

**THALES**

**CONSOLIDATED  
FINANCIAL STATEMENTS  
AT 30 JUNE 2010**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

(€ Million)

	Notes	2010 First half	2009 First half	2009 Full year
<b>Revenues</b>	note 5	<b>5,955.5</b>	<b>5,743.6</b>	<b>12,881.5</b>
Cost of sales		(4,705.6)	(4,692.4)	(10,633.4)
Research and development expenses		(274.3)	(254.9)	(550.5)
Marketing and selling expenses		(459.6)	(439.7)	(901.9)
General and administrative expenses		(265.0)	(253.6)	(543.4)
Restructuring costs		(46.6)	(42.2)	(116.1)
Amortisation of intangible assets recognised at fair value on business combination	note 13	(40.8)	(42.2)	(84.4)
<b>Income from operations / EBIT</b>	note 5	<b>163.6</b>	<b>18.6</b>	<b>51.8</b>
Impairment of non current operating assets	note 6	(4.1)	(5.3)	(260.1)
Gain (loss) on disposal of assets and other	note 7	(7.4)	5.6	(1.0)
<b>Income of operating activities</b>		<b>152.1</b>	<b>18.9</b>	<b>(209.3)</b>
Financial interest on gross debt		(40.9)	(47.9)	(91.6)
Financial income from cash at bank and equivalents		10.6	14.8	26.0
Cost of net financial debt		(30.3)	(33.1)	(65.6)
Other financial income (expense)	note 8	(4.0)	(27.4)	(44.9)
Other components of pension charge	note 9	(38.2)	(58.5)	(105.1)
Income tax	note 10	1.4	50.0	175.3
Share in net income (loss) of equity affiliates	note 14	25.4	24.7	48.0
<b>Net income (loss)</b>		<b>106.4</b>	<b>(25.4)</b>	<b>(201.6)</b>
Of which :				
<b>Net income (loss), Group share</b>		<b>106.4</b>	<b>(25.3)</b>	<b>(201.8)</b>
Non controlling interests		--	(0.1)	0.2
<b>Basic earnings per share (in euros)</b>	note 11	<b>0.54</b>	<b>(0.13)</b>	<b>(1.03)</b>
<b>Diluted earnings per share (in euros)</b>	note 11	<b>0.54</b>	<b>(0.13)</b>	<b>(1.03)</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ Million)

	2010 First half		2009 First half		2009 Full year	
	Group Share	<i>Non- controlling interests</i>	Group Share	<i>Non- controlling interests</i>	Group Share	<i>Non- controlling interests</i>
<b>Net income (loss)</b>	<b>106.4</b>	--	<b>(25.3)</b>	<i>(0.1)</i>	<b>(201.8)</b>	<i>0.2</i>
Cumulated translation adjustment, excluding hedge impact	226.0	<i>0.7</i>	129.9	<i>0.5</i>	119.1	<i>0.6</i>
Net foreign investments' hedge	(3.2)	--	(4.9)	--	(3.8)	--
Deferred tax	1.1	--	1.5	--	1.3	--
	223.9	<i>0.7</i>	126.5	<i>0.5</i>	116.6	<i>0.6</i>
Cash flow hedge	(273.2)	<i>(0.1)</i>	61.1	--	70.8	--
Deferred tax	89.9	--	(18.3)	--	(19.4)	--
	(183.3)	<i>(0.1)</i>	42.8	--	51.4	--
Financial assets available for sale	(5.3)	--	--	--	1.5	--
Deferred tax	--	--	--	--	--	--
	(5.3)	--	--	--	1.5	--
<b>Total other comprehensive income (loss), net of tax</b>	<b>35.3</b>	<i>0.6</i>	<b>169.3</b>	<i>0.5</i>	<b>169.5</b>	<i>0.6</i>
<b>Total comprehensive income (loss) for the period</b>	<b>141.7</b>	<i>0.6</i>	<b>144.0</b>	<i>0.4</i>	<b>(32.3)</b>	<i>0.8</i>

## CONSOLIDATED BALANCE SHEET

(€ Million)

