as the protection of networks and infrastructures, with an almost exclusively governmental customer base (States, public agencies);
- The DCNS operating segment corresponds to the 35% stake of Thales in DCNS; Thales jointly participates with the French State in the governance of the company, that develops above and under water naval systems and services in energy.

The Chairman and Chief Executive Officer, together with the Senior Executive Vice-President Chief Finance Officer, regularly reviews the operating performances of these Business Sectors and allocates ressources on this basis. In accordance with IFRS 8, the Group has decided to present these four Business Sectors as operationnal sectors to the extend that they are the basis of the Group strategy development.

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) are excluded from income from operations reviewed, in order to monitor and compare the Group's economic performances:

2013 First half	Aerospace	Transport	Defence and Security	DCNS	Other, elim & non alloc.	**Total before PPA**
Consolidated order backlog	7,355.9	3,584.9	13,324.4	4,625.6	55.1	**28,945.9**
Consolidated new orders	1,766.5	735.5	2,993.9	202.2	29.9	**5,728.0**
Consolidated sales	2,027.2	602.9	3,228.6	570.7	43.9	**6,473.3**
Inter-segment sales	36.4	9.0	166.3	--	(211.7)	**--**
Total sales	2,063.6	611.9	3,394.9	570.7	(167.8)	**6,473.3**
Income from operations (EBIT)	167.9	6.0	198.1	35.5	(47.2)	**360.3**

2012 First half (restated)	Aerospace	Transport	Defence and Security	DCNS	Other, elim & non alloc.	**Total before PPA**
Consolidated order backlog	8,156.2	3,626.9	14,069.6	4,967.2	74.2	**30,894.1**
Consolidated new orders	1,927.2	844.4	3,018.0	283.4	41.9	**6,114.9**
Consolidated sales	2,051.1	640.1	3,189.0	489.3	43.2	**6,412.7**
Inter-segment sales	34.9	11.6	189.5	--	(236.0)	**--**
Total sales	2,086.0	651.7	3,378.5	489.3	(192.8)	**6,412.7**
Income from operations (EBIT)	116.2	23.8	191.4	37.1	(30.7)	**337.8**

2012 Full year (restated)	Aerospace	Transport	Defence and Security	DCNS	Other, elim & non alloc.	**Total before PPA**
Consolidated order backlog	7,580.4	3,512.7	13,792.4	4,904.8	58.4	**29,848.7**
Consolidated new orders	4,050.6	1,653.0	6,748.4	758.4	74.5	**13,284.9**
Consolidated sales	4,417.7	1,534.7	7,080.8	1,026.8	98.1	**14,158.1**
Inter-segment sales	71.2	24.6	405.8	--	(501.6)	**--**
Total sales	4,488.9	1,559.3	7,486.6	1,026.8	(403.5)	**14,158.1**
Income from operations (EBIT)	297.5	94.6	504.4	79.0	(48.3)	**927.2**

Other, elim & non allocated

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

The non-allocated income from operations includes the corporate income from operations which is not charged back to sectors, and the cost of vacant premises. Other costs (which mainly result from foreign holding companies which are not charged back and the expense related to share-based payments) are reallocated to sectors in proportion to their respective ex-Group revenues.

Purchase Price Allocation

Entries relative to purchase price allocation (PPA) are mainly related to the 2007 transactions: acquisition of Space, Transportation and Security activities of Alcatel-Lucent and 25% of DCNS, so as the further 10% acquisition of DCNS in December 2011.

	2013 First half	**2012 First half**	**2012 Full year**
Income from operations (EBIT) without PPA	360.3	337.8	927.2
PPA impact	(48.6)	(55.1)	(111.5)
Income from operations (EBIT) published	311.7	282.7	815.7

2012 restatments

2012 segment information have been restated in order to :

- present separatly the two Business Sectors Aerospace and Transport
- present DCNS as a Group Business Sector, and no longer for comparably reasons (impact of the proportionate consolidation method versus the equity method)

Besides, while maintaining strict rules regarding the registration in order backlog, the Group reviewed in 2013 the rules for measuring the order backlog in order to have a more economically realistic approach than stricly legal, especially in civilian avionics. The 2012 order backlog and new orders have been accordingly restated.

