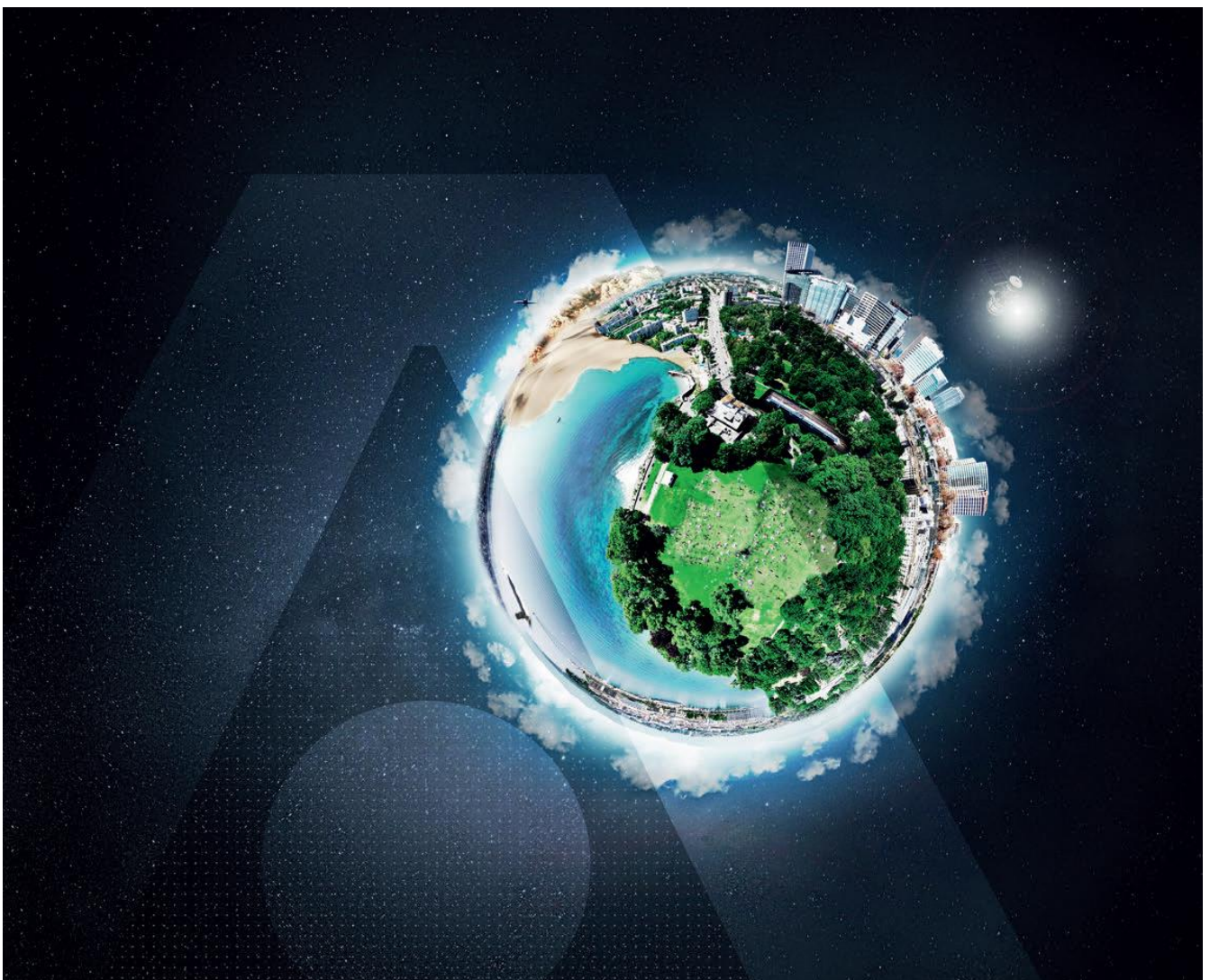


# Half-yearly financial report 2019

Report on business activity

Consolidated financial statements



# HALF-YEARLY FINANCIAL REPORT 2019

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*The English language version of this report is a free translation from the original, which was prepared and filed with the AMF in French language. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the report in French take precedence over the translation.*

## 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 2019 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.*

Paris La Défense, 24<sup>th</sup> September 2019



**Patrice Caine**  
Chairman & Chief Executive Officer

# THALES

## REPORT ON 2019 FIRST HALF BUSINESS ACTIVITY AND RESULTS

### KEY FIGURES (ADJUSTED)<sup>1</sup>

<i>In € millions except earnings per share (in €)</i>	H1 2019	H1 2018 <sup>2</sup>	Total change	Organic change
<b>Order intake</b>	<b>6,995</b>	<b>6,331</b>	+10%	-1%
<b>Order book at end of period</b>	<b>31,701</b>	<b>30,987</b>	+2%	
<b>Sales</b>	<b>8,190</b>	<b>7,452</b>	+9.9%	-0.5%
<b>EBIT<sup>3</sup></b>	<b>820</b>	<b>762</b>	+8%	+4%
<i>in % of sales</i>	10.0%	10.2%	-0.2 pts	+0.4 pts
<b>Adjusted net income, Group share<sup>3</sup></b>	<b>574</b>	<b>539</b>	+7%	
<b>Adjusted net income, Group share, per share<sup>3</sup></b>	<b>2.70</b>	<b>2.54</b>	+6%	
<b>Consolidated net income, Group share</b>	<b>557</b>	<b>457</b>	+22%	
<b>Free operating cash flow<sup>3</sup></b>	<b>-332</b>	<b>-272</b>	-60	
<b>Net cash (debt) at end of period</b>	<b>-4,397</b>	<b>1,673<sup>4</sup></b>	-6,071	

<sup>1</sup> In order to enable better monitoring and benchmarking of its financial and operating performance, Thales presents adjusted data, including EBIT and adjusted net income, non-GAAP measures, which exclude non-operating and non-recurring items. Details of the adjustments are given in the "Presentation of financial information" in this report.

<sup>2</sup> Since 1 January 2019, the Group has been applying IFRS 16 "Leases". Since the Group chose to use the modified retrospective method, the 2018 figures in this press release have not been restated. The impact of this standard on the H1 2019 financial statements is outlined in Note 1.2 of the consolidated financial statements.

In addition, in the framework of the Gemalto acquisition, a new "Digital Identity & Security" operating segment was created. It includes Gemalto's businesses (consolidated since 1 April 2019) and a number of digital businesses formerly assigned to the "Defence & Security" operating segment. Segment data for 2018 was restated to take account of this change in organization.

<sup>3</sup> Non-GAAP financial indicators, see definitions in page 3

<sup>4</sup> At 1 January 2019: net cash at 31 December 2018 (€3,181 million) less IFRS 16 lease debt (€1,507 million)

## PRESENTATION OF FINANCIAL INFORMATION

### Accounting policies

Thales's condensed interim consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the provisions of IAS 34 (Interim Financial Reporting) and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2019<sup>1</sup>.

The condensed interim consolidated financial statements are consistent with the accounting policies applied by the Group for the full-year financial statements at 31 December 2018 (as described in the notes 1 and 13 to the consolidated financial statements), with the exception of those resulting from the application of IFRS 16 (Leases) of which impacts are described in note 1.2.

IFRIC 23 (Uncertainty over income tax treatment) interpretation, which clarifies the rules for recognizing and measuring income tax uncertainties, has no significant impact on the Group's valuation of current and deferred taxes as of 1 January 2019. In accordance with the new text, uncertain tax liabilities, previously disclosed in the reserves for contingencies have been reclassified as corporate income tax liabilities (cf. note 7.2). The balance-sheet at end 2018 has not been restated.

Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures), IAS 19 (Amendments, reductions or settlements), as well as annual improvements to IFRS (2015-2017 cycle), mandatorily applicable as of 1 January 2019, have no impact on the Group's financial statements.

The new standards and interpretations published by the IASB, but not yet necessarily applicable, are described in note 1 "Accounting standards framework" of the notes to the 2018 consolidated financial statements, which appears on page 184 of the 2018 Registration Document.

### Adjusted income statement

In order to facilitate monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which exclude non-operating and/or non-recurring items. They are determined as follows:

**EBIT**, an adjusted operating indicator, corresponds to income from operations plus the share in the net income of equity-accounted companies, before the impact of accounting entries recorded as part of business combinations (amortisation of assets valued when determining the purchase price allocation, other expenses directly related to acquisitions).

**Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:

- amortisation of assets valued when determining the purchase price allocation (business combinations);
- expenses recognised in income from operations or in finance costs<sup>2</sup> that are directly related to business combinations;
- gains and losses on disposals of assets, changes in scope of consolidation and other;
- impairment of non-current assets;
- changes in the fair value of derivative foreign exchange instruments (recognised under "Other financial income and expenses" in the consolidated financial statements);
- actuarial gains (losses) on long-term benefits (recognised under "Finance costs on pensions and other long-term employee benefits" in the consolidated financial statements).

<sup>1</sup> Available at: [https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002\\_en](https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en).

<sup>2</sup> The definition of adjusted net income was changed to take into account the expenses related to the acquisition of Gemalto recorded in finance costs (€8.4 million for H1 2018). See note 6.1 of the consolidated financial statements as at 31 December 2018

**Free operating cash flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

The definitions of EBIT and adjusted net income drive the definition of other operating indicators in the adjusted income statement: adjusted cost of sales, adjusted gross margin (corresponding to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income, adjusted finance costs on pensions and other long-term employee benefits, adjusted income tax, adjusted net income, Group share, per share, the calculation of which is outlined on pages 5 and 6.

**Net cash (debt)** corresponds to the difference between the sum of “cash and cash equivalents” and “current financial assets” items and short and long-term borrowings, after deduction of interest rate derivatives. From 1 January 2019, it incorporates the lease debt recorded on the balance sheet as part of the application of IFRS 16. Its calculation appears in Note 6.2 of the consolidated financial statements.

Readers are reminded that only the 2018 consolidated financial statements were audited by the statutory auditors, including the calculation of EBIT, which is outlined in Note 2 “Segment Information”, net cash (debt), the definition and calculation of which appears in Note 6.2 “Net cash (debt)” and free operating cash flow, the definition and calculation of which are specified in Note 6.4 “Changes in net cash”. Adjusted financial information other than that provided in the notes to the consolidated financial statements is subject to the verification procedures applicable to all information included in this document.

The impact of these adjustment entries on the H1 2018 and H1 2019 income statements is detailed in the tables on pages 5 and 6:

## For H1 2019:

<i>In € millions except earnings per share (in €)</i>	<b>H1 2019 consolidate d P&amp;L</b>	<b>Adjustments</b>				<b>H1 2019 adjusted P&amp;L</b>
		<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	
<b>Sales</b>	<b>8,190</b>					<b>8,190</b>
Cost of sales	(6,084)	97				(5,987)
Research and development expenses	(477)	1				(476)
Marketing and selling expenses	(639)	1				(638)
General and administrative expenses	(306)	0				(306)
Restructuring costs	(58)	14				(44)
Amortisation of acquired intangible assets (PPA)	(128)	128				0
<b>Income from operations</b>	<b>498</b>	<b>241</b>				<b>N/A</b>
Disposal of assets, changes in scope and other	220		(220)			0
Impairment of non-current assets	0					0
Share in net income of equity affiliates	67	14				80
<b>EBIT</b>	<b>N/A</b>	<b>255</b>	<b>(220)</b>			<b>820</b>
Net financial interest	(16)					(16)
Other financial income and expenses	(44)			40		(4)
Finance costs on pensions and other long-term employee benefits	(39)				11	(27)
Income tax	(123)	(71)	24	(12)	(3)	(184)
<i>Effective income tax rate *</i>	<i>-19.8%</i>					<i>-26.6%</i>
<b>Net income</b>	<b>564</b>	<b>184</b>	<b>(196)</b>	<b>28</b>	<b>8</b>	<b>588</b>
Non-controlling interests	(7)	(7)				(14)
<b>Net income, Group share</b>	<b>557</b>	<b>177</b>	<b>(196)</b>	<b>28</b>	<b>8</b>	<b>574</b>
<i>Average number of shares (thousands)</i>	<i>212,518</i>					<i>212,518</i>
<b>Net income, Group share, per share (in €)</b>	<b>2.62</b>					<b>2.70</b>

(\*) Income tax divided by net income before income tax and before share in net income of equity affiliates

