

Half-yearly financial report 2017

Report on business activity

Consolidated financial statements



HALF-YEARLY FINANCIAL REPORT 2017

TABLE OF CONTENTS

Declaration from the person responsible for the half-yearly financial report	1
Report on 2017 first-half business activity and results	2
o Key figures	2
o Presentation of financial information	3
o Order intake	6
o Sales	7
o Adjusted results	8
o Consolidated results	9
o Financial situation at 30 June 2017	10
o Related party transactions	11
o Main risks and uncertainties in the second half of 2017 fiscal year	11
o Outlook for the current year	11
o Appendix	12
Consolidated financial statements at 30 June 2017	15
o Table of contents	16
o Consolidated profit and loss account	17
o Consolidated statement of comprehensive income	18
o Consolidated statement of changes in equity	19
o Consolidated balance sheet	20
o Consolidated statement of cash flows	21
o Notes to the consolidated financial statements	22
Statutory auditors' report	38

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 2017 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, 27 July 2017

Patrice Caine
Chairman & Chief Executive Officer

THALES

REPORT ON 2017 FIRST HALF BUSINESS ACTIVITY AND RESULTS

KEY FIGURES (ADJUSTED)¹

<i>In € millions, except earnings per share (in €)</i>	H1 2017	H1 2016	Total change	Organic change
Order intake	5,972	5,423	+10%	+10%
Order book at end of period	31,861	33,530 ²	-5%	-4%
Sales	7,241	6,846	+5.8%	+5.9%
EBIT³	637	551	+16%	+17%
<i>in % of sales</i>	8.8%	8.1%	+0.7pts	+0.9pts
Adjusted net income, Group share³	424	367	+15%	
Adjusted net income, Group share, per share³	2.00	1.74	+15%	
Consolidated net income, Group share	336	384	-12%	
Free operating cash flow³	216	45	+380%	
Net cash at end of period	2,294	2,366 ²	-72	

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 At 31 December 2016.

³ Non-GAAP measures, see definitions page 3.

PRESENTATION OF FINANCIAL INFORMATION

Accounting policies

The condensed interim consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2017 .

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2016, as detailed in Note 14-a of the consolidated financial statements included in the 2016 Registration Document.

In particular, the new mandatory standards applicable as from 1 January 2017 (Amendments to IAS 12 Income Tax, Amendments to IAS 7 Statement of cash flows, 2014-2016 Annual Improvements Cycle) have not yet been adopted by the European Union and the Group has therefore not applied them as at 30 June 2017.

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 net income of equity affiliates, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations. From 1 January 2016, it also excludes the other expenses recorded in income from operations that are directly related to business combinations, which are unusual by nature.
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
 - amortisation of acquired intangible assets (PPA) recorded as part of business combinations;
 - expenses recognised in income from operations that are directly related to business combinations, which are unusual by nature;
 - gains and losses on disposals of assets, changes in scope of consolidation and other;
 - 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.

Readers are reminded that only the consolidated financial statements at 31 December were audited by the Statutory Auditors, including the calculation of EBIT, which is described in Note 2 “Segment Information” to the consolidated financial statements, and free operating cash flow, which is described in Note 11.1. 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 report.

The impact of these adjustment entries on the profit and loss account for H1 2017 and H1 2016 is as follows:

- for H1 2017:

<i>In € millions</i>	H1 2017 consolidated profit and loss account	Adjustments				H1 2017 adjusted profit and loss account
		Amortisation of intangible assets (PPA), related charges*	Income (loss) on disposals and other	Change in fair value of foreign exchange derivatives	Actuarial differences on long-term employee benefits	
Sales	7,241					7,241
Cost of sales	(5,501)	1				(5,500)
Research and development expenses	(363)	3				(360)
Marketing and selling expenses	(524)	3				(521)
General and administrative expenses	(278)	4				(274)
Restructuring costs	(24)					(24)
Amortisation of acquisition-related intangible assets (PPA)	(54)	54				0
Income from operations	498					N/A
Impairment of non-current assets**	0					0
Disposal of assets, changes in scope and other	(9)		9			0
Share in net income of equity affiliates	61	13				74
EBIT	N/A					637
Impairment of non-current assets**	0					0
Cost of net debt	2					2
Other financial income and expenses	(63)			43		(20)
Finance costs on pensions and other long-term employee benefits	(28)				(3)	(31)
Income tax	(104)	(22)	1	(15)	1	(139)
Net income	358	56	10	28	(2)	450
Non-controlling interests	(22)	(4)		(0)		(26)
Net income, Group share	336	52	10	28	(2)	424
<i>Average number of shares (thousands)</i>	<i>211,611</i>					<i>211,611</i>
Net income, Group share, per share (in €)	1.59					2.00

(*) Including expenses related to acquisitions recorded in income from operations. See definitions of EBIT and adjusted net income on page 3.

(**) Included in "Share in net income of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

- for H1 2016:

<i>In € millions</i>	H1 2016 consolidated profit and loss account	Adjustments				H1 2016 adjusted profit and loss account
		Amortisation of intangible assets (PPA), related charges*	Income (loss) on disposals and other	Change in fair value of foreign exchange derivatives	Actuarial differences on long-term employee benefits	
Sales	6,846					6,846
Cost of sales**	(5,223)	0				(5,223)
Research and development expenses	(327)	2				(325)
Marketing and selling expenses**	(517)	2				(515)
General and administrative expenses	(270)	3				(267)
Restructuring costs	(34)					(34)
Amortisation of acquisition-related intangible assets (PPA)	(40)	40				0
Income from operations	435					N/A
Impairment of non-current assets***	0					-
Disposal of assets, changes in scope and other	95		(95)			0
Share in net income of equity affiliates	56	13				69
Income from operations after share in net income of equity affiliates	586					-
EBIT	N/A					551
Impairment of non-current assets***	-					0
Cost of net debt	1					1
Other financial income and expenses	(49)			46		(4)
Finance costs on pensions and other long-term employee benefits	(48)				15	(34)
Income tax	(80)	(16)	0	(16)	(5)	(117)
Net income	410	44	(95)	30	10	398
Non-controlling interests	(26)	(5)		(1)		(31)
Net income, Group share	384	39	(95)	29	10	367
<i>Average number of shares (thousands)</i>	<i>210,547</i>					<i>210,547</i>
Net income, Group share, per share (in €)	1.82					1.74

(*) Including expenses related to acquisitions recorded in the income from operations. See definitions of EBIT and adjusted net income on page 3.

(**) Net cost of bad debts and receivables impairment have been reclassified from "Marketing and selling expenses" to "Cost of sales".

(***) Included in "Share in net income of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

ORDER INTAKE

<i>In € millions</i>	H1 2017	H1 2016	Total change	Organic change
Aerospace	2,238	2,218	+1%	+1%
Transport	662	507	+31%	+31%
Defence & Security	3,035	2,670	+14%	+14%
Total – operating segments	5,934	5,395	+10%	+10%
Other	38	28		
Total	5,972	5,423	+10%	+10%
Of which mature markets ¹	4,401	3,806	+16%	+16%
Of which emerging markets ¹	1,571	1,617	-3%	-2%

Order intake in H1 2017 stood at **€5,972 million, an increase of 10%** year-on-year (10% at constant scope and currency²). The **book-to-bill** ratio was **0.82** for H1 2017 (versus 0.79 in the prior-year period), and **1.12** over the last 12 months.

In H1 2017, Thales booked 8 **large orders with a unit value of over €100 million** (compared to 3 such orders in H1 2016), representing a total amount of €1,180 million:

- 1 contract booked in Q1, covering the supply of a telecommunications satellite to an emerging-market customer.
- 7 large orders booked in Q2:
 - The supply of in-flight entertainment (IFE) systems to a major North American carrier
 - The construction for Inmarsat of a very high throughput satellite (V-HTS) to offer on-board Internet connectivity (Global Xpress network)
 - The operation and maintenance of critical security, information and communication systems at the French Ministry of Defence's new Balard headquarters, which hosts more than 9,000 people
 - A contract in the framework of the development and construction of five intermediate-sized frigates (FTIs) for the French Navy
 - The contract to manufacture the first 340 armoured vehicles as part of the Scorpion programme, in partnership with Nexter and Renault Trucks Defense, for the French Ministry of Defence
 - The supply of AREOS reconnaissance "pods" to a military customer
 - The delivery of several systems and sensors to an emerging-market navy

Orders with a unit value of less than €100 million declined slightly by 2%.

From a geographical perspective¹, order intake was broadly stable year-on-year in emerging markets (€1,571 million, down 3%), while it was solid in mature markets, where it rose 16% to €4,401 million thanks to performances in France (up 51%) and North America (up 42%).

¹ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.

² Taking into account a negative exchange rate effect of €18 million and a net positive scope effect of €7 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment) and to the disposal of the identity management business in Q2 2017 (same segment).

Order intake in the **Aerospace** segment stood at **€2,238 million**, up 1% from €2,218 million in H1 2016. Commercial Avionics orders maintained their positive momentum. The In-Flight Entertainment and Connectivity business recorded solid growth, driven by the booking of a large order during the period. Despite the two contract wins listed above, order intake for the Space segment declined year-on-year.