<u>Sales (direct and indirect) by country / region of destination:</u>

	2013 First half	**2012 First half**	**2012 Full year**
France	1,961.0	1,927.2	4,195.8
United Kingdom	764.5	763.4	1,569.7
Rest of Europe	1,177.8	1,297.7	2,960.2
North America	699.4	620.3	1,399.8
Australia & New-Zealand	360.7	351.3	719.6
Saudi Arabia & Middle-East	362.3	315.9	774.7
Asia	890.4	843.5	1,902.5
Africa and Latin America	257.2	293.4	635.8
Total	**6,473.3**	**6,412.7**	**14,158.1**

4. IMPAIRMENT OF NON-CURRENT OPERATING ASSETS

	2013 First half	2012 First half	2012 Full year
Goodwill	--	--	(5.6)
Other tangible and intangible assets	--	--	(9.1)
Total	**--**	**--**	**(14.7)**

Goodwill are allocated to CGU (Cash Generating Unit), which correspond to operational divisions of the Group (note 10), with certain exceptions such as joint ventures.

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

	2013 First half	2012 First half*	2012 Full year*
Fair value adjustments :	**2.4**	**--**	**15.1**
Tampa Microwave	--	--	15.1
OpenHydro	2.4	--	--
Disposal of investments:	**(0.7)**	**(2.2)**	**88.4**
Diehl Aircabin GmbH (49%)	--	--	73.4
Simulation Activities in UK	--	--	18.6
Others	(0.7)	(2.2)	(3.6)
Disposal of other assets:	**3.1**	**(1.2)**	**(1.7)**
Real estate assets	2.0	(0.9)	(1.7)
Equipment	1.1	(0.3)	--
Provisions for litigations **	**4.9**	--	**12.3**
Pensions: settlements and curtailments (note 1.2)	--	--	**9.3**
Total	**9.7**	**(3.4)**	**123.4**

* Restated to take into account IAS 19 R first adoption (note 1.2)
** In the first half of 2013, this line refers to a contribution received further to the Aquila earthquake (the site of Thales Alenia Space was destroyed in 2009). In 2012, it included € 12.4 million as the reversal of provision constituted in 2010 related to the arbitration claim by the Republic of China Navy (Taiwan), described in the note 23 of the 2011 registration document.

6. OTHER FINANCIAL INCOME (EXPENSE)

	2013 First half	2012 First half	2012 Full year
Foreign exchange gains (losses)	3.8	(5.5)	(10.8)
Change in fair value of derivative exchange instruments	(14.0)	(12.9)	(26.1)
Cash flow hedge inefficiency / foreign exchange instruments	1.9	1.8	0.5
Net foreign exchange gains (losses)	**(8.3)**	**(16.6)**	**(36.4)**
Net interest income on non-financial receivables and payables	(2.9)	(0.3)	(4.0)
Dividends received	4.3	3.9	7.1
Impairment of investments in shares (available-for-sale)	(0.5)	(0.4)	(5.8)
Depreciation of loans and other financial debtors	(0.1)	0.4	(4.3)
Other	(8.9)	(3.0)	(9.5)
Total	**(16.4)**	**(16.0)**	**(52.9)**

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7. PENSIONS AND OTHER EMPLOYEE BENEFITS

As described in note 1 - Accounting policies, the revised version of IAS19 (employee benefits) is applicable as from 1 January 2013. This revised standard has been applied retrospectively and 2012 financial statements have been accordingly restated (note 1.2).

At 30 June 2013, the plan assets market value and the discount and inflation rates assumptions for the main countries (representing 95% of the obligation and 97 % of the plan assets) have been updated. The assumptions used are as follows:

30 June 2013	United-Kingdom	the Netherlands	France	Germany
Inflation rate	3.17%	2.00%	2.00%	2.00%
Discount rate	4.86%	3.46%	3.02%	3.52%

30 June 2012	United-Kingdom	the Netherlands	France	Germany
Inflation rate	2.60%	2.00%	2.00%	2.00%
Discount rate	4.25%	3.78%	3.38%	3.69%