### Adjustments

(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations

(2) Result from disposals, changes in scope and other

(3) Change in fair value of foreign exchange derivatives

(4) Actuarial differences on long-term employee benefits



## For H1 2018:

<i>In € millions except earnings per share (in €)</i>	<b>H1 2018 consolidated P&amp;L</b>	<b>Adjustments</b>				<b>H1 2018 adjusted P&amp;L</b>
		<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	
<b>Sales</b>	<b>7,452</b>					<b>7,452</b>
Cost of sales	(5,530)	0				(5,530)
Research and development expenses	(407)	1				(406)
Marketing and selling expenses	(543)	1				(541)
General and administrative expenses	(277)	1				(276)
Restructuring costs	(22)					(22)
Amortisation of acquired intangible assets (PPA)	(51)	51				0
<b>Income from operations</b>	<b>623</b>	<b>54</b>				<b>N/A</b>
Disposal of assets, changes in scope and other	(19)		19			0
Share in net income of equity affiliates	71	13				85
<b>EBIT</b>	<b>N/A</b>	<b>67</b>	<b>19</b>			<b>762</b>
Net financial interest	(3)					(3)
Other financial income and expenses	(35)	8		27		1
Finance costs on pensions and other long-term employee benefits	(22)				(5)	(27)
Income tax	(140)	(18)	(6)	(9)	2	(173)
<i>Effective income tax rate *</i>	-25.8%					-26.6%
<b>Net income</b>	<b>475</b>	<b>58</b>	<b>12</b>	<b>18</b>	<b>(3)</b>	<b>560</b>
Non-controlling interests	(18)	(4)		(1)		(22)
<b>Net income, Group share</b>	<b>457</b>	<b>55</b>	<b>12</b>	<b>17</b>	<b>(3)</b>	<b>539</b>
<i>Average number of shares (thousands)</i>	212,292					212,292
<b>Net income, Group share, per share (in €)</b>	<b>2.15</b>					<b>2.54</b>

(\*) Income tax divided by net income before income tax and before share in net income of equity affiliates

### Adjustments

(1) Impact of acquisitions: amortization of acquired intangible assets (PPA) recorded in the context of business combinations, expenses recorded in current operating income or financial income and directly related to these business combinations

(2) Result from disposals, changes in scope and other

(3) Change in fair value of foreign exchange derivatives

(4) Actuarial differences on long-term employee benefits



## ORDER INTAKE

<i>In € millions</i>	H1 2019	H1 2018	Total change	Organic change
Aerospace	1,758	2,042	-14%	-15%
Transport	556	835	-33%	-34%
Defence & Security	3,809	3,350	+14%	+16%
Digital Identity & Security	829	84	n.m.	n.m.
<b>Total – operating segments</b>	<b>6,952</b>	<b>6,311</b>	<b>+10%</b>	<b>-2%</b>
Other	43	20	+116%	+113%
<b>Total</b>	<b>6,995</b>	<b>6,331</b>	<b>+10%</b>	<b>-1%</b>
Of which mature markets <sup>1</sup>	5,280	5,011	+5%	-3%
Of which emerging markets <sup>1</sup>	1,715	1,320	+30%	+4%

H1 2019 order intake amounted to €6,995 million, up 10% compared to H1 2018 (-1% at constant scope and currency<sup>2</sup>). The book-to-bill ratio was 0.85 for H1 2019, as was the case in H1 2018, and 1.0 over the last 12 months.

In H1 2019, Thales booked 7 large orders with a unit value of over €100 million (compared with 6 such orders in H1 2018), representing a total amount of €1,653 million:

3 large orders booked in Q1 2019, covering the acquisition of new mobile radars by the Dutch army, a support contract for a European army and the provision of equipment for Indian army helicopters;

4 large orders booked in Q2 2019:

- The ground segment of the Syracuse IV radiocommunication satellite, designed to ensure all military communications between France and the units deployed in the field (Defence & Security segment)
- Delivery of on-board electronic systems on Belgian Scorpion vehicles, as part of the strategic partnership between Belgium and France (CaMo project, Defence & Security segment)
- A significant long-term maintenance contract for the French air force (Defence & Security segment)
- The design, in consortium, of two next-generation geostationary satellites to ensure Spanish government and military communications (SpainSat NG project, Aerospace segment)

At €5,342 million, orders with a unit value of less than €100 million rose by 18% compared to H1 2018, after the integration of Gemalto.

From a geographical standpoint<sup>3</sup>, order intake in emerging markets was up by 30% after the integration of Gemalto, and by 4% at constant scope and currency. Order intake in mature markets was up by 5% after the integration of Gemalto, though it fell by 3% at constant scope and currency, impacted by a high basis of comparison.

Order intake in the Aerospace segment stood at €1,758 million, down 14% (€2,042 million in H1 2018). This decline was due to the slower-than-expected recovery of the space market and an adverse basis of comparison in the in-flight entertainment (IFE) and training and simulation businesses, which recorded significant contracts in H1 2018.

<sup>1</sup> Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 14

<sup>2</sup> Taking into account a positive exchange rate effect of €32 million and a net positive scope effect of €718 million, relating mainly to Gemalto's consolidation as at 1<sup>st</sup> April 2019 (Digital Identity & Security segment) and the disposal of the GP HSM business, effective 1 January 2019 (Defence & Security segment)

<sup>3</sup> See table on page 14

At €556 million, Transport order intake fell by 33% compared to H1 2018, during which this segment won two major railway signalling contracts.

Orders in the Defence & Security segment stood at €3,809 million compared to €3,350 million in H1 2018 (+14%) thanks to the 6 large orders with a unit value of over €100 million mentioned above, despite the major OneSKY contract being recorded in H1 2018.

At €829 million, order intake in the Digital Identity & Security segment was very close to sales, with most of the businesses in this segment not booking long-term orders.

## SALES

<i>In € millions</i>	H1 2019	H1 2018	Total change	Organic change
Aerospace	2,609	2,768	-5.7%	-7.0%
Transport	835	904	-7.6%	-8.9%
Defence & Security	3,881	3,669	+5.8%	+6.8%
Digital Identity & Security	830	87	n.m.	n.m.
<b>Total – operating segments</b>	<b>8,155</b>	<b>7,429</b>	<b>+9.8%</b>	<b>-0.6%</b>
Other	35	23		
<b>Total</b>	<b>8,190</b>	<b>7,452</b>	<b>+9.9%</b>	<b>-0.5%</b>
Of which mature markets <sup>1</sup>	5,716	5,203	+9.9%	+1.4%
Of which emerging markets <sup>1</sup>	2,474	2,249	+10.0%	-4.7%

H1 2019 sales stood at €8,190 million, compared to €7,452 million in H1 2018, up 9.9% after the integration of Gemalto. The organic change (at constant scope and currency<sup>2</sup>) came in at -0.5%, with the fall in sales in the Aerospace and Transport segments masking the robust performance in the Defence & Security segment.

From a geographical standpoint<sup>3</sup>, this slight fall was mainly due to an organic decline in emerging markets (-4.7%) after two successive years of sharp rises (+15.1% in H1 2017 and +8.4% in H1 2018). Sales continued to grow organically in mature markets (+1.4%).

Sales in the Aerospace segment amounted to €2,609 million, down 5.7% on H1 2018 (-7.0% at constant scope and currency). This fall in sales was only driven by Space, with all Avionics businesses delivering organic growth. It reflects the prolonged wait-and-see attitude of customers on the commercial telecommunications satellite market, combined with the delivery of the last satellites of the Iridium constellation, and the end of a number of military projects. This situation should continue to weigh on space sales<sup>4</sup> in H2 2019 and 2020. In consequence, space sales are expected to see a fall of around 10% over Full Year 2019, and a decline in a lower proportion in 2020.

In the Transport segment, sales amounted to €835 million, down 7.6% on H1 2018 (-8.9% at constant scope and currency). This fall mainly resulted from phasing effects on major urban rail signalling contracts, particularly in Doha (Qatar) and London, after exceptional growth in H1 2018 (+22.2% at constant scope and currency).

Sales in the Defence & Security segment amounted to €3,881 million, up 5.8% compared to H1 2018 (+6.8% at constant scope and currency). A large number of businesses contributed to this robust performance: systems for

<sup>1</sup> Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 14

<sup>2</sup> The calculation of the organic change in sales is shown on page 15

<sup>3</sup> See table on page 14

<sup>4</sup> The space business generated sales of €2.45 billion in 2018

combat aircraft and surface ships, optronics, infrastructure systems and networks, radiocommunication products, etc. Organic growth in this segment was particularly strong in mature markets (+8.5%), reflecting the turnaround in defence budgets and the Group's good commercial momentum in these markets.

At €830 million, sales in the Digital Identity & Security segment were in line with the Full Year objective (organic growth of 0-2%). This level reflects a positive momentum in EMV payment cards, the impact of the reorganisation of the HSM business, and the continuous decline in traditional SIM card sales.

## ADJUSTED RESULTS

EBIT <i>In € millions</i>	H1 2019	H1 2018	Total change	Organic change
<b>Aerospace</b>	<b>270</b>	<b>291</b>	<b>-7%</b>	<b>-8%</b>
<i>in % of sales</i>	10.3%	10.5%	-0.1 pts	-0.1 pts
<b>Transport</b>	<b>(42)</b>	<b>27</b>	<b>n.m.</b>	<b>n.m.</b>
<i>in % of sales</i>	-5.0%	2.9%	-7.9 pts	-7.8 pts
<b>Defence &amp; Security</b>	<b>564</b>	<b>439</b>	<b>+28%</b>	<b>+35%</b>
<i>in % of sales</i>	14.5%	12.0%	+2.5 pts	+3.0 pts
<b>Digital Identity &amp; Security</b>	<b>37</b>	<b>6</b>	<b>n.m.</b>	<b>n.m.</b>
<i>in % of sales</i>	4.5%	n.m.	n.m.	n.m.
<b>Total – operating segments</b>	<b>830</b>	<b>761</b>	<b>+9%</b>	<b>+5%</b>
<i>in % of sales</i>	10.1%	10.3%	-0.2 pts	+0.4 pts
Other – excluding Naval Group	(39)	(37)		
<b>Total – excluding Naval Group</b>	<b>790</b>	<b>724</b>	<b>+9%</b>	<b>+5%</b>
<i>in % of sales</i>	9.6%	9.7%	-0.1 pts	+0.5 pts
Naval Group (35% share)	29	38	-22%	-22%
<b>Total</b>	<b>820</b>	<b>762</b>	<b>+8%</b>	<b>+4%</b>
<i>in % of sales</i>	10.0%	10.2%	-0.2 pts	+0.4 pts

In H1 2019, the Group posted a consolidated EBIT<sup>1</sup> of €820 million (10.0% of sales), compared to €762 million (10.2% of sales) in H1 2018.

The Aerospace segment posted an EBIT of €270 million (10.3% of sales), versus €291 million (10.5% of sales) in H1 2018. The fall seen over H1 was due to the EBIT impact of the significant drop in space sales, partially offset by improved margins in the Avionics Global Business Unit. In H2, EBIT in this segment should also fall due to the previously announced booking of restructuring expenses related to the adjustment of staff in the Space Global Business Unit. The drop in sales expected in 2020 and the increase in R&D investments planned for 2020 and 2021 should weigh on Space EBIT margin over these 2 years.

EBIT in the Transport segment amounted to -€42 million (-5.0% of sales), compared with €27 million (2.9% of sales) in H1 2018. This deterioration is due to the combination of 3 one-off factors: the recognition of a restructuring expense as part of an engineering transformation plan, the 9% fall in sales linked to contract phasing effects, and the impact of execution delays on a metro project.

<sup>1</sup> Non-GAAP financial indicator, see definition page 3, and calculation pages 5 and 6

In the Defence & Security segment, EBIT increased sharply to €564 million (14.5% of sales) versus €439 million in H1 2018 (12.0% of sales). The substantial rise in margin reflects a combination of positive factors: sustained commercial momentum, ongoing efforts to increase gross margin, strict control of overheads, and robust project execution.

At €37 million (4.5% of sales), EBIT in the Digital Identity & Security segment is in line with the Full Year objective (€240-260 million). It reflects the seasonal nature of profitability in this segment, combined with the impact of the integration costs of Gemalto and of the HSM business reorganization.

The contribution made by Naval Group to EBIT returned to a more normal level of seasonality than in 2018. It stood at €29 million for H1 2019, compared with €38 million the previous year.

### Adjusted net financial income (expense)

The increase in net financial interest (-€16 million compared to -€3 million in H1 2018) was due to the recognition, according to IFRS 16, of a financial interest expense of €13 million relating to lease debts. Other adjusted financial results<sup>1</sup> remained very low (-€4 million compared with €1 million in H1 2018). Adjusted finance costs on pensions and other long-term employee benefits<sup>15</sup> remained stable at -€27 million.

### Adjusted net income (expense)

As a result, adjusted net income, Group share<sup>2</sup> was €574 million versus €539 million in H1 2018, after an adjusted income tax charge<sup>15</sup> of -€184 million, compared with -€173 million in H1 2018. At 26.6%, the effective tax rate was stable.

Adjusted net income, Group share, per share<sup>2</sup> stood at €2.70, up 6% from H1 2018 (€2.54).

At €557 million, consolidated net income, Group share was up 22%, with the capital gains made on the disposal of the GP HSM business (€221 million) offsetting the fall in income from operations (-€125 million) arising from the accounting entries (PPA) related to Gemalto's acquisition.

## CONSOLIDATED RESULTS

### Income from operations

After accounting for the €241 million impact of purchase price allocation (PPA), compared to €54 million in the first half last year, reported **income from operations** was **€498 million**, compared to €623 million at 30 June 2018 (representing a 20% decrease).

**Income of operating activities before share in net income (loss) from equity affiliates** was at **€718 million**, compared to €604 million at 30 June 2018.

### Income of operating activities after share in net income (loss) of equity affiliates

The share in net income (loss) of equity affiliates comes to €67 million, compared to €71 million during the first half of 2018. **Income of operating activities after share in net income from equity affiliates** therefore comes to **€785 million**, compared to €675 million for the same period last year.

