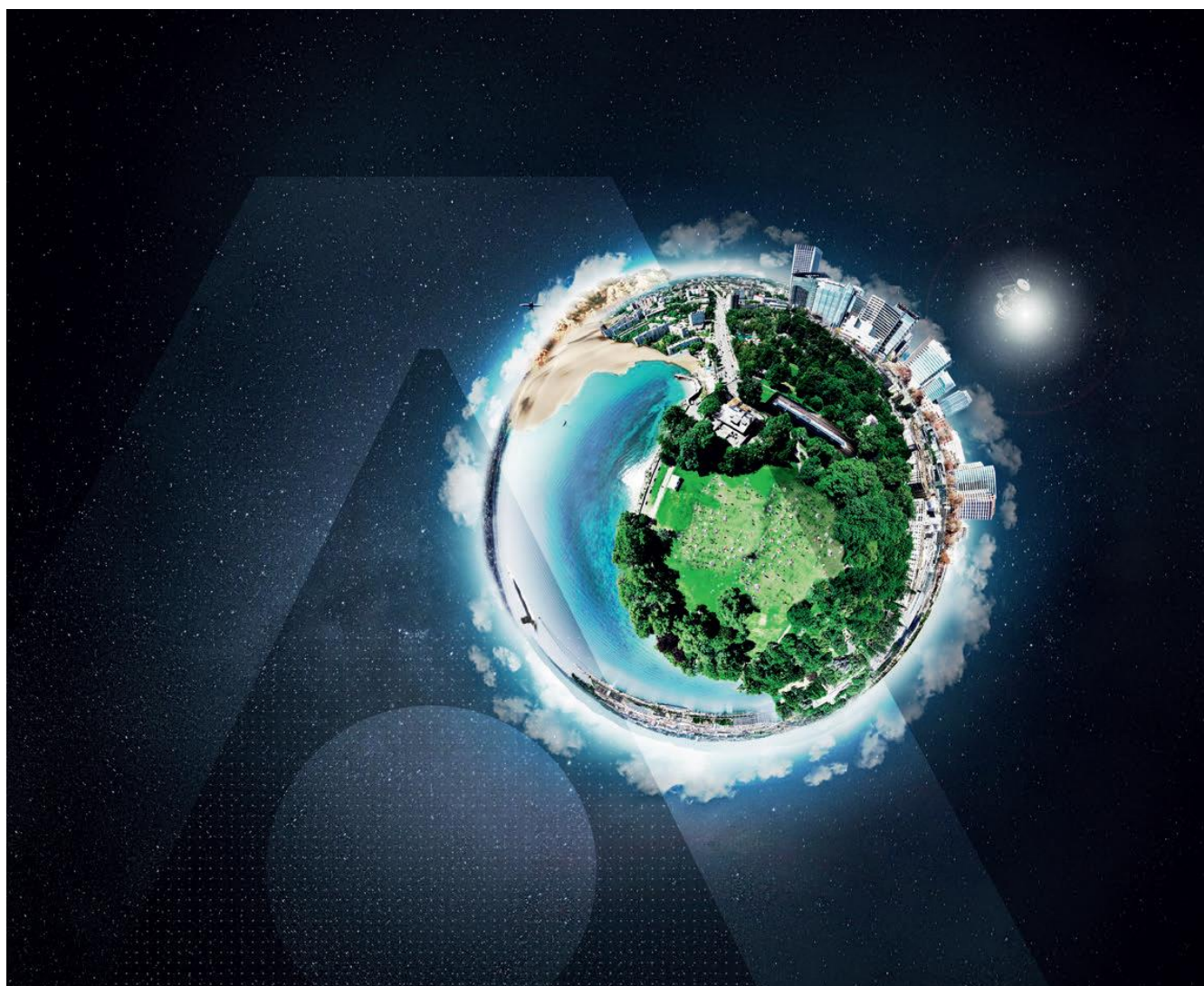


Half-yearly financial report 2020

Report on business activity

Consolidated financial statements



HALF-YEARLY FINANCIAL REPORT 2020

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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 30th June 2020 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, 28th July 2020



Patrice Caine
Chairman & Chief Executive Officer

THALES

REPORT ON 2020 FIRST HALF BUSINESS ACTIVITY AND RESULTS

KEY FIGURES (ADJUSTED)¹

<i>In € millions except earnings per share (in €)</i>	H1 2020	H1 2019	Total change	Organic change
Order intake	6,092	6,995	-13%	-23%
Order book at end of period	31,662	31,701	-6%	-6%
Sales	7,751	8,190	-5.4%	-13.6%
EBIT²	348	820	-57%	-63%
<i>in % of sales</i>	4.5%	10.0%	-5.5 pts	-5.8 pts
Adjusted net income, Group share²	232	574	-60%	
Adjusted net income, Group share, per share²	1.09	2.70	-60%	
Consolidated net income, Group share	65	557	-88%	
Free operating cash flow²	-471	-332	-139	
Net cash (debt) at end of period	-3,928	-4,397³	+469	

¹ 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

² Non-GAAP financial indicators, see definition page 3

³ Net debt at 30 June 2019

PRESENTATION OF FINANCIAL INFORMATION

Accounting policies

Thales's condensed interim consolidated financial statements for the six months ended 30 June 2020 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 2020.

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 2019 (as described in the notes 1 and 13 to the consolidated financial statements).

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 costs¹ 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).

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 consolidated financial statements as at 31 December 2019 are audited by the statutory auditors, including EBIT, the calculation of which is outlined in Note 2 "Segment Information", net cash (debt), the definition and calculation of which appear in Note 6.2 "Net cash (debt)", and free operating cash flow, the definition and calculation of which are specified in Note 6.3 "Changes in net cash (debt)". Adjusted

¹ 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

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 press release.

The impact of these adjustment entries on the income statements at 30 June 2020 and 30 June 2019 is detailed in the tables on pages 5 and 6:

For H1 2020:

<i>In € millions except earnings per share (in €)</i>	Consolidated income statement H1 2020	Adjustments				Adjusted income statement H1 2020
		(1)	(2)	(3)	(4)	
Sales	7,751					7,751
Cost of sales	(6,156)	252				(5,904)
Research and development expenses	(491)	0				(491)
Marketing and selling expenses	(672)	1				(671)
General and administrative expenses	(310)	2				(308)
Restructuring costs	(30)	0				(30)
Income from operations	92	255				N/A
Disposal of assets, changes in scope and other	45		(45)			0
Impairment of non-current assets	0					0
Share in net income of equity affiliates	(13)	14				1
EBIT	N/A	269	(45)			348
Net financial interest	(30)					(30)
Other financial income and expenses	(49)			34		(15)
Finance costs on pensions and other long-term employee benefits	(18)				(2)	(20)
Income tax	20	(74)	0	(12)	1	(66)
<i>Effective income tax rate*</i>	<i>+49.6%</i>					<i>-23.2%</i>
Net income	47	195	(45)	22	(1)	218
Non-controlling interests	18	(4)				14
Net income, Group share	65	191	(45)	22	(1)	232
<i>Average number of shares (thousands)</i>	<i>212,704</i>					<i>212,704</i>
Net income, Group share, per share (in €)	0.31					1.09

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

Adjustments (see definitions on page 3):

- (1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Income 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 2019:

<i>In € millions except earnings per share (in €)</i>	Consolidated income statement H1 2019	Adjustments				Adjusted income statement H1 2019
		(1)	(2)	(3)	(4)	
Sales	8,190					8,190
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
Income from operations	498	241				N/A
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
EBIT	N/A	255	(220)			820
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>
Net income	564	184	(196)	28	8	588
Non-controlling interests	(7)	(7)				(14)
Net income, Group share	557	177	(196)	28	8	574
<i>Average number of shares (thousands)</i>	<i>212,518</i>					<i>212,518</i>
Net income, Group share, per share (in €)	2.62					2.70

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

Adjustments (see definitions on page 3):

- (1) Impact of business combinations: amortisation of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions.
- (2) Income 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 2020	H1 2019	Total change	Organic change
Aerospace	1,625	1,758	-8%	-8%
Transport	442	556	-21%	-20%
Defence & Security	2,425	3,809	-36%	-36%
Digital Identity & Security	1,587	829	n.m.	+5%
Total – operating segments	6,078	6,952	-13%	-23%
Other	14	43		
Total	6,092	6,995	-13%	-23%
Of which mature markets ¹	4,566	5,280	-14%	-21%
Of which emerging markets ¹	1,526	1,715	-11%	-29%

H1 2020 order intake amounted to €6,092 million, down 13% compared to H1 2019 (-23% at constant scope and exchange rates²). The book-to-bill ratio was 0.79 for H1 2020, versus 0.85 in H1 2019 and 1.01 over the last 12 months.

In H1 2020, Thales booked four large orders with a unit value of over €100 million (compared with seven in H1 2019), representing a total amount of €560 million:

- one large order booked in Q1 2020, for an air surveillance system for a Middle Eastern country;
- three large orders booked in Q2 2020:
- the supply of anti-submarine sonars to the US navy (Defence & Security segment)
- a 10-year contract for the supply of munitions to the Australian army³ (Defence & Security segment)
- a space contract for an undisclosed customer (Aerospace segment)

The Group also recorded major commercial successes in military naval systems and space-based Earth observation:

In June, the Federal Office of Bundeswehr Equipment awarded a contract to the consortium comprising naval shipyards Damen, Blohm+Voss and Thales to supply the German navy with four MKS180 frigates. It is the largest project in the history of the German Navy.

The European Space Agency selected Thales Alenia Space for five of the six Copernicus missions planned for the coming years, of which 3 as prime contractor. Copernicus is the world's largest programme for the provision of environmental monitoring data.