At **€662 million**, order intake in the **Transport** segment was up 31% compared to H1 2016, lifted notably by the contract for the regional express train linking Dakar to the city's new airport.

Order intake in the **Defence & Security** segment rose 14% to **€3,035 million**, from €2,670 million in H1 2016, reflecting in particular the good momentum in equipment for military aircraft and vessels and in secure information and communication systems.

SALES

<i>In € millions</i>	H1 2017	H1 2016	Total change	Organic change
Aerospace	2,872	2,667	+7.7%	+7.2%
Transport	711	717	-0.9%	-0.1%
Defence & Security	3,631	3,424	+6.1%	+6.5%
Total – operating segments	7,214	6,809	+6.0%	+6.1%
Other	27	37		
Total	7,241	6,846	+5.8%	+5.9%
Of which mature markets ¹	4,958	4,856	+2.1%	+2.2%
Of which emerging markets ¹	2,283	1,990	+14.7%	+15.1%

Sales for H1 2017 stood at **€7,241 million**, compared to €6,846 million in H1 2016, up 5.8% on a reported basis², and up 5.9% at constant scope and currency (“organic” change), driven by good momentum in all segments.

From a geographical perspective ¹, this sound performance reflected both a continued strong growth of 15.1% in emerging markets (14.2% in H1 2016) and moderate organic growth of 2.2% in mature markets (6.8% in H1 2016).

Sales in the **Aerospace** segment totalled **€2,872 million**, a 7.7% increase compared to H1 2016 (7.2% increase at constant scope and currency). The Avionics and In-Flight Entertainment businesses maintained their positive dynamic, driven in particular by the increase in deliveries of avionics systems to Airbus. Only sales of tubes and imaging systems declined, reflecting the cooling of the world satellite market. Sales in the Space segment continued to grow strongly thanks to contracts signed in 2015 and 2016, notably with commercial and military customers.

In the **Transport** segment, sales totalled **€711 million**, broadly stable compared to H1 2016 (down 0.9%, or down 0.1% at constant scope and currency). This performance can be attributed to an unfavourable basis of comparison, with H1 2016 benefiting from the combined effect of the start of invoicing on the three major urban rail signalling contracts won in 2015 and of the return to schedule for projects impacted by execution delays. When compared to H1 2015, sales for the segment have continued on a strong growth trajectory (up 29% at constant scope and currency).

¹ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries.

² Taking into account a negative exchange rate effect of €16 million and a net positive scope effect of €7 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment) and to the disposal of the identity management business in Q2 2017 (same segment).

Sales in the **Defence & Security** segment represented **€3,631 million**, up 6.1% compared to H1 2016 (up 6.5% at constant scope and currency). Almost all businesses contributed to this momentum. The Land and Air Systems business recorded steady growth, notably in missile electronics and protected vehicles, with the ramp-up of the Hawkei vehicle supply contract with the Australian Defence Force. The Defence Mission Systems business benefited in particular from a high level of activity in combat aircraft systems. Only the Secure Communications and Information Systems business experienced a slowdown, with the positive dynamic in military networks and infrastructure systems offset by declining sales in radio communication products.

The Group continues to work on the implementation of IFRS 15 – Revenue from Contracts with Customers and plans to provide an update on the impact of this standard when it will disclose its Q3 2017 order intake and sales.

ADJUSTED RESULTS

	H1 2017	H1 2016	Total change	Organic change
EBIT (in € millions)				
Aerospace	263	239	+10%	+11%
<i>in % of sales</i>	9.2%	9.0%	+0.2pts	+0.3pts
Transport	6	(12)	NM	NM
<i>in % of sales</i>	0.9%	-1.6%	+2.5pts	+2.6pts
Defence & Security	374	334	+12%	+14%
<i>in % of sales</i>	10.3%	9.8%	+0.6pts	+0.7pts
Total – operating segments	644	561	+15%	+17%
<i>in % of sales</i>	8.9%	8.2%	+0.7pts	+0.8pts
Other – excluding Naval Group (formerly DCNS)	(34)	(29)		
Total – excluding Naval Group (formerly DCNS)	610	532	+15%	+17%
<i>in % of sales</i>	8.4%	7.8%	+0.7pts	+0.8pts
Naval Group (formerly DCNS) (35% share)	27	20	+37%	+37%
Total	637	551	+16%	+17%
<i>in % of sales</i>	8.8%	8.1%	+0.7pts	+0.9pts

In H1 2017, consolidated **EBIT** was **€637 million**, or **8.8%** of sales, versus €551 million (8.1% of sales) in H1 2016.

The **Aerospace** segment posted EBIT of **€263 million (9.2%** of sales), versus €239 million (9.0% of sales) for the same period in 2016. The segment maintained good margins, the increase in R&D expenses (up 17% year-on-year) being offset by lower sales and administrative expenses.

EBIT for the **Transport** segment continued to recover, amounting to **€6 million (0.9%** of sales) compared to a negative €12 million (negative 1.6% of sales) in H1 2016. This performance demonstrates the business' gradual return to profitability as earlier low- or zero-margin contracts are delivered.

In the **Defence & Security** segment, EBIT increased significantly to **€374 million (10.3%** of sales) versus €334 million in H1 2016 (9.8% of sales). The wider margins reflected the good sales dynamic as well as savings on fixed costs and lower restructuring charges.

Naval Group (formerly DCNS) contributed **€27 million** to EBIT in H1 2017, compared to €20 million in H1 2016. Naval Group posted high sales growth of 18% during the period. In addition, the award of the contract for intermediate-sized frigates for the French Navy will increase visibility for the business in the coming years. For Full Year 2017, Naval Group expects net profit to grow by around 10-15% compared to 2016.

Adjusted net financial income (expense)

At **€2 million** in H1 2017 versus €1 million in H1 2016, **net interest income** remained very low. **Other adjusted financial income (expense)** amounted to a **net expense of €20 million** in H1 2017, compared to a net expense of €4 million in H1 2016, primarily due to a less favourable foreign exchange performance. **Finance costs on pensions and other long-term employee benefits¹** remained stable (**€31 million**, versus €34 million in H1 2016), with the rise in pension obligations offset by a decline in discount rates.

Adjusted net income (expense)

As a result, **adjusted net income, Group share** was **€424 million** versus €367 million in H1 2016, after an adjusted tax charge¹ of €139 million, compared to €117 million in H1 2016. The effective tax rate amounted to 27.0%, compared to 26.2% in H1 2016.

Adjusted net income, Group share, per share¹ came out at **€2.00**, up 15% on H1 2016 (€1.74).

CONSOLIDATED RESULTS

Income from operations

After accounting for the €54 million impact of purchase price allocation (PPA), compared to €40 million in the first half last year, reported **income from operations** was **€498 million**, compared to €435 million at 30 June 2016 (representing a 14% increase).

Income of operating activities before share in net income (loss) from equity affiliates was at **€489 million**, compared to €530 million at 30 June 2016.

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

The share in net income (loss) of equity affiliates comes to €61 million, compared to €56 million during the first half of 2016. **Income of operating activities after share in net income from equity affiliates** therefore comes to **€550 million**, compared to €586 million for the same period last year.

Net financial income/(expense)

Net interest expense was a positive **€2 million** compared to €1 million in the first half of 2016. **Other financial expenses** were **-€63 million**, compared to -€49 million in the first half of 2016, mainly due to a negative impact of foreign exchange losses (-€13 million against -€4 million at 30 June 2016). **Finance costs on pensions and other employee benefits** amounted to **-€28 million** compared to -€48 million for the first six months of 2016, the decrease of long term rates in UK offsetting largely the increase of obligations.

Net income (loss)

The first half of 2016 closed with **consolidated net earnings, Group share** of **€384 million**, after an income tax charge of -€80 million compared to -€88 million. **Net earnings per share** came to **€1.82** compared to €1.28 at the end of June 2015.

FINANCIAL POSITION AT 30 JUNE 2017

For the first six months of 2017, free operating cash-flow amounted to €216 million, up from €45 million in H1 2016. This sound performance primarily reflects the moderate increase in working capital during the period (€227 million in H1 2017 versus €337 million in H1 2016 and €697 million in H1 2015) and a temporary slowdown in operating investments.

€ million	S1 2017	S1 2016
Operating cash-flow before interest and tax	747	704
Changes in Working Capital Requirements and in reserves for contingencies	(227)	(337)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(62)	(52)
Net financial interest paid	(6)	(5)
Income tax paid	(46)	(39)
Net cash flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	406	271
Net operating investments	(189)	(226)
Free operating cash-flow	216	45
Net (acquisitions)/disposals	40	(281)
Contributions related to the reduction of the UK pension deficit	(40)	(45)
Dividends	(254)	(212)
Exchange rate and other	(34)	(46)
Change in net cash	(72)	(539)

At 30 June 2017, **net cash** thus amounted to **€2,294 million**, compared to €1,439 million at 30 June 2016 and €2,366 million at 31 December 2016, after the distribution of €254 million in dividends during the half year (€212 million in H1 2016) and net proceeds of €40 million from acquisitions and disposals in the period, mainly related to the sale of the identity management business, completed in May 2017.

Equity, Group share stood at **€4,760 million** compared to €4,640 million at 31 December 2016, with consolidated net income, Group share (€336 million) and the adjustment of foreign exchange hedges offsetting the distribution of dividends and the increase in net pension obligations.

RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in note 14-a of the consolidated financial statements included in the 2016 registration document.

Revenues with the French Ministry of Defence amounted to € 1 108.6 million in the first half of 2017 and € 990.7 million in the first half of 2016.

At 30 June 2017, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to € 20.3 million (€ 39.4 million at 31 December 2016).

MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2017 FISCAL YEAR

There are no material changes in risks and uncertainties that are described in the Group management report for 2016 ("1.1.2 Risk Factors" pages 14-24 of the 2016 Registration Document filed with the Autorité des Marchés Financiers (AMF) on 5 April 2017).

OUTLOOK FOR THE CURRENT YEAR

The H1 2017 results are in line with expectations. In this context, the Group confirms all its objectives, as set out below.

Thales should continue to benefit from positive trends in most of its markets. Although below the highs recorded in 2015 and 2016, the order intake in 2017 should remain brisk, at around €14 billion.

Sales in 2017 should see mid-single digit organic growth compared to 2016.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales delivering between €1,480 million and €1,500 million in EBIT (based on February 2017 scope and exchange rates), representing an increase of 9% to 11% versus 2016.

NOTES TO THE REPORT ON OPERATIONS AND RESULTS FOR THE FIRST HALF OF 2017

Operating segments

Aerospace	Avionics, Space
Transport	Ground Transportation Systems
Defence & Security	Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems

Order intake by destination – H1 2017

<i>In € millions</i>	H1 2017	H1 2016	Total change	Organic change	H1 2017 weighting in %
France	1,811	1,201	+51%	+51%	30%
United Kingdom	370	463	-20%	-13%	6%
Rest of Europe	1,143	1,304	-12%	-13%	19%
Sub-total Europe	3,323	2,968	+12%	+13%	56%
United States and Canada	697	492	+42%	+38%	12%
Australia and New Zealand	381	346	+10%	+5%	6%
Total mature markets	4,401	3,806	+16%	+16%	74%
Asia	689	659	+5%	+6%	12%
Middle East ¹	551	461	+19%	+20%	9%
Rest of the world ¹	331	497	-33%	-33%	6%
Total emerging markets	1,571	1,617	-3%	-2%	26%
Total all markets	5,972	5,423	+10%	+10%	100%

¹ The 2016 figures have been adjusted to reflect the transfer of certain countries out of the “Middle East” region and into the “Rest of the world” region within the Group’s organisation. The emerging markets total remains unchanged.

Sales by destination – H1 2017

<i>In € millions</i>	H1 2017	H1 2016	Total change	Organic change	H1 2017 weighting in %
France	1,768	1,661	+6.5%	+6.6%	24%
United Kingdom	633	623	+1.6%	+9.0%	9%
Rest of Europe	1,415	1,417	-0.1%	-0.6%	20%
Sub-total Europe	3,816	3,701	+3.1%	+4.2%	53%
United States and Canada	699	780	-10.4%	-12.5%	10%
Australia and New Zealand	443	375	+18.1%	+13.0%	6%
Total mature markets	4,958	4,856	+2.1%	+2.2%	68%
Asia	1,068	953	+12.1%	+12.2%	15%
Middle East ¹	789	613	+28.7%	+28.3%	11%
Rest of the world ¹	426	424	+0.5%	+2.2%	6%
Total emerging markets	2,283	1,990	+14.7%	+15.1%	32%
Total all markets	7,241	6,846	+5.8%	+5.9%	100%

¹ The 2016 figures have been adjusted to reflect the transfer of certain countries out of the “Middle East” region and into the “Rest of the world” region within the Group’s organisation. The emerging markets total remains unchanged

Order intake and sales – Q2 2017

<i>In € millions</i>	Q2 2017	Q2 2016	Total change	Organic change
Order intake				
Aerospace	1,300	1,189	+9%	+9%
Transport	447	276	+62%	+63%
Defence & Security	1,923	1,639	+17%	+19%
Total – operating segments	3,670	3,104	+18%	+19%
Other	22	8		
Total	3,692	3,111	+19%	+20%
Sales				
Aerospace	1,619	1,600	+1.2%	+1.1%
Transport	432	457	-5.5%	-4.4%
Defence & Security	2,120	2,038	+4.0%	+5.5%
Total – operating segments	4,171	4,095	+1.9%	+2.7%
Other	12	18		
Total	4,183	4,113	+1.7%	+2.5%

Organic change in sales by quarter

<i>In € millions</i>	2016 sales	Exchange rate effect	Impact of disposals	2017 sales	Impact of acquisitions	Total change	Organic change
Q1	2,732	10	0	3,058	15	+11.9%	+11.0%
Q2	4,113	(25)	11	4,183	3	+1.7%	+2.5%
H1	6,846	(16)	11	7,241	19	+5.8%	+5.9%

THALES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

AT 30 JUNE 2017

TABLE OF CONTENTS

INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT	17
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	18
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19
INTERIM CONSOLIDATED BALANCE SHEET	20
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS.....	21
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	22
1. ACCOUNTING STANDARDS FRAMEWORK.....	22
1.1 BASIS OF PREPARATION FOR THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS	22
1.2 NEW IFRS STANDARDS MANDATORILY APPLICABLE AFTER 30 JUNE 2017	23
2. SEGMENT INFORMATION	24
2.1 INFORMATION BY BUSINESS SEGMENT	24
2.2 INFORMATION BY COUNTRY/REGION OF DESTINATION	26
3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION	27
3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION	27
3.2 DISPOSAL OF ASSETS, CHANGES IN SCOPE OF CONSOLIDATION AND OTHER	27
4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS.....	28
4.1 GOODWILL	28
4.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	29
5. INVESTMENTS IN JOINT-VENTURES AND ASSOCIATES	29
5.1 JOINT- VENTURES	29
5.2 INVESTMENTS IN ASSOCIATES.....	30
6 FINANCING AND FINANCIAL INSTRUMENTS	31
6.1 OTHER FINANCIAL INCOME (EXPENSE)	31
6.2 NET CASH (NET DEBT)	31
6.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES	32
7. CHANGE IN NET CASH (NET DEBT)	32
7.1 CHANGES IN WORKING CAPITAL REQUIREMENTS	33
7.2 RESERVES FOR CONTINGENCIES (EXCLUDING CONSTRUCTION CONTRACTS)	33
8. PENSIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS	34
9. INCOME TAX	35
10. EQUITY AND EARNINGS PER SHARE	35
10.1 SHAREHOLDERS' EQUITY	35
10.2 EARNINGS PER SHARE.....	37
11. LITIGATION.....	37
12. RELATED PARTY TRANSACTIONS	37
13. EVENTS AFTER REPORTING PERIOD.....	37

INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(in € millions)</i>	Notes	First Half 2017	First Half 2016	Full Year 2016
Sales	Note 2	7,241.3	6,845.6	14,884.8
Cost of sales*		(5,501.2)	(5,222.5)	(11,276.8)
Research and development expenses		(362.7)	(326.7)	(736.1)
Marketing and selling expenses*		(523.2)	(517.6)	(1,023.2)
General and administrative expenses		(277.8)	(270.0)	(543.5)
Restructuring costs		(23.6)	(34.0)	(100.5)
Amortisation of intangible assets acquired (PPA)**		(54.4)	(39.7)	(107.3)
Income from operations	Note 2	498.4	435.1	1,097.4
Disposal of assets, changes in scope of consolidation and other	Note 3.2	(9.2)	95.3	205.1
Impairment on non-current assets	Note 4	--	--	--
Income of operating activities before share in net income of equity affiliates		489.2	530.4	1,302.5
Share in net income of equity affiliates		61.1	56.0	119.6
Of which, share in net income of joint-ventures	Note 5.1	39.5	29.9	72.4
Of which, share in net income of associates	Note 5.2	21.6	26.1	47.2
Income of operating activities after share in net income of equity affiliates		550.3	586.4	1,422.1
Interest expense on gross debt		(7.4)	(6.5)	(11.3)
Interest income on cash and cash equivalents		9.0	7.7	17.6
Interest income, net		1.6	1.2	6.3
Other financial income (expenses)	Note 6.1	(62.7)	(49.3)	(80.6)
Finance costs on pensions and other employee benefits	Note 8	(27.7)	(48.3)	(77.6)
Income tax	Note 9	(103.6)	(80.4)	(255.6)
Net income		357.9	409.6	1,014.6
Attributable to:				
Shareholders of the parent company		335.9	383.8	946.4
Non-controlling interests		22.0	25.8	68.2
Basic earnings per share (in euros)	Note 10.2	1.59	1.82	4.49
Diluted earnings per share (in euros)	Note 10.2	1.58	1.80	4.44

* Net costs bad debts / receivables impairment have been reclassified from Marketing & selling expenses to cost of sales (negative €10.6 million in first half 2016, and negative €2.2 million in 2016).