### Net financial income/(expense)

**Net interest expense** was a negative **€16 million** compared to €3 million in the first half of 2018 (impact IFRS 16 by €13 million). **Other financial expenses** were **-€44 million**, compared to -€35 million in the first half of 2018, mainly due to a lower foreign exchange result (-€48 million against -€32 million at 30 June 2018). **Finance costs on pensions and other employee benefits** amounted to **-€39 million** compared to -€22 million for the first six months of 2018, mainly resulting from the combination of the negative effects of interest rates decrease and unfavourable evolution of demographic data.

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<sup>1</sup> Non-GAAP financial indicator, see definition page 4, and calculation pages 5 and 6

## Net income (loss)

The first half of 2019 closed with **consolidated net earnings, Group share of €557 million (+22%** compared with 2018), benefiting from an increase of the net income from operations (+€110 million) after the integration of Gemalto and despite an accelerated financial loss (-€39 million) mostly due IFRS 16.

## FINANCIAL POSITION AS OF 30 JUNE 2019

<i>In € millions</i>	H1 2019	H1 2018	Change
<b>Operating cash flow before interest and tax</b>	<b>1,024</b>	<b>915</b>	<b>+109</b>
+ Change in working capital and provisions for contingencies	(1,022)	(915)	-107
+ Pension cash contributions, excluding contributions related to the reduction of the UK pension deficit	(73)	(70)	-3
+ Net financial interest received (paid)	(22)	(16)	-6
+ Income tax paid	(64)	(33)	-31
+ Net operating investments	(175)	(153)	-22
<b>= Free operating cash flow</b>	<b>(332)</b>	<b>(272)</b>	<b>-60</b>
+ Net disposals (acquisitions) of subsidiaries and affiliates	(5,175)	(55)	-5,120
+ Contributions related to the reduction of the UK pension deficit	(48)	(47)	-1
+ Dividends paid	(336)	(276)	-60
+ Changes in exchange rates and other	(181)	(11)	-170
<b>= Changes in net cash (debt)</b>	<b>(6,071)</b>	<b>(661)</b>	<b>-5,410</b>
Net cash (debt) at beginning of period	3,181	2,971	
+ IFRS 16 lease debt at beginning of period	(1,507)	-	
<b>= Net cash (debt) at beginning of period, post IFRS 16</b>	<b>1,673</b>		
+ Change in net cash (debt)	(6,071)	(661)	
<b>= Net cash (debt) at end of period</b>	<b>(4,397)</b>	<b>2,311</b>	

Over H1 2019, free operating cash flow<sup>1</sup> amounted to -€332 million, compared with -€272 million in H1 2018. This change is mainly due to the change in working capital, which was slightly higher than last year, with operating cash flow before interest and tax virtually stable, excluding the impact of IFRS 162.

At 30 June 2019, net debt stood at -€4,397 million compared to net cash of €1,673 million at 31 December 2018 after taking into account the IFRS 16 lease debt, and after the distribution of €336 million in dividends during the half-year (€276 million in H1 2018) and a net disbursement of €5,175 million for acquisitions and disposals made over the period, mostly relating to the acquisition of Gemalto.

At 30 June 2019, shareholders' equity, Group share stood at €5,138 million, compared to €5,700 million at 31 December 2018, with the rise in consolidated net income, Group share (€557 million) unable to offset the increase in net pension obligations (€443 million net of tax), the increase in dividend distribution (€336 million) and the purchase of 10.7 million additional Gemalto shares during the post-closing acceptance period (€331 million).

## ACQUISITION OF GEMALTO

On 15 April 2019, at the close of the post-closing acceptance period, more than 97% of Gemalto shares had been tendered to the Thales offer, for an amount of €4.62 billion.

<sup>1</sup> Non-GAAP financial indicator, see definition page 3

<sup>2</sup> IFRS 16 had a positive impact of €91 million on the net cash flow from operating activities in H1 2019, and a negative impact for the same amount on the net cash flow from financing activities. See note 1.2 of the condensed consolidated financial statements.

On 29 May 2019, Gemalto shares were delisted from Euronext.

In order to obtain 100% of Gemalto shares, Thales initiated a mandatory buy-out procedure on all remaining shares. This procedure should be completed in the coming months.

In addition, Thales obtained over the summer the last regulatory authorisations needed to take control of Gemalto's Russian business. This business is incorporated within Thales since 1 September.

## RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 13-a of the consolidated financial statements included in the 2018 Registration Document.

Revenues with the French State amounted to €1,424.2 million in the first half of 2019 and €1,398.5 million in the first half of 2018.

At 30 June 2019, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to €31.2 million (against €38.0 million at 30 June 2018 and €349.0 million at 31 December 2018).

## MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2019 FISCAL YEAR

There are no material changes in risks and uncertainties that are described in the Group management report for 2018 ("3. Risk Factors, Internal Control and Risk Management" page 40 and followings of the 2018 Registration Document filed with the Autorité des Marchés Financiers (AMF) on 08 April 2019).

## OUTLOOK FOR THE CURRENT YEAR

The H1 2019 results are in line with expectations. In this context, the Group confirms all its financial objectives for 2019.

Thales should thus continue to benefit from positive trends in the majority of its markets. The acceleration of commercial momentum in the defence businesses should offset the slowdown of the telecom satellite market. Order intake is therefore expected to be slightly above €18 billion.

Given the expected fall of around 10% in sales in the global Space business<sup>1</sup> expected over the year, organic sales growth should be at the lower end of the previously set guidance (3-4%).

As announced during the June 2018 Capital Markets Day, the Group will continue to step up its R&D investments, specifically targeting digital technologies. Self-funded R&D expenses are therefore expected to grow slightly faster than sales.

The growth in sales, combined with the impact of the "Ambition 10" strategy on competitiveness and the differentiation of products and services should result in Thales delivering an EBIT of between €1,980 million and €2,000 million, based on June 2019 scope and currency.

The Group will update its medium-term financial outlook at a Capital Markets Day to be held in Paris on 3 October 2019.

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<sup>1</sup> At the top end of the previously set range (fall of 5-10%). This business generated sales of €2.45 billion in 2018



## NOTES TO THE REPORT ON OPERATIONS AND RESULTS FOR THE FIRST HALF OF 2019

### Order intake by destination – H1 2019

	H1 2019	H1 2018	Total change	Organic change	H1 2019 weighting in %
<i>In € millions</i>					
France	2,075	1,456	+42%	+39%	30%
United Kingdom	551	226	+144%	+132%	8%
Rest of Europe	1,560	1,558	+0%	-9%	22%
<b>Sub-total Europe</b>	<b>4,186</b>	<b>3,240</b>	<b>+29%</b>	<b>+23%</b>	<b>60%</b>
United States and Canada	821	532	+54%	+15%	12%
Australia and New Zealand	274	1,239	-78%	-79%	4%
<b>Total mature markets</b>	<b>5,280</b>	<b>5,011</b>	<b>+5%</b>	<b>-3%</b>	<b>75%</b>
Asia	1,046	716	+46%	+27%	15%
Near and Middle East	359	457	-22%	-31%	5%
Rest of the world	310	147	+111%	+8%	4%
<b>Total emerging markets</b>	<b>1,715</b>	<b>1,320</b>	<b>+30%</b>	<b>+5%</b>	<b>25%</b>
<b>Total all markets</b>	<b>6,995</b>	<b>6,331</b>	<b>+10%</b>	<b>-1%</b>	<b>100%</b>

### Sales by destination – H1 2019

	H1 2019	H1 2018	Total change	Organic change	H1 2019 weighting in %
<i>In € millions</i>					
France	2,090	1,956	+6.8%	+4.7%	26%
United Kingdom	587	621	-5.6%	-11.5%	7%
Rest of Europe	1,722	1,532	+12.4%	+2.4%	21%
<b>Sub-total Europe</b>	<b>4,399</b>	<b>4,110</b>	<b>+7.0%</b>	<b>+1.4%</b>	<b>54%</b>
United States and Canada	856	660	+29.6%	-0.8%	10%
Australia and New Zealand	461	433	+6.6%	+4.8%	6%
<b>Total mature markets</b>	<b>5,716</b>	<b>5,203</b>	<b>+9.9%</b>	<b>+1.4%</b>	<b>70%</b>
Asia	1,191	1,062	+12.2%	-1.4%	15%
Near and Middle East	749	736	+1.8%	-4.1%	9%
Rest of the world	533	452	+18.0%	-13.2%	7%
<b>Total emerging markets</b>	<b>2,474</b>	<b>2,249</b>	<b>+10.0%</b>	<b>-4.7%</b>	<b>30%</b>
<b>Total all markets</b>	<b>8,190</b>	<b>7,452</b>	<b>+9.9%</b>	<b>-0.5%</b>	<b>100%</b>

## Order intake and sales – Q2 2019

<b>Order intake</b> <i>In € millions</i>	<b>Q2 2019</b>	<b>Q2 2018</b>	<b>Total change</b>	<b>Organic change</b>
Aerospace	1,086	1,291	-16%	-17%
Transport	307	347	-11%	-13%
Defence & Security	2,508	1,607	56%	+59%
Digital Identity & Security	795	44	n.m.	n.m.
<b>Total – operating segments</b>	<b>4,696</b>	<b>3,289</b>	<b>+43%</b>	<b>+14%</b>
Other	27	9		
<b>Total</b>	<b>4,723</b>	<b>3,298</b>	<b>+43%</b>	<b>+20%</b>

<b>Sales</b> <i>In € millions</i>				
Aerospace	1,388	1,483	-6.4%	-7.3%
Transport	437	518	-15.7%	-16.6%
Defence & Security	2,195	1,982	+10.8%	+11.9%
Digital Identity & Security	794	44	n.m.	n.m.
<b>Total – operating segments</b>	<b>4,814</b>	<b>4,028</b>	<b>+19.5%</b>	<b>+0.8%</b>
Other	14	12		
<b>Total</b>	<b>4,828</b>	<b>4,040</b>	<b>+19.5%</b>	<b>+0.8%</b>

## Organic change in sales by quarter

<i>In € millions</i>	<b>2018 sales</b>	<b>Currency impact</b>	<b>Impact of disposals</b>	<b>2019 sales</b>	<b>Impact of acquisition s</b>	<b>Total change</b>	<b>Organic change</b>
Q1	3,412	+37	-25	3,361	+4	-1.5%	-2.0%
Q2	4,040	+23	-26	4,829	+759	+19.5 %	+0.8%
<b>H1</b>	<b>7,452</b>	<b>+60</b>	<b>-51</b>	<b>8,190</b>	<b>+763</b>	<b>+9.9%</b>	<b>-0.5%</b>

### Main scope effects:

- Disposals: deconsolidated and divestment of GP HSM business after Gemalto acquisition (Defence & Security segment)
- Acquisitions:
  - Gemalto : consolidation from 1<sup>st</sup> April 2019 (within the new Digital Identity & Security segment)
  - Ercom and Suneris: consolidation from 1<sup>st</sup> January 2019 (Defence & Security segment) – turnover of approximately €40 million in 2018

The logo for Thales, featuring the word "THALES" in a bold, blue, sans-serif font. The letter 'A' is stylized with a small blue triangle above it.

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**AT 30 JUNE 2019**

## SUMMARY

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## INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(in € million)</i>	Notes	First Half 2019	First Half 2018	Full Year 2018
<b>Sales</b>	<b>Note 2</b>	<b>8,189.8</b>	<b>7,452.2</b>	<b>15,854.7</b>
Cost of sales		(6,083.8)	(5,530.4)	(11,767.5)
Research and development expenses		(476.6)	(407.0)	(881.4)
Marketing and selling expenses		(639.2)	(542.8)	(1,097.6)
General and administrative expenses		(305.8)	(276.7)	(554.3)
Restructuring costs		(58.2)	(21.8)	(48.3)
Amortisation of intangible assets acquired (PPA)*		(128.0)	(50.9)	(102.8)
<b>Income from operations</b>	<b>Note 2</b>	<b>498.2</b>	<b>622.6</b>	<b>1,402.8</b>
Disposal of assets, changes in scope of consolidation and other	Note 3.2	219.7	(18.7)	(73.0)
Impairment on non-current assets	Note 4	--	--	--
<b>Income of operating activities before share in net income of equity affiliates</b>		<b>717.9</b>	<b>603.9</b>	<b>1,329.8</b>
<b>Share in net income of equity affiliates</b>		<b>66.8</b>	<b>71.2</b>	<b>144.7</b>
Of which, share in net income of joint-ventures	Note 5.1	41.6	51.2	98.9
Of which, share in net income of associates	Note 5.2	25.2	20.0	45.8
<b>Income of operating activities after share in net income of equity affiliates</b>		<b>784.7</b>	<b>675.1</b>	<b>1,474.5</b>
Interest expense on gross debt		(26.0)	(11.6)	(26.5)
Interest income on cash and cash equivalents		10.5	8.5	19.6
Interest income, net	Note 6.1	(15.5)	(3.1)	(6.9)
Other financial income (expenses)	Note 6.1	(43.7)	(34.6)	(78.3)
Finance costs on pensions and other employee benefits	Note 8	(38.8)	(22.1)	(47.2)
Income tax	Note 9	(122.6)	(140.4)	(314.2)
<b>Net income</b>		<b>564.1</b>	<b>474.9</b>	<b>1,027.9</b>
Attributable to:				
<b>Shareholders of the parent company</b>		<b>556.9</b>	<b>457.2</b>	<b>981.8</b>
Non-controlling interests		7.2	17.7	46.1
Basic earnings per share (in euros)	Note 10.2	2.62	2.15	4.62
Diluted earnings per share (in euros)	Note 10.2	2.61	2.14	4.60

\* This item corresponds to the amortisation of acquired intangible assets (Purchase Price Allocation, PPA) of fully consolidated entities. The amortisation of PPA related to equity affiliates is included in the share in net income (loss) of equity affiliates and is detailed in note 2.3.