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

² Taking into account a negative exchange rate effect of €16 million and a net positive scope effect of €728 million, relating mainly to Gemalto's consolidation at 1 April 2019 (Digital Identity & Security segment)

³ Contract worth a total of €600 million over 10 years, of which €200 million booked in 2020

The above contracts are expected to be signed in the coming weeks and will be included in H2 order intake, for a total of approximately €1.7 billion¹.

At €5,532 million, orders with a unit value of less than €100 million rose by 4% compared to H1 2019, after the integration of Gemalto.

The base of small orders worth less than €10 million held up well despite the crisis, mitigating the volatility of large contracts. Specifically, small orders were up 7% after the integration of Gemalto, and only down by around 5% at constant scope and excluding the impact of the sharp drop in orders in the civil aeronautics businesses.

Geographically², order intake was down 11% in emerging markets after the integration of Gemalto, and down 29% at constant scope and exchange rates. Order intake in mature markets was down 14% after the integration of Gemalto and down 21% at constant scope and exchange rates.

Order intake in the Aerospace segment stood at €1,625 million, down 8% from €1,758 million in H1 2019. This limited decline (considering the collapse in demand in civil aeronautics of around 50% in the second quarter) was due to a strong first quarter and favourable prior-year comparatives in the space business, which had not recorded many orders in H1 2019.

Order intake in the Transport segment was down 21% to €442 million, due to contract finalisation delays related to the public health crisis.

Order intake in the Defence & Security segment stood at €2,425 million, compared with €3,809 million in H1 2019 (-36%), including the three large orders with a unit value of over €100 million mentioned above. The decline was due to the natural volatility of large contracts (three large orders in H1 2020 versus six in H1 2019) and contract finalisation delays related to the public health crisis. These delays should disappear in the second half of 2020, which should also benefit from the booking of orders related to the MKS180 project.

At €1,587 million, orders in the Digital Identity & Security segment were close to sales, considering that most of the businesses in this segment do not book long-term orders. The sharp increase compared to H1 2019 reflects the integration of Gemalto as from 1st April 2019.

SALES

<i>In € millions</i>	H1 2020	H1 2019	Total change	Organic change
Aerospace	1,946	2,609	-25.4%	-25.8%
Transport	717	835	-14.1%	-13.7%
Defence & Security	3,588	3,882	-7.6%	-7.3%
Digital Identity & Security	1,472	829	n.m.	n.m.
Total – operating segments	7,723	8,155	-5.3%	-13.6%
Other	28	35		
Total	7,751	8,190	-5.4%	-13.6%
Of which mature markets ³	5,687	5,716	-0.5%	-7.5%
Of which emerging markets ³	2,064	2,474	-16.5%	-27.9%

¹ Approximately €1.5 billion for MKS180 and €200 million for the first phases (advanced definition B2 phases) of the Copernicus projects, per ESA contracting practices.

² See table on page 14

³ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 14

H1 2020 sales stood at €7,751 million, compared with €8,190 million in H1 2019, down 5.4% after the integration of Gemalto. The organic change (at constant scope and exchange rates¹) was -13.6%, the organic decline in sales being due to the 20% sales drop in the second quarter as a result of the civil aeronautics demand collapse (down by approximately 50%) and Covid-19 –related disruptions affecting operations across all Group businesses.

Geographically², the decline in sales was most marked in emerging markets (-27.9% on an organic basis), reflecting anticipated phasing effects on a few large contracts. The decline was more moderate in mature markets (-7.5% on an organic basis).

Sales in the Aerospace segment amounted to €1,946 million, down 25.8% on an organic basis compared to H1 2019. Unsurprisingly, this decline in sales mainly affected the Group's civil aeronautics businesses (flight avionics and in-flight entertainment and connectivity systems), which were directly impacted by the drop in demand of around 50%. Other businesses (military aeronautics, space, microwave tubes) were impacted by the disruption of operations related to public health measures implemented throughout the second quarter.

In the Transport segment, sales amounted to €717 million, down 14.1% compared to H1 2019 (-13.7% at constant scope and exchange rates). In addition to the phasing effects on major urban rail signalling contracts (particularly in Doha (Qatar) and London), which have been weighting on the segment's growth since the end of 2018, the decline was due to disruptions related to the public health crisis, particularly for installations and on-site testing.

Sales in the Defence & Security segment totalled €3,588 million, down 7.6% compared to H1 2019 (-7.3% at constant scope and exchange rates). Despite the crisis, six of the segment's 13 business lines continued to grow, particularly in naval systems, military communications and protected vehicles.

This limited decrease in sales, after two years of strong organic growth (+8.5% in H1 2018 and +6.8% in H1 2019) reflects the strong momentum of the Group's solutions, based on an order book of more than €20 billion at end-June 2020.

At €1,472 million, sales in the Digital Identity & Security segment held steady at constant scope (compared to H1 2019 + Gemalto's Q1 2019). The organic decline was limited to -4.9% in the second quarter, reflecting the adverse impact of the public health crisis on the demand for biometric solutions and IoT connectivity modules, partially offset by stronger-than-expected sales in EMV payment cards and SIM cards.

ADJUSTED RESULTS

EBIT <i>In € millions</i>	H1 2020	H1 2019	Total change	Organic change
Aerospace	(109)	270	n.m.	n.m.
<i>in % of sales</i>	<i>-5.6%</i>	<i>10.3%</i>	<i>-15.9 pts</i>	<i>-15.9 pts</i>
Transport	4	(42)	n.m.	n.m.
<i>in % of sales</i>	<i>0.6%</i>	<i>-5.0%</i>	<i>+5.6 pts</i>	<i>+5.6 pts</i>
Defence & Security	359	564	-36%	-36%
<i>in % of sales</i>	<i>10.0%</i>	<i>14.5%</i>	<i>-4.5 pts</i>	<i>-4.6 pts</i>
Digital Identity & Security	140	37	n.m.	n.m.
<i>in % of sales</i>	<i>9.5%</i>	<i>4.5%</i>	<i>+5.0 pts</i>	<i>+7.2 pts</i>

¹ The calculation of the organic change in sales is shown on page 15

² See table on page 14

Total – operating segments	395	830	-52%	-58%
<i>in % of sales</i>	5.1%	10.2%	-5.1 pts	-5.3 pts
Other – excluding Naval Group	(32)	(39)	n.m.	n.m.
Total – excluding Naval Group	363	790	-54%	-60%
<i>in % of sales</i>	4.7%	9.7%	-5.0 pts	-5.2 pts
Naval Group (35% share)	(15)	29	n.m.	n.m.
Total	348	820	-57%	-63%
<i>in % of sales</i>	4.5%	10.0%	-5.5 pts	-5.8 pts

In H1 2020, the Group posted an EBIT¹ of €348 million (4.5% of sales), compared with €820 million (10.0% of sales) in H1 2019.

Since early April, Thales has launched a global adaptation plan in order to maintain its productive capacities at the service of its customers, limit the financial impact of this crisis and strengthen its funding capacity in the event that the crisis persists or worsens.

The main levers of this plan are as follows:

- implementation of sanitary guidelines ensuring health protection for employees: organization in separate shifts, adaptation of workstations to facilitate physical distancing measures, deep cleaning and disinfection, work from home, etc.;
- maintaining the continuity of critical and strategic client services, followed by a gradual resumption of operations;
- coordination of actions within every supply chain, in particular to avoid supply disruptions, for example within the framework of GIFAS in France;
- paid leave during the lockdown period, sharp reduction of temporary work, implementation of exceptional government-supported temporary furlough in the countries which provide for them, hiring freeze in support functions;
- Deferral of non-critical investments (R&D, IT, real estate, etc.);
- Significant reduction in discretionary spending (marketing, travel, external consultants, etc.);
- Strengthening of actions to control working capital requirements, in particular to take into account the impact of the crisis on demand and supply chains.

The global adaptation plan generated estimated savings of around €320 million in the first half, or just over 40% of the decline in gross margin before savings, estimated at €740 million².

At its 23 July meeting, the Board of Directors accepted the Chairman & Chief Executive Officer's proposal to reduce his fixed annual compensation by around 10% during the temporary furlough period, in order to show solidarity with Group employees subject to these measures. This will come in addition to the substantial reduction in his 2020 variable annual compensation which, if targets are met, represents 50% of his 2020 annual overall compensation.

The Aerospace segment posted an EBIT of -€109 million (-5.6% of sales), versus €270 million (10.3% of sales) in H1 2019. The loss recorded for the period was due to the impact on the gross margin of the significant decline in sales (-25.4%) in the first half of the year, partially offset by the impact of the global adaptation plan.

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

² Gross margin on adjusted 20H1 P&L (€1,847m) – gross margin on adjusted 19H1 P&L (€2,203) – gross margin on Gemalto 19Q1 (€210m) = -€566m - €170m (estimated impact of measures implemented) = approximately €740m

The Transport segment posted an EBIT of €4 million (0.6% of sales), versus a loss of €42 million (5.0% of sales) in H1 2019. Despite the crisis, the transformation plan undertaken in the segment continued to deliver a gross margin improvement. EBIT also benefited from the non-recurrence of negative one-off items recognised in the first half of 2019.

In the Defence & Security segment, EBIT came in at €359 million (10.0% of sales) versus €564 million in H1 2019 (14.5% of sales). Against the backdrop of the public health crisis, the segment maintained a double-digit margin thanks to a quick adjustment of its indirect costs (proportional to the decline in sales) combined with ongoing efforts to increase gross margin, the strict control of overheads and solid project execution despite operational disruptions.