** 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 detailed in Note 2.1.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € millions)	First half 2017			Fisrt Half 2016			Full Year 2016		
	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	335.9	22.0	357.9	383.8	25.8	409.6	946.4	68.2	1,014.6
Translation adjustment *	(41.1)	(0.7)	(41.8)	1.0	(0.4)	0.6	32.2	(0.3)	31.9
Deferred tax *	--	--	--	--	--	--	1.3	--	1.3
Joint-ventures	(4.6)	--	(4.6)	(6.4)	--	(6.4)	(26.9)	--	(26.9)
Associates	(11.2)	--	(11.2)	(34.9)	--	(34.9)	(30.7)	--	(30.7)
Net	(56.9)	(0.7)	(57.6)	(40.3)	(0.4)	(40.7)	(24.1)	(0.3)	(24.4)
Cash flow hedge *	265.2	13.4	278.6	144.1	8.1	152.2	49.5	3.0	52.5
Deferred tax *	(77.3)	(4.3)	(81.6)	(40.7)	(3.1)	(43.8)	(17.4)	(1.5)	(18.9)
Joint-ventures	(1.3)	--	(1.3)	(1.2)	--	(1.2)	(0.5)	--	(0.5)
Associates	(0.9)	--	(0.9)	1.8	--	1.8	0.5	--	0.5
Net	185.7	9.1	194.8	104.0	5.0	109.0	32.1	1.5	33.6
Available for sale financial assets *	(1.0)	--	(1.0)	--	--	--	3.5	--	3.5
Joint-ventures	(6.7)	--	(6.7)	--	--	--	6.7	--	6.7
Net	(7.7)	--	(7.7)	--	--	--	10.2	--	10.2
Items that may be reclassified to income	121.1	8.4	129.5	63.7	4.6	68.3	18.2	1.2	19.4
Actuarial gains (losses) on pensions *	(119.0)	(1.8)	(120.8)	(455.8)	(0.9)	(456.7)	(658.1)	(2.9)	(661.0)
Deferred tax *	1.0	0.6	1.6	43.2	0.2	43.4	22.6	(0.3)	22.3
Joint-ventures	0.8	--	0.8	--	--	0.0	(12.7)	--	(12.7)
Associates	(0.7)	--	(0.7)	0.5	--	0.5	0.4	--	0.4
Items that will not be reclassified to income	(117.9)	(1.2)	(119.1)	(412.1)	(0.7)	(412.8)	(647.8)	(3.2)	(651.0)
Other comprehensive income (loss) for the period net of tax	3.2	7.2	10.4	(348.4)	3.9	(344.5)	(629.6)	(2.0)	(631.6)
Total comprehensive income for the period	339.1	29.2	368.3	35.4	29.7	65.1	316.8	66.2	383.0

* 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	AFS invest- ments	Cumulative translation adjustment	Treasury shares	Total attributable to shareholders of the parent company	Non- controlling interests	Total equity
At 1 January 2017	211,445	636.6	4,036.9	376.5	(250.7)	12.4	(110.0)	(61.6)	4,640.1	225.9	4,866.0
Net income	--	--	--	335.9	--	--	--	--	335.9	22.0	357.9
Other comprehensive income	--	--	--	(117.9)	185.7	(7.7)	(56.9)	--	3.2	7.2	10.4
Total comprehensive income for first half 2017	--	--	--	218.0	185.7	(7.7)	(56.9)	--	339.1	29.2	368.3
Employee share issues	384	1.1	13.9	--	--	--	--	--	15.0	--	15.0
Parent company dividend distribution	--	--	--	(253.7)	--	--	--	--	(253.7)	--	(253.7)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(11.7)	(11.7)
Share-based payments	--	--	--	8.0	--	--	--	--	8.0	--	8.0
Acquisitions/disposals of treasury shares	(85)	--	--	(0.9)	--	--	--	(8.6)	(9.5)	--	(9.5)
Other	--	--	--	21.3	--	--	--	--	21.3	(0.6)	20.7
At 30 June 2017	211,744	637.7	4,050.8	369.2	(65.0)	4.7	(166.9)	(70.2)	4,760.2	242.8	5,003.0

<i>(in € millions)</i>	<i>Number of shares outstanding (thousands)</i>	Share capital	Additional paid-in capital	Retained earnings	Cash flow hedge	AFS invest- ments	Cumulative translation adjustment	Treasury shares	Total attributable to shareholders of the parent company	Non- controlling interests	Total equity
At 1 January 2016	210,122	632.9	3,995.4	404.6	(276.8)	2.2	(87.2)	(25.2)	4,645.9	295.9	4,941.8
Net income	--	--	--	383.8	--	--	--	--	383.8	25.8	409.6
Other comprehensive income	--	--	--	(412.1)	104.0	--	(40.3)	--	(348.4)	3.9	(344.5)
Total comprehensive income for first half 2016	--	--	--	(28.3)	104.0	--	(40.3)	--	35.4	29.7	65.1
Employee share issues	747	2.2	24.9	--	--	--	--	--	27.1	--	27.1
Parent company dividend distribution	--	--	--	(212.3)	--	--	--	--	(212.3)	--	(212.3)
Third-party share in dividend distribution of subsidiaries	--	--	--	--	--	--	--	--	--	(47.5)	(47.5)
Share-based payments	--	--	--	7.9	--	--	--	--	7.9	--	7.9
Acquisitions/disposals of treasury shares	41	--	--	1.4	--	--	--	0.8	2.2	--	2.2
Purchase of Raytheon's stake in TRS SAS	--	--	--	(52.8)	--	--	--	--	(52.8)	(85.8)	(138.6)
Changes in scope of consolidation	--	--	--	3.8	--	--	1.1	--	4.9	(1.5)	3.4
At 30 June 2016	210,910	635.1	4,020.3	124.3	(172.8)	2.2	(126.4)	(24.4)	4,458.3	190.8	4,649.1

INTERIM CONSOLIDATED BALANCE SHEET

(in € millions)

ASSETS	Notes	30/06/2017	31/12/2016
Goodwill, net	Note 4.1	3,400.5	3,424.4
Other intangible assets, net	Note 4.2	869.8	958.8
Property, plant and equipment, net	Note 4.2	1,778.6	1,798.9
Total non-current operating assets		6,048.9	6,182.1
Investments in joint-ventures	Note 5.1	1,009.6	997.5
Investments in associates	Note 5.2	203.0	219.5
Non-consolidated investments		57.1	82.3
Other non-current financial assets		143.7	138.3
Total non-current financial assets		1,413.4	1,437.6
Non-current derivatives – assets	Note 6.2	20.0	27.9
Deferred tax assets		904.5	975.8
Non-current assets		8,386.8	8,623.4
Inventories and work in progress		2,995.5	2,734.6
Construction contracts: assets		2,840.8	2,331.5
Advances to suppliers		367.9	348.3
Accounts, notes and other current receivables		4,097.1	4,547.5
Current derivatives – assets	Note 7.1	255.0	161.7
Total current operating assets		10,556.3	10,123.6
Current tax receivable		62.7	59.8
Current financial assets		262.4	265.9
Cash and cash equivalents		3,564.9	3,616.9
Total current financial assets	Note 6.2	3,827.3	3,882.8
Current assets		14,446.3	14,066.2
Total assets		22,833.1	22,689.6
EQUITY AND LIABILITIES			
	Notes	30/06/2017	31/12/2016
Capital, additional paid-in capital and other reserves		4,997.3	4,811.7
Cumulative translation adjustment		(166.9)	(110.0)
Treasury shares		(70.2)	(61.6)
Total attributable to shareholders of the parent company		4,760.2	4,640.1
Non-controlling interests		242.8	225.9
Total equity	Note 10.1	5,003.0	4,866.0
Long-term loans and borrowings	Note 6.2	922.0	1,433.7
Non-current derivatives – Liabilities	Note 6.2	3.6	--
Pensions and other long-term employee benefits	Note 8	2,861.1	2,785.8
Deferred tax liabilities		254.8	294.6
Non-current liabilities		4,041.5	4,514.1
Advances received from customers on contracts		4,779.1	4,478.4
Refundable grants		133.8	133.4
Construction contracts: liabilities		1,218.0	1,139.4
Reserves for contingencies		1,050.1	1,037.0
Accounts, notes and other current payables		5,689.9	5,872.6
Current derivatives – liabilities		236.6	478.3
Total current operating liabilities	Note 7.1	13,107.5	13,139.1
Current tax payable		53.1	59.0
Short-term loans and borrowings	Note 6.2	628.0	111.4
Current liabilities		13,788.6	13,309.5
Total equity and liabilities		22,833.1	22,689.6