<b>ASSETS</b>	<b>Notes</b>	<b>30/06/10</b>	<b>31/12/09</b>
Goodwill, net	note 12	3,017.0	2,986.9
Other intangible assets, net	note 13	893.7	925.3
Tangible assets, net	note 13	1,369.0	1,338.3
<b>Total non current operating assets</b>		<b>5,279.7</b>	<b>5,250.5</b>
Share in net assets of equity affiliates	note 14	687.9	711.0
Available-for-sale investments		95.2	101.9
Loans and other financial assets		184.1	171.9
<b>Total non current financial assets</b>		<b>967.2</b>	<b>984.8</b>
Fair value of derivatives: interest rate risk management	note 17	36.2	24.8
Pension and other employee benefits	note 9	68.2	66.0
Deferred tax assets		812.6	678.0
<b>Non current assets</b>		<b>7,163.9</b>	<b>7,004.1</b>
Inventories and work in progress		2,490.8	2,210.8
Construction contracts: assets		2,427.6	2,243.2
Advances to suppliers		438.4	342.4
Accounts, notes and other current receivables		4,027.2	3,934.8
Fair value of derivatives: currency risk management		188.4	172.6
<b>Total current operating assets</b>		<b>9,572.4</b>	<b>8,903.8</b>
Current tax receivables		35.1	40.4
Receivable on disposal of Camelot Group plc	note 2	92.0	--
Current accounts with affiliated companies	note 17	118.3	94.8
Marketable securities	note 17	8.5	4.4
Cash at bank and equivalents	note 17	2,021.6	1,960.1
<b>Total current financial assets</b>		<b>2,240.4</b>	<b>2,059.3</b>
<b>Current assets</b>		<b>11,847.9</b>	<b>11,003.5</b>
<b>TOTAL ASSETS</b>		<b>19,011.8</b>	<b>18,007.6</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Notes</b>	<b>30/06/10</b>	<b>31/12/09</b>
Capital, paid-in surplus and other reserves		4,011.0	4,168.3
Cumulative translation adjustment		(59.3)	(283.2)
Treasury shares		(144.8)	(141.5)
<b>Shareholders' equity</b>		<b>3,806.9</b>	<b>3,743.6</b>
Non controlling interests		10.8	10.2
<b>Total shareholders' equity and non controlling interests</b>	note 15	<b>3,817.7</b>	<b>3,753.8</b>
Financial debt: long-term	note 17	1,655.8	1,651.6
Pension and other employee benefits	note 9	862.2	856.7
Deferred tax liabilities		244.1	258.6
<b>Non-current liabilities</b>		<b>2,762.1</b>	<b>2,766.9</b>
Advances received from customers on contracts		3,748.6	3,849.4
Refundable grants		170.5	172.8
Construction contracts: liabilities		961.0	882.7
Reserves for contingencies	note 16	1,225.3	1,129.8
Accounts, notes and other current payables		4,826.7	4,736.0
Fair value of derivatives: currency risk management		324.8	100.7
<b>Total current operating liabilities</b>		<b>11,256.9</b>	<b>10,871.4</b>
Current tax payables		50.9	92.2
Financial debt: short- term	note 17	943.3	326.4
Current accounts with affiliated companies	note 17	180.9	196.9
<b>Total current financial liabilities</b>		<b>1,124.2</b>	<b>523.3</b>
<b>Current liabilities</b>		<b>12,432.0</b>	<b>11,486.9</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>19,011.8</b>	<b>18,007.6</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

(€ Million)

	Notes	2010 First half	2009 First half	2009 Full year
Net income (loss)		106.4	(25.4)	(201.6)
Add (deduct):				
Income tax expense (gain)		(1.4)	(50.0)	(175.3)
Share in net (income) loss of equity affiliates (net of dividends received)		(12.9)	(13.3)	(21.5)
Depreciation and amortisation of tangible and intangible assets	note 13	207.4	195.1	420.8
Provisions for pensions and other employee benefits	note 9	69.4	87.1	162.6
Impairment of non current operating assets	note 6	4.1	5.3	260.1
Gain (loss) on disposals of assets and other	note 7	7.4	(5.6)	1.0
Net allowances to restructuring provisions		(3.5)	(7.1)	12.1
Other items		13.5	10.8	26.6
Operating cash flows before working capital changes		390.4	196.9	484.8
Change in working capital requirements and in reserves for contingencies (a)		(633.5)	42.1	924.6
Payment of contributions / pension benefits (defined benefit plans):	note 9	(66.3)	(62.1)	(156.2)
- deficit payment in the UK		(31.4)	(27.6)	(57.6)
- future service cash		(34.9)	(34.5)	(98.6)
Income tax (paid) received		(38.0)	(45.9)	(98.2)
<b>Net cash flows from operating activities</b>	<b>- I -</b>	<b>(347.4)</b>	<b>131.0</b>	<b>1,155.0</b>
Capital expenditure	note 18-a	(144.4)	(180.4)	(418.9)
Proceeds from disposal of tangible and intangible assets		3.4	2.1	5.8
Net operating investments		(141.0)	(178.3)	(413.1)
Acquisitions	note 18-b	(6.1)	(141.9)	(148.0)
Disposals	note 18-b	0.9	(6.9)	--
Change in loans		(12.3)	13.9	4.1
Change in current accounts with affiliated companies		(11.1)	(3.6)	(32.0)
Decrease (increase) in marketable securities		(3.3)	10.2	24.0
Net financial investment		(31.9)	(128.3)	(151.9)
<b>Net cash flows from investing activities</b>	<b>- II -</b>	<b>(172.9)</b>	<b>(306.6)</b>	<b>(565.0)</b>
Dividends paid		(97.7)	(204.7)	(204.7)
Increase (decrease) in shareholders' equity and non controlling interests	note 18-c	0.3	10.3	21.6
Increase in debt		852.8	922.4	1,125.2
Repayment of debt		(274.4)	(423.9)	(1,103.9)
<b>Net cash flows from financing activities</b>	<b>- III -</b>	<b>481.0</b>	<b>304.1</b>	<b>(161.8)</b>
Effect of exchange rate variations	- IV -	100.8	52.2	32.1
<b>Total increase (decrease) in cash at banks and equivalents</b>	<b>I+II+III+IV</b>	<b>61.5</b>	<b>180.7</b>	<b>460.3</b>
Cash at banks and equivalents at beginning of period		1,960.1	1,499.8	1,499.8
<b>Cash at banks and equivalents at end of period</b>		<b>2,021.6</b>	<b>1,680.5</b>	<b>1,960.1</b>