As part of Gemalto acquisition, operating assets and liabilities have been measured at fair value (stocks and deferred revenues). The amortisation of these items (€97 million in the first half of 2019) is included in the cost of sales of the period.

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(in € millions)</i>	First half 2019			First half 2018			Full Year 2018		
	Total attributable to:			Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non- controlling interests	Total	Shareholders of the parent company	Non- controlling interests	Total	Shareholders of the parent company	Non- controlling interests	Total
<b>Net Income</b>	<b>556.9</b>	7.2	<b>564.1</b>	<b>457.2</b>	17.7	<b>474.9</b>	<b>981.8</b>	46.1	<b>1,027.9</b>
Translation adjustment *	18.2	0.3	18.5	(3.3)	1.1	(2.2)	(11.1)	1.9	<b>(9.2)</b>
Deferred tax *	--	--	--	--	--	--	--	--	--
Joint-ventures	0.4	--	0.4	1.1	--	1.1	0.3	--	<b>0.3</b>
Associates	3.3	--	3.3	2.7	--	2.7	3.9	--	<b>3.9</b>
Net	<b>21.9</b>	<b>0.3</b>	<b>22.2</b>	<b>0.5</b>	<b>1.1</b>	<b>1.6</b>	<b>(6.9)</b>	1.9	<b>(5.0)</b>
Cash flow hedge *	(38.7)	(1.4)	(40.1)	(86.2)	(0.7)	(86.9)	(124.1)	1.8	<b>(122.3)</b>
Deferred tax *	7.3	2.2	9.5	26.0	0.2	26.2	36.2	(0.5)	<b>35.7</b>
Joint-ventures	(0.2)	--	(0.2)	0.2	--	0.2	11.6	--	<b>11.6</b>
Associates	1.4	--	1.4	4.4	--	4.4	6.4	--	<b>6.4</b>
Net	<b>(30.2)</b>	<b>0.8</b>	<b>(29.4)</b>	<b>(55.6)</b>	<b>(0.5)</b>	<b>(56.1)</b>	<b>(69.9)</b>	1.3	<b>(68.6)</b>
<b>Items that may be reclassified to income</b>	<b>(8.3)</b>	<b>1.1</b>	<b>(7.2)</b>	<b>(55.1)</b>	<b>0.6</b>	<b>(54.5)</b>	<b>(76.8)</b>	<b>3.2</b>	<b>(73.6)</b>
Actuarial gains (losses) on pensions *	(487.9)	(3.0)	(490.9)	149.8	(1.8)	148.0	293.9	0.6	<b>294.5</b>
Deferred tax *	44.6	1.0	45.6	(0.3)	1.5	1.2	(7.0)	(0.1)	<b>(7.1)</b>
Joint-ventures	(1.6)	--	(1.6)	(1.0)	--	(1.0)	(0.8)	--	<b>(0.8)</b>
Associates	0.0	--	0.0	(0.6)	--	(0.6)	(0.2)	--	<b>(0.2)</b>
Net	<b>(444.9)</b>	<b>(2.0)</b>	<b>(446.9)</b>	<b>147.9</b>	<b>(0.3)</b>	<b>147.6</b>	<b>285.9</b>	<b>0.5</b>	<b>286.4</b>
Financial assets at fair value	(6.5)	--	(6.5)	0.4	--	0.4	--	--	--
<b>Items that will not be reclassified to income</b>	<b>(451.4)</b>	<b>(2.0)</b>	<b>(453.4)</b>	<b>148.3</b>	<b>(0.3)</b>	<b>148.0</b>	<b>285.9</b>	<b>0.5</b>	<b>286.4</b>
<b>Other comprehensive income (loss) for the period net of tax</b>	<b>(459.7)</b>	<b>(0.9)</b>	<b>(460.6)</b>	<b>93.2</b>	<b>0.3</b>	<b>93.5</b>	<b>209.1</b>	<b>3.7</b>	<b>212.8</b>
<b>Total comprehensive income for the period</b>	<b>97.2</b>	<b>6.3</b>	<b>103.5</b>	<b>550.4</b>	<b>18.0</b>	<b>568.4</b>	<b>1,190.9</b>	<b>49.8</b>	<b>1,240.7</b>

\* Fully consolidated entities

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(in € millions)</i>	<i>Number of shares outstanding (thousands)</i>	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	Cumulative translation adjustment	Treasury shares	<b>Total attributable to shareholders of the parent company</b>	Non- controlling interests	<b>Total equity</b>
<b>At 1 January 2018</b>	<b>212,090</b>	<b>638.0</b>	<b>4,053.2</b>	<b>464.8</b>	<b>21.2</b>	<b>(218.2)</b>	<b>(52.5)</b>	<b>4,906.5</b>	<b>216.8</b>	<b>5,123.3</b>
Net income	--	--	--	981.8	--	--	--	981.8	46.1	1,027.9
Other comprehensive income	--	--	--	285.9	(69.9)	(6.9)	--	209.1	3.7	212.8
<b>Total comprehensive income for first half 2018</b>	--	--	--	<b>1,267.7</b>	<b>(69.9)</b>	<b>(6.9)</b>	--	<b>1,190.9</b>	<b>49.8</b>	<b>1,240.7</b>
Employee share issues	445	1.3	14.9	--	--	--	--	16.2	--	16.2
Parent company dividend distribution	--	--	--	(382.1)	--	--	--	(382.1)	--	(382.1)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	(41.7)	(41.7)
Share-based payments	--	--	--	16.3	--	--	--	16.3	--	16.3
Acquisitions/disposals of treasury shares	(79)	--	--	(21.1)	--	--	(14.8)	(35.9)	--	(35.9)
Other	--	--	--	(12.3)	--	--	--	(12.3)	0.0	(12.3)
Changes in scope of consolidation	--	--	--	--	--	--	--	--	--	--
<b>At 31 December 2018</b>	<b>212,456</b>	<b>639.3</b>	<b>4,068.1</b>	<b>1,333.3</b>	<b>(48.7)</b>	<b>(225.1)</b>	<b>(67.3)</b>	<b>5,699.6</b>	<b>224.9</b>	<b>5,924.5</b>
<b>IFRS 16 impact (Note 1-2)</b>	--	--	--	5.7	--	--	--	5.7	--	5.7
<b>At 1 January 2019 restated</b>	<b>212,456</b>	<b>639.3</b>	<b>4,068.1</b>	<b>1,339.0</b>	<b>(48.7)</b>	<b>(225.1)</b>	<b>(67.3)</b>	<b>5,705.3</b>	<b>224.9</b>	<b>5,930.2</b>
Net income	--	--	--	556.9	--	--	--	556.9	7.2	564.1
Other comprehensive income	--	--	--	(451.4)	(30.2)	21.9	--	(459.7)	(1.1)	(460.8)
<b>Total comprehensive income for first half 2019</b>	--	--	--	<b>105.5</b>	<b>(30.2)</b>	<b>21.9</b>	--	<b>97.2</b>	<b>6.1</b>	<b>103.3</b>
Employee share issues	203	0.6	6.0	--	--	--	--	6.6	--	6.6
Parent company dividend distribution	--	--	--	(335.6)	--	--	--	(335.6)	--	(335.6)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	(11.8)	(11.8)
Share-based payments	--	--	--	9.0	--	--	--	9.0	--	9.0
Acquisitions/disposals of treasury shares	10	--	--	(0.5)	--	--	2.6	2.1	--	2.1
Purchase of Gemalto's minority interests	--	--	--	(331.0)	--	--	--	(331.0)	59.1	(271.9)
Other	--	--	--	(15.6)	--	--	--	(15.6)	4.2	(11.4)
<b>At 30 June 2019</b>	<b>212,669</b>	<b>639.9</b>	<b>4,074.1</b>	<b>770.8</b>	<b>(78.9)</b>	<b>(203.2)</b>	<b>(64.7)</b>	<b>5,138.0</b>	<b>282.5</b>	<b>5,420.5</b>



## First Half 2018

<i>(in € millions)</i>	<i>Number of shares outstanding (thousands)</i>	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	Cumulative translation adjustment	Treasury shares	<b>Total attributable to shareholders of the parent company</b>	Non- controlling interests	<b>Total equity</b>
<b>At 1 January 2018</b>	212,090	638.0	4,053.2	464.8	21.2	(218.2)	(52.5)	4,906.5	216.8	5,123.3
Net income	--	--	--	457.2	--	--	--	457.2	17.7	474.9
Other comprehensive income	--	--	--	148.3	(55.6)	0.5	--	93.2	0.3	93.5
<b>Total comprehensive income for first half 2018</b>	--	--	--	605.5	(55.6)	0.5	--	550.4	18.0	568.4
Employee share issues	413	1.2	14.0	--	--	--	--	15.2	--	15.2
Parent company dividend distribution	--	--	--	(275.8)	--	--	--	(275.8)	--	(275.8)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	(40.0)	(40.0)
Share-based payments	--	--	--	8.2	--	--	--	8.2	--	8.2
Acquisitions/disposals of treasury shares	21	--	--	1.5	--	--	(0.3)	1.2	--	1.2
Other	--	--	--	(17.3)	--	--	--	(17.3)	0.3	(17.0)
<b>At 30 June 2018</b>	212,524	4,067.2	4,067.2	786.9	(34.4)	(217.7)	(52.8)	5,188.4	195.1	5,383.5

## INTERIM CONSOLIDATED BALANCE SHEET

(in € millions)

<b>ASSETS</b>	<b>Notes</b>	<b>30/06/19</b>	<b>31/12/18</b>
Goodwill, net	Note 4.1	5,901.7	3,445.2
Other intangible assets, net	Note 4.2	3,123.4	769.3
Property, plant and equipment, net	Note 4.2	3,630.1	1,808.9
Investments in joint-ventures	Note 5.1	1,066.3	1,086.3
Investments in associates	Note 5.2	228.5	220.0
Non-consolidated investments		161.4	123.9
Other non-current financial assets		181.7	169.9
Non-current derivatives – assets	Note 6.2	19.0	16.7
Deferred tax assets		868.4	891.7
<b>Non-current assets</b>		<b>15,180.5</b>	<b>8,531.9</b>
Inventories and work in progress		3,847.2	3,080.6
Contract assets		3,379.2	2,538.4
Advances to suppliers		539.8	652.3
Accounts, notes and other current receivables		5,188.8	4,671.7
Current derivatives – assets		81.6	91.6
Total current operating assets	Note 7.1	13,036.6	11,034.6
Current tax receivable		103.3	45.8
Current financial assets		5.9	256.0
Cash and cash equivalents		2,531.7	5,637.5
Total current financial assets	Note 6.2	2,537.6	5,893.5
<b>Current assets</b>		<b>15,677.5</b>	<b>16,973.9</b>
<b>Total assets</b>		<b>30,858.0</b>	<b>25,505.8</b>
<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>30/06/19</b>	<b>31/12/18</b>
Capital, additional paid-in capital and other reserves		5,405.9	5,992.0
Cumulative translation adjustment		(203.2)	(225.1)
Treasury shares		(64.7)	(67.3)
Total attributable to shareholders of the parent company		5,138.0	5,699.6
Non-controlling interests		282.7	224.9
<b>Total equity</b>	Note 10.1	<b>5,420.7</b>	<b>5,924.5</b>
Long-term loans and borrowings	Note 6.2	4,174.9	2,408.5
Non-current derivatives – Liabilities	Note 6.2	16.8	13.1
Pensions and other long-term employee benefits	Note 8	2,909.1	2,326.7
Deferred tax liabilities		847.5	216.4
<b>Non-current liabilities</b>		<b>7,948.3</b>	<b>4,964.7</b>
Contract liabilities		6,379.2	6,108.2
Reserves for contingencies		1,768.6	1,730.8
Accounts, notes and other current payables		6,302.1	6,148.5
Current derivatives – liabilities		138.1	273.7
Total current operating liabilities	Note 7.1	14,588.0	14,261.2
Current tax payable		122.3	34.2
Short-term loans and borrowings	Note 6.2	2,778.7	321.2
<b>Current liabilities</b>		<b>17,489.0</b>	<b>14,616.6</b>
<b>Total equity and liabilities</b>		<b>30,858.0</b>	<b>25,505.8</b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	Notes	First Half 2019	First Half 2018	Full Year 2018
<b>Net income</b>		<b>564.1</b>	<b>474.9</b>	<b>1,027.9</b>
Add (deduct):				
Income tax expense (gain)		122.6	140.4	314.2
Net interest income		15.5	3.1	6.9
Share in net income of equity affiliates		(66.8)	(71.2)	(144.7)
Dividends received from equity accounted: joint-ventures	Note 5.1	44.8	33.6	43.0
Dividends received from equity accounted: associates	Note 5.2	21.6	24.6	44.1
Depreciation and amortisation of property, plant and equipment and intangible	Note 4.2	444.2	234.5	485.0
Provisions for pensions and other employee benefits	Note 8	84.8	78.1	183.9
Loss (gain) on disposal of assets, change inscope of consolidation and other		(219.7)	18.7	73.0
Provisions for restructuring, net		5.7	(11.1)	(26.0)
Other items		7.0	(10.4)	(75.5)
<b>Operating cash flows before working capital changes, interest and tax</b>		<b>1,023.8</b>	<b>915.2</b>	<b>1,931.8</b>
Change in working capital and reserves for contingencies	Note 7.1	(1,021.9)	(914.5)	(518.8)
Cash contributions to pension plans and other long-term employee benefits		(120.8)	(117.4)	(227.2)
- UK deficit payment		(47.9)	(47.2)	(98.3)
- Recurring contributions/benefits		(72.9)	(70.2)	(128.9)
Interest paid *		(33.6)	(27.7)	(23.3)
Interest received		11.5	11.8	21.3
Income tax paid		(64.1)	(32.8)	(91.1)
<b>Net cash flow from operating activities</b>	<b>- I -</b>	<b>(205.1)</b>	<b>(165.4)</b>	<b>1,092.7</b>
Acquisitions of property, plant and equipment and intangible assets		(175.5)	(156.4)	(393.2)
Disposals of property, plant and equipment and intangible assets		1.0	3.0	12.9
<b>Net operating investments</b>	Note 4.2	<b>(174.5)</b>	<b>(153.4)</b>	<b>(380.3)</b>
Acquisitions of subsidiaries and affiliates, net	Note 7	(4,807.4)	(54.5)	(71.7)
Less, cash flow from acquired companies		271.3		
Disposals of subsidiaries and affiliates, net		362.2	0.0	10.6
Decrease (increase) in loans and non-current financial assets		(0.8)	16.5	18.8
Decrease (increase) in current financial assets		246.6	(0.5)	73.8
<b>Net financial investments</b>		<b>(3,928.1)</b>	<b>(38.5)</b>	<b>31.5</b>
<b>Net cash flow used in investing activities</b>	<b>- II -</b>	<b>(4,102.6)</b>	<b>(191.9)</b>	<b>(348.8)</b>
Parent company dividend distribution	Note 10	(335.6)	(275.8)	(382.1)
Third party share in dividend distribution of subsidiaries		(11.8)	(40.0)	(41.8)
Capital increase (options exercised) & (Purchase) sale of treasury shares		5.2	10.7	(19.4)
Issuance of debt		2,129.2	1,562.1	1,585.5
Repayment of debt **		(596.0)	(510.1)	(525.0)
<b>Net cash flow from / used in financing activities</b>	<b>- III -</b>	<b>1,191.0</b>	<b>746.9</b>	<b>617.2</b>
Effect of exchange rate changes and other	- IV -	10.9	(5.5)	(6.3)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>I+II+III+IV</b>	<b>(3,105.8)</b>	<b>384.1</b>	<b>1,354.8</b>
Cash and cash equivalents at beginning of period		5,637.5	4,282.7	4,282.7
<b>Cash and cash equivalents at end of period</b>		<b>2,531.7</b>	<b>4,666.8</b>	<b>5,637.5</b>