At €140 million (9.5% of sales), the Digital Identity & Security segment's EBIT benefited from a positive gross margin mix effect, cost synergies and a significant reduction of indirect costs in the framework of the global adaptation plan.

Naval Group made a negative contribution to H1 2020 EBIT of -€15 million, versus a positive contribution of €29 million in H1 2019. This decline was the result of major disruptions to the production of military ships and submarines due to public health measures, causing sales to fall by 26% in the period. The positive impact of the various measures implemented should allow Naval Group to end 2020 with a positive contribution to Thales's EBIT.

As a result, adjusted net income, Group share¹ was €232 million versus €574 million in H1 2019, after an adjusted income tax charge¹ of -€66 million (-€184 million in H1 2019). At 23.2% at 30 June 2020 versus 26.6% at 30 June 2019, the effective tax rate benefited notably from a favorable country mix.

Adjusted net income, Group share, per share¹ stood at €1.09, down 60% from H1 2019 (€2.70).

CONSOLIDATED RESULTS

Income from operations

After accounting for the €255 million impact of purchase price allocation (PPA), compared to €241 million in the first half last year, reported income from operations was €92 million, compared to €498 million at 30 June 2019.

Income of operating activities before share in net income from equity affiliates was at €137 million, compared to €718 million at 30 June 2019. Last year included the disposal of GP HSM business for €221 million.

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

The share in net income (loss) of equity affiliates comes to a negative €13 million, compared to a positive €67 million during the first half of 2019, mostly due to the negative contribution from Naval Group. Income of operating activities after share in net income from equity affiliates therefore comes to €124 million, compared to €785 million for the same period last year.

Net financial income (expense)

Net interest expense was a negative €30 million compared to a negative €16 million in the first half of 2019, mostly due to the higher cost of debt after the acquisition of Gemalto. Other financial expenses remain low with a -€49 million, compared to -€44 million in the first half of 2019. Finance costs on pensions and other employee benefits amounted to -€18 million compared to -€39 million for the first six months of 2019, the decrease resulting mainly from further discount rate decrease.

Net income

Consolidated net income, Group share came in at €65 million, down 88% compared to H1 2019, which had benefited from a €221 million capital gain on the sale of the GP HSM business.

¹ Non-GAAP financial indicator, see definition page 3

FINANCIAL POSITION AS OF 30 JUNE 2020

<i>In € millions</i>	H1 2020	H1 2019	Change
Operating cash flow before interest and tax	709	1,024	-315
+ Change in working capital and provisions for contingencies	(832)	(1,022)	+190
+ Pension expense, excluding contributions related to the reduction of the UK pension deficit	(87)	(73)	-15
+ Net financial interest received (paid)	(46)	(22)	-24
+ Income tax paid	(55)	(64)	+9
+ Net operating investments	(161)	(175)	+14
= Free operating cash flow	(471)	(332)	-139
+ Net balance of disposals (acquisitions) of subsidiaries and affiliates	(4)	(5,175)	+5,170
+ Contributions related to the reduction of the UK pension deficit	(49)	(48)	-1
+ Dividends paid	-	(336)	+336
+ Changes in exchange rates and other	(94)	(181)	+87
= Changes in net cash (debt)	(617)	(6,071)	+5,453
Net cash (debt) at beginning of period	(3,311)	1,673	
+ Change in net cash (debt)	(617)	(6,071)	
= Net cash (debt) at end of period	(3,928)	(4,397)	+469

In the first six months of 2020, free operating cash flow¹ amounted to -€471 million, versus -€332 million in H1 2019. The change was largely due to the decline in operating cash flow before interest and tax (-€315 million), even though it was smaller than the decline in EBIT (-€471 million). It was partially offset by a negative change in WCR that was smaller than in 2019, thanks in particular to the measures taken under the global adaptation plan.

This free operating cash flow includes net operating investments amounting to €161 million, down €14 million from H1 2019. The adaptation measures resulted in a decline of €28 million (-16%) compared to H1 2019 at constant scope and exchange rates, which was greater than the decline in sales.

At 30 June 2020, net debt amounted to -€3,928 million, down €469 million year on year (-€4,397 million at 30 June 2019) but up €617 million since 1 January 2020 when it stood at -€3,311 million. As approved by the General Meeting of 6 May 2020, and in a spirit of responsibility vis-à-vis all Group stakeholders, the Group did not distribute any dividends during the period.

At 30 June 2020, equity attributable to equity holders of the parent company totalled €4,843 million, versus €5,449 million at 31 December 2019, largely due to the increase in pension commitments, driven by the decline in the UK discount rate.

The Group enjoys a very robust financial position. At 30 June 2020, it held €3.8 billion in cash and cash equivalents and two confirmed and undrawn syndicated credit facilities totalling €2.8 billion, one maturing in October 2021 and the other in December 2021. The next bond maturity is in March 2021 and amounts to €300 million.

¹Non-GAAP financial indicator, see definition page 3

RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 13-a of the consolidated financial statements included in the 2019 Universal Registration Document.

Revenues with the French State amounted to €1,4250.0 million in the first half of 2020 and €1,424.2 million in the first half of 2019.

MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2020 FISCAL YEAR

The main risks and uncertainties as described in the Universal Registration Document filed with the Autorité des Marchés Financiers (AMF) on 08 April 2020 – chapter 3, *Risk Factors, Internal Control and Risk Management* from page 46 – remain valid and applicable for the second half of 2020 fiscal year.

Especially, the half-year financial results confirmed the materiality of the risks described in paragraph 3.1.1 in regard to Covid-19 pandemic: demand-related risks, especially for civil aero, supply-chain-related risks and productivity-and-project-execution-related risks, considering the sanitary measures imposed.

As described in the “outlook” section below, these risks could potentially impact the second half-year activity.

OUTLOOK FOR THE CURRENT YEAR

The global environment has been profoundly changed by the Covid-19 public health crisis, which is affecting all companies, including Thales. Furthermore, the public health and macro-economic context remains uncertain and could affect the pace of recovery of air traffic and corporate investment plans, particularly in cybersecurity and the Internet of Things.

Thanks to the efforts of all staff, Thales expects internal productivity to return to a level close to normal as from the Summer. However, business will still be disrupted by travel restrictions, difficulties in accessing certain customer sites and occasional supply-chain issues.

The Group will also rely on the visibility afforded by its order book, worth more than €31 billion, and the positive trend in orders in the Defence & Security segment.

Thales will also benefit from the full effect of its global adaptation plan, which should generate savings of around €800 million for the year: around €750 million in the EBIT and a reduction of at least €50 million in net operating investments¹, at least in line with the expected decline in sales.

Consequently, based on a stabilising economy and public health situation, Thales has set itself the following objectives for 2020:

- As in 2019, a book-to-bill ratio above 1;
- Sales in the range of €16.5 billion to €17.2 billion², taking into account significant disruptions in civil aeronautics combined with the recovery of productivity in other businesses;
- EBIT in the range of €1,300 million to €1,400 million³, corresponding to an EBIT margin of around 8% for the full year, thanks to the full effect of the global adaptation plan, ongoing Ambition 10 competitiveness initiatives, and the ramp-up of cost synergies related to the Gemalto acquisition. In the second half of 2020, the recurring operating margin⁴ is expected to return to a level close to the second half of 2019.

¹ 2019 net operating investments: €496 million

² Based on the scope and exchange rates of July 2020

³ Based on €130 million in restructuring costs (€102 million in 2019) and €70 million in joint-venture contributions (€171 million in 2019)

⁴ Recurring operating margin: EBIT before restructuring costs and joint-venture contributions as a proportion of sales

NOTES TO THE REPORT ON OPERATIONS AND RESULTS FOR THE FIRST HALF OF 2020

Order intake by destination – H1 2020

	H1 2020	H1 2019	Total change	Organic change	H1 2020 weighting in %
<i>In € millions</i>					
France	1,270	2,075	-39%	-40%	21%
United Kingdom	393	551	-29%	-34%	6%
Rest of Europe	1,304	1,560	-16%	-26%	21%
Sub-total Europe	2,967	4,186	-29%	-34%	49%
United States and Canada	1,198	821	+46%	+21%	20%
Australia and New Zealand	402	274	+47%	+48%	7%
Total mature markets	4,566	5,280	-14%	-21%	75%
Asia	705	1,046	-33%	-45%	12%
Near and Middle East	439	359	+23%	-5%	7%
Rest of the world	381	310	+23%	-3%	6%
Total emerging markets	1,526	1,715	-11%	-29%	25%
Total all markets	6,092	6,995	-13%	-23%	100%

Sales by destination – H1 2020

	H1 2020	H1 2019	Total change	Organic change	H1 2020 weighting in %
<i>In € millions</i>					
France	2,014	2,090	-3.7%	-4.9%	26%
United Kingdom	562	587	-4.3%	-8.6%	7%
Rest of Europe	1,676	1,722	-2.6%	-11.2%	22%
Sub-total Europe	4,251	4,399	-3.4%	-7.9%	55%
United States and Canada	955	856	+11.6%	-12.0%	12%
Australia and New Zealand	480	461	+4.1%	+5.6%	6%
Total mature markets	5,687	5,716	-0.5%	-7.5%	73%
Asia	1,012	1,191	-15%	-27.4%	13%
Near and Middle East	553	749	-26.3%	-31.6%	7%
Rest of the world	500	533	-6.3%	-23.9%	6%
Total emerging markets	2,064	2,474	-16.5%	-27.9%	27%
Total all markets	7,751	8,190	-5.4%	-13.6%	100%