31 December 2012	United-Kingdom	the Netherlands	France	Germany
Inflation rate	2.73%	2.00%	2.00%	2.00%
Discount rate	4.48%	3.42%	2.90%	3.53%

The net obligation is as follows :

	2013 First half	**2012 First half***	**2012 Full year***
Net obligation at 1 January	**(1,925.1)**	**(1,602.2)**	**(1,602.2)**
Current service cost	**(48.8)**	**(38.0)**	**(77.2)**
Curtailments and settlements	**--**	**--**	**9.3**
Interest cost	(105.0)	(114.2)	(230.4)
Expected return on plan assets	71.8	76.4	154.2
Net interest	(33.2)	(37.8)	(76.2)
Fund costs	(2.5)	(3.7)	(7.5)
Actuarial gains & losses / other long-term benefits	(5.0)	(7.9)	(15.3)
	(7.5)	(11.6)	(22.8)
Finance costs on pensions and other employee benefits	**(40.7)**	**(49.4)**	**(99.0)**
Total pensions cost of the period	**(89.5)**	**(87.4)**	**(166.9)**
Actuarial gains & losses (Other comprehensive income (loss) of the period)	**59.9**	**(472.8)**	**(322.7)**
Benefits and contributions	**91.2**	**79.4**	**177.0**
Deficit payment in the UK	*31.1*	*31.3*	*63.5*
Future service cash	*60.1*	*48.1*	*113.5*
Exchange rate variation	**40.6**	**(29.1)**	**(16.0)**
Change in scope of consolidation & Other	**0.3**	**(0.4)**	**5.7**
Net obligation at closing date	**(1,822.6)**	**(2,112.5)**	**(1,925.1)**

* Restated to take into account IAS 19 R first adoption

8. INCOME TAX

	2013 First half	2012 First half*	2012 Full year*
Net income (loss)	189.8	161.9	585.8
Less: income tax	84.8	55.2	196.9
Less: share in net income (loss) of equity affiliates	(12.4)	(11.1)	(23.8)
Profit before tax	**262.2**	**206.0**	**758.9**
Income tax profit (loss)	**(84.8)**	**(55.2)**	**(196.9)**
Effective tax rate	**32.3%**	**26.8%**	**25.9%**

* Restated to take into account IAS 19 R first adoption

Research tax credits, when considered as government grants (i.e. reimbursable), are included in the Income from operations (EBIT) (€ 60.2 million in the first half of 2013, € 49.5 million in the first half of 2012 and € 115.5 million in 2012).

The increase of the effective tax rate between 2012 and 2013 can be essentially explained:

- By non-recurring, non-taxable income registered in 2012 (particularly capital gains)
- By the effect, in the first half of 2013, of the new tax on dividends applicable in France, amounting to € -6.6 million (€ -1.5 million in the second half of 2012).

9. EARNINGS PER SHARE

		2013 First half	2012 First half*	2012 Full year*
Numerator (in millions of euros) :				
Net income (loss), attrib. to owners of the parent company	(a)	189.5	162.4	585.5
Denominator (in thousands) :				
Average number of shares outstanding	(b)	199,881	199,034	199,270
Share options**		122	15	32
Diluted average number of shares outstanding	(c)	200,003	199,049	199,302
Earnings per share (in euros)	**(a) / (b)**	**0.95**	**0.82**	**2.94**
Diluted earnings per share (in euros)	**(a) / (c)**	**0.95**	**0.82**	**2.94**
Average share price		*32.23 €*	*26.00 €*	*26.33 €*

* Restated to take into account IAS 19 R first adoption

** Due to the average share price, share subscription options plans have been excluded from diluted earnings per share calculation, except for the July 2004 plan in the first half of 2013. In 2012, the July 2003 plan was the only one taken into account.