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	Notes	First Half 2017	First Half 2016	Full Year 2016
Net income		357.9	409.6	1,014.6
Add (deduct):				
Income tax expense (gain)		103.6	80.4	255.6
Net interest income		(1.6)	(1.2)	(6.3)
Share in net income of equity affiliates		(61.1)	(56.0)	(119.6)
Dividends received from equity accounted: joint-ventures	Note 5.1	13.4	26.9	43.6
Dividends received from equity accounted: associates	Note 5.2	21.7	15.1	29.1
Depreciation and amortisation of property, plant and equipment and intangible assets	Note 4.2	242.2	228.2	491.9
Provisions for pensions and other employee benefits	Note 8	101.7	95.4	170.5
Loss (gain) on disposal of assets, change inscope of consolidation and other		9.2	(95.3)	(205.1)
Provisions for restructuring, net		(27.4)	(13.3)	(7.4)
Other items		(12.9)	14.1	31.4
Operating cash flows before working capital changes, interest and tax		746.7	703.9	1,698.3
Change in working capital and reserves for contingencies	Note 7.1	(227.4)	(337.3)	(63.4)
Cash contributions to pension plans and other long-term employee benefits		(101.8)	(96.9)	(190.1)
- UK deficit payment		(40.0)	(45.2)	(88.3)
- Recurring contributions/benefits		(61.8)	(51.7)	(101.8)
Interest paid		(12.6)	(11.0)	(21.1)
Interest received		6.7	6.5	13.6
Income tax paid		(45.8)	(39.2)	(99.4)
Net cash flow from operating activities	- I -	365.8	226.0	1,337.9
Acquisitions of property, plant and equipment and intangible assets		(189.5)	(230.2)	(480.3)
Disposals of property, plant and equipment and intangible assets		0.1	4.1	8.3
Net operating investments	Note 4.2	(189.4)	(226.1)	(472.0)
Acquisitions of subsidiaries and affiliates, net		(1.2)	(367.8)	(391.2)
Disposals of subsidiaries and affiliates, net		41.0	87.0	296.9
Decrease (increase) in loans and non-current financial assets		(4.1)	(14.3)	(26.5)
Decrease (increase) in current financial assets		3.5	12.1	(235.6)
Net financial investments		39.2	(283.0)	(356.4)
Net cash flow used in investing activities	- II -	(150.2)	(509.1)	(828.4)
Parent company dividend distribution	Note 10	(253.7)	(212.3)	(296.8)
Third party share in dividend distribution of subsidiaries		(11.7)	(47.5)	(48.3)
Capital increase (options exercised) & (Purchase) sale of treasury shares		2.0	39.0	4.9
Issuance of debt		36.2	622.8	641.1
Repayment of debt		(0.8)	(50.2)	(643.7)
Net cash flow from / used in financing activities	- III -	(228.0)	351.8	(342.8)
Effect of exchange rate changes and other	- IV -	(39.6)	4.9	--
Increase (decrease) in cash and cash equivalents	I+II+III+IV	(52.0)	73.6	166.7
Cash and cash equivalents at beginning of period		3,616.9	3,450.2	3,450.2
Cash and cash equivalents at end of period		3,564.9	3,523.8	3,616.9

The Group's net cash position and the changes from 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 2017 were approved and authorised for issue by its Board of Directors on 25 July 2017.

Thales (Parent Company) is a French 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 "Interim Financial Reporting" and with the International Financial Reporting Standards (IFRS) approved by the European Union at 30 June 2017¹.

The condensed interim consolidated financial statements have been prepared using the same accounting policies as those used to prepare the full-year financial statements at 31 December 2016, as detailed in Note 14-a of the consolidated financial statements included in the 2016 Registration Document.

In particular, the new mandatory standards applicable as from 1 January 2017 (Amendments to IAS 12 *Income Tax*, Amendments to IAS 7 *Statement of cash flows*, 2014-2016 Annual Improvements Cycle) have not yet been adopted by the European Union and the Group has therefore not applied them as at 30 June 2017.

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.

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.

¹ Available at the following internet address : <https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002>.

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 phenomenon is of a recurring nature, even though its extent varies from year to year.

c) Conversion rates

The main closing and average exchange rates for the periods used are the following:

	30 June 2017		30 June 2016		31 December 2016	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Euro						
Australian Dollar	1.4851	1.4420	1.4929	1.5116	1.4596	1.4852
Pound Sterling	0.8793	0.8612	0.8265	0.7850	0.8562	0.8227
U.S. Dollar	1.1412	1.0934	1.1102	1.1142	1.0541	1.1032

1.2 NEW IFRS STANDARDS MANDATORILY APPLICABLE AFTER 30 JUNE 2017

New standards and interpretations issued by the IASB, but not yet mandatorily applicable, are described in the Note 1 “Accounting standards framework” note to the consolidated financial statements of the 2016 Registration Document, page 34.

This note primarily describes the main impacts of IFRS 15 (Revenue from Contracts with Customers) for Thales.

Thales has opted for the full retrospective approach. This restatement will present historical trends consistently as the consolidated financial information at the end-December 2017 will have been restated on a comparable basis with the consolidated financial information recognised under IFRS 15 at the end-December 2018.

The 2017 comparative financial statements included in the 2018 financial statements will be restated and opening equity as of 1 January 2017 will be adjusted for the impacts of applying the new standard.

In 2017, the Group has been working on the implementation of this new standard. The assessment of the impacts on the consolidated balance sheet at the transition date and on the interim consolidated financial statements for the first half of 2017 is still ongoing.

The Group intends to present its restated financial statements for the first half of 2017, following the Statutory Auditor’s review, in the press release on the order intake and sales for the third quarter of 2017.

2. SEGMENT INFORMATION

The operating segments presented by the Group are as follows :

- The *Aerospace* segment, which combines the “Avionics” and “Space” Global Business Units that develop on-board systems, solutions and services mainly for private sector customers (aircraft manufacturers, airlines, satellite operators, etc.), but also to a lesser extent for government/defence customers (states, space agencies and other semi-public organisations).
- The *Transport* segment, which comprises the “Ground Transportation Systems” Global Business Unit that develops systems and services for an exclusively civilian customer base of ground transportation infrastructure operators;
- The *Defence and Security* segment, which combines the “Secure Communications and Information Systems”, “Land and Air Systems” and “Defence Mission Systems” Global Business Units that develop equipments, systems and services for the armed and security forces and for the protection of networks and infrastructures, mainly for a government/defence customer base;

In order to monitor the operating and financial performance of the Group entities, the Group’s executives regularly consider certain key non-GAAP indicators as defined, in Note 14-a of the consolidated financial statements included in the 2016 Registration Document, which enable them to exclude certain 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 amortisation of acquisition-related intangible assets (purchase price allocation – PPA) reported under business combinations. From 1 January 2016, it also excludes other expenses booked to income from operations that are directly linked to business combinations, which are unusual by nature.

2.1 INFORMATION BY BUSINESS SEGMENT

First half 2017	Aerospace	Transport	Defence & Security	Other, elim and unallocated*	Thales
Order backlog – non-Group	9 141,1	4 417,5	18 213,1	89,1	31 860,8
Order intake – non-Group	2 237,5	662,0	3 034,5	38,2	5 972,2
Sales – non-Group	2 871,6	710,9	3 631,4	27,4	7 241,3
Sales – intersegment	44,3	4,0	126,0	(174,3)	--
Total sales	2 915,9	714,9	3 757,4	(146,9)	7 241,3
EBIT	263,2	6,4	374,4	(6,7)	637,3
<i>Of which, Naval Group (formerly DCNS)</i>	--	--	--	26,9	26,9
<i>Of which, excluding Naval Group</i>	263,2	6,4	374,4	(33,6)	610,4

First half 2016	Aerospace	Transport	Defence & Security	Other, elim and unallocated *	Thales
Order backlog – non-Group	9,280.8	4,489.5	16,534.1	69.7	30,374.1
Order intake – non-Group	2,218.3	507.1	2,669.5	28.4	5,423.3
Sales – non-Group	2,667.3	717.3	3,424.2	36.8	6,845.6
Sales – intersegment	43.8	3.4	138.1	(185.3)	--
Total sales	2,711.1	720.7	3,562.3	(148.5)	6,845.6
EBIT	238.7	(11.7)	333.9	(9.7)	551.2
<i>Of which, Naval Group (formerly DCNS)</i>	--	--	--	19.6	19.6
<i>Of which, excluding Naval Group</i>	238.7	(11.7)	333.9	(29.3)	531.6

2016	Aerospace	Transport	Defence & Security	Other, elim and unallocated *	Thales
Order backlog – non-Group	9,913.6	4,567.1	18,972.7	76.8	33,530.2
Order intake – non-Group	5,872.3	1,503.5	9,063.1	75.4	16,514.3
Sales – non-Group	5,812.0	1,602.8	7,390.2	79.8	14,884.8
Sales – intersegment	93.9	5.6	295.0	(394.5)	--
Total sales	5,905.9	1,608.4	7,685.2	(314.7)	14,884.8
EBIT	571.3	11.3	787.4	(15.5)	1,354.5
<i>Of which, Naval Group (formerly DCNS)</i>	--	--	--	33.8	33.8
<i>Of which, excluding Naval Group</i>	<i>571.3</i>	<i>11.3</i>	<i>787.4</i>	<i>(49.3)</i>	1,320.7

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

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

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

	First half 2017	First half 2016	Full Year 2016
Income from operations	498.4	435.1	1,097.4
Share in net income of equity affiliates	61.1	56.0	119.6
Sub-total	559.5	491.1	1,217.0
PPA amortisation related to fully consolidated entities	54.4	39.7	107.3
PPA amortisation related to equity affiliates	13.3	13.3	11.2
Expenses linked directly to business combinations	10.1	7.1	19.0
EBIT	637.3	551.2	1,354.5

2.2 INFORMATION BY COUNTRY/REGION OF DESTINATION

Consolidated new orders (direct and indirect) by destination	First half 2017	First half 2016	Full year 2016
France	1,811.1	1,200.7	3,509.2
United Kingdom	369.5	463.3	1,003.2
Rest of Europe	1,142.7	1,304.2	3,646.3
Europe	3,323.3	2,968.2	8,158.7
North America	696.9	492.0	1,215.6
Australia and New Zealand	380.9	346.3	763.7
Asia	689.3	658.6	3,708.5
Near and Middle East *	551.0	461.3	1,673.9
Rest of the world *	330.8	496.9	993.9
Emerging markets	1,571.1	1,616.8	6,376.3
Total	5,972.2	5,423.3	16,514.3

Sales (direct and indirect) by destination	First half 2017	First half 2016	Full year 2016
France	1,768.1	1,660.7	3,580.6
United Kingdom	633.0	623.2	1,272.3
Rest of Europe	1,415.1	1,416.8	3,227.2
Europe	3,816.2	3,700.7	8,080.1
North America	698.8	779.7	1,555.9
Australia and New Zealand	443.2	375.2	759.2
Asia	1,068.0	952.8	2,047.9
Near and Middle East *	788.7	612.8	1,514.9
Rest of the world *	426.4	424.4	926.8
Emerging markets	2,283.1	1,990.0	4,489.6
Total	7,241.3	6,845.6	14,884.8

*The 2016 figures have been adjusted to reflect the transfer of some countries out to the “Near and Middle East” region into the “Rest of the world” region within the Group’s organisation.