Order intake and sales – Q2 2020

Order intake <i>In € millions</i>	Q2 2020	Q2 2019	Total change	Organic change
Aerospace	846	1,086	-22%	-22%
Transport	286	307	-7%	-7%
Defence & Security	1,465	2,507	-42%	-41%
Digital Identity & Security	826	795	+4%	+5%
Total – operating segments	3,423	4,696	-27%	-27%
Other	7	27		
Total	3,429	4,722	-27%	-27%

Sales <i>In € millions</i>				
Aerospace	862	1,388	-37.9%	-38.1%
Transport	370	437	-15.3%	-14.3%
Defence & Security	1,864	2,195	-15.1%	-14.8%
Digital Identity & Security	745	794	-6.0%	-4.9%
Total – operating segments	3,842	4,814	-20.2%	-19.9%
Other	11	14		
Total	3,852	4,828	-20.2%	-19.9%

Organic change in sales by quarter

<i>In € millions</i>	2019 sales	Currency impact	Impact of disposals	2020 sales	Impact of acquisitions	Total change	Organic change
Q1	3,361	-0	-	3,899	+697	-16.0%	-4.7%
Q2	4,829	-20	-	3,852	+0	-20.2%	-19.9%
H1	8,190	-20	-	7,751	+697	-5.4%	-13.6%

Main scope effects: disposals: none // acquisitions: consolidation of Gemalto from 1 April 2019 (Digital Identity & Security segment)

Impact of Gemalto's Q1 2019

<i>In € millions</i>	Sales	EBIT	EBIT margin
Thales H1 2019	8,190	820	10.0%
+ Gemalto Q1 2019*	652	10	
= Thales + Gemalto H1 2019	8,841	829	9.4%

* See Note 1.2 to the consolidated financial statements as at 31 December 2019.



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

AT 30 JUNE 2020

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INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(in € million)</i>	Notes	First Half 2020	First Half 2019	Full Year 2019
Sales	note 2	7,751.2	8,189.8	18,401.0
Cost of sales		(6,156.4)	(6,211.8)	(13,877.3)
Research and development expenses		(491.4)	(476.6)	(1,098.5)
Marketing and selling expenses		(671.8)	(639.2)	(1,382.9)
General and administrative expenses		(309.8)	(305.8)	(636.7)
Restructuring costs		(29.6)	(58.2)	(122.2)
Income from operations	note 2	92.2	498.2	1,283.4
Disposal of assets, changes in scope of consolidation and other	note 3.2	44.6	219.7	218.6
Impairment on non-current assets	note 4	--	--	--
Income of operating activities before share in net income of equity affiliates		136.8	717.9	1,502.0
Share in net income of equity affiliates	note 5	(12.5)	66.8	142.0
Income of operating activities after share in net income of equity affiliates		124.3	784.7	1,644.0
Interest expense on gross debt		(33.9)	(26.0)	(62.9)
Interest income on cash and cash equivalents		4.0	10.5	19.6
Interest expense, net	note 6.1	(29.9)	(15.5)	(43.3)
Other financial expenses	note 6.1	(49.1)	(43.7)	(84.4)
Finance costs on pensions and other employee benefits	note 8	(17.9)	(38.8)	(68.9)
Income tax	note 9	19.8	(122.6)	(301.0)
Net income		47.2	564.1	1,146.4
Attributable to:				
Shareholders of the parent company		65.1	556.9	1,121.9
Non-controlling interests		(17.9)	7.2	24.5
Basic earnings per share (in euros)	note 10.2	0.31	2.62	5.28
Diluted earnings per share (in euros)	note 10.2	0.31	2.61	5.26

Segment information (including EBIT calculation) is detailed in note 2.3.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(in € millions)</i>	First half 2020			First half 2019			Full Year 2019		
	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
Net Income	65.1	(17.9)	47.2	556.9	7.2	564.1	1121.9	24.5	1,146.4
Translation adjustment	(40.9)	0.1	(40.8)	18.2	0.3	18.5	35.9	(0.3)	35.6
Cash flow hedge	9.3	--	9.3	(31.4)	0.8	(30.6)	(40.8)	0.6	(40.2)
Equity affiliates	(5.5)	--	(5.5)	4.9	--	4.9	3.9	--	3.9
Items that may be reclassified to income	(37.1)	0.1	(37.0)	(8.3)	1.1	(7.2)	(1.0)	0.3	(0.7)
Actuarial gains (losses) on pensions	(588.1)	(2.0)	(590.1)	(487.9)	(3.0)	(490.9)	(510.9)	(8.8)	(519.7)
Financial assets at fair value	(8.0)	--	(8.0)	(6.5)	--	(6.5)	(12.4)	--	(12.4)
Deferred tax	23.0	--	23.0	44.6	1.0	45.6	56.7	2.2	58.9
Equity affiliates	4.5	--	4.5	(1.6)	--	(1.6)	(15.7)	--	(15.7)
Items that will not be reclassified to income	(586.6)	(2.0)	(570.6)	(451.4)	(2.0)	(453.4)	(482.3)	(6.6)	(488.9)
Other comprehensive income (loss) for the period net of tax	(605.7)	(1.9)	(607.6)	(459.7)	(0.9)	(460.6)	(483.3)	(6.3)	(489.6)
Total comprehensive income for the period	(540.6)	(19.8)	(560.4)	97.2	6.3	103.5	638.6	18.2	656.8

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(in € millions)</i>	<i>Number of shares outstanding (thousands)</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Cash flow hedge</i>	<i>Cumulative translation adjustment</i>	<i>Treasury shares</i>	Total attributable to shareholders of the parent company	<i>Non- controlling interests</i>	Total equity
At 1 January 2019 restated	212,456	639.3	4,068.1	1,339.0	(48.7)	(225.1)	(67.3)	5,705.3	224.9	5,930.2
Net income	0	--	--	1,121.9	--	--	--	1,121.9	24.5	1,146.4
Other comprehensive income - Fully integrated subsidiaries	0	--	--	(466.6)	(40.8)	35.9	--	(471.5)	(6.3)	(477.8)
Other comprehensive income - Equity affiliates	0	--	--	(15.7)	(4.6)	8.5	--	(11.8)	--	(11.8)
Total comprehensive income for 2019	0	--	--	639.6	(45.4)	44.4	--	638.6	18.2	656.8
Employee share issues	213	0.7	6.2	--	--	--	--	6.9	--	6.9
Parent company dividend distribution	0	--	--	(463.1)	--	--	--	(463.1)	--	(463.1)
Third-party share in dividend distribution of subsidiaries	0	--	--	--	--	--	--	--	(18.3)	(18.3)
Share-based payments	0	--	--	26.3	--	--	--	26.3	--	26.3
Acquisitions/disposals of treasury shares	88	--	--	(40.8)	--	--	10.8	(30.0)	--	(30.0)
Purchase of Gemalto's minority interests	0	--	--	(437.0)	--	--	--	(437.0)	7.2	(429.8)
Other	0	--	--	2.2	--	--	--	2.2	0.9	3.1
At 31 December 2019	212,757	640.0	4,074.3	1,066.2	(94.1)	(180.7)	(56.5)	5,449.2	232.9	5,682.1
Net income	0	--	--	65.1	--	--	--	65.1	(17.9)	47.2
Other comprehensive income - Fully integrated subsidiaries	0	--	--	(573.1)	9.3	(40.9)	--	(604.7)	(1.9)	(606.6)
Other comprehensive income - Equity affiliates	0	--	--	4.5	2.4	(7.9)	--	(1.0)	--	(1.0)
Total comprehensive income for first half 2020	0	--	--	(503.5)	11.7	(48.8)	--	(540.6)	(19.8)	(560.4)
Employee share issues	23	--	0.6	--	--	--	--	0.6	--	0.6
Parent company dividend distribution	0	--	--	--	--	--	--	--	--	--
Third-party share in dividend distribution of subsidiaries	0	--	--	--	--	--	--	--	(9.7)	(9.7)
Share-based payments	0	--	--	2.9	--	--	--	2.9	--	2.9
Acquisitions/disposals of treasury shares	(100)	--	--	(5.4)	--	--	(1.9)	(7.3)	--	(7.3)
Gemalto PPA adjustment : minority interests	0	--	--	(28.8)	--	--	--	(28.8)	--	(28.8)
Other	0	--	--	(32.8)	--	(0.6)	--	(33.4)	(2.0)	(35.4)
At 30 June 2020	212,680	640.0	4,074.9	498.6	(82.4)	(230.1)	(58.4)	4,842.6	201.4	5,044.0

First Half 2019

<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	Total attributable to shareholders of the parent company	Non- controlling interests	Total equity
At 1 January 2019 restated	212,456	639.3	4,068.1	1,339.0	(48.7)	(225.1)	(67.3)	5,705.3	224.9	5,930.2
Net income	--	--	--	556.9	--	--	--	556.9	7.2	564.1
Other comprehensive income - Fully integrated subsidiaries	--	--	--	(449.8)	(31.4)	18.2	--	(463.0)	(0.9)	(463.9)
Other comprehensive income - Equity affiliate	--	--	--	(1.6)	1.2	3.7	--	3.3	--	3.3
Total comprehensive income for first half 2019	--	--	--	105.5	(30.2)	21.9	--	97.2	6.3	103.5
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)
At 30 June 2019	212,669	639.9	4,074.1	770.8	(78.9)	(203.2)	(64.7)	5,138.0	282.7	5,420.7

INTERIM CONSOLIDATED BALANCE SHEET

(in € millions)