10. GOODWILL

	31/12/2012	Acquisitions	Disposal	Impairment	Exch. rate & other	30/06/2013
Avionics	313,2	27.6*	--	--	(1,2)	339,6
Space	487,0	--	--	--	(0,2)	486,8
Aerospace	**800,2**	**27,6**	**--**	**--**	**(1,4)**	**826,4**
Transport	**875,4**	**--**	**--**	**--**	**(0,1)**	**875,3**
Secure Comm. & Information Systems	579,3	3,8	--	--	(15,9)	567,2
Land & Air Systems	332,2	16,5	--	--	(4,4)	344,3
Defence Mission Systems	492,7	--	--	--	(8,0)	484,7
Defence and Security	**1 404,2**	20,3	**--**	**--**	**(28,3)**	**1 396,2**
DCNS	**329,0**	**32.7***	**--**	**--**	**--**	**361,7**
Other	**2,4**	**22,4**	--	--	**--**	**24,8**
Total	**3 411,2**	**103,0**	**--**	**--**	**(29,8)**	**3 484,4**

* Allocation of purchase price still in process at 30 June 2013

	01/01/2012	Acquisitions	Disposals	Impairment	Exch. rate & other	31/12/2012
Avionics	318,4	--	(4,9)	--	(0,3)	313,2
Space	487,1	--	--	--	(0,1)	487,0
Aerospace	**805,5**	**--**	**(4,9)**	**--**	**(0,4)**	**800,2**
Transport	**875,4**	**--**	**--**	**--**	**--**	**875,4**
Secure Comm. & Information Systems	576,1	5,3	(4,0)	--	1,9	579,3
Land & Air Systems	317,2	13,6	--	--	1,4	332,2
Defence Mission Systems	491,3	--	--	--	1,4	492,7
Defence and Security	**1 384,6**	18,9	**(4,0)**	**--**	**4,7**	**1 404,2**
DCNS	**329,0**	**--**	**--**	**--**	**--**	**329,0**
Other	**8,1**	**--**	**--**	**(5,6)**	**(0,1)**	**2,4**
Total	**3 402,6**	**18,9**	**(8,9)**	**(5,6)**	**4,2**	**3 411,2**

11. TANGIBLE AND INTANGIBLE ASSETS

	31/12/2012	Acquisition	Disposal	Amort. & Deprec.	Impairment	Scope, exch. rate & other	30/06/2013
Intangible assets acquired in the context of business combinations	891.2	--	--	(48.6)	--	20.2	862.8
Development costs	155.6	13.7	--	(12.5)	--	(2.1)	154.7
Other	125.2	15.6	(1.4)	(22.0)	**--**	13.5	130.9
Intangible assets	**1,172.0**	29.3	(1.4)	(83.1)	**--**	31.6	**1,148.4**
Tangible assets	**1,505.3**	158.3	(12.8)	(127.7)	--	(21.4)	**1,501.7**
Total	**2,677.3**	**187.6**	**(14.2)**	**(210.8)**	**--**	**10.2**	**2,650.1**

	01/01/2012	Acquisition	Disposal	Amort. & Deprec.	Impairment	Scope, exch. rate & other	31/12/2012
Intangible assets acquired in the context of business combinations	985.5	--	--	(111.5)	**--**	17.2	891.2
Development costs	203.3	12.1	--	(59.3)	**--**	(0.5)	155.6
Other	140.7	50.3	(1.0)	(45.2)	**--**	(19.6)	125.2
Intangible assets	**1,329.5**	62.4	(1.0)	(216.0)	**--**	(2.9)	**1,172.0**
Tangible assets	**1,493.9**	374.9	(21.4)	(265.0)	(9.1)	(68.0)	**1,505.3**
Total	**2,823.4**	**437.3**	**(22.4)**	**(481.0)**	**(9.1)**	**(70.9)**	**2,677.3**

12. SHAREHOLDERS' EQUITY

a) Share capital at 30 June 2013

	At 30/06/2013			At 31/12/2012		
	Number of shares	**% of share capital**	**% of voting rights**	**Number of shares**	**% of share capital**	**% of voting rights**
T.S.A.	54,786,654	26.89%	37.14%	54,786,654	27.08%	37.01%
French State (including one golden share)	2,060	--	--	2,060	--	--
Public sector (a)	**54,788,714**	**26.89%**	**37.14%**	**54,788,714**	**27.08%**	**37.01%**
Dassault Aviation (b)	52,531,431	25.78%	29.55%	52,531,431	25.96%	29.50%
Thales (c)	2,466,613	1.21%	--	2,795,564	1.38%	--
Employees (d)	4,327,374	2.12%	2.79%	6,169,074	3.05%	3.99%
Other shareholders (e)	89,645,101	44.00%	30.52%	86,054,891	42.53%	29.50%
Total number of Thales shares	**203,759,233 (f)**	**100.00%**	**100.00%**	**202,339,674 (d)**	**100.00%**	**100.00%**

(a) Pursuant to the shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" is represented by the company TSA, excluding the State directly. All Thales shares held directly and indirectly by the French State are registred shares and carry double voting rights at 30 June 2013.