\* Of which - €12.6 million related to lease debt interest at first half 2019.

\*\* Of which - €90.8 million related to the repayment of lease debt at first half 2019.

The Group's net cash position and the changes from one period to the next are presented in notes 6.2 and 7.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*All monetary amounts included in these notes are expressed in millions of euros*

## 1. ACCOUNTING STANDARDS FRAMEWORK

Thales' condensed interim consolidated financial statements for six months ended 30 June 2019 were approved and authorized for issue by its Board of Directors on 3 September 2019.

Thales (parent company) is a French publicly traded joint-stock company (*société anonyme*) registered with the Nanterre Trade and Companies' Register under number 552 059 024.

### 1.1 BASIS OF PREPARATION FOR THE CONDENSED INTEREIM CONSOLIDATED FINANCIAL STATEMENTS

Thales's condensed interim consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the provisions of IAS 34 (Interim Financial Reporting) and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2019<sup>1</sup>.

The condensed interim consolidated financial statements are consistent with the accounting policies applied by the Group for the full-year financial statements at 31 December 2018 (as described in the notes 1 and 13 to the consolidated financial statements), with the exception of those resulting from the application of IFRS 16 (Leases) of which impacts are described in note 1.2.

IFRIC 23 (Uncertainty over income tax treatment) interpretation, which clarifies the rules for recognizing and measuring income tax uncertainties, has no significant impact on the Group's valuation of current and deferred taxes as of 1 January 2019. In accordance with the new text, uncertain tax liabilities, previously disclosed in the reserves for contingencies have been reclassified as corporate income tax liabilities (cf. note 7.2). The balance-sheet at end 2018 has not been restated.

Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures), IAS 19 (Amendments, reductions or settlements), as well as annual improvements to IFRS (2015-2017 cycle), mandatorily applicable as of 1 January 2019, have no impact on the Group's financial statements.

The new standards and interpretations published by the IASB, but not yet necessarily applicable, are described in note 1 "Accounting standards framework" of the notes to the 2018 consolidated financial statements, which appears on page 184 of the 2018 Registration Document.

The specific provisions relating to the preparation of interim financial statements are described hereafter :

#### a) Measurement procedures used for the condensed interim consolidated financial statements

##### Pensions and other long-term employee benefits

Pension costs for interim periods are recognised based on the actuarial valuations performed at the end of the prior year. When appropriate, these valuations are adjusted to take into account curtailments, settlements or other major non-recurring events that occurred during the period. In addition, pensions and other long-term benefits liabilities are updated in order to reflect material changes impacting the yield on investment-grade corporate bonds in the concerned geographic area (the benchmark used to determine the discount rate), the inflation rate and the actual return on plan assets.

##### Income taxes

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

<sup>1</sup> Available at: [https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002\\_en](https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en).

## Goodwill

Impairment tests are performed for each annual closing, and whenever there is an indication of impairment (note 4.1). Impairment that would be recognised in the first half of the year is not reversible.

### b) 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. Revenues and income from operations have been generally lower in the first half of the year due to the seasonality of business. The company has noted that this pattern is of a recurring nature, even though its extent varies from year to year.

### c) Conversion rates

The main exchange rates used to translate financial statements of entities with a functional currency different from the euro are as follows:

Euros	30 June 2019		30 June 2018		31 December 2018	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.6244	1.5981	1.5787	1.5707	1.6220	1.5832
Pound Sterling	0.8966	0.8731	0.8861	0.8801	0.8945	0.8860
U.S. Dollar	1.1380	1.1315	1.1658	1.2071	1.1450	1.1793

## 1.2 FIRST IMPLEMENTATION OF IFRS 16 (LEASES)

IFRS 16 "Leases" is mandatory as from 1 January 2019 and replaces IAS 17 and the associated IFRIC and SIC interpretations. Previously, each lease contract was qualified either as a finance lease or an operating lease, with a specific accounting treatment for each category.

The Group has adopted the new standard using the "modified retrospective" approach. Therefore, the 2018 financial statements included in the 2019 financial statements have not been restated

The Group rents its offices and production sites in most of the cities where it operates. Other leases in IFRS 16 scope relate mainly to vehicles and computing equipment. Under IAS 17, these contracts were exclusively classified as operating leases and the corresponding rents recorded as period cost.

IFRS 16 treats all leases in a single accounting model consisting in recording a financial debt (based on the discounted value of future lease payments) on the lessee's liabilities, and a right-of-use on the asset side. The right-of-use is subsequently amortized over the term of the lease agreements.

The lease term is defined contract by contract and corresponds to the fixed period of the commitment taking into account the optional periods that are reasonably certain to be exercised.

Leases corresponding to an asset with a low unit value or a short-term period (less than 12 months) are recognized directly as expenses. In accordance with the transitional provisions, contracts with a remaining term of less than 12 months from 1 January 2019 are not accounted for as an asset and liability.

Discount rates are based on each lessee's marginal borrowing rate, maturity corresponding to the engagement period.

At the transition date, the lease liability was assessed on the basis of the discount rates at 1 January 2019, taking into account the remaining terms of the contracts. The weighted average discount rate is 1.47%.

The transition method used assumes that, at that date, the right-of-use asset is equal to the amount of the lease liability, adjusted by the amount of rent paid in advance and the lease incentives received from the lessors.

In limited cases (significant rent-free periods), and as allowed by the norm, the asset has been retrospectively measured. The cumulative effect of the change in method was recorded through equity as from 1 January 2019.

The impact of this new standard on the financial statements for the first half of 2019 (before tax) is presented below :

<b>Impacts on the consolidated balance sheet</b>	<b>01/01/19</b>	<b>30/06/19</b>
Right-of-use from lease contracts*	1,481.5	1 566,9
Trade and other receivables	(4.9)	(4,2)
<b>Total assets</b>	<b>1,476.6</b>	<b>1 562,7</b>
Equity	5.7	(0.9)
Lease liability	1,507.2	1,614.9
Trade and other payables	(36.3)	(51.3)
<b>Total equity and liabilities</b>	<b>1,476.6</b>	<b>1,562.7</b>

\* This item is included in property, plant and equipment. Real estate contracts represent 99% of the assets.

<b>Impacts on the consolidated P&amp;L</b>	<b>First half 2019</b>
Net Operating Income (lease expense replaced by an amortisation cost)	5.9
Financial interests from lease debt	(12.5)
<b>Net Income</b>	<b>(6.6)</b>

<b>Impacts on the consolidated cash flow statement</b>	<b>First half 2019</b>
<b>Net cash flow from operating activities</b>	<b>90.8</b>
Repayment of lease liability	(90.8)
<b>Net cash-flow from financing activities</b>	<b>(90.8)</b>
<b>Change in cash and cash equivalents</b>	<b>--</b>

The reconciliation of the lease debt at 1 January 2019 with the off-balance sheet commitments published at the end of 2018 can be analyzed as follows:

<b>Reconciliation of the lease liability with off-balance sheet commitments</b>	<b>€ million</b>
<b>Property lease commitments published end of 2018</b>	<b>1,659.4</b>
Adjustments following the reanalysis of leases	(44.9)
Other lease commitments (vehicles and other)	20.6
Impact of discounting	(127.9)
<b>Lease liability at 1 January 2019</b>	<b>1,507.2</b>

## 2. SEGMENT INFORMATION

### 2.1 BUSINESS SEGMENTS

The business segments presented by the Group are as follows:

- The *Aerospace* segment combines the “Avionics” and “Space” Global Business Units. They develop on-board systems and services for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.) and for government/defence customers (national governments, space agencies and other semi-public organisations).
- The *Transport* segment (“Ground Transportation Systems” Global Business Unit) develops civil systems and services for ground transportation infrastructure operators.
- The *Defence and Security* segment combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units. They develop equipment, systems and services for armed forces and for the protection of networks and infrastructure, mainly for a government/defence customer base.
- The *Digital Identity & Security* segment, includes Gemalto activities (consolidated as from 1<sup>st</sup> April 2019). It develops digital identity and security solutions for a private and government customer base, and some digital activities previously included in Defense & Security segment, in particular in data protection and analytics.

The 2018 data presented below have been restated to take into account this organizational change.

### 2.2 SALES

<b>First half 2019</b>	Aerospace	Transport	Defence & Security	Digital I&S	Other	<b>Thales</b>
<b>Sales by destination:</b>						
Europe	1,628.7	461.0	2,047.1	247.7	14.1	<b>4,398.6</b>
North America	367.1	39.8	198.6	248.3	2.6	<b>856.4</b>
Australia and New Zealand	26.1	22.3	397.0	15.8	--	<b>461.2</b>
Total mature markets	2,021.9	523.1	2,642.7	511.8	16.7	<b>5,716.2</b>
Emerging markets *	587.3	311.9	1,238.5	317.8	18.1	<b>2,473.6</b>
<b>Total</b>	<b>2,609.2</b>	<b>835.0</b>	<b>3,881.2</b>	<b>829.6</b>	<b>34.8</b>	<b>8,189.8</b>

<b>First half 2018</b>	Aerospace	Transport	Defence & Security	Digital I&S	Other	<b>Thales</b>
<b>Sales by destination:</b>						
Europe	1,689.4	496.6	1,894.6	14.6	14.9	<b>4,110.1</b>
North America	390.3	21.2	188.1	60.5	0.3	<b>660.4</b>
Australia and New Zealand	23.0	20.6	388.0	0.9	--	<b>432.5</b>
Total mature markets	2,102.7	538.4	2,470.7	76.0	15.2	<b>5,203.0</b>
Emerging markets *	665.5	365.8	1,198.6	11.4	7.9	<b>2,249.2</b>
<b>Total</b>	<b>2,768.2</b>	<b>904.2</b>	<b>3,669.3</b>	<b>87.4</b>	<b>23.1</b>	<b>7,452.2</b>

<b>Full year 2018</b>	Aerospace	Transport	Defence & Security	Digital I&S	Other	<b>Thales</b>
<b>Sales by destination:</b>						
Europe	3,564.8	1,083.7	4,023.3	33.0	30.7	8,735.5
North America	769.5	60.4	408.3	126.6	2.2	1,367.0
Australia and New Zealand	48.8	39.3	767.3	2.5	--	857.9
Total mature markets	4,383.1	1,183.4	5,198.9	162.1	32.9	10,960.4
Emerging markets *	1,396.4	817.1	2,628.8	29.8	22.2	4,894.3
<b>Total</b>	<b>5,779.5</b>	<b>2,000.5</b>	<b>7,827.7</b>	<b>191.9</b>	<b>55.1</b>	<b>15,854.7</b>

\* Emerging markets: all countries outside Europe, North America, Australia and New Zealand.