ASSETS	Notes	30/06/20	31/12/19
Goodwill, net	note 4.1	6,143.8	5,981.5
Other intangible assets, net	note 4.2	2,571.3	2,810.4
Property, plant and equipment, net	note 4.2	3,697.9	3,830.4
Investments in equity affiliates	note 5	1,268.2	1,333.1
Non-consolidated investments		167.9	196.3
Other non-current financial assets		154.9	174.1
Non-current derivatives – assets	note 6.2	13.0	16.8
Deferred tax assets		999.7	1,002.1
Non-current assets		15,016.7	15,344.7
Inventories and work in progress	note 7.1	4,051.9	3,731.3
Contract assets	note 7.1	2,872.9	3,088.9
Advances to suppliers	note 7.1	624.4	549.5
Accounts, notes and other current receivables	note 7.1	4,986.6	5,239.5
Current derivatives – assets	note 7.1	127.3	109.6
Current tax receivable		218.6	212.6
Current financial assets	note 6.2	32.1	15.9
Cash and cash equivalents	note 6.2	3,734.1	2,931.4
Current assets		16,647.9	15,878.7
Total assets		31,664.6	31,223.4
EQUITY AND LIABILITIES	notes	30/06/20	31/12/19
Capital, additional paid-in capital and other reserves		5,131.1	5,686.4
Cumulative translation adjustment		(230.1)	(180.7)
Treasury shares		(58.4)	(56.5)
Total attributable to shareholders of the parent company		4,842.6	5,449.2
Non-controlling interests		201.4	232.9
Total equity	note 10.1	5,044.0	5,682.1
Long-term loans and borrowings	note 6.2	5,159.7	4,306.4
Non-current derivatives – Liabilities		13.6	14.5
Pensions and other long-term employee benefits	note 8	3,385.9	2,945.2
Deferred tax liabilities		717.1	783.3
Non-current liabilities		9,276.3	8,049.4
Contract liabilities	note 7.1	6,203.5	6,414.9
Reserves for contingencies	note 7.1	2,048.8	1,960.0
Accounts, notes and other current payables	note 7.1	6,212.0	6,813.7
Current derivatives – liabilities	note 7.1	175.9	150.5
Current tax payable		156.6	184.5
Short-term loans and borrowings	note 6.2	2,547.5	1,968.3
Current liabilities		17,344.3	17,491.9
Total equity and liabilities		31,664.6	31,223.4

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	Notes	First Half 2020	First Half 2019	Full Year 2019
Net income		47.2	564.1	1,146.4
Add (deduct):				
Income tax expense (gain)		(19.8)	122.6	301.0
Net interest expenses		29.9	15.5	43.3
Share in net income of equity affiliates		12.5	(66.8)	(142.0)
Dividends received from equity affiliates	note 5.1	31.6	66.4	111.0
Depreciation and amortisation of property, plant and equipment and intangible assets	note 4.2	590.1	444.2	1,112.5
Provisions for pensions and other employee benefits	note 8	80.2	84.8	154.9
Loss (gain) on disposal of assets, change in scope of consolidation and other		(44.6)	(219.7)	(218.6)
Provisions for restructuring, net		(21.2)	5.7	20.1
Other items		3.3	7.0	19.0
Operating cash flows before working capital changes, interest and tax		709.2	1,023.8	2,547.6
Change in working capital and reserves for contingencies	note 7.1	(831.8)	(1,021.9)	(341.3)
Cash contributions to pension plans and other long-term employee benefits		(136.1)	(120.8)	(245.9)
- UK deficit payment		(48.7)	(47.9)	(98.1)
- Recurring contributions/benefits		(87.4)	(72.9)	(147.8)
Interest paid		(59.8)	(33.6)	(53.5)
Interest received		14.2	11.5	16.9
Income tax paid		(54.8)	(64.1)	(153.6)
Net cash flow from operating activities	- I -	(359.1)	(205.1)	1,770.2
Acquisitions of property, plant and equipment and intangible assets		(163.2)	(175.5)	(503.3)
Disposals of property, plant and equipment and intangible assets		2.7	1.0	7.0
Net operating investments	note 4.2	(160.5)	(174.5)	(496.3)
Acquisitions of subsidiaries and affiliates	note 7	(9.8)	(4,807.4)	(4,980.1)
Related cash and cash equivalent acquired		--	271.3	271.9
Disposals of subsidiaries and affiliates		5.6	362.2	364.1
Decrease (increase) in loans and non-current financial assets		11.1	(0.8)	(11.1)
Decrease (increase) in current financial assets		(23.2)	246.6	236.3
Net financial investments		(16.3)	(3,928.1)	(4,118.9)
Net cash flow used in investing activities	- II -	(176.8)	(4,102.6)	(4,615.2)
Parent company dividend distribution	note 10	--	(335.6)	(463.1)
Third party share in dividend distribution of subsidiaries		(9.7)	(11.8)	(18.3)
Exercise of share subscription options and (purchase) sale of treasury shares		(6.5)	5.2	(23.0)
Issuance of debt		2,256.7	2,129.2	1,365.3
Repayment of debt **		(847.3)	(596.0)	(732.6)
Net cash flow from / used in financing activities	- III -	1,393.2	1,191.0	128.3
Effect of exchange rate changes and other	- IV -	(54.6)	10.9	10.6
Increase (decrease) in cash and cash equivalents	I+II+III+IV	802.7	(3,105.8)	(2,706.1)
Cash and cash equivalents at beginning of period		2,931.4	5,637.5	5,637.5
Cash and cash equivalents at end of period		3,734.1	2,531.7	2,931.4

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 2020 were approved and authorized for issue by its Board of Directors on 23 July 2020.

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

1.1 BASIS OF PREPARATION FOR THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Thales's condensed interim consolidated financial statements for the six months ended 30 June 2020 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 2020¹.

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 2019 (as described in the notes 1 and 13 to the consolidated financial statements).

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 of the period. When required, this amount is adjusted to take into account the tax effects of specific events of the period.

Goodwill

Impairment tests are performed at each annual closing, and whenever an indication of impairment occurs (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.

¹ Available at: https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en.

1.2 COVID-19 IMPACT

The global environment has been profoundly changed by the Covid-19 public health crisis, which is affecting all companies, including Thales.

The measures implemented to limit the spread of Covid-19 have had a significant impact on the Group's production, project execution, supply chain and customers' ability to take delivery of products and systems.

In addition, this crisis affects demand across the Group's markets, especially on the civil aeronautics activities reported within the operational segment "Aerospace".

In this context, and while keeping as number one priority the health and safety of its employees, Thales has implemented a global adaptation plan in order to (1) maintain its productive capacities at the service of its customers, (2) limit the financial impact of this crisis and (3) strengthen its funding capacity in the event that the crisis persists or worsens.

The related accounting topics impacting the consolidated financial statements of H1 2020 are disclosed hereafter :

a) Revenue recognition

A significant share of Group revenues is generated by contracts to design and deliver complex products and service contracts. According to IFRS 15, the corresponding revenue is accounted for based on the costs incurred to date.

The sanitary crisis has generated inefficiencies (under-activity, reorganizations, planning delays...) and overcosts (purchase of protective equipment, expenses related to the extension of work from home).

Under IFRS 15, these costs must be excluded from the measurement of progress towards completion, and consequently do not generate revenue. They are accounted for within the income from operations as soon as they are incurred.

b) Governmental support measures

Governmental support measures (temporary furlough, incentives to retain employment) are booked as a reduction of the corresponding costs as soon as they are secured.

c) Goodwill

In the context of this sanitary crisis, goodwill has been particularly monitored. The corresponding analyses are described in note 4.1. No impairment has been booked in the H1 2020 financial statements.

d) Credit risk

The Group's exposure to credit risk on its businesses did not lead to a significant reassessment of the expected credit losses on receivables in the H1 2020 financial statements.

e) Other assets

The Group reviewed the other assets : inventories, set up costs, capitalized development costs, deferred tax assets. This analysis did not trigger any significant impairment in H1 2020.

f) Pensions and other long-term employee benefits

At the end of June 2020, the corresponding commitments have been updated in order to take into account the deterioration of market conditions. Impacts are presented in note 8.

g) Liquidity risk

The Group has taken additional measures to strengthen its liquidity including a new syndicated credit facility and a €700 million bond issuance whose features are described in note 6.2.

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 1st April 2019), and some digital businesses previously included in Defense & Security segment, in particular in data protection and analytics. It develops digital identity and security solutions for a private and government customer base.

2.2 SALES

First half 2020	Aerospace	Transport	Defence & Security	Digital I&S	Other	Thales
Sales by destination:						
Europe	1,263.6	425.3	2,160.3	389.6	12.5	4,251.3
North America	259.0	34.3	229.7	430.9	1.4	955.3
Australia and New Zealand	21.9	17.8	402.0	38.5	0.1	480.3
Total mature markets	1,544.5	477.4	2,792.0	859.0	14.0	5,686.9
Emerging markets *	401.1	239.6	796.0	613.4	14.2	2,064.3
Total	1,945.6	717.0	3,588.0	1,472.4	28.2	7,751.2

First half 2019	Aerospace	Transport	Defence & Security	Digital I&S	Other	Thales
Sales by destination:						
Europe	1,628.7	461.0	2,047.1	247.7	14.1	4,398.6
North America	367.1	39.8	198.8	248.1	2.6	856.4
Australia and New Zealand	26.1	22.3	397.0	15.8	--	461.2
Total mature markets	2,021.9	523.1	2,642.9	511.6	16.7	5,716.2
Emerging markets *	587.3	311.9	1,238.7	317.6	18.1	2,473.6
Total	2,609.2	835.0	3,881.6	829.2	34.8	8,189.8

Full year 2019	Aerospace	Transport	Defence & Security	Digital I&S	Other	Thales
Sales by destination:						
Europe	3,462.7	1,049.5	4,521.3	735.8	28.6	9,798.3
North America	780.5	88.6	467.3	757.7	7.4	2,101.5
Australia and New Zealand	53.0	40.3	812.0	52.5	0.1	957.9
Total mature markets	4,296.2	1,178.4	5,801.0	1,546.0	36.1	12,857.7
Emerging markets *	1,298.9	731.7	2,464.5	1,005.0	43.2	5,543.3
Total	5,595.1	1,910.1	8,265.5	2,551.0	79.3	18,401.0

* 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 Group's management regularly considers certain key non-GAAP indicators as defined in note 13-a of the appendix to the 2019 consolidated financial statements, which enable them to exclude some non-operating and non-recurring items.