(a) Including changes in proceeds from sale of government non-recourse receivables (€ +157.9 million in the first half of 2010, € -58.1 million in the first half of 2009 and € -50.1 million in 2009). The 2010 first half increase is directly linked to late payments by the French defence procurement agency (note 20).

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**AND NON CONTROLLING INTERESTS**

(€ Million)

**First half 2010 :**

	<i>Number of shares outstanding (thousands)</i>	<i>Share capital</i>	<i>Paid-in surplus</i>	<i>Retained earnings</i>	<i>Cash Flow hedge</i>	<i>AFS invest -ments</i>	<i>Cumulative translation adjustment</i>	<i>Treasury shares</i>	<i>Share- holders' equity</i>	<i>Non controlling interests</i>	<i>Total</i>
<b>At 1 January 2010</b>	<b>195,467</b>	<b>597.1</b>	<b>3,655.3</b>	<b>(197.3)</b>	<b>107.7</b>	<b>5.5</b>	<b>(283.2)</b>	<b>(141.5)</b>	<b>3,743.6</b>	<b>10.2</b>	<b>3,753.8</b>
Net income (loss)	--	--	--	106.4	--	--	--	--	106.4	--	106.4
Other comprehensive income (loss)	--	--	--	--	(183.3)	(5.3)	223.9	--	35.3	0.6	35.9
<b>Total comprehensive income (loss) first half 2010</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>106.4</b>	<b>(183.3)</b>	<b>(5.3)</b>	<b>223.9</b>	<b>--</b>	<b>141.7</b>	<b>0.6</b>	<b>142.3</b>
Capital increase	50	0.1	1.3	--	--	--	--	--	1.4	--	1.4
Dividends (a)	--	--	--	(97.7)	--	--	--	--	(97.7)	--	(97.7)
Share based payments (note 15-b)	--	--	--	8.7	--	--	--	--	8.7	--	8.7
Changes in treasury shares	(177)	--	--	(1.9)	--	--	--	(3.3)	(5.2)	--	(5.2)
Other	--	--	--	6.3	--	--	--	--	6.3	(0.2)	6.1
Changes in scope of consolidation	--	--	--	6.7	1.4	--	--	--	8.1	0.2	8.3
<b>Total transactions with shareholders</b>	<b>(127)</b>	<b>0.1</b>	<b>1.3</b>	<b>(77.9)</b>	<b>1.4</b>	<b>--</b>	<b>--</b>	<b>(3.3)</b>	<b>(78.4)</b>	<b>--</b>	<b>(78.4)</b>
<b>At 30 June 2010</b>	<b>195,340</b>	<b>597.2</b>	<b>3,656.6</b>	<b>(168.8)</b>	<b>(74.2)</b>	<b>0.2</b>	<b>(59.3)</b>	<b>(144.8)</b>	<b>3,806.9</b>	<b>10.8</b>	<b>3,817.7</b>