(b) Dassault Aviation has been holding 34,654,349 registered shares for more than two years - therefore all carrying double voting rights at 30 June 2013, and 17,877,082 bearer shares.

(c) Treasury shares include 109,819 bearer shares (as part of a liquidity contract) and 2,356,794 registered shares.

(d) Subscriptions to the 2013 employee share offer plan are excluded at 30 June 2013 as the shares will be issued later (a total of 476,200): 440,951 shares (apart from the UK) will be issued on 29 July, 2013 and the subscription of employees from the United-Kingdom, included in the Share Incentive Plan (SIP), amounted to 35,249 shares (assessment at this stage), will be issued in early November 2013. Potentially, and all other things being equal, the share capital held by employees is hence 2.36% (4,803,574 shares) after operation.

(e) The Spanish company Bestinver Gestion S.A., acting on behalf of customers and funds which it manages, declared to have exceeded the 5% threshold of capital on 12 February 2013 and therefore held 10,184,193 Thales shares, corresponding to 5.03% of capital and 3.44% of voting rights

(f) During the first half of 2013, 1,419,559 shares have been issued (carrying dividends rights as from 01-01-13) through the exercise of share subscription options.

b) Treasury shares

Thales Parent Company held 2,466,613 of its own shares at 30 June 2013 (2,795,564 at 31 December 2012). In accordance with the authorisations given to the board of Directors at the Annual General Meeting, the Company, during 2013 first half, realised the following operations:

- Purchase of 740,534 shares and sale of 765,580 shares as part of the liquidity contract;
- Delivery of 303,905 free shares, of which 302,700 related to the 2009 free share plan and 1,205 related to anticipated deliveries due to death.

c) Dividends

Dividends per share amounted to € 0.88 in 2013 and € 0.78 in 2012.

2013 dividend was paid fully in cash (with the payment of an interim dividend of € 0.25 per share on 14 December 2012 and the balance of € 0.63 per share on 28 May 2013, respectively € 49.8 million and €125.8 million).

2012 dividend was paid fully in cash (with the payment of an interim dividend of € 0.25 per share on 23 December 2011 and the balance of € 0.53 per share on 31 May 2012, respectively € 49.7 million and €105.6 million).

13. RESERVES FOR CONTINGENCIES

- Reserves for contingencies relating to construction contracts (accounted for according to IAS 11) are classified within "Construction Contracts" balance sheet items.

- Reserves for contingencies presented below include provisions on other contracts (sale of goods and services that are accounted for under IAS 18).

	01/01/2013	Increase	Utilization	Reversal	Scope and exch. rate & other	30/06/2013
Restructuring	**184.0**	32.7	(41.4)	(0.5)	1.9	**176.7**
Litigation	**137.0**	9.2	(7.5)	(0.5)	--	**138.2**
Guarantees	**275.9**	43.0	(34.6)	(2.5)	(3.4)	**278.4**
Losses at completion	**85.3**	21.3	(27.5)	(17.4)	1.6	**63.3**
Provisions on contracts	**193.7**	9.6	(19.9)	(14.4)	(24.6)	**144.4**
Other *	**330.6**	35.2	(22.1)	(8.2)	(1.4)	**334.1**
Total	**1,206.5**	**151.0**	**(153.0)**	**(43.5)**	**(25.9)**	**1,135.1**