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

First half 2020	Aerospace	Transport	Defence & Security	Digital I&S	Other *	Thales
Order book – non-Group at 30/06	6,861.9	3,673.3	20,343.6	697.2	86.3	31,662.3
Order intake – non-Group	1,624.6	441.6	2,425.2	1,586.6	14.2	6,092.2
Sales – non-Group	1,945.6	717.0	3,588.0	1,472.4	28.2	7,751.2
Sales – intersegment	48.5	1.1	126.5	1.5	(177.6)	--
Total sales	1,994.1	718.1	3,714.5	1,473.9	(149.4)	7,751.2
EBIT	(108.7)	4.5	359.0	140.1	(46.6)	348.3
<i>Of which, Naval Group</i>	--	--	--	--	(14.5)	(14.5)
<i>Excluding Naval Group</i>	(108.7)	4.5	359.0	140.1	(32.1)	362.8

First half 2019	Aerospace	Transport	Defence & Security	Digital I&S	Other *	Thales
Order book – non-Group at 30/06	7,151.3	3,907.2	19,958.1	601.9	82.0	31,700.5
Order intake – non-Group	1,758.4	556.2	3,808.8	828.6	43.1	6,995.1
Sales – non-Group	2,609.2	835.0	3,881.6	829.2	34.8	8,189.8
Sales – intersegment	39.9	2.2	183.5	0.8	(226.4)	--
Total sales	2,649.1	837.2	4,065.1	830.0	(191.6)	8,189.8
EBIT	270.1	(41.5)	563.8	37.8	(10.1)	819.5
<i>Of which, Naval Group</i>	--	--	--	--	29.4	29.4
<i>Excluding Naval Group</i>	270.1	(41.5)	563.8	37.8	(39.5)	790.1

Full year 2019	Aerospace	Transport	Defence & Security	Digital I&S	Other *	Thales
Order book – non-Group at 31/12	7,306.3	4,076.2	21,773.8	588.4	94.0	33,838.7
Order intake – non-Group	4,828.9	1,750.6	9,907.1	2,572.3	82.7	19,141.6
Sales – non-Group	5,595.1	1,910.1	8,265.5	2,551.9	79.2	18,401.0
Sales – intersegment	86.2	2.5	338.1	8.6	(435.4)	--
Total sales	5,681.3	1,912.6	8,603.6	2,560.5	(356.2)	18,401.0
EBIT	520.8	56.1	1,152.7	263.9	14.3	2,008.0
<i>Of which, Naval Group</i>	--	--	--	--	64.7	64.7
<i>Excluding Naval Group</i>	520.8	56.1	1,152.7	263.9	(50.4)	1,943.3

* Order book, order intake and sales included in the "Other " 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 invoiced, 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 2020	First half 2019	Full year 2019
Income from operations	92.2	498.2	1,283.4
Less, amortisation of acquisition-related assets (PPA)	252.4	225.0	527.5
- Intangible assets	228.7	128.0	375.3
- Property, plant and equipment	11.5	--	17.3
- Net inventories and work in progress	--	74.0	74.0
- Deferred revenues	12.2	23.0	60.9
Less, expenses directly linked to business combinations :	2.6	16.0	26.5
- Restructuring costs	--	14.2	20.7
- Other expenses	2.6	1.8	5.8
Share in net income of equity from affiliates	(12.5)	66.8	142.0
Less, PPA amortisation related to equity affiliates entities	13.6	13.5	28.6
EBIT	348.3	819.5	2,008.0

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 MAIN CHANGES IN SCOPE OF 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. Gemalto has been consolidated in Thales' financial statements since 1st April 2019.

In 2019, the Group has performed a preliminary allocation of the purchase price, leading to a goodwill of €2,570 million at the end of 2019. In accordance with accounting standards, this allocation has been finalized during Q1 2020, and the final goodwill was set at €2,740 million.

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

	First half 2020	First half 2019	Full year 2019
Disposal of investments :	44.7	222.8	213.9
GP HSM business	--	221.2	223.2
Other	44.7	1.6	(9.3)
Acquisition-related fees (consultants, legal counsel ...)	(3.1)	(14.7)	(28.3)
Disposal of real estate and other tangible and intangible assets	(0.2)	(1.0)	(1.5)
Impact of settlements / amendments to pensions plans (note 8)	3.2	12.6	34.5
Total	44.6	219.7	218.6

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 :

	01/01/20	Acquisitions	Disposals	Reclassifications	Exchange rates and other	30/06/20
Avionics	465.8	--	--	--	0.1	465.9
Space	490.6	--	--	--	(0.5)	490.1
<i>Aerospace</i>	956.4	--	--	--	(0.4)	956.0
Transport	879.8	--	--	--	--	879.8
Secured Comm. and Information Systems	651.3	--	--	--	(2.2)	649.1
Land and Air Systems	309.4	--	--	--	(0.1)	309.3
Defence Mission Systems	457.6	--	--	--	(1.0)	456.6
<i>Defence and Security</i>	1,418.3	--	--	--	(3.3)	1,415.0
Digital Identity & Security	2,727.0	165.4 (a)	--	--	0.6	2,893.0
Total	5,981.5	165.4	--	--	(3.1)	6,143.8

(a) Including €169.9 million as the final purchase price allocation of Gemalto, resulting in a goodwill of €2,739.9 million

	01/01/19	Acquisitions	Disposals	Reclassifications	Exchange rates and other	30/12/19
Avionics	463.8	--	--	--	2.0	465.8
Space	489.2	--	--	--	1.4	490.6
<i>Aerospace</i>	953.0	--	--	--	3.4	956.4
Transport	875.3	4.5	--	--	--	879.8
Secured Comm. and Information Systems	850.6	60.0 (a)	(142.0) (b)	(119.3) (c)	2.0	651.3
Land and Air Systems	309.3	--	--	--	0.1	309.4
Defence Mission Systems	457.0	--	--	--	0.6	457.6
<i>Defence and Security</i>	1,616.9	60.0	(142.0)	(119.3)	2.7	1,418.3
Digital Identity & Security	--	2,605.5 (d)	--	119.3 (c)	2.2	2,727.0
Total	3,445.2	2,670.0	(142.0)	--	8.3	5,981.5

(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 businesses, given the organisational change. This reallocation was based on relative fair values at that date.

(d) Including Gemalto acquisition : €2,570 million.

Goodwill is subject to annual impairment tests following the Group's budgetary timetable. In the context of the interim closing, new tests are performed on the cash generating units (CGU) for which there is an indication of impairment; these tests take into account the latest events known at the closing date.

In the current context, the Group has especially taken into account:

- market analyses on the impacted businesses;
- The deterioration of the expected business and profitability levels compared with forecasts, with regards with the existing headrooms.

Thus, tests have been specifically conducted on some Avionics CGUs and on the Digital Identity & Security CGU.

In this context, the discount rate has been recomputed including a specific risk premium in order to reflect the uncertainties resulting from the Covid-19 environment. As of 30 June 2020, this rate stands at 8% for the Group.

On 30 June 2020, these analyses did not result in an impairment recognition.

In addition, on the basis of the updated values in use, the Group has tested the sensitivity to changes in key assumptions. A 1-point increase in the discount rate, a 1-point decrease in the growth rate or a 2-point decrease in operating profitability of Group CGUs would not trigger any additional impairment.

4.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	01/01/20	Change in scope	Acquisitions	Disposals	Depreciation and amortization	Changes in scope, exch. rate and other	30/06/2020
Acquired Intangible assets	2,561.0	--	--	--	(228.8)	3.5	2,335.7
Capitalised development costs	58.6	--	13.3	--	(17.9)	(0.1)	53.9
Other	190.8	0.7	17.1	(0.1)	(33.6)	6.8	181.7
Intangible assets	2,810.4	0.7	30.4	(0.1)	(280.3)	10.2	2,571.3
Right-of-use from lease contracts	1,650.9	--	94.5	--	(114.5)	(21.5)	1,609.4
Property, plant and equipment	2,179.5	11.8	132.8	(2.6)	(195.3)	(37.7)	2,088.5
Tangible assets	3,830.4	11.8	227.3	(2.6)	(309.8)	(59.2)	3,697.9
Total	6,640.8	12.5	257.7	(2.7)	(590.1)	(49.0)	6,269.2
Less, new lease contracts			(94.5)				
Operating investments **			163.2				

	01/01/19	Change in scope	Acquisitions	Disposals	Depreciation and amortization	Changes in scope, exch. rate and other	31/12/19
Acquired Intangible assets	604.9	2,314.5	--	--	(375.3)	16.9	2,561.0
Capitalised development costs	30.8	26.5	28.2	--	(27.4)	0.5	58.6
Other	133.6	40.9	67.3	--	(64.3)	13.3	190.8
Intangible assets	769.3	2,381.9	95.5	--	(467.0)	30.7	2,810.4
Right-of-use from lease contracts	1,481.5	109.5	298.7	--	(229.3)	(9.5)	1,650.9
Property, plant and equipment *	1,808.9	384.7	407.8	(7.0)	(416.2)	1.3	2,179.5
Tangible assets	3,290.4	494.2	706.5	(7.0)	(645.5)	(8.2)	3,830.4
Total	4,059.7	2,876.1	802.0	(7.0)	(1,112.5)	22.5	6,640.8
Less, new lease contracts			(298.7)				
Operating investments **			503.3				