**First half 2009 :**

	<i>Number of shares outstanding (thousands)</i>	<i>Share capital</i>	<i>Paid-in surplus</i>	<i>Retained earnings</i>	<i>Cash Flow hedge</i>	<i>AFS invest -ments</i>	<i>Cumulative translation adjustment</i>	<i>Treasury shares</i>	<i>Share- holders' equity</i>	<i>Non controlling interests</i>	<i>Total</i>
<b>At 1 January 2009</b>	<b>194,981</b>	<b>596.2</b>	<b>3,647.8</b>	<b>194.6</b>	<b>56.3</b>	<b>4.0</b>	<b>(399.8)</b>	<b>(150.2)</b>	<b>3,948.9</b>	<b>2.9</b>	<b>3,951.8</b>
Net income (loss)	--	--	--	(25.3)	--	--	--	--	(25.3)	(0.1)	(25.4)
Other comprehensive income (loss)	--	--	--	--	42.8	--	126.5	--	169.3	0.5	169.8
<b>Total comprehensive income (loss) first half 2009</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(25.3)</b>	<b>42.8</b>	<b>--</b>	<b>126.5</b>	<b>--</b>	<b>144.0</b>	<b>0.4</b>	<b>144.4</b>
Capital increase	36	0.1	0.9	--	--	--	--	--	1.0	--	1.0
Dividends (a)	--	--	--	(204.7)	--	--	--	--	(204.7)	--	(204.7)
Share based payments (note 15-b)	--	--	--	9.6	--	--	--	--	9.6	--	9.6
Changes in treasury shares	(14)	--	--	(0.4)	--	--	--	--	(0.4)	--	(0.4)
Other	--	--	--	(3.2)	--	--	--	--	(3.2)	0.2	(3.0)
Changes in scope of consolidation	--	--	--	--	--	--	--	--	--	0.8	0.8
<b>Total transactions with shareholders</b>	<b>22</b>	<b>0.1</b>	<b>0.9</b>	<b>(198.7)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(197.7)</b>	<b>1.0</b>	<b>(196.7)</b>
<b>At 30 June 2009</b>	<b>195,003</b>	<b>596.3</b>	<b>3,648.7</b>	<b>(29.4)</b>	<b>99.1</b>	<b>4.0</b>	<b>(273.3)</b>	<b>(150.2)</b>	<b>3,895.2</b>	<b>4.3</b>	<b>3,899.5</b>

(a) Dividends per share amounted to € 0.50 in 2010 and € 1.05 in 2009.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

On 28 July 2010 the Board of Directors approved, and authorised for issue, Thales' condensed interim consolidated financial statements for the period ended 30 June 2010. Thales is a listed French *société anonyme*, registered with the Nanterre registrar of companies (*Registre du Commerce et des Sociétés de Nanterre*) under the number 552,059,024.

### **1. ACCOUNTING POLICIES**

#### **1.1) Condensed interim consolidated financial statements**

The condensed interim consolidated financial statements at 30 June 2010 have been prepared in accordance with IAS 34 "Interim financial reporting" and with IFRS standards as approved by the European Union at 30 June 2010 (available on the following intranet address: [http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias_fr.htm)).

The condensed interim consolidated financial statements are prepared using accounting policies which are identical to those used to prepare the full-year financial statements at 31 December 2009 except for the changes described in 1.2.

The measurement procedures used for the condensed interim consolidated financial statements are the followings:

#### **• Pension provisions**

The figures used to determine the pension provisions are based on an extrapolation at 30 June 2010 of the actuarial valuation performed at 31 December 2009 without any change in the actuarial assumptions.

#### **• Income taxes**

For interim accounts, the tax charge (current and deferred) is calculated by applying, company by company, the annual estimated average tax rate for the current tax year.

#### **• Impairment of goodwill**

For interim accounts, impairment tests performed at the end of the previous year are updated to take into account changes in recoverable amounts and in net assets at the end of the period. Impairment that may be recognised in the first half of the year is not reversible.

#### **1.2) New IFRS standards and interpretations**

#### **• Application of the revised standards IFRS 3 et IAS 27 from 1 January 2010:**

The IFRS 3 – Business Combinations – and IAS 27 – Consolidated and Separate Financial Statements – revised standards as adopted by European Union on June 3, 2009 are effective from 1 January 2010.

The standards IFRS 3 and IAS 27 revised are applied prospectively. Deals completed prior to 1 January 2010 are not restated. Business combinations completed prior to 1 January 2010, were accounted for in accordance with the principles described in note 1-b – *Business combinations* included in the notes to the Group consolidated financial statements (2009 Annual Report page 34).

Accounting principles applicable from now on for transactions within the scope of these standards are described hereafter:

#### **Acquisition method (purchase accounting) :**

- Business combinations are accounted for using the acquisition method. Under this method:
  - the identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date,
  - the non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share in the acquiree's net identifiable assets. This option is available on a transaction by-transaction basis.
- Acquisition-related costs are recognised in profit and loss as incurred (and no more included in goodwill).
- Any contingent consideration assumed in a new business combination is measured at fair value at the acquisition date even if it is not probable. Subsequent changes to the fair value of the contingent

consideration beyond twelve months from the acquisition date will be recognised in the profit and loss account (and no longer included in the Goodwill) if the contingent consideration is a financial liability.