## 2.3 COMMERCIAL ACTIVITY AND EBIT BY SEGMENT

In order to monitor the operating and financial performance of Group entities, the Management regularly reviews key non-GAAP indicators which exclude some non-operating and non-recurring items, as defined in note 13-a of the appendix to the 2018 consolidated financial statements.

EBIT presented by business segment in the following tables, corresponds to income from operations plus the share in net income of equity affiliates, excluding expenses related to business combinations (amortisation of acquisition-related intangible assets (PPA) and other expenses directly linked to business combinations).

<b>First half 2019</b>	Aerospace	Transport	Defence & Security	Digital I&S	Oth. elim. and unallocated *	<b>Thales</b>
Order book – non-Group	7,151.3	3,907.2	19,958.1	601.9	82.0	<b>31,700.5</b>
Order intake – non-Group	1,758.4	556.2	3,808.6	828.8	43.1	<b>6,995.1</b>
Sales – non-Group	2,609.2	835.0	3,881.2	829.6	34.8	<b>8,189.8</b>
Sales – intersegment	39.9	2.2	183.5	2.0	(227.6)	--
Total sales	2,649.1	837.2	4,064.7	831.6	(192.8)	<b>8,189.8</b>
EBIT	270.1	(41.5)	563.6	37.4	(10.1)	<b>819.5</b>
<i>Of which, Naval Group</i>	--	--	--	--	29.4	29.4
<i>Excluding Naval Group</i>	270.1	(41.5)	563.6	37.4	(39.5)	790.1

<b>First half 2018</b>	Aerospace	Transport	Defence & Security	Digital I&S	Oth. elim. and unallocated *	<b>Thales</b>
Order book – non-Group	7,620.7	4,197.0	19,012.2	92.7	64.1	<b>30,986.7</b>
Order intake – non-Group	2,042.0	834.9	3,350.0	83.8	19.9	<b>6,330.6</b>
Sales – non-Group	2,768.2	904.2	3,669.3	87.4	23.1	<b>7,452.2</b>
Sales – intersegment	33.4	2.9	143.0	1.6	(180.9)	--
Total sales	2,801.6	907.1	3,812.3	89.0	(157.8)	<b>7,452.2</b>
EBIT	290.6	26.5	438.7	5.7	0.3	<b>761.8</b>
<i>Of which, Naval Group</i>	--	--	--	--	37.6	37.6
<i>Excluding Naval Group</i>	290.6	26.5	438.7	5.7	(37.3)	724.2

<b>Full year 2018</b>	Aerospace	Transport	Defence & Security	Digital I&S	Oth. elim. and unallocated *	<b>Thales</b>
Order book – non-Group	7,984.8	4,143.5	20,012.0	118.9	69.5	<b>32,328.7</b>
Order intake – non-Group	5,345.7	1,858.2	8,569.8	205.2	55.4	<b>16,034.3</b>
Sales – non-Group	5,779.5	2,000.5	7,827.7	191.9	55.1	<b>15,854.7</b>
Sales – intersegment	66.9	5.7	295.2	5.4	(373.2)	--
Total sales	5,846.4	2,006.2	8,122.9	197.3	(318.1)	<b>15,854.7</b>
EBIT	579.7	88.3	991.8	15.4	10.0	<b>1,685.2</b>
<i>Of which, Naval Group</i>	--	--	--	--	62.7	62.7
<i>Excluding Naval Group</i>	579.7	88.3	991.8	15.4	(52.7)	1,622.5

\* Order book, order intake and sales included in the "Other, elim. and unallocated" column relate to corporate activities (Thales parent company, Thales Global Services, Group R&D centres, facilities management), and to the elimination of transactions between business segments.

Unallocated EBIT includes the Group's share (35%) in the net income of Naval Group, corporate income from operations which is not assigned to the segments, and the cost of vacant premises. Other costs (mainly the costs of foreign holding companies not attributable to the segments, and expenses related to share-based payments) are reallocated to business segments proportionally to their respective non-Group sales.

The reconciliation between income from operations and EBIT is analysed as follow:

	First half 2019	First half 2018	Full year 2018
<b>Income from operations</b>	<b>498.2</b>	<b>622.6</b>	<b>1,402.8</b>
<b>Share in net income of equity from affiliates</b>	<b>66.8</b>	<b>71.2</b>	<b>144.7</b>
<b>Less :</b>			
Amortisation of intangible assets (PPA):			
- related to fully consolidated entities	128.0	50.9	102.8
- related to equity affiliates	13.5	13.4	27.0
Impact from the revaluation of stocks and deferred revenues (PPA)	97.0	--	--
Expenses directly linked to business combinations	16.0	3.7	7.9
<b>EBIT</b>	<b>819.5</b>	<b>761.8</b>	<b>1,685.2</b>

### 3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

#### 3.1 MAIN CHANGES IN SCOPE CONSOLIDATION

- In December 2017, Thales and Gemalto (leader in digital security) announced the signing of a merger agreement including a cash offer, at a price of €51 per ordinary share cum dividend (therefore valuing equity at around €4.8 billion).

The settlement of the initial offer took place on 2 April 2019. By that date, Thales acquired 79,827,790 Gemalto shares for a total of €4.07 billion, representing 85.51% of the capital.

In order to acquire all of the shares of Gemalto, the Group initiated on May 29, 2019 a squeeze-out procedure on Euronext. As of 30 June 2019, Thales held 90,570,096 shares out of 93,353,911 that is 97.02%, minority interests representing 2.98% of the existing shares.

Gemalto has been consolidated in Thales' financial statements since 1 April 2019. The Group has performed a preliminary allocation of the purchase price which is summarized as follows :

In € million	Fair Value at the acquisition date	
Acquired technologies		1,239,5
Acquired customer relationship		787.0
Acquired brands		350,0
Other		50.2
<b>Intangible assets</b>		<b>2,426.7</b>
<b>Property, plant and equipment</b>		<b>386.5</b>
<b>Other current and non current liabilities and assets</b>		<b>435.2</b>
<b>Net financial debt</b>		<b>(747.0)</b>
<b>Net deferred tax liability</b>		<b>(616.0)</b>
<b>Net asset</b>		<b>1,885.4</b>
<b>Acquisition price of 85.51% of the securities</b>	<b>(I)</b>	<b>4,071.2</b>
<b>Share in the acquired assets and liabilities (85.51%)</b>	<b>(II)</b>	<b>1,612.2</b>
<b>Goodwill *</b>	<b>(I) – (II)</b>	<b>2,459.0</b>

\* Goodwill represents futures technologies and customer relationship, so as acquired workforce.

The Group has decided to determine goodwill under the partial goodwill method. According to this method, the purchase of minority interests after the date of takeover constitutes a transaction between shareholders.

As a result, the difference between the acquisition price of these interests and Thales' share in the net assets acquired was recognized as a reduction of the Group's shareholders' equity.

Costs directly related to the acquisition were recorded under the line "results of disposal, change in scope and others" (note 3.2)

Gemalto's contribution to the Group's consolidated results for the three months following the acquisition is as follows :

In € million	First half 2019
Sales	752.6
Income from operations*	(138.7)
EBIT	47.9

\* including the effect of asset revaluation at fair value as part of Gemalto's purchase price allocation for (-€171.4 million) and other expenses directly related to the acquisition (-€14.2 million).

If Gemalto's acquisition had taken place on 1 January 2019, contributions to the Group's consolidated financial results for the 6 months of operation would have been as follows :

In € million	First half 2019
Sales	1 404.0
Income from operations*	(223.2)
EBIT	57.6

\* including the effect of asset revaluation at fair value as part of Gemalto's purchase price allocation for (-€265.6 million) and other expenses directly related to the acquisition (-€14.2 million).

- Following this transaction, and as required by some antitrust authorities, the Groupe has announced on 22 February 2019 the signature of a definitive agreement to sell its *General Purpose Hardware Security Modules (GP HSM)* business to Entrust datacard company. The disposal, completed in early June 2019 for an amount of €362.2 million, resulted in the recognition of a capital gain from disposal of €221.2 million.  
Thales having transferred control of its activity at the beginning of January 2019 as requested by the European Commission, the corresponding assets and liabilities have been deconsolidated since that date. Sales from this activity amounted to €106 million in 2018.
- On January 2019, Thales completed the acquisition of Ercom, specialised in terminals and communications secure, and Suneris (solutions for the monitoring and the control of telecommunication networks' flows) for an amount of €100 million. These companies generated sales of around €40 million in 2018. They are consolidated using the global integration method as from 1 January 2019. Goodwill amounts to €60 million after temporary allocation.

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

	First half 2019	First half 2018	Full year 2018
<b>Disposal of investments :</b>	<b>222.8</b>	<b>(0.1)</b>	<b>12.4</b>
GP HSM business	221.2	--	--
Other	1.6	(0.1)	12.4
<b>Acquisition-related fees(consultants, legal counsel ...)</b>	<b>(14.7)</b>	<b>(18.4)</b>	<b>(62.7)</b>
<b>Disposal of real estate and other tangible and intangible assets</b>	<b>(1.0)</b>	<b>(0.2)</b>	<b>5.2</b>
<b>Impact of settlements / amendments to pensions plans (note 8)</b>	<b>12.6</b>	<b>--</b>	<b>(27.9)</b>
<b>Total</b>	<b>219.7</b>	<b>(18.7)</b>	<b>(73.0)</b>

## 4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

### 4.1 GOODWILL

Goodwill is allocated to cash-generating units (CGU) or groups of CGUs corresponding to the Thales' Global Business Units (GBU). The changes in goodwill attributable to fully consolidated subsidiaries are presented below :

	01/01/19	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	30/06/19
Avionics	463.8	--	--	--	0.5	464.3
Space <i>Aerospace</i>	489.2	--	--	--	0.3	489.5
	<b>953.0</b>	--	--	--	0.8	<b>953.8</b>
Transport	875.3	4.5	--	--	--	879.8
Secured Comm. and Information Systems	850.6	60.0 (a)	(142.0) (b)	(119.3) (c)	0.1	649.4
Land and Air Systems	309.3	--	--	--	--	309.3
Defence Mission Systems <i>Defence and Security</i>	457.0	--	--	--	--	457.0
	<b>1,616.9</b>	60.0	(142.0)	(119.3)	0.1	<b>1,415.7</b>
Digital Identity & Security	--	2,533.6 (d)	--	119.3 (c)	(0.5)	2,652.4
<b>Total</b>	<b>3,445.2</b>	<b>2,598.1</b>	<b>(142.0)</b>	<b>--</b>	<b>0.4</b>	<b>5,901.7</b>

(a) Acquisition of Ercom and Suneris

(b) Disposal of *General Purpose Hardware Security Module (GP HSM)* business

(c) Reallocation of goodwill related to Guavus and e-Security activities, given the organisational change, based on relative fair values.

(d) Acquisition of Gemalto (€2,459 million). Purchase price allocation remains provisional at 30 June 2019.

	01/01/18	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	31/12/18
Avionics	472.2	--	--	--	(8.4)	463.8
Space <i>Aerospace</i>	488.6	--	--	--	0.6	489.2
	<b>960.8</b>	--	--	--	(7.8)	<b>953.0</b>
Transport	875.3	--	--	--	--	875.3
Secured Comm. and Information Systems	842.0	3.5	--	--	5.1	850.6
Land and Air Systems	309.6	--	--	--	(0.3)	309.3
Defence Mission Systems <i>Defence and Security</i>	459.5	--	--	--	(2.5)	457.0
	<b>1,611.1</b>	3.5	--	--	2.3	<b>1,616.9</b>
<b>Total</b>	<b>3,447.2</b>	<b>3.5</b>	<b>--</b>	<b>--</b>	<b>(5.5)</b>	<b>3,445.2</b>

Goodwill is subject to annual impairment tests in accordance with the Group's budgetary timetable.

In the context of the interim closing, the cash generating units (CGU) for which there is an indication of impairment, in particular a decrease in activity and profitability forecasts against the budget, are subject to new tests including the effects of recent events known at the closing date.

On 30 June 2019, the Group conducted a review of impairment indicators relating to goodwill allocated to cash-generating units (CGU) or group of CGU. Assumptions were revised when necessary, with no impact on 2019 half-year accounts, taking into account headrooms at 31 December 2018.