* Of which €115 million related to Gemalto Purchase Price Allocation, amortised for €17.3 million in 2019

** Presented in the statement of cash flows

5. INVESTMENTS IN EQUITY AFFILIATES

5.1 CHANGE IN INVESTMENT IN EQUITY AFFILIATES

	30/06/20	31/12/19
Investment at opening	1,333.1	1,306.3
Share in net income of equity affiliates	(12.5)	142.0
Translation adjustment	(7.9)	8.5
Cash flow hedge	2.4	(4.6)
Actuarial gains (losses) on pensions	4.5	(15.7)
Share in comprehensive income of equity affiliates	(13.5)	130.2
Dividends paid	(31.6)	(111.0)
Dividends voted and not paid yet	(19.8)	--
Change in scope and other	--	7.6
Investments at closing	1,268.2	1,333.1
<i>Including Naval Group</i>	<i>703.9</i>	<i>746.7</i>

5.2 NAVAL GROUP : SUMMARY FINANCIAL INFORMATION

Summary balance sheet based on a 100% interest *	30/06/20	31/12/19
Non-current assets	2,194.8	2,184.4
Current assets	4,140.8	4,551.6
Total assets	6,335.6	6,736.0

Restated equity, attributable to shareholders	1,176.7	1,299.1
Non-controlling interests	14.4	16.6
Non-current liabilities	620.6	609.1
Current liabilities	4,523.9	4,811.2
Total equity and liability	6,335.6	6,736.0

Net Cash	1,276.2	1,903.3
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Consolidation by Thales :	30/06/20	31/12/19
Thales' share (35%)	411,9	454,7
Goodwill	292,0	292,0
Share in net assets of the joint venture	703,9	746,7

Income statement, based on a 100% interest *	First half 2020	First half 2019	Full year 2019
Sales	1,325.5	1,796.5	3,712.1
Income (loss) from operating activities, after share in net income of equity affiliates	(118.9)	74.1	167.3
Financial income (loss)	1.1	(1.9)	(7.1)
Tax and other	37.4	(26.8)	(58.1)
Restated net income	(80.4)	45.4	101.7
<i>Of which, attributable to shareholders of the company</i>	<i>(78.2)</i>	<i>47.4</i>	<i>107.1</i>
<i>Of which, attributable to non-controlling interests</i>	<i>(2.2)</i>	<i>(1.9)</i>	<i>(5.4)</i>

Consolidation by Thales	First half 2020	First half 2019	Full year 2019
Thales' share in net income attributable to shareholders of the company	(27.3)	16.6	37.5
<i>Of which, PPA amortisation</i>	<i>(12.8)</i>	<i>(12.8)</i>	<i>(27.2)</i>
Share in net income, before PPA	(14.5)	29.4	64.7
Dividends received from Naval Group	16.6	15.4	15.4

* After Thales restatements, mainly PPA.

6. FINANCING AND FINANCIAL INSTRUMENTS

6.1 FINANCIAL INCOME

	First half 2020	First half 2019	Full year 2019
Financial interests related to lease contracts	(13.6)	(12.5)	(27.4)
Other interest expense	(20.3)	(13.5)	(35.5)
Financial interests from gross debt	(33.9)	(26.0)	(62.9)
Interest income on cash and cash equivalents	4.0	10.5	19.6
Net interest income	(29.9)	(15.5)	(43.3)
Foreign exchange gains (losses)	(16.0)	(7.2)	(9.0)
Change in fair value of currency derivatives *	(33.8)	(39.6)	(72.5)
Cash flow hedges, ineffective portion	(2.3)	(0.9)	0.7
Foreign exchange gains (losses)	(52.1)	(47.7)	(80.8)
Other	3.0	4.0	(3.6)
Other financial income	(49.1)	(43.7)	(84.4)

* Includes the change in the fair value of swap points (-€34.5 million in first half 2020, -€39.3 million in the first half of 2019 and - €64.8 million in 2019) and the time value of foreign exchange options documented as future cash flow hedges (-€3.0 million in first half 2020, -€2.6 million in the first half of 2019 and -€6.0 million in 2019), as well as changes in the fair value of derivatives not documented as hedges.

6.2 NET CASH (NET DEBT)

Group net cash (debt) is as follows:

		30/06/20	31/12/19
Current financial assets		32.1	15.9
Cash and cash equivalents		3,734.1	2,931.4
Cash and other short-term investments	(I)	3,766.2	2,947.3
Financial debt		6,003.8	4,533.2
<i>Of which, bond issues</i>		3,986.7	3,286.7
Leasing debt		1,690.4	1,724.7
Gross debt *	(II)	7,694.2	6,257.9
Net cash (net debt)	(I – II)	(3,928.0)	(3,310.6)

* Nominal values detailed hereafter

<i>Long term financial debt</i>	5,159.7	4,306.4
<i>Short term financial debt</i>	2,547.5	1,968.3
<i>Fair value of interest rate hedging derivatives</i>	(13.0)	(16.8)

During H1 2020, the Group

- Refinanced in January 2020 its bond maturing in April 2020;
- issued a €700 million, 1% fixed-rate bond maturing in May 2028, that was partly used to replace the syndicated credit facility signed in April 2020.

In order to strengthen its overall liquidity, and in addition to the existing committed revolving credit facility of €1,500 million maturing in December 2021, Thales signed a €2,000 million committed syndicated credit facility in April 2020 (reduced to €1,300 million further to the May 2020 bond issue). This new credit facility matures in 2021 and does not include any accelerated repayment clause.

Bonds : key features

Nominal value	Issue date	Maturity	Type of rate	Coupon	Effective rate	
					Before hedging	After hedging
€ 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%
€ 500 million	January 2020	January 2027	fixed	0.25%	0.33%	0.33%
€ 700 million	May 2020	May 2028	fixed	1%	1.10%	1.10%

* After reversal, during H1 2018, of the swaps put in place when the bonds were issued.

6.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

At end of June 2020, the classification of financial assets and liabilities remained identical to the one disclosed in note 6.5 to the 2019 consolidated financial statements.

The fair value of financial assets and liabilities approximates their carrying amount, except for long-term debts whose fair value is €5,204.6 million, compared to €5,159.6 million for their carrying amount at 30 June 2020 (€4,369.4 million vs. €4,306.4 million at 31 December 2019).

7. CHANGE IN NET CASH (NET DEBT)

	First half 2019	First half 2019	Full year 2019
Net cash (debt) at the opening	(3,310.6)	1,673.3	1,673.3
Net cash flow from operating activities	(359.1)	(205.1)	1,770.2
Less, contributions to reduction of UK pension deficit	48.7	47.9	98.1
Net operating investments	(160.5)	(174.5)	(496.3)
Free operating cash-flow	(470.9)	(331.7)	1,372.0
Acquisitions of subsidiaries and affiliates:	(9.8)	(4,807.4)	(4,980.1)
<i>Of which, Gemalto</i>	--	(4,619.1)	(4,762.4)
Net debt of acquired companies	--	(729.4)	(729.4)
Disposals of subsidiaries and affiliates	5.6	362.2	364.1
<i>Of which, General Purpose HSM</i>	3.2	362.2	361.7
Contributions to reduction of UK pension deficit	(48.7)	(47.9)	(98.1)
Changes in loans	9.7	(0.8)	(11.1)
Dividends paid by the parent company	--	(335.6)	(463.0)
Third-party share in dividend distributions of subsidiaries	(9.7)	(11.8)	(18.4)
Treasury shares and subscription options exercised	(6.5)	5.2	(23.0)
New lease debts	(94.5)	(87.5)	(298.7)
Changes in exchange rates and other	7.4	(85.6)	(98.2)
Total change	(617.4)	(6,070.3)	(4,983.9)
Net cash (debt) at closing	(3,928.0)	(4,397.0)	(3,310.6)

7.1 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	01/01/19	Changes in WCR and reserves	Scope, exch. rate and reclass.	31/12/19	Changes in WCR and reserves	Scope, exch. rate and reclass.	30/06/20
Inventories, work in progress and set-up costs	3,080.6	219.4	431.3	3,731.3	339.6	(19.0)	4,051.9
Contract assets	2,538.4	335.2	215.3	3,088.9	(181.7)	(34.3)	2,872.9
Advance to suppliers	652.3	(122.5)	19.7	549.5	71.9	3.0	624.4
Accounts, notes and other receivables	4,671.7	(13.8)	581.6	5,239.5	(240.1)	(12.8)	4,986.6
Current derivatives - assets	91.6	34.8	(16.8)	109.6	(6.9)	24.6	127.3
Contract liabilities	(6,108.2)	(92.3)	(214.4)	(6,414.9)	162.3	49.1	(6,203.5)
Reserves for contingencies	(1,730.8)	(44.1)	(185.1)	(1,960.0)	108.2	(197.0)	(2,048.8)
Accounts, notes and other payables	(6,148.5)	4.5	(669.7)	(6,813.7)	599.7	2.0	(6,212.0)
Current derivatives - liabilities	(273.7)	--	123.2	(150.5)	--	(25.4)	(175.9)
WCR and reserves, net	(3,226.6)	321.2	285.1	(2,620.3)	853.0	(209.8)	(1,965.7)
Restructuring provisions	62.0	20.1	18.6	100.7	(21.2)	3.1	82.6
Increase (decrease) in WCR and reserves		341.3			831.8		

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

At 30 June 2020, outstanding derecognised receivables amounted to €199.5 million (€715.2 million at 31 December 2019). The change in outstanding receivables mainly comes from the high level of overdue receivables on the French government at 31 December 2019.