#### Goodwill:

- At the acquisition date, the goodwill is measured as the difference between:
  - the fair value of the consideration transferred, plus the amount of any non-controlling interests in the acquiree; and
  - the net fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date.
- Goodwill can be adjusted within the twelve months following the acquisition date to take into account the final estimate of the acquired assets and liabilities recognised.
- Negative goodwill is immediately recognised in “other operating income (expense)”. Goodwill related to controlled enterprises is recognised in balance sheet assets under the “intangible assets” caption. Goodwill related to companies accounted for under the equity method is recognised under the “share in net assets of equity affiliates” caption.
- Goodwill is not amortised but is subject, each year, to impairment test. Goodwill impairment is booked as an expense in the line “impairment of non current operating assets” and cannot be reversed.
- Goodwill impairment related to equity affiliates is accounted for in “share in net income (loss) of equity affiliates” and can be reversed.

#### Deferred tax:

- If the potential benefit of the acquiree’s income tax loss carry-forwards or other deferred tax assets does not satisfy the criteria for separate recognition when a business combination is initially accounted for, but is subsequently realized, the acquirer will recognise the resulting deferred tax income in profit or loss. Goodwill is no more adjusted consequently. This new rule applies from 1 January 2010 to all business combinations (including those prior to 2010).

#### Changes in a parent’s ownership interest in a subsidiary:

- An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.
- Loss of control is accounted for in gain or loss on disposal which is calculated on the whole stake at the operation date. The residual stake is kept and revalued at its fair value through the profit and loss account when the loss of control occurred.
- Changes in a parent’s ownership interest in a subsidiary that do not result in a change of control is accounted for as changes in equity, with no impact on profit or loss account.

#### • **Other IFRS standards and IFRIC interpretations applicable from 1 January 2010:**

The new IFRS and interpretations effective from 1 January 2010, listed in note 1 – *Accounting policies* of the Group consolidated financial statements (2009 Annual Report pages 33 and 34), had no material impact on the Group condensed interim consolidated financial statements at 30 June 2010.

#### • **Early application of standards:**

The Group has not early adopted standards and interpretations that are not yet mandatory effective at 1 January 2010.

### **1.3) Seasonality of business**

In accordance with accounting policies, revenues are recognised, as at year end, over the period of their realisation.

In previous years the level of business has been highest in the last quarter, particularly in the month of December. The seasonality of the business has led to revenues and income from operations being generally lower in the first half of the year. The company has noted that this phenomenon is of a recurring nature, even if its extent varies from year to year.

## 2. MAIN EVENTS

### **a) Main events of 2010 first half**

In December 2009, Thales announced a new organisation to simplify its operations, foster transverse synergies and commercial reactivity, and to increase performance.

The Group's organisation structure is now a two-dimensional matrix by Division and by Area. Divisions are in charge of defining business strategies and priorities of research and development, product policy and industrial policy worldwide, in line with the long-term profitability objectives set by Corporate. The two main businesses are as follows:

- Defence and Security (Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations);
- Aerospace and Transport (Avionics, Space and Transportation Systems).

Areas are responsible for implementing these global strategies and policies in line with the Group's short-term profitability objectives. Their remit also includes the management of the commercial relationship with local customers and order intakes, revenues and results for these activities. Three Geographic Areas have been delimited:

- Area A: USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe and Northern Asia
- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, West & South Asia
- France

Segment information is provided in note 5.

### **b) Changes in scope of consolidation**

#### **In First Half 2010:**

At the end of June 2010, the United Kingdom's National Lottery Commission approved the sale of Thales's 20% stake in Camelot Group Plc, the operator of the British lottery, to the Canadian pension fund Ontario Teachers' Pension Plan. In its 2010 half-year financial consolidated statements, Thales accounted for a € 33.3 million gain on disposal and a € 92 million receivable paid in cash early in July 2010.

No other significant change occurred during the first half of 2010.

#### **In 2009:**

In February 2009, Thales bought for € 20.3 million, via a tender offer, a 94.6% stake in CMT Medical Technologies Ltd, an Israeli company specialised in medical imaging. This company is consolidated as from 1<sup>st</sup> July 2009<sup>1</sup>.

In accordance with the contractual agreements, the purchase price of Alcatel Alenia Space shares was reassessed in 2009 in the context of a procedure involving all the parties. This procedure led Thales to pay an additional purchase consideration of € 129.6<sup>2</sup> million to Alcatel-Lucent in May 2009. This additional payment is recorded as a goodwill increase in the financial consolidated statements.