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

a) Main events in 2017 first half

In May 2017, Thales finalised the disposal of its identity management business to Imprimerie Nationale Group for a net amount of €21.3 million. The disposal gain recognised in the consolidated financial statements amounted to €17.8 million.

b) On going event as of period end

In April 2017, Thales signed a definitive agreement to acquire the US company Guavus, one of the pioneers of real-time big data analytics. This transaction is subject to regulatory approvals and other customary closing conditions and is expected to be completed during the third quarter of 2017. Parties agreed for a maximum enterprise value of US\$215 million, subject to the achievement of significant sales growth targets. The Company's revenues are expected to exceed US\$30 million for the current fiscal year.

c) Main events in 2016

- At the end of March 2016, Thales finalised the acquisition of Vormetric, a leading provider of data protection solutions for a total of \$408 million (€372.4 million). Vormetric has been consolidated since its acquisition.

As part of the transaction, Thales signed compensation agreements with key managers subject to their remaining with the company until 2020. The related amounts are being taken to income on a straight-line basis in tranches over the vesting period. These amounts are recognised in income from operations, but restated for EBIT calculation (€10.1 million for first half 2017, €7.1 million for first half 2016 and €19 million for 2016).

- At the end of June 2016, Thales acquired Raytheon's non-controlling interest in French company TRS SAS and sold its stake in US company TRS LLC to Raytheon. Taken together, these transactions resulted in a net gain of \$90 million (€81 million) in Thales' consolidated financial statements.

In Thales' consolidated financial statements, the acquisition of Raytheon's non-controlling interest in TRS SAS led to a reclassification in equity. The disposal of the interest in TRS LLC resulted in a disposal gain of €91.8 million. Thales-Raytheon Systems Air and Missile Defense Command remains jointly owned by the Group and is accounted for under the equity method.

- In October 2016, Thales sold its interest in Hanwha Thales, a jointly-owned company that specialises in defence electronics in Korea, for €204.4 million. The disposal gain recognised in the consolidated financial statements amounted to €113.8 million.

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

	First half 2017	First half 2016	Full year 2016
Disposal of investments :	12.2	91.6	200.5
Identity management business	17.8	--	--
Hanwha-Thales (50%)	--	--	113.8
Thales Raytheon Systems LLC (50%)	--	91.8	91.8
Other	(5.6)	(0.2)	(5.1)
Disposal of other assets :	(0.4)	3.7	4.6
Real estate assets	--	3.7	8.0
Movable assets	(0.4)	--	(3.4)
Impact of settlements / amendments to pensions plans (Past service cost - Note 8)	(21.0)	--	--
Total	(9.2)	95.3	205.1

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 :

	31/12/16	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	30/06/17
Avionics	476.1	11.3*	--	--	(9.4)	478.0
Space	481.8	--	--	--	0.1	481.9
<i>Aerospace</i>	957.9	11.3	--	--	(9.3)	959.9
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	819.4	--	(7.0)**	--	(18.0)	794.4
Land and Air Systems	309.8	--	--	--	--	309.8
Defence Mission Systems	462.0	--	--	--	(0.9)	461.1
<i>Defence and Security</i>	1,591.2	--	(7.0)	--	(18.9)	1565.3
Total	3,424.4	11.3	(7.0)	--	(28.2)	3400.5

	31/12/15	Acquisitions	Disposals	Impairment	Changes in exchange rates and other	31/12/16
Avionics	472.0	--	--	--	4.1	476.1
Space	472.7	11.1	--	--	(2.0)	481.8
<i>Aerospace</i>	944.7	11.1	--	--	2.1	957.9
Transport	875.3	--	--	--	--	875.3
Secure Communication and Information Systems	625.1	189.9***	--	--	4.4	819.4
Land and Air Systems	309.8	--	--	--	--	309.8
Defence Mission Systems	461.0	--	--	--	1.0	462.0
<i>Defence and Security</i>	1,395.9	189.9	--	--	5.4	1,591.2
Total	3,215.9	201.0	--	--	7.5	3,424.4

*Acquisition of Aviovision

**Disposal of identity management business

*** Acquisition of Vormetric : residual amount after purchase price allocation (PPA)

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 2017, the Group conducted a review of impairment indications relating to goodwill allocated to cash-generating units (CGU) or group of CGU for which sensitivity tests were presented in the consolidated financial statements at 31 December 2016. This review confirmed the absence of impairment to be recognised at 30 June 2017.

4.2 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	31/12/16	Acquisitions & Activations	Disposals	Depreciation	Impairment	Changes in scope, exchange rate and other	30/06/17
Acquired intangible assets (PPA)	773,9	--	--	(54,4)	--	(23,6)	695,9
Capitalisation of development costs	79,3	4,5	--	(16,0)	--	(1,7)	66,1
Other	105,6	17,4	--	(19,6)	--	4,4	107,8
Intangible assets	958,8	21,9	--	(90,0)	--	(20,9)	869,8
Property, plant and equipment	1 798,9	167,6	(0,1)	(152,2)	--	(35,6)	1 778,6
Total	2 757,7	189,5	(0,1)	(242,2)	--	(56,5)	2 648,4

	01/01/16	Acquisitions & Activations	Disposals	Depreciation	Impairment	Changes in scope, exchange rate and other	31/12/16
Acquired intangible assets (PPA)	649,2	--	--	(107,3)	--	232,0	773,9
Capitalisation of development costs	123,3	6,6	--	(48,1)	--	(2,5)	79,3
Other	90,4	45,1	--	(39,1)	--	9,2	105,6
Intangible assets	862,9	51,7	--	(194,5)	--	238,7	958,8
Property, plant and equipment	1 696,7	428,6	(8,3)	(297,4)	--	(20,7)	1 798,9
Total	2 559,6	480,3	(8,3)	(491,9)	--	218,0	2 757,7

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		
	30/06/17	31/12/16	First half 2017	First half 2016	Full year 2016
Naval Group (formerly DNCS - 35%)	721.4	713.9	14.2	7.0	23.9
Other joint-ventures *	288.2	283.6	25.3	22.9	48.5
Total	1,009.6	997.5	39.5	29.9	72.4

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

b) Change in investment in joint-ventures

	30/06/2017	31/12/2016
Investment at opening	997.5	1,126.4
Share in net income of joint-ventures	39.5	72.4
Translation adjustment	(4.6)	(26.9)
Cash flow hedge	(1.3)	(0.5)
Available for sale financial assets	(6.7)	6.7
Actuarial gains (losses) on pensions	0.8	(12.7)
Share in comprehensive income of joint-ventures	27.7	39.0
Dividends paid	(13.4)	(43.6)
Change in scope (Hanwha Thales Co., Ltd)	--	(112.3)
Other	(2.2)	(12.0)
Investments at closing	1,009.6	997.5

c) Naval Group (formerly DCNS) summary financial information

Summary balance sheet based on a 100% interest	30/06/2017	31/12/2016
Non-current assets	2 283,0	2 359,9
Current assets	6 388,3	6 078,9
Total assets	8 671,3	8 438,8

Restated equity attributable to shareholders of the company	1 227,0	1 205,3
Non-controlling interests	68,9	86,2
Non-current liabilities	655,9	649,6
Current liabilities	6 719,5	6 497,7
Total equity and liabilities	8 671,3	8 438,8

Net cash	2 715,0	2 525,5
----------	---------	---------

Consolidation by Thales	30/06/2017	31/12/2016
Restated equity attributable to shareholders of the company	1 227,0	1 205,3
% of Thales' interests	35%	35%
Thales' share	429,4	421,9
Goodwill	292,0	292,0
Share in net assets of the joint-venture	721,4	713,9

Summary profit and loss account based on a 100% interest *	First half 2017	First half 2016	Full year 2016
Sales	1 707,1	1 440,8	3 191,2
Income (loss) from operating activities after impact of equity affiliates*	30,3	(1,8)	4,3
Financial income	(3,3)	21,1	23,9
Tax	(6,4)	(6,2)	33,3
Restated net income	20,6	13,1	61,5
<i>Of which, attributable to shareholders of the company</i>	40,6	20,1	68,3
<i>Of which, non-controlling interests</i>	(20,0)	(7,0)	(6,8)