## 4.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	01/01/19	Change in scope	Acquisitions	Disposals	Depreciation and amortization	Changes in scope, exch. rate and other	30/06/19
Acquired Intangible assets (PPA)	604.9	2,388.3	--	--	(128.0)	5.3	2,870.5
Capitalisation of development costs	30.8	33.5	9.7	--	(6.5)	0.1	67.6
Other	133.6	48.6	24.3	--	(25.3)	4.1	185.3
<b>Intangible assets</b>	<b>769.3</b>	<b>2,470.4</b>	<b>34.0</b>	<b>--</b>	<b>(159.8)</b>	<b>9.5</b>	<b>3,123.4</b>
Right-of-use related to lease contracts	1,481.5	115.7	--	--	(118.5)	88.2*	1,566.9
Other intangible assets	1,808.9	269.2	141.5	(1.0)	(165.9)	10.5	2,063.5
<b>Property, plant and equipment</b>	<b>3,290.4</b>	<b>384.9</b>	<b>141.5</b>	<b>(1.0)</b>	<b>(284.4)</b>	<b>98.7</b>	<b>3,630.1</b>
<b>Total</b>	<b>4,059.7</b>	<b>2,855.3</b>	<b>175.5</b>	<b>(1.0)</b>	<b>(444.2)</b>	<b>108.2</b>	<b>6,753.5</b>

\*includes the impact of the new leases over the period

	01/01/18	Acquisitions	Disposals	Depreciation and amortization	Changes in scope, exch. rate and other	31/12/18
Acquired Intangible assets (PPA)	694.6	--	--	(102.8)	13.1	604.9
Capitalisation of development costs	52.2	15.6	--	(16.3)	(20.7)	30.8
Other	136.7	53.8	--	(49.7)	(7.2)	133.6
<b>Intangible assets</b>	<b>883.5</b>	<b>69.4</b>	<b>--</b>	<b>(168.6)</b>	<b>(14.8)</b>	<b>769.3</b>
<b>Property, plant and equipment</b>	<b>1,819.9</b>	<b>323.8</b>	<b>(12.9)</b>	<b>(316.2)</b>	<b>(5.7)</b>	<b>1,808.9</b>
<b>Total</b>	<b>2,703.4</b>	<b>393.2</b>	<b>(12.9)</b>	<b>(484.8)</b>	<b>(20.5)</b>	<b>2,578.2</b>

## 5. INVESTMENTS IN JOINT-VENTURES AND ASSOCIATES

### 5.1 JOINT-VENTURES

#### a) Group share in net equity and net income of joint-ventures

	Investments in joint ventures		Share in net income		
	30/06/19	31/12/18	First half 2019	First half 2018	Full year 2018
Naval Group (35%)	730.2	732.5	16.6	25.0	37.4
Other joint-ventures *	336.1	353.8	25.0	26.2	61.5
<b>Total</b>	<b>1,066.3</b>	<b>1,086.3</b>	<b>41.6</b>	<b>51.2</b>	<b>98.9</b>

\* Not individually material, the value of each investment representing less than 10% of the total.

#### b) Change in investment in joint-ventures

	30/06/19	31/12/18
<b>Investment at opening</b>	<b>1,086.5</b>	<b>1,001.9</b>
<b>Share in net income of joint-ventures</b>	<b>41.6</b>	<b>98.9</b>
Translation adjustment	0.4	0.3
Cash flow hedge	(0.2)	11.6
Actuarial gains (losses) on pensions	(1.6)	(0.8)
<b>Share in comprehensive income of joint-ventures</b>	<b>40.2</b>	<b>110.0</b>
Dividends paid	(44.8)	(43.0)
Change in scope and other	(15.6)	17.4
<b>Investments at closing</b>	<b>1,066.3</b>	<b>1,086.3</b>

## c) Naval Group : summary financial information

Summary balance sheet based on a 100% interest *	30/06/19	31/12/18
Non-current assets	2,169.5	2,111.0
Current assets	4,376.5	14,100.1
<b>Total assets</b>	<b>6,546.0</b>	<b>16,211.1</b>

Restated equity, attributable to shareholders	1,252.0	1,258.6
Non-controlling interests	20.0	21.9
Non-current liabilities	572.0	561.3
Current liabilities	4,702.0	14,369.3
<b>Total equity and liability</b>	<b>6,546.0</b>	<b>16,211.1</b>

Net Cash	1,800.5	1,992.1
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Consolidation by Thales :	30/06/19	31/12/18
Restated equity attributable to shareholders of the company	1,252.0	1,258.6
Thales' interest (%)	35%	35%
Thales' share	438.2	440.5
Goodwill	292.0	292.0
<b>Share in net assets of the joint venture</b>	<b>730.2</b>	<b>732.5</b>

Income statement, based on a 100% interest *	First half 2019	First half 2018	Full year 2018
Sales	1,796.5	1,870.9	3,608.3
Income (loss) from operating activities, after share in net income of equity affiliates	74.1	71.0	144.6
Financial income (loss)	(1.9)	0.1	0.9
Tax and other	(26.8)	(29.6)	(53.2)
Restated net income	45.4	41.5	92.3
<i>Of which, attributable to shareholders of the company</i>	<i>47.4</i>	<i>71.3</i>	<i>106.9</i>
<i>Of which, attributable to non-controlling interests</i>	<i>(1.9)</i>	<i>(29.8)</i>	<i>(14.6)</i>

Consolidation by Thales	First half 2019	First half 2018	Full year 2018
Restated net income attributable to shareholders of the company	47.4	71.3	106.9
Thales' interest (%)	35%	35%	35%
<b>Share in net income of the JV</b>	<b>16,6</b>	<b>25.0</b>	<b>37.4</b>
<i>Of which, PPA amortisation</i>	<i>(12,8)</i>	<i>(12,6)</i>	<i>(25,3)</i>
<b>Share in net income of the JV, before PPA</b>	<b>29,4</b>	<b>37.6</b>	<b>62.7</b>

Dividends received from the joint venture	15.4	--	10.1
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\* After Thales restatements, mainly PPA.

## 5.2 ASSOCIATES

	30/06/19	31/12/18
<b>Investments at opening</b>	<b>220.0</b>	<b>210.1</b>
<b>Share in net income of associates</b>	<b>25.2</b>	<b>45.8</b>
Translation adjustments	3.3	3.9
Cash flow hedges	1.4	6.4
Actuarial gains (losses) on pensions	--	(0.2)
<b>Share in total comprehensive income of associates</b>	<b>29.9</b>	<b>55.9</b>
Dividends paid	(21.6)	(44.1)
Other	0.2	(1.9)
<b>Investments at closing</b>	<b>228.5</b>	<b>220.0</b>

## 6. FINANCING AND FINANCIAL INSTRUMENTS

### 6.1 FINANCIAL INCOME

	First half 2019	First half 2018	Full year 2018
Financial interests related to lease contracts (note 1.2)	(12.5)	--	--
Other interest expense	(13.5)	(11.6)	(26.5)
Financial interests from gross debt	(26.0)	(11.6)	(26.5)
Interest income on cash and cash equivalents	10.5	8.5	19.6
<b>Net interest income</b>	<b>(15.5)</b>	<b>(3.1)</b>	<b>(6.9)</b>
Foreign exchange gains (losses)	(7.2)	(4.6)	(9.6)
Change in fair value of currency derivatives *	(39.6)	(26.8)	(62.1)
Cash flow hedges, ineffective portion	(0.9)	(1.0)	(2.5)
Foreign exchange gains (losses)	(47.7)	(32.4)	(74.2)
Costs relating to the bridge loan set up to finance Gemalto	--	(8.4)	(8.4)
Other	4.0	6.2	4.3
<b>Other financial income</b>	<b>(43.7)</b>	<b>(34.6)</b>	<b>(78.3)</b>

\* Includes the change in the fair value of premiums/discounts (-€39.3 million in first half 2019, -€26,9 million in the first half of 2018 and - €55.2 million in 2018) and the time value of derivatives documented as future cash flow hedges (- €2.6 million in first half 2019, -€1,3 million in the first half of 2018 and -€5,6 million in 2018), as well as changes in the fair value of derivatives not documented as hedges.

### 6.2 NET CASH (NET DEBT)

#### • Net cash (net debt) at closing

	30/06/19	31/12/18
Current financial assets	5.9	256.0
Cash and cash equivalents	2,531.7	5,637.5
<i>Of which, bank term deposits and money market fund shares</i>	429.9	3,249.4
<b>Cash and other short-term investments (I)</b>	<b>2,537.6</b>	<b>5,893.5</b>
Borrowings and debt, long-term portion	4,174.9	2,408.5
Borrowings and debt, short-term portion	2,778.7	321.2
Fair value of interest rate derivatives	(19.0)	(16.7)
<b>Financial debt (II)</b>	<b>6,934.6</b>	<b>2,713.0</b>
<i>Of which, bond issues *</i>	3,286.7	2,400.0
<i>Of which, treasury bills</i>	1,467.2	--
<i>Of which, lease debt (note 1.2)</i>	1,614.9	--
<b>Net cash (net debt) (I –II)</b>	<b>(4,397.0)</b>	<b>3,180.5</b>

\* Nominal values detailed hereafter

At first half 2019, the Group conducted :

- A new €500 million bond issue at a 3 years fixed rate with a 0% coupon. This issue allows the Group to control its financial flexibility and is part of its active liquidity management.
- The transfer of the loan listed in Luxembourg, issued by Gemalto as part of the acquisition of Safenet for €387 million, to Thales SA which has replaced Gemalto with bondholders.
- The anticipated repayment of all private investment activities conducted by Gemalto in the US (USPP) for €264 million.



## Characteristics of bond issues at end of June 2019 :

Nominal value	Issue date	Maturity	Type of rate	Coupon	Effective rate	
					Before hedging	After hedging
€ 500 million	April 2018	April 2020	variable	3 M Euribor + 0.2%	-0.13%	-0.13%
€ 300 million	March 2013	March 2021	fixed *	2.25%	2.40%	1.04%
€ 387 million**	Sept 2014	Sept. 2021	fixed	2.125%	0.55%	0.55%
€ 500 million	May 2019	May 2022	fixed	0%	0.02%	0.02%
€ 600 million	June 2016	June 2023	fixed *	0.75%	0.84%	0.98%
€ 500 million	April 2018	April 2024	fixed	0.875%	0.94%	1.11%
€ 500 million	January 2018	January 2025	fixed	0.75%	0.91%	0.91%

\* After reversal of the swaps put in place when the bonds were issued.

\*\* Loan listed in Luxembourg issued by Gemalto as part of the acquisition of Safenet and transferred to Thales SA at June 2019 which has replaced Gemalto with bondholders. The effective rate takes into account the valuation of the loan at fair value at 2 April 2019.

## 6.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

At end of June 2019, financial assets and liabilities remained identical to the one disclosed in note 6.5 to the 2018 consolidated financial statements.

The fair value of financial assets and liabilities approximates their carrying amount, except for long-term debts whose fair value is €4,258.5 million, compared to €4,174.9 million for their carrying amount at 30 June 2019 (€2,424.7 million vs. €2,408.5 million at 31 December 2018).

## 7. CHANGE IN NET CASH (NET DEBT)

	First half 2019	First half 2018	Full year 2018
<b>Net cash (debt) at the opening</b>	<b>3,180.5</b>	<b>2,971.4</b>	<b>2,971.4</b>
Lease debt as from 1 January 2019	(1,507.2)	--	--
Net cash flow from operating activities	(205.1)	(165.4)	1 092.7
Less, contributions to reduction of UK pension deficit	47.9	47.2	98.3
Net operating investments	(174.5)	(153.4)	(380.3)
<b>Free Operating cash-flow</b>	<b>(331.7)</b>	<b>(271.6)</b>	<b>810.7</b>
Acquisitions of subsidiaries and affiliates:	(4,807.4)	(54.5)	(71.7)
<i>Of which, Gemalto</i>	<i>(4,619.1)</i>	--	--
Net debt from acquired companies	(729.4)	--	--
Disposals of subsidiaries and affiliates	362.2	--	10.6
<i>Of which, General Purpose HSM</i>	<i>362.2</i>	--	--
Contributions to reduction of UK pension deficit	(47.9)	(47.2)	(98.3)
Changes in loans	(0.8)	16.5	18.8
Dividends paid by the parent company	(335.6)	(275.8)	(382.1)
Third-party share in dividend distributions of subsidiaries	(11.8)	(40.1)	(41.7)
Treasury shares and subscription options exercised	5.2	10.7	(19.4)
New lease debts	(87.5)	--	--
Changes in exchange rates and other	(87.6)	1.5	17.8
<b>Total change</b>	<b>(7,577.5)</b>	<b>(660.5)</b>	<b>209.1</b>
<b>Net cash (debt) at closing</b>	<b>(4,397.0)</b>	<b>2,310.9</b>	<b>3,180.5</b>

## 7.1 CHANGE IN WORKING CAPITAL REQUIREMENTS

Current operating assets and liabilities include working capital (WCR) components and reserves for contingencies. The changes in these items are presented below :

Change for the period	01/01/18	Changes in WCR and reserves	Change in scope, exch. rate and reclass	31/12/18	Changes in WCR and reserves	Change in scope, exch. rate and reclass	30/06/19
Inventories and work in progress	3,158.9	(114.8)	36.5	3,080.6	388.7	377.9	3,847.2
Contract assets	2,301.4	188.5	48.5	2,538.4	648.1	192.7	3,379.2
Advance to suppliers	451.8	201.5	(1.0)	652.3	(130.3)	17.8	539.8
Accounts, notes and other receivables	4,008.5	664.8	(1.6)	4,671.7	(224.1)	741.2	5,188.8
Current derivatives - assets	254.4	(101.7)	(61.1)	91.6	21.8	(31.8)	81.6
<b>Current operating assets</b>	<b>10,175.0</b>	<b>838.3</b>	<b>21.3</b>	<b>11,034.6</b>	<b>704.2</b>	<b>1,297.8</b>	<b>13,036.6</b>
Contract liabilities	(6,366.0)	376.4	(118.6)	(6,108.2)	(94.7)	(176.3)	(6,379.2)
Reserves for contingencies	(1,782.4)	38.7	12.9	(1,730.8)	37.2	(75.0)	(1,768.6)
Accounts, notes and other payables	(5,360.5)	(708.6)	(79.4)	(6,148.5)	369.5	(523.1)	(6,302.1)
Current derivatives - liabilities	(179.7)	--	(94.0)	(273.7)	--	135.6	(138.1)
<b>Current operating liabilities</b>	<b>(13,688.6)</b>	<b>(293.5)</b>	<b>(279.1)</b>	<b>(14,261.2)</b>	<b>312.0</b>	<b>(638.8)</b>	<b>(14,588.0)</b>
<b>Restructuring provisions</b>	<b>86.0</b>	<b>(26.0)</b>	<b>2.0</b>	<b>62.0</b>	<b>5.7</b>	<b>19.9</b>	<b>87.6</b>
<b>Increase (decrease) in WCR and reserves for contingencies</b>		<b>518.8</b>			<b>1,021.9</b>		

The Group may assign trade receivables, mainly from the French State, and commercial paper.