The shareholders' agreement dated 30 January 2007 between the French State and Thales gives Thales the possibility to increase its stake in DCNS from 25% to 35%, through the exercise of a call option. This option can be exercised during a three-year period as from 29 March 2009. At 30 June 2010, the value of this option is not significant.

The agreement also contains contingent remuneration clauses related to certain contracts being obtained and to certain conditions of operational performance, which are not applicable at 30 June 2010.

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<sup>1</sup> By simplification, and because not significant on financial consolidated statements

<sup>2</sup> This additional purchase consideration was determined on the basis of a valuation of 67% of Thales Alenia Space shareholders' equity of € 724.5 million, which represents an additional amount of € 124.5 million in excess of the €600 million initial fixed price, plus € 5.1 million financial interests.

### 3. ADJUSTED CONSOLIDATED PROFIT AND LOSS ACCOUNT

In order to monitor and compare the Group's economic performances, the consolidated profit and loss accounts is restated from the adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations.

These adjustment entries are mainly related to the 2007 acquisition/contribution transactions: space, transportation and security activities of Alcatel-Lucent, and acquisition of a 25% stake in DCNS.

The effect of PPA over the three disclosed periods is analysed as follows:

	2010 First half	2009 First half	2009 Full year
Cost of sales	--	(7.4)	(14.8)
Amortisation of intangible assets acquired	(40.8)	(42.2)	(84.4)
<b>Income from operations</b>	<b>(40.8)</b>	<b>(49.6)</b>	<b>(99.2)</b>
Deferred tax	13.8	16.8	33.6
Share in net income (loss) of equity affiliates	(4.1)	(4.1)	(8.2)
<b>Net Income (Loss)</b>	<b>(31.1)</b>	<b>(36.9)</b>	<b>(73.8)</b>

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

	2010 First half	2009 First half	2009 Full year
<b>Revenues</b>	<b>5,955.5</b>	<b>5,743.6</b>	<b>12 881.5</b>
Cost of sales	(4,705.6)	(4,685.0)	(10,618.6)
Research and development expenses	(274.3)	(254.9)	(550.5)
Marketing and selling expenses	(459.6)	(439.7)	(901.9)
General and administrative expenses	(265.0)	(253.6)	(543.4)
Restructuring costs	(46.6)	(42.2)	(116.1)
<b>Income from operations</b>	<b>204.4</b>	<b>68.2</b>	<b>151.0</b>
Impairment of non current operating assets	(4.1)	(5.3)	(260.1)
Gain (loss) on disposal of assets and other	(7.4)	5.6	(1.0)
<b>Income of operating activities</b>	<b>192.9</b>	<b>68.5</b>	<b>(110.1)</b>
Financial interest on gross debt	(40.9)	(47.9)	(91.6)
Financial income from cash and equivalents	10.6	14.8	26.0
Cost of net financial debt	(30.3)	(33.1)	(65.6)
Other financial income (expense)	(4.0)	(27.4)	(44.9)
Other components of pension charge	(38.2)	(58.5)	(105.1)
Income tax	(12.4)	33.2	141.7
Share in net income (loss) of equity affiliates	29.5	28.8	56.2
<b>Net income (loss)</b>	<b>137.5</b>	<b>11.5</b>	<b>(127.8)</b>
Of which :			
<b>Net income (loss), Group share</b>	<b>137.5</b>	<b>11.6</b>	<b>(128.0)</b>
Non controlling interests	--	(0.1)	0.2

#### 4. INFORMATION ON A LIKE-FOR-LIKE BASIS WITH CONSTANT EXCHANGES RATES

On the basis of the adjusted profit and loss account, results in both scope of consolidation and foreign exchange rates can be analysed as follows:

	<b>2009 First Half adjusted</b>	Change in scope of consolidation (a)	Exchange rate variation (b)	Organic growth	<b>2010 First Half adjusted</b>
<b>Revenues</b>	<b>5,743.6</b>	<b>15.6</b>	<b>157.5</b>	<b>38.8</b>	<b>5,955.5</b>
Cost of sales	(4,685.0)	(7.9)	(119.1)	106.4	(4,705.6)
Research and development expenses	(254.9)	(2.1)	(4.3)	(13.0)	(274.3)
Marketing and selling expenses	(439.7)	--	(8.0)	(11.9)	(459.6)
General and administrative expenses	(253.6)	(0.7)	(8.4)	(2.3)	(265.0)
Restructuring costs	(42.2)	--	(0.7)	(3.7)	(46.6)
<b>Income from operations</b>	<b>68.2</b>	<b>4.9</b>	<b>17.0</b>	<b>114.3</b>	<b>204.4</b>

- (a) Companies acquired in 2010 first half and 2009 second half are excluded from the restated 2010 profit and loss account.  
Companies sold in 2009 are excluded from 2009 restated results. The accounts of companies sold in 2010 first half have been restated in order to impact profit and loss for an identical period in 2010 and in 2009.
- (b) The exchange rate change is determined as follows: 2009 first half results of foreign subsidiaries are translated at 2010 first half average exchange rates. The exchange difference thus obtained is adjusted to take into account the effect of changes in currency rates on transactions denominated in a different currency from the subsidiary's functional currency.