Summary profit and loss account based on a 100% interest *	First half 2017	First half 2016	Full year 2016
Restated net income attributable to shareholders of the company	40,6	20,1	68,3
% of Thales' interests	35%	35%	35%
Share in income of the joint-venture	14,2	7,0	23,9
<i>Of which, impact of PPA</i>	(12,6)	(12,6)	(9,9)
Of which, share in income before PPA	26,9	19,6	33,8

Dividends received from the joint-venture	--	--	--
---	----	----	----

* After Thales restatements (mainly linked to acquisition-related intangible assets)

5.2 INVESTMENTS IN ASSOCIATES

	30/06/17	31/12/16
Investment in associates at opening	219.5	359.5
Share in net income of equity affiliates	21.6	47.2
Translation adjustment	(11.2)	(30.7)
Cash flow hedge	(0.9)	0.5
Actuarial gains (losses) on pensions	(0.7)	0.4
Share in comprehensive income of equity affiliates	8.8	17.4
Dividends paid	(21.7)	(29.1)
Changes in scope (TRS LLC in 2016)	--	(127.8)
Other	(3.6)	(0.5)
Investment in associates at closing	203.0	219.5

6 FINANCING AND FINANCIAL INSTRUMENTS

6.1 OTHER FINANCIAL INCOME (EXPENSE)

	First half 2017	First half 2016	Full year 2016
Foreign exchange gains (losses)	(13.1)	(4.1)	(2.4)
Change in fair value of currency derivatives*	(43.1)	(45.7)	(70.3)
Cash flow hedge, ineffective portion	(3.6)	0.7	(5.9)
Foreign exchange gains (losses)	(59.8)	(49.1)	(78.6)
Dividends received	1.6	2.1	2.8
Impairment of non-consolidated investments, loans and other financial assets	--	(0.4)	(1.4)
Other	(4.5)	(1.9)	(3.4)
Total	(62.7)	(49.3)	(80.6)

* Includes the change in the fair value of premiums/discounts (losses of €45.4 million in first half 2017, €30.6 million in first half 2016 and €54 million in 2016) and the time value of derivatives documented as future cash flow hedges (losses of €3.6 million in first half 2017, €5.1 million in first half 2016 and €7.3 million in 2016), 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**

	30/06/2017	31/12/2016
Current financial assets	262,4	265,9
Cash and cash equivalents	3 564,9	3 616,9
Cash and other short-term investments (I)	3 827,3	3 882,8
Borrowings and debt, long-term portion	922,0	1 433,7
Borrowings and debt, short-term portion	628,0	111,4
Fair value of interest rate derivatives	(16,4)	(27,9)
Gross debt (II)	1 533,6	1 517,2
Net cash (I –II)	2 293,7	2 365,6

- **Gross financial debt**

	30/06/17	31/12/16
Bond maturing in June 2023	593.1	595.6
Bond maturing in March 2021	313.4	315.9
Bond maturing in March 2018	502.1	502.8
Other debt	125.0	102.9
Gross debt	1,533.6	1,517.2

6.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

	30/06/2017				31/12/2016		
	At cost/ amortised cost	Fair value through: equity	profit or loss	Value in balance sheet	Fair value	Value in balance sheet	Fair value
Non-current financial assets:							
Non-consolidated investments	--	57.1	--	57.1	57.1	82.3	82.3
Non-current loans and financial assets	120.0	--	23.7	143.7	143.7	138.3	138.3
Non-current derivatives documented as hedges	--	--	20.0	20.0	20.0	27.9	27.9
Current financial assets:							
Derivative instruments documented as hedges	--	247.2	--	247.2	247.2	154.2	154.2
Derivative instruments not documented as hedges	--	--	7.8	7.8	7.8	7.5	7.5
Current financial assets	262.4	--	--	262.4	262.4	265.9	265.9
Cash and cash equivalents	2,952.5	--	612.4	3,564.9	3,564.9	3,616.9	3,616.9
Non-current financial liabilities:							
Long-term debt	909.2	--	12.8	922.0	948.7	1,433.7	1,477.4
Non-current derivatives documented as hedges, liabilities	--	--	3.6	3.6	3.6	--	--
Current financial liabilities:							
Derivative instruments documented as hedges	--	228.0	--	228.0	228.0	458.3	458.3
Derivative instruments not documented as hedges	--	--	8.6	8.6	8.6	20.0	20.0
Short-term debt	624.6	--	3.4	628.0	634.1	111.4	111.4

Receivables, payables and refundable grants as detailed in the Note 7.1, are financial assets and liabilities within the meaning of IAS 32/39 and are measured at amortised cost.

7. CHANGE IN NET CASH (NET DEBT)

	First half 2017	First half 2016	Full year 2016
Net cash (debt) at opening	2 365,6	1 977,6	1 977,6
Net cash flow from operating activities	365,8	226,0	1 337,9
Less, reduction in pensions deficits	40,0	45,2	88,3
Net operating investments	(189,4)	(226,1)	(472,0)
Free operating cash-flow	216,4	45,1	954,2
Acquisitions of subsidiaries and affiliates	(1,2)	(367,8)	(391,2)
<i>of which, Vormetric</i>	--	(365,4)	(365,4)
Disposals of subsidiaries and affiliates	41,0	87,0	296,9
<i>of which, identity management business</i>	21,3	--	--
<i>of which, Hanwha Thales Co. Ltd (50%)</i>	--	--	204,4
<i>of which, equalisation payment Thales - Raytheon Systems</i>	--	81,0	81,0
Reduction of UK pension deficits	(40,0)	(45,2)	(88,3)
Change in loans	(4,1)	(14,3)	(26,5)
Dividends paid by the parent company	(253,7)	(212,3)	(296,8)
Third party share in dividend distributions of subsidiaries	(11,7)	(47,5)	(48,3)
Treasury shares and subscription options exercised	2,0	39,0	4,9
Changes in exchange rates: translation and financing operations	(26,4)	(30,1)	(19,8)
Other	5,8	7,2	2,9
Total Change	(71,9)	(538,9)	388,0
Net cash (debt) at closing	2 293,7	1 438,7	2 365,6

7.1 CHANGES IN WORKING CAPITAL REQUIREMENTS

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

Contracts falling within the scope of IAS 11 are subject to a specific classification in the consolidated balance sheet: for each contract, the balances of unbilled sales, work-in-progress, and reserves for contingencies are presented in the assets or liabilities under "Construction Contracts" caption.

The Group is authorised to assign trade receivables, mainly from the French State and commercial paper. At 30 June 2017, derecognised receivables amounted to €152.4 million (€130.3 million at 31 December 2016).

	01/01/17	Changes in WCR and reserves	Change in scope, exchange rate and reclass.	30/06/17
Inventories and work in progress	2 734,6	296,8	(35,9)	2 995,5
Construction contracts assets	2 331,5	548,4	(39,1)	2 840,8
Advances to suppliers	348,3	23,7	(4,1)	367,9
Accounts, notes and other receivables	4 547,5	(292,7)	(157,7)	4 097,1
Current derivatives - assets	161,7	56,2	37,1	255,0
Current operating assets	10 123,6	632,4	(199,7)	10 556,3
Advances received from customers on contracts	(4 478,4)	(338,3)	37,6	(4 779,1)
Refundable grants	(133,4)	(0,9)	0,5	(133,8)
Construction contracts liabilities	(1 139,4)	(88,6)	10,0	(1 218,0)
Reserves for contingencies	(1 037,0)	(20,6)	7,5	(1 050,1)
Accounts, notes and other payables	(5 872,6)	70,8	111,9	(5 689,9)
Current derivatives - liabilities	(478,3)	--	241,7	(236,6)
Current operating liabilities	(13 139,1)	(377,6)	409,2	(13 107,5)
Restructuring provisions *	114,3	(27,4)	(2,5)	84,4
Increase (decrease) in WCR and reserves for contingencies		227,4		

* Included in reserves for contingencies

7.2 RESERVES FOR CONTINGENCIES (EXCLUDING CONSTRUCTION CONTRACTS)

	31/12/16	Additions	Utilisation	Reversal (surplus)	Exchange rates and other	30/06/17
Restructuring	114.3	6.2	(31.7)	(1.9)	(2.5)	84.4
Litigations	125.5	16.5	(11.3)	(1.2)	(1.2)	128.3
Guarantees	255.8	23.4	(12.8)	(3.6)	(1.8)	261.0
Losses at completion	96.3	35.2	(20.6)	(4.6)	0.4	106.7
Provisions on contracts	173.5	10.7	(7.9)	(5.2)	(3.6)	167.5
Other *	271.6	59.5	(22.4)	(3.2)	(3.3)	302.2
Total	1,037.0	151.5	(106.7)	(19.7)	(12.0)	1,050.1

	31/12/15	Additions	Utilisation	Reversal (surplus)	Exchange rate and other	31/12/16
Restructuring	116.3	72.4	(68.1)	(11.7)	5.4	114.3
Litigations	127.7	33.4	(18.9)	(24.4)	7.7	125.5
Guarantees	239.7	82.2	(51.8)	(10.4)	(3.9)	255.8
Losses at completion	76.1	52.9	(27.9)	(4.8)	--	96.3
Provisions on contracts	147.4	44.9	(12.7)	(4.8)	(1.3)	173.5
Other *	315.7	71.1	(58.4)	(23.0)	(33.8)	271.6
Total	1,022.9	356.9	(237.8)	(79.1)	(25.9)	1,037.0

* Includes technical provisions of insurance companies, provisions for tax and labour-related risks, vendor warranties, environmental guarantees and other.

8. PENSIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

a) Actuarial assumptions

At 30 June 2017, the plan assets market value and the discount and inflation rates assumptions for the main countries (representing 90% of the net obligation) were updated. The assumptions used in the United Kingdom and in France are as follows:

30 June 2017	United Kingdom	France
Inflation rate	3,05%	1,35%
Discount rate	2,55%	1,59%
30 June 2016	United Kingdom	France
Inflation rate	2,83%	1,50%
Discount rate	3,21%	1,16%
31 December 2016	United Kingdom	France
Inflation rate	3,22%	1,40%
Discount rate	2,79%	1,50%

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

	First half 2017	First half 2016	Full year 2016
Provision at opening	(2,785.8)	(2,318.9)	(2,318.9)
Current service cost (income from operations)	(53.0)	(47.1)	(92.9)
Past service cost *	(21.0)	--	--
Net interest cost	(28.4)	(31.1)	(60.6)
Pension fund management cost	(2.5)	(2.5)	(5.2)
Actuarial gains and losses on other long-term employee benefits	3.2	(14.7)	(11.8)
Finance costs on pensions and other long-term employee benefits	(27.7)	(48.3)	(77.6)
Total expense for the period	(101.7)	(95.4)	(170.5)
Actuarial gains and losses (other comprehensive income)	(120.8)	(456.7)	(661.0)
Benefits and contributions	101.8	96.9	190.1
- Of which, deficit payment in the United Kingdom	40.0	45.2	88.3
- Of which, other benefits and contributions	61.8	51.7	101.8
Translation adjustment	42.1	128.3	163.2
Changes in scope of consolidation and other	3.3	2.3	11.3
Provision at closing	2,861.1	(2,643.5)	(2,785.8)

*Provision recorded as part of new agreement under which french employees may convert fully or partially, their end-of-career benefits into early retirement leave.

9. INCOME TAX

	First half 2017	First half 2016	Full year 2016
Net income	357.9	409.6	1,014.6
Less: income tax	103.6	80.4	255.6
Less: share in net income of equity affiliates	(61.1)	(56.0)	(119.6)
Profit before tax and impact of equity affiliates	400.4	434.0	1,150.6
Income tax expense	(103.6)	(80.4)	(255.6)
Effective tax rate	25.9%	18.5%	22.2%

The income tax expense excludes research tax credits which is recorded in income from operations (€85.4 million in the first half of 2017, €77.9 million in the first half of 2016 and €176.2 million in 2016).

In the first half of 2016, the effective tax rate included the impact of non taxable gains on disposal.

10. EQUITY AND EARNINGS PER SHARE

10.1 SHAREHOLDERS' EQUITY

a) Share capital

	At 30/06/2017			At 31/12/2016		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
T.S.A	54,786,654	25.77%	35.83%	54,786,654	25.82%	35.86%
French State (including one golden share)	2,060	--	--	2,060	--	--
Public sector (a)	54,788,714	25.77%	35.83%	54,788,714	25.82%	35.86%
Dassault Aviation (b)	52,531,431	24.71%	28.51%	52,531,431	24.76%	28.53%
Thales (c)	834,509	0.39%	--	749,559	0.35%	--
Employees	5,338,197	2.51%	3.12%	5,743,081	2.71%	3.31%
Other shareholders	99,085,845	46.62%	32.54%	98,381,981	46.36%	32.30%
Total (d)	212,578,696	100.00%	100.00%	212,194,766	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, excluding the State directly. All Thales shares held directly and indirectly by the French State have been directly registered shares for more than two years and thus have a double voting right as of 30 June 2017.
- (b) As at 30 June 2017, Dassault Aviation has held 42,154,349 shares in directly registered form, including 34,654,349 shares for more than two years, thus granting it double voting rights, and holds 10,377,082 shares in bearer form.
- (c) Treasury shares represented 57,000 bearer shares (held under a liquidity contract) and 777,509 directly registered shares.
- (d) In the first half of 2017, 383,930 new shares bearing rights from 1 January 2017 were created as a result of the exercise of share subscription options.

b) Treasury shares

Thales (parent company) held 834,509 of its own shares at 30 June 2017. They are accounted for as a deduction from consolidated equity in the amount of €70.2 million.

In accordance with the authorisations given to the board of Directors at the Annual General Meeting, the Company carried out the following operations:

	First half 2017	First half 2016	Full year 2016
Treasury shares at opening	749 559	839 254	839 254
Purchases as part of a liquidity agreement	298 883	182 561	513 001
Sales as part of a liquidity agreement	(291 883)	(167 561)	(472 001)
Transfer to employees as part of the employee share purchase offering	--	(41 714)	(41 714)
Delivery of free shares	(50)	(100)	(607 381)
Market purchases	118 000	--	575 000
Exercise of share purchase options	(40 000)	(14 400)	(56 600)
Treasury shares at closing	834 509	798 040	749 559

c) Parent Company dividend distribution

Dividends per share amounted respectively to €1.36 and €1.60 in 2015 and 2016. Dividends paid in 2016 and 2017 are described below:

Year	Approved by	Description	Dividend per share (in euros)	Payment date	Payment method	Total (€ million)
2017	General Meeting on 17 May 2016	Balance for 2016	€ 1.20	June 2017	cash	€253.7 M
	Total dividends paid in first half 2017					€253.7 M
2016	Board of Directors meeting on 22 September 2016	2016 interim dividend	€ 0.40	Dec. 2016	cash	€84.6 M
	General Meeting on 18 May 2016	Balance for 2015	€ 1.01	June 2016	cash	€212.3 M
Total dividends paid in 2016					€296.8 M	

d) Non-controlling interests

This item principally includes Leonardo's (formerly Finmeccanica) 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%) and, up to 29 June 2016, Raytheon's interest in Thales-Raytheon Systems Company SAS (50%).

The individual contributions of these minority shareholders to the Group's key financial indicators are not material.

The cash of these three companies is unrestricted and exclusively pooled with Thales' Corporate Treasury Department department.

10.2 EARNINGS PER SHARE

		First half 2017	First half 2016	Full year 2016
Numerator (in € millions):				
Net income attributable to shareholders of the parent company	(a)	335,9	383,8	946,4
Denominator (in thousands):				
Average number of shares outstanding	(b)	211 611	210 547	210 872
Share subscription and share purchase options *		705	1 131	1 004
Free shares and units plans **		951	1 271	1 432
Diluted average number of shares outstanding	(c)	213 267	212 949	213 308
Basics earnings per share (in euros)	(a) / (b)	1,59	1,82	4,49
Diluted earnings per share (in euros)	(a) / (c)	1,58	1,80	4,44
Average share price		€ 92,79	€ 72,16	€ 77,59

* Only options 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.

** The performance shares / units are only taken into account when performance targets are achieved.

11. LITIGATION

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation. There have been no changes in the legal proceedings disclosed in the 2016 Registration Document.

12. RELATED PARTY TRANSACTIONS

Main related party transactions are disclosed in Note 14-a of the consolidated financial statements included in the 2016 Registration Document.

Revenues with the French Ministry of Defence amounted to €1,108.6 million in the first half of 2017 and € 990.7 million in the first half of 2016.

At 30 June 2017, mature receivables bearing interest on overdue payments from the DGA (French defence procurement agency) amounted to €20.3 million (€34.9 million at 30 June 2016 and €199.6 million at 31 December 2016).

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

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

For the period from January 1 to June 30, 2016

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

ERNST & YOUNG Audit

MAZARS

ERNST & YOUNG Audit

1 / 2, PLACE DES SAISONS – 92400 COURBEVOIE – PARIS-LA DEFENSE 1

COMMISSAIRE AUX COMPTES – MEMBRE DE LA COMPAGNIE REGIONALE DE VERSAILLES

S.A.S. A CAPITAL VARIABLE – 344 366 315 NANTERRE

MAZARS

61, RUE HENRI REGNAULT – 92400 COURBEVOIE

SOCIETE ANONYME D'EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES

CAPITAL DE 8 320 000 EUROS – RCS NANTERRE B 784 84 153

THALES

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

For the period from January 1 to June 30, 2016

ERNST & YOUNG Audit

MAZARS

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 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, 2016,
- 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.

I - 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 cause 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 IFRS as adopted by the European Union applicable to interim financial information.

II - 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.

Paris-La Défense and Courbevoie, July 21, 2016

The statutory auditors

French original signed by

ERNST & YOUNG Audit

PHILIPPE DIU

SERGE POTTIEZ

MAZARS

JEAN-MARC DESLANDES

ANNE-LAURE ROUSSELOU

Thales
Tour Carpe Diem
31 Place des Corolles – CS 20001
92098 Paris La Défense
France
Tél : +33 (0)1 57 77 80 00
www.thalesgroup.com

THALES