	01/01/2012	Increase	Utilization	Reversal	Scope and exch. rate & other	31/12/2012
Restructuring	**210.3**	67.1	(80.7)	(8.4)	(4.3)	**184.0**
Litigation	**157.9**	42.5	(27.8)	(25.7)	(9.9)	**137.0**
Guarantees	**298.0**	70.8	(72.3)	(21.3)	0.7	**275.9**
Losses at completion	**112.1**	46.5	(58.9)	(4.8)	(9.6)	**85.3**
Provisions on contracts	**142.4**	89.0	(27.2)	(10.2)	(0.3)	**193.7**
Other *	**309.8**	123.3	(57.3)	(15.3)	(29.9)	**330.6**
Total	**1,230.5**	**439.2**	**(324.2)**	**(85.7)**	**(53.3)**	**1,206.5**

* Includes technical provisions of insurance companies, provisions for tax and social risks, liability guarantees, environment and others.

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14. NET FINANCIAL ASSETS / LIABILITIES

a) Net cash (financial debt) at closing date:

	30/06/2013	31/12/2012	01/01/2012
Long-term financial debt	1,594.2	850.6	1,494.6
Short-term financial debt	363.2	997.3	437.1
Fair value of interest rate derivatives	(13.4)	(23.5)	(6.5)
Total gross financial debt (I)	**1,944.0**	**1,824.4**	**1,925.2**
Loans and other current financial assets	276.2	333.4	260.4
DCNS investments,with maturity > 1 year	152.9	113.6	217.3
Other current financial assets	169.2	387.0	430.2
Cash at bank and equivalents	2,226.5	2,518.3	1,923.1
Cash and other short-term financial assets (II)	**2,824.8**	**3,352.3**	**2,831.0**
Net cash/(financial debt) (II-I)	**880.8**	**1,527.9**	**905.8**
Of which, DCNS contribution:	579.8	619.0	713.6
Cash at bank and equivalents, DCNS excluded	**301.0**	**908.9**	**192.2**

In March 2013, Thales has issued a € 800 million dual tranche bond with a € 500 million 5-year, 1.625% tranche and a € 300 million, 8-year, 2.25% tranche.
This issue will be used to refinance the € 600 million bond maturing in April 2013. It forms part of the active liquidity management of Thales and enables to maintain the Group's financial flexibility and extend the maturity of its financial resources.

At 30 June 2013, the fair value of debt[1] is amounting to € 1,976.0 million.

b) Change in net cash/(financial debt):

	2013 First half	2012 First half	2012 Full year
Net cash (debt) at 1 January	**1,527.9**	**905.8**	**905.8**
Net cash flows from operating activities	(256.6)	(96.6)	1,019.9
Of which, reduction of UK pension deficits	*(31.1)*	*(31.3)*	*(63.5)*
Net operating investments	(173.4)	(136.5)	(414.9)
Acquisitions of subsidiaries *	(61.7)	(40.8)	(99.2)
Disposals of subsidiaries *	--	33.1	244.2
Variation of loans	(17.8)	13.0	10.5
Dividends paid in cash	(125.8)	(105.6)	(155.4)
Treasury shares and exercise of subscription options	28.4	14.8	18.0
Other changes in scope and exchange rate variations	7.2	12.5	19.1
Debt on share acquisition	(29.3)	(15.1)	(42.8)
Other	(18.1)	22.4	22.7
Net cash (debt) at closing date	**880.8**	**607.0**	**1,527.9**

* Before addition/deduction of cash from companies acquired or sold.

[1] The fair value of Thales's debt is determined for each loan by discounting the future cash flows using a discount rate Euribor corresponding to bond yields at the end of the closing period, adjusted by the Group's credit risk. The fair value of debt and bank overdrafts at floating interest rates approximates their net carrying amounts.