7.2 RESERVES FOR CONTINGENCIES

	01/01/20	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	30/06/20
Restructuring	100.7	(20.6)	1.4	(2.0)	3.1	82.6
Technical and other litigation	212.0	(19.1)	11.0	(3.3)	204.5,*	405.1
Guarantees	370.4	(46.7)	38.4	(3.3)	(2.1)	356.7
Losses at completion	658.2	(80.3)	43.5	(4.8)	(11.9)	604.7
Provisions on contracts	397.7	(50.8)	29.5	(5.8)	(9.8)	360.8
Other **	221.0	(15.1)	33.1	(13.3)	13.2	238.9
Total	1,960.0	(232.6)	156.9	(32.5)	197.0	2,048.8

	01/01/19	Utilisation	Additions	Reversal (surplus)	Exch. Rate and other	31/12 /19
Restructuring	62.0	(51.4)	81.9	(10.4)	18.6	100.7
Technical and other litigation	159.4	(15.8)	49.2	(15.7)	34.9	212.0
Guarantees	357.7	(95.7)	99.9	(11.4)	19.9	370.4
Losses at completion	577.1	(150.4)	188.6	(39.4)	82.3	658.2
Provisions on contracts	345.4	(85.6)	108.6	(8.7)	38.0	397.7
Other **	229.2	(36.2)	59.2	(22.6)	(8.6)	221.0
Total	1,730.8	(435.1)	587.4	(108.2)	185.1	1,960.0

* This amount includes additional reserves recognised as part of the Gemalto purchase price allocation.

** This line includes technical provisions of insurance companies, provisions for labour-related risks, vendor warranties, environmental guarantees and other.

8. PROVISIONS FOR PENSIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

8.1 Actuarial assumptions

At 30 June 2020, the market value of plan assets 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 2020	United-Kingdom	France
Inflation rate	2.85%	1.00%
Discount rate	1.43%	0.74%
30 June 2019	United-Kingdom	France
Inflation rate	3.25%	1.15%
Discount rate	2.29%	0.79%
31 December 2019	United-Kingdom	France
Inflation rate	2.97%	1.15%
Discount rate	2.00%	0.73%

8.2 Changes in provision

	First half 2020	First half 2019	Full year 2019
Provision at opening	(2,945.2)	(2,326.7)	(2,326.7)
Current service cost (income from operations)	(65.5)	(58.6)	(120.4)
Amendments and settlements (non recurring operating income)	3.2	12.6	34.5*
Net interest cost	(17.2)	(24.5)	(49.0)
Pension fund management cost	(2.5)	(2.9)	(6.8)
Actuarial gains and losses on other long-term employee benefits	1.8	(11.4)	(13.1)
Finance costs on pensions and other long-term employee benefits	(17.9)	(38.8)	(68.9)
Total expense for the period	(80.2)	(84.8)	(154.8)
Actuarial gains and losses (other comprehensive income) **	(590.1)	(490.9)	(519.7)
Benefits and contributions	136.1	120.8	245.9
- Of which, deficit payment in the United Kingdom	48.7	47.9	98.1
- Of which, other benefits and contributions	87.4	72.9	147.8
Translation adjustment	95.6	7.5	(54.8)
Changes in scope of consolidation (Gemalto) and other	(2.1)	(134.9)	(135.1)
Provision at closing	(3,385.9)	(2,909.1)	(2,945.2)

* Including €21.9 million due to a change in the French law related to top executives pension plan.

** Mainly due to the decrease in discount rates, notably in the United Kingdom.

9. INCOME TAX

	First half 2020	First half 2019	Full year 2019
Net income	47,2	564,1	1 146,4
Less : income tax	(19,8)	122,6	301,0
Less : share in net income of equity affiliates	12,5	(66,8)	(142,0)
Profit before tax and impact of equity affiliates	39,9	619,9	1 305,4
Income tax (expense)/ income	19,8	(122,6)	(301,0)
Effective tax rate	N/A	19,8%	23,1%

The income tax expense excludes research tax credit which is recorded in income from operations (respectively €84.6 million, €98.9 million in the first half of 2020 and 2019 and €204.9 million in 2019).

The 2019 effective tax rate includes the impact of the disposal of the GP HSM activity.

The first half 2020 effective tax rate is not meaningful because of the low level of net income, and because of the mix of countries with positive and negative contributions at different tax rates.

10. EQUITY AND EARNINGS PER SHARE

10.1 SHAREHOLDERS' EQUITY

a) Share capital

	30/06/20			31 /12/19		
	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%	34.88%	54,786,654	25.68%	34.87%
French State (including one golden share)	2,060	--	--	2,060	--	--
Public sector (a)	54,788,714	25.68%	34.88%	54,788,714	25.68%	34.87%
Dassault Aviation (b)	52,531,431	24.62%	29.82%	52,531,431	24.63%	29.81%
Thales (c)	660,526	0.31%	--	560,866	0.26%	--
Employees	6,131,116	2.87%	3.55%	6,183,434	2.90%	3.58%
Other shareholders	99,228,590	46.52%	31.75%	99,253,061	46.53%	31.74%
Total (d)	213,340,377	100.00%	100.00%	213,317,506	100.00%	100.00%

- (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, 2020.
- (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 2020, and holds 10,377,082 shares in bearer form.
- (c) Treasury shares represented 250,000 bearer shares (held under a liquidity contract) and 410,526 directly registered shares.
- (d) In the first half of 2020, 22,871 new shares bearing rights from 1 January 2020 were created as a result of the exercise of share subscription options.

b) Treasury shares

Thales (parent company) held 660.526 of its own shares at 30 June 2020. They are accounted for as a deduction from consolidated equity in the amount of €58.4 million.

In accordance with the authorisations given to the board of Directors at the Annual General Meeting, the Company carried out, in 2019 and in the first half of 2020 the following operations:

	First half 2020	First half 2019	Full year 2019
Treasury shares at opening	560,866	648,295	648,295
Purchases as part of a liquidity agreement	529,656	446,846	906,402
Disposals as part of a liquidity agreement	(454,656)	(546,620)	(993,676)
Transfer to employees as part of the employee share purchase plan	(43,400)	--	(506,515)
Delivery of free shares	--	(400)	(223,640)
Market purchases	68,100	90,000	730,000
Treasury shares at closing	660,526	638,121	560,866

c) Parent Company dividend distribution

On 25th February 2020, when reviewing the 2019 annual financial statements, the Board of Directors decided to propose to its shareholders at the 6 May 2020 Annual General Meeting, a dividend distribution of €2.65 per share for the 2019 financial year, corresponding to a distribution rate of 40% of the adjusted net income, Group share, per share.

In a spirit of responsibility vis-à-vis all Group stakeholders, and in order to preserve its funding capacity should the Covid-19 crisis last, the Board of Directors decided, during its 6 April 2020 meeting, to modify its 2019 dividend proposal, capping it to the interim amount of €0.60 paid in December 2019.

In 2018 and 2019, dividends per share amounted respectively to €2.08 and €0.60. Dividends paid in 2019 and 2020 are described below :

Year	Approved by	Description	Dividend per share (in euro)	Payment date	Payment method	Total (€ million)
2020	General Meeting on 6 May 2020	Balance for 2019	Nil	N/A	Nil	Nil
2019	Board of Directors meeting on 25 September 2019	2019 interim dividend	€0.60	Dec. 2019	cash	€127.5 million
	General Meeting on 15 May 2019	Balance for 2018	€1.58	May 2019	cash	€335.6 million
Total dividends paid in 2019						€463.1 million

10.2 EARNINGS PER SHARE

		First half 2020	First half 2019	Full year 2019
Numerator (in € million):				
Net income attributable to shareholders of the parent company	(a)	65.1	556.9	1,121.9
Denominator (in thousands):				
Average number of shares outstanding	(b)	212,704	212,518	212,502
Share subscription and share purchase options*		54	178	123
Free shares and units plans**		327	411	465
Diluted average number of shares outstanding	(c)	213,085	213,107	213,090
Net earnings per share (in euros)	(a) / (b)	0.31	2.62	5.28
Diluted net earnings per share (in euros)	(a) / (c)	0.31	2.61	5.26
<i>Average share price</i>		<i>70.45 €</i>	<i>104.42 €</i>	<i>99.48 €</i>

* 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

At the date of publication, there are no government, judicial or arbitration claims of which the Group is aware, which are pending or threatened and which could have or have had any significant effect on the financial position or profitability of the Company and/or the Group in the last 6 months.

12. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 13-a of the consolidated financial statements included in the 2019 Universal Registration Document.

Revenues with the French State amounted to €1,450.0 million in the first half of 2020 and €1,424.2 million in the first half of 2019.

13. SUBSEQUENT EVENTS

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

This is a translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Thales

Period from January 1 to June 30, 2020

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

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Commissaire aux Comptes
Membre de la compagnie
Régionale de Versailles

Thales

Period from January 1 to June 30, 2020

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

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, 2020;
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements were prepared under the responsibility of the Board of Directors on July 23, 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. 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.

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 prepared on July 23, 2020.

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

Courbevoie and Paris-La-Défense, July 23, 2020

The Statutory Auditors
French original signed by

MAZARS

ERNST & YOUNG Audit

Grégory Derouet

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THALES