#### 5. SEGMENT INFORMATION

As described in note 2, from the beginning of 2010, the Group's organisation structure is a two-dimensional matrix by Division and by Area. The chief operating decision maker reviews regularly their operating performances.

In accordance with IFRS 8, the Group has decided to report segment financial information by operating divisions because they are the basis of the Group strategy.

These divisions are combined in two main businesses:

- Defence & Security, whose customer base is primarily governments (States, public agencies...), includes Defence & Security C4I systems, Defence Mission Systems, Land Defence and Air Operations divisions.
- Aerospace & Transport, whose customers are mainly civilian (infrastructure operators, aircraft manufacturers), includes Avionics, Space and Transportation Systems divisions.

Information presented hereafter follow the same accounting standards as those used in the financial consolidated statements. Only adjustment entries related to the Purchase Price Allocation (PPA) recognised through significant business combinations are excluded from income from operations reviewed. Operating income consequently corresponds to the adjusted consolidated income from operations, as described in note 3.

### a) Information by business sectors

2010 First Half	Aerospace and Transport	Defence and Security	Other, elim and non allocated (a)	Total Segment and other	PPA	Thales
Consolidated order backlog at 30 June	9,800.5	15,031.6	71.1	24,903.2	--	<b>24,903.2</b>
Consolidated new order	2,513.5	2,605.4	24.8	5,143.7	--	<b>5,143.7</b>
Consolidated revenues	2,519.7	3,400.6	35.2	5,955.5	--	<b>5,955.5</b>
Inter-segment revenues	34,3	130,3	(164,6)	--	--	--
Total revenues	2,554.0	3,530.9	(129.4)	5,955.5	--	<b>5,955.5</b>
Income from operations (b)	7.1	207.4	(10.1)	204.4	(40.8)	<b>163.6</b>

2009 First Half restated	Aerospace and Transport	Defence and Security	Other, elim and non allocated (a)	Total Segment and other	PPA	Thales
Consolidated order backlog at 30 June	9,523.7	14,257.3	40.0	23,821.0	--	<b>23,821.0</b>
Consolidated new order	2,730.9	3,104.4	25.0	5,860.3	--	<b>5,860.3</b>
Consolidated revenues	2,369.0	3,338.1	36.5	5,743.6	--	<b>5,743.6</b>
Inter-segment revenues	45,9	161,6	(207,5)	--	--	--
Total revenues	2,414.9	3,499.7	(171.0)	5,743.6	--	<b>5,743.6</b>
Income from operations (b)	(106.3)	192.4	(17.9)	68.2	(49.6)	<b>18.6</b>

(a) The "Other, eliminations and non allocated amounts" column corresponds to the elimination of transactions between the two operating segments and includes figures relating to corporate activities: Group R&D activities, facilities management, holding companies and businesses sold during the prior year. The income from operations non-allocated includes the corporate income from operations which is not billed to segments, the cost of vacant premises and the expense related to share-based payments.

(b) Group income from operations includes tax credits related to research expenses amounting to € 71.9 million in the first half of 2010 and € 70.1 million in the first half of 2009.

On the first half 2009, the income from operations has been mainly impacted by higher estimated development costs for the A400M flight management system, leading to a further provision of €102m.

In the financial statements of 2009, Thales made a specific communication on that point and about the Meltem programme on maritime patrol and surveillance aircrafts with the Turkish Ministry of Defence, in the note 16 of the consolidated financial statements.

At the end of June 2010, uncertainties remain on a number of complex aeronautical and ticketing programmes and, in particular, as to the outcome of ongoing discussions with the Turkish defence ministry on the Meltem project, and with Airbus on the A400M programme. These uncertainties could have a material impact on the results of these programmes during the current financial year.