At 30 June 2019, derecognised receivables outstanding amounted to €241.5 million (€219.2 million at 31 December 2018).

## 7.2 RESERVES FOR CONTINGENCIES

	01/01/19	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	30/06/19
Restructuring	62.0	(14.8)	22.5	(2.0)	19.9	87.6
Technical and other litigation	159.4	(10.7)	13.4	(10.6)	21.8	173.3
Guarantees	357.7	(39.7)	37.8	(11.5)	8.2	352.5
Losses at completion	577.1	(64.8)	126.7	(25.4)	(15.4)	598.2
Provisions on contracts	345.4	(25.9)	26.3	(20.2)	18.3	343.9
Other *	229.2	(33.9)	40.7	(11.4)	(11.5)	213.1
<b>Total</b>	<b>1,730.8</b>	<b>(189.8)</b>	<b>267.4</b>	<b>(81.1)</b>	<b>41.3</b>	<b>1,768.6</b>

	01/01/18	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	31/12/18
Restructuring	86.0	(32.5)	15.1	(8.6)	2.0	62.0
Technical and other litigation	152.0	(19.6)	41.7	(23.3)	8.6	159.4
Guarantees	338.2	(68.1)	110.5	(35.1)	12.2	357.7
Losses at completion	565.4	(146.7)	224.7	(44.0)	(22.3)	577.1
Provisions on contracts	321.0	(93.5)	109.7	(8.3)	16.5	345.4
Other *	319.8	(45.5)	60.1	(16.4)	(88.8)	229.2
<b>Total</b>	<b>1,782.4</b>	<b>(405.9)</b>	<b>561.8</b>	<b>(135.7)</b>	<b>(71.8)</b>	<b>1,730.8</b>

\* This line includes technical provisions of insurance companies, provisions for tax and labour-related risks, vendor warranties, environmental guarantees and other. Provisions for tax risks related to income tax (€34 million) have been reclassified as tax liabilities in the first half of 2019 (see Note 1.1).

## 8. PENSIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

### a) Actuarial assumptions

At 30 June 2019, the plan assets market value and the discount and inflation rates assumptions for the main countries (representing more than 90% of the net obligation) were updated. The assumptions used in the United Kingdom and in France are as follows:

30 June 2019	United-Kingdom	France
Inflation rate	3,25%	1,15%
Discount rate	2,29%	0,79%
30 June 2018	United-Kingdom	France
Inflation rate	3.16%	1.45%
Discount rate	2.77%	1.46%
31 December 2018	United-Kingdom	France
Inflation rate	3.24%	1.45%
Discount rate	2.87%	1.58%

### b) Changes in provision for pensions and other long-term benefits

	First half 2019	First half 2018	Full year 2018
<b>Provision at opening</b>	<b>(2,326.7)</b>	<b>(2,674.3)</b>	<b>(2,674.3)</b>
<b>Current service cost</b> (income from operations)	<b>(58.6)</b>	<b>(56.0)</b>	<b>(108.8)</b>
<b>Past service cost</b> (other income from operations)*	<b>12.6</b>	<b>--</b>	<b>(27.9)</b>
Net interest cost	(24.5)	(24.1)	(46.7)
Pension fund management cost	(2.9)	(2.5)	(5.2)
Actuarial gains and losses on other long-term employee benefits	(11.4)	4.5	4.7
<b>Finance costs on pensions and other long-term employee benefits</b>	<b>(38.8)</b>	<b>(22.1)</b>	<b>(47.2)</b>
<b>Total expense for the period</b>	<b>(84.8)</b>	<b>(78.1)</b>	<b>(183.9)</b>
<b>Actuarial gains and losses (other comprehensive income)</b>	<b>(490.9)</b>	<b>148.0</b>	<b>294.5</b>
<b>Benefits and contributions</b>	<b>120.8</b>	<b>117.4</b>	<b>227.2</b>
- Of which, deficit payment in the United Kingdom	47.9	47.2	98.3
- Of which, other benefits and contributions	72.9	70.2	128.9
<b>Translation adjustment</b>	<b>7.5</b>	<b>(2.8)</b>	<b>6.6</b>
<b>Changes in scope of consolidation (Gemalto) and other</b>	<b>(134.9)</b>	<b>0.7</b>	<b>3.2</b>
<b>Provision at closing</b>	<b>(2,909.1)</b>	<b>(2,489.1)</b>	<b>(2,326.7)</b>

\* Impact of a renegotiation of annuity indexation in the UK .

## 9. INCOME TAX

	First half 2019	First half 2018	Full year 2018
Net Income	564.1	474.9	1 027.9
Less : Income tax	122.6	140.4	314.2
Less : share in net income of equity affiliates	(66.8)	(71.2)	(144.7)
<b>Profit before tax and impact of equity affiliates</b>	<b>619.9</b>	<b>544.1</b>	<b>1 197.4</b>
<b>Income tax expense</b>	<b>(122.6)</b>	<b>(140.4)</b>	<b>(314.2)</b>
<b>Effective tax rate</b>	<b>19.8%</b>	<b>25.8%</b>	<b>26.2%</b>

The income tax expense excludes research tax credits which is recorded in income from operations (€98.9 million, €84.3 million in the first half of 2019 and 2018 and €179.7 million in 2018).

First half 2019 effective tax rate includes the impact from the disposal of GP HSM activities.

## 10. EQUITY AND EARNINGS PER SHARE

### 10.1 SHAREHOLDERS' EQUITY

#### a) Share capital

	30/06/19			31 /12/18		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
T.S.A.	54,786,654	25.68%	34.92%	54,786,654	25.71%	35.68%
French State (including one golden share)	2,060	--	--	2,060	--	--
Public sector (a)	54,788,714	25.68%	34.92%	54,788,714	25.71%	35.68%
Dassault Aviation (b)	52,531,431	24.63%	29.86%	52,531,431	24.65%	28.39%
Thales (c)	638,121	0.30%	--	648,295	0.30%	--
Employees	5,438,144	2.55%	3.23%	5,575,167	2.62%	3.37%
Other shareholders	99,911,073	46.84%	31.99%	99,560,474	46.72%	32.56%
<b>Total (d)</b>	<b>213,307,483</b>	<b>100.00%</b>	<b>100.00%</b>	<b>213,104,081</b>	<b>100.00%</b>	<b>100.00%</b>

- (a) Under the terms of shareholders' agreement with Dassault Aviation (the "Industrial Partner"), the "Public Sector" is represented by the company TSA. Since January 29, 2018, EPIC Bpifrance holds the entire capital of TSA except for one preferred share held by the French State. EPIC Bpifrance and the French State have also agreed to consult with TSA under the conditions described in AMF notice n° 218C0137 of 16 January 2018. All Thales shares held directly and indirectly by the French State have been registered in pure registered form for more than two years and therefore have double voting rights as of June 30, 2019.
- (b) Dassault Aviation has held 42,154,349 shares in directly registered form, including 41,154,349 shares held for more than two years, thus granting it double voting rights as at 30 June 2019, and holds 10,377,082 shares in bearer form.
- (c) Treasury shares represented 162,500 bearer shares (held under a liquidity contract) and 475,621 directly registered shares.
- (d) In the first half of 2019, 203,402 new shares bearing rights from 1 January 2019 were created as a result of the exercise of share subscription options.

## b) Treasury shares

Thales (parent company) held 638,121 of its own shares at 30 June 2019. They are accounted for as a deduction from consolidated equity in the amount of €64.7 million.

In accordance with the authorisations given to the board of Directors at the Annual General Meeting, the Company carried out, in 2018 and in the first half of 2019 the following operations:

	First half 2019	First half 2018	Full year 2018
<b>Treasury shares at opening</b>	<b>648,295</b>	<b>568,739</b>	<b>568,739</b>
Purchases as part of a liquidity agreement	446 846	314,623	838,402
Disposals as part of a liquidity agreement	(546 620)	(393,123)	(702,128)
Transfer to employees as part of the employee share purchase offering	--	(37,118)	(37,118)
Delivery of free shares	(400)	(290)	(238,750)
Market purchases	90 000	96,000	220,000
Exercise of share purchase options	--	(850)	(850)
<b>Treasury shares at closing</b>	<b>638,121</b>	<b>547,981</b>	<b>648,295</b>

## c) Parent Company dividend distribution

Dividends per share amounted respectively to €1.75 and €2.08 in 2017 and 2018. Dividends paid in 2018 and 2019 are described below :

Year	Approved by	Description	Dividend per share (in euro)	Payment date	Payment method	Total (€ million)
2019	General Meeting on 15 May 2019	Balance for 2018	€1.58	May 2019	cash	€335.6 million
		<b>Total dividends paid in first half 2019</b>				
2018	Board of Directors meeting on 27 September 2018 General Meeting on 23 May 2018	2018 interim dividend	€0.50	Dec. 2018	cash	€106.3 million
		Balance for 2017	€1.30	June 2018	cash	€275.8 million
		<b>Total dividends paid in 2018</b>				

## d) Non-controlling interests

This item principally includes Leonardo's interest in the sub-group Thales Alenia Space (33%), as well as Siemens' and Philips Medical Systems International's interests in the company Trixell SAS (49%).

At end June 2019, this item also includes minority interests in Gemalto (€56.6 million representing 2.98% of the existing shares).

## 10.2 EARNINGS PER SHARE

		First half 2019	First half 2018	Full year 2018
<b>Numerator (in € million):</b>				
Net income attributable to shareholders of the parent company	(a)	556.9	457.2	981.8
<b>Denominator (in thousands):</b>				
Average number of shares outstanding	(b)	212,518	212,292	212,438
Share subscription and share purchase options*		178	410	318
Free shares and units plans**		411	488	569
Diluted average number of shares outstanding	(c)	213,107	213,190	213,325
<b>Net earnings per share (in euros)</b>	<b>(a) / (b)</b>	<b>2.62</b>	<b>2.15</b>	<b>4.62</b>
<b>Diluted net earnings per share (in euros)</b>	<b>(a) / (c)</b>	<b>2.61</b>	<b>2.14</b>	<b>4.60</b>
<i>Average share price</i>				
		104.42 €	98.91 €	105.74 €

\* Only option plans with an exercise price that is lower than the average share price are taken into account in the calculation of diluted earnings per share.

\*\* Performance shares / units subject to internal performance conditions are only taken into account when the performance targets are achieved.

## 11. LITIGATIONS

Due to the nature of its business activities, the Group is exposed to the risk of technical and commercial litigation. There have been no changes in the legal proceedings disclosed in the 2018 Registration Document.

## 12. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 13-a of the consolidated financial statements included in the 2018 Registration Document.

Revenues with the French State amounted to €1,424.2 million in the first half of 2019 and €1,398.5 million in the first half of 2018.

At 30 June 2019, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to €31.2 million (against €38.0 million at 30 June 2018 and €349.0 million at 31 December 2018).

## 13. EVENTS AFTER REPORTING PERIOD

To the best of the Group's knowledge, no significant events occurred after the end of the reporting period.

## **Thales**

For the period from January 1 to June 30, 2019

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

**MAZARS**  
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S.A. à directoire et conseil de surveillance  
au capital de € 8.320.000  
784 824 153 R.C.S. Nanterre

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

**ERNST & YOUNG Audit**  
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S.A.S. à capital variable  
344 366 315 R.C.S. Nanterre

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

## Thales

For the period from January 1 to June 30, 2019

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Thales, for the period from January 1 to June 30, 2019,
- the verification of the information presented in the half-yearly 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 of 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 we would 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 the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the matter set out in note 1.2 which present the effects of the first application of IFRS 16 standard on the condensed half-yearly consolidated financial statements.

### 2. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.



We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Neuilly-sur-Seine and Paris-La-Défense, Septembre 3th, 2019

The statutory auditors

*French original signed by*

MAZARS

ERNST & YOUNG Audit

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**THALES**