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15. STATEMENT OF CASH FLOWS

a) Changes in WCR and provisions

	01/01/12	Changes in WCR and provisions	Scope impacts, exch. rate var. and reclass.	31/12/2012	Changes in WCR and provisions	Scope impacts, exch. rate var. and reclass.	30/06/2013
Inventories and work in progress	2,426.9	86.7	(34.7)	2,478.9	299.5	(18.8)	2,759.6
Construction contracts: assets	2,305.3	(229.7)	7.0	2,082.6	(22.8)	(18.3)	2,041.5
Advances to suppliers	896.6	(113.4)	2.4	785.6	76.9	(2.6)	859.9
Accounts, notes and other current receivables	4,709.5	167.9	(45.6)	4,831.8	(51.7)	(40.1)	4,740.0
Fair value of foreign currency derivatives	122.5	(80.7)	82.3	124.1	(10.3)	(5.8)	108.0
Current operating assets	**10,460.8**	**(169.2)**	**11.4**	**10,303.0**	**291.6**	**(85.6)**	**10,509.0**
Advances received from customers on contracts	(4,810.3)	(183.2)	5.1	(4,988.4)	38.7	42.9	(4,906.8)
Refundable grants	(181.9)	(12.6)	14.9	(179.6)	1.3	0.3	(178.0)
Construction contracts: liabilities	(1,355.6)	11.5	(0.9)	(1,345.0)	189.3	8.3	(1,147.4)
Reserves for contingencies	(1,230.5)	3.3	20.7	(1,206.5)	64.3	7.1	(1,135.1)
Accounts, notes and oth. cur. payables	(5,940.6)	284.1	(81.7)	(5,738.2)	91.1	23.1	(5,624.0)
Fair value of foreign currency derivatives	(178.8)	75.3	(0.5)	(104.0)	(0.4)	0.5	(103.9)
Current operating liabilities	**(13,697.7)**	**178.4**	**(42.4)**	**(13,561.7)**	**384.3**	**82.2**	**(13,095.2)**
Net	**(3,236.9)**	**9.2**	**(31.0)**	**(3,258.7)**	**675.9**	**(3.4)**	**(2,586.2)**
Of which net allowances to restruct. prov.	210.3	(22.0)	(4.3)	184.0	(9.2)	1.9	176.7
Increase (decrease) in WCR and reserves for contingencies	**(3,026.6)**	**(12.8)**	**(35.3)**	**(3,074.7)**	**666.7**	**(1.5)**	**(2,409.5)**

The Group may transfer trade receivables, mainly from the French Direction Générale de l'Armement. At 30 June 2013, the transferred receivables is nil (compared to € 20.7 million at 31 December 2012, and € 156.8 million at 1 January 2012).

b) Net financial investment

Acquisitions :	**2013 First half**	**2012 First half**	**2012 Full year**
OpenHydro (via DCNS)	(45.6)	--	--
Sofradir (stake raised from 40% to 50%)	--	(24.0)	(24.0)
Visionix	--	--	(23.7)
SYSGO AG (5,3 M€ remain payable)	--	--	(19.1)
Tampa Microwave (acquisition of 51%)	--	(14.3)	(14.3)
Cloudwatt (22,23%), paid-up share	--	--	(12.5)
AirTanker (recapitalisation)	(7.1)	--	--
Other	(9.0)	(2.5)	(5.6)
Acquisitions	**(61.7)**	**(40.8)**	**(99.2)**
Cash position of companies acquired (OpenHydro in 2013)	23.9	7.0	7.0
Acquisitions, net	**(37.8)**	**(33.8)**	**(92.2)**

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Disposals :	2013 First half	2012 First half	2012 Full year
United Kingdom activities of simulation	--	--	103.8
Diehl Aircabin GmbH (49%)	--	--	100.0
Navsol (cash in of the transfer price in January 2012)	--	29.4	29.4
Other	--	3.7	11.0
Disposals of subsidiaries and affiliates	**--**	**33.1**	**244.2**
Cash position of companies sold	--	(2.9)	(10.0)
Disposals, net	**--**	**30.2**	**234.2**

16. LITIGATION

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

There were no significant litigation since the beginning of 2013, with the exception of those mentioned in the 2012 registration document.

To the Group knowledge, no other significant facts of exceptional nature or litigation are likely to have or have had significant effects on the Group's financial results, financial situation and targets, with the exception of those mentioned in the 2012 registration document (notes 23 and 27 of the consolidated financial statements).

17. SUMMARY OF FINANCIAL INSTRUMENTS

At 30 June 2013, financial instruments measured at fair value are as follows:

Assets	Financial assets		Derivatives	
	Through P&L	Available for sale	Hedge accounting	Not qualified for hedge accounting
Non current financial assets:				
Available-for-sale investments	--	140.1	--	--
Loans and other non current financial assets	--	--	--	--
Fair value of interest rate derivatives	--	--	21.1	--
Other non-current financial assets	185.8	--	--	--
Current assets:				
Fair value of foreign currency derivatives	--	--	102.3	5.7
Other current financial assets	169.2	--	--	--
Total financial assets	**355.0**	**140.1**	**123.4**	**5.7**
Methods used to measure fair value:				
Valuation at cost	--	140.1	--	--
Quoted prices in active markets (level 1)	--	--	--	--
Valuation techniques based on observable market data (level 2)	--	--	123.4	5.7
Valuation techniques not based on observable market data (level 3)	355.0	--	--	--

Liabilities	Financial liabilities	Derivatives	
		Hedge accounting	Not qualified for hedge accounting
Non current liabilities:			
Financiel debt-long term	13.4	--	--
Fair value of interest rate derivatives	7.7	7.7	--
Current liabilities:			
Fair value of foreign currency derivatives	--	84.2	19.7
Total liabilities	**21.1**	**91.9**	**19.7**
Methods used to measure fair value:			
Quoted prices in active markets (level 1)	--	--	--
Valuation techniques based on observable market data (level 2)	21.1	91.9	19.7
Valuation techniques not based on observable market data (level 3)	--	--	--

During the first half of 2013, classification of financial instruments has not been changed and the methods used to measure fair value are similar to those used in the previous year, especially for level 3 instruments.

18. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in note 19 of the 2012 consolidated financial statements included in the 2012 registration document.

Revenues with the French Ministry of Defence amounted to € 1,338.6 million in the first half of 2013 and € 1,265.3 million in the first half of 2012).

At 30 June 2013, mature receivables bearing interest on overdue payments from the French defence procurement agency amounted to € 50.3 million (€ 62.9 million at 30 June 2012 and € 184.6 million at 31 December 2012).

19. EVENTS AFTER REPORTING PERDIOD

The Group is not aware of any significant events that occurred since closing the accounts.

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

Period from January 1 to June 30, 2013

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.

ERNST & YOUNG Audit

1/2, place des Saisons

92400 Courbevoie - Paris-La Defense 1

commissaire aux comptes

membre de la compagnie regionale

de Versailles

S.A.S. a capital variable

MAZARS

61, rue Henri Regnault – 92400 Courbevoie

societe anonyme d'expertise comptable et de

commissariat aux comptes

capital de 8 320 000 euros

RCS Nanterre B 784 84 153

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

THALES

First half-yearly financial information

Period from January 1 to June 30, 2013

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, 2013, 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.

I - Conclusion on the financial statements

We have conducted our limited review in accordance with professional standards applicable in France. A limited review mainly consists of interviewing management in charge of accounting and financial matters and applying analytical procedures. These procedures are less broad in scope that those required for an audit performed in accordance with French auditing standards. Accordingly, a limited review only provides moderate assurance, which is less assurance than that provided by an audit, that the financial statements taken as a whole are free of material misstatements.

Based on our limited review, we did not identify any material misstatements that would cause us to believe that the condensed half-yearly consolidated financial statements did not comply with IAS 34, the IFRS standard relating to interim financial reporting adopted by the European Union.

Without qualifying the above conclusion, we draw your attention to note 1.2 "First-time adoption of Employee Benefits (IAS19 revised)" to the financial statements that exposes the impact of the first application of the revised IAS 19 standard.

II - Specific verification

We have also verified the information presented in the half-yearly management report commenting on the condensed half-yearly consolidated financial statements that were the subject of our limited review.

We have nothing to report with respect to the fairness of such information and its consistency with the interim condensed consolidated financial statements.

Paris-La Défense and Courbevoie, July 24, 2013

The statutory auditors

French original signed by

ERNST & YOUNG Audit

MICHEL GAUTHIER

PHILIPPE DIU

MAZARS

JEAN-MARC DESLANDES

ANNE-LAURE ROUSSELOU

Thales
45 rue de Villiers
92 526 Neuilly-sur-Seine Cedex
France
Tel : +33 (0)1 57 77 80 00
www.thalesgroup.com