**b) Information by geographical areas**

2010 First Half	Area A	Area B	France	Other, elim and non allocated (a)	Total areas and other	PPA	Thales
Consolidated order backlog at 30 June	8,960.4	4,399.1	11,543.6	0.1	24,903.2	--	<b>24,903.2</b>
Consolidated new order	1,766.1	1,066.8	2,308.4	2.4	5,143.7	--	<b>5,143.7</b>
Consolidated revenues	2,073.0	1,184.0	2,695.4	3.1	5,955.5	--	<b>5,955.5</b>
Inter-areas revenues	131.8	158.5	358.3	(648.6)	--	--	--
Total revenues	2,204.8	1,342.5	3,053.7	(645.5)	5,955.5	--	<b>5,955.5</b>
Income from operations	95.5	49.2	62.0	(2.3)	204.4	(40.8)	<b>163.6</b>

2009 First Half restated	Area A	Area B	France	Other, elim and non allocated (a)	Total areas and other	PPA	Thales
Consolidated order backlog at 30 June	8,257.1	4,371.5	11,190.7	1.7	23,821.0	--	<b>23,821.0</b>
Consolidated new order	1,311.2	1,521.7	3,023.5	3.9	5,860.3	--	<b>5,860.3</b>
Consolidated revenues	1,868.6	1,097.1	2,772.6	5.3	5,743.6	--	<b>5,743.6</b>
Inter-areas revenues	92.6	157.3	362.3	(612.2)	--	--	--
Total revenues	1,961.2	1,254.4	3,134.9	(606.9)	5,743.6	--	<b>5,743.6</b>
Income from operations	74.5	70.4	(61.2)	(15.5)	68.2	(49.6)	<b>18.6</b>

(a) The "other, eliminations and non allocated amounts" column corresponds to the elimination of transactions between the three areas and includes figures related to Thales (parent company), Thales International Offset, and Thales International S.A. In addition, the income from operations which is not allocated includes the cost of share-based payment.

Geographic Areas are as follows:

- Area A: USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe and Northern Asia
- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Southern Europe, Middle East & Africa, West & South Asia
- France

**c) Revenues (direct and indirect) by country / region of destination :**

	2010 First Half	2009 First Half
France	1,308.6	1,399.2
United Kingdom	767.4	661.5
Rest of Europe	1,529.7	1,555.8
North America	590.2	545.8
Middle East	599.7	531.8
Asia and Pacific	820.1	734.4
Africa and Latin America	339.8	315.1
<b>Total</b>	<b>5,955.5</b>	<b>5,743.6</b>

## 6. IMPAIRMENT ON ASSETS

	2010 First Half	2009 First Half	2009 Full Year
Development costs (a)	--	--	(240.0)
Goodwill	(4.1)	(5.3)	(17.4)
Other tangible and intangible assets	--	--	(2.7)
<b>Total</b>	<b>(4.1)</b>	<b>(5.3)</b>	<b>(260.1)</b>

(a) Impairment losses for 2009 mainly included:

- € 158.3 million related to avionics for civil aircraft and the A400M.
- € 43.6 million related to in-flight entertainment activities.
- € 25.5 million related to simulation activities.

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

	2010 First Half	2009 First Half	2009 Full Year
<b>Disposal of investments :</b>	<b>35.2</b>	<b>4.3</b>	<b>12.1</b>
Minority investments of Telespazio	--	2.0	7.1
Camelot Group Plc (20% stake)	33.3	--	--
Other	1.9	2.3	5.0
<b>Disposal of tangible and intangible assets :</b>	<b>(4.0)</b>	<b>1.3</b>	<b>(3.0)</b>
Real estate assets	1.1	--	--
Other	(5.1)	1.3	(3.0)
<b>Loss on the L'Aquila earthquake, net (a)</b>	<b>(3.6)</b>	<b>--</b>	<b>(10.1)</b>
<b>Additional provision on litigation (note 19)</b>	<b>(35.0)</b>	<b>--</b>	<b>--</b>
<b>Total</b>	<b>(7.4)</b>	<b>5.6</b>	<b>(1.0)</b>

- (a) Thales Alenia Space's production site at L'Aquila (Italy) was seriously damaged by the earthquake of 7 April 2009. A temporary solution was implemented to progressively rebuild production capacities and to pursue work on programmes mainly in L'Aquila, but also in Rome and Milan. The Group share of the total net loss related to the disaster was recognised in 2009 and amounted to € -10.1 million, after taking into account insurance claims. An additional cost of € -3.6 million has been booked on the first half 2010.
- (b) Additional provision relating to the award handed down on 3 May 2010, in the arbitration against the Republic of China Navy (Taiwan), as detailed in note 19.

## 8. OTHER FINANCIAL INCOME (EXPENSE)

	2010 First Half	2009 First Half	2009 Full Year
Foreign exchange gains (losses)	(1.6)	(2.6)	(10.5)
Change in fair value of foreign currency derivative instruments	--	(24.7)	(37.3)
Cash flow hedge inefficiency / foreign exchange instruments	(3.9)	(2.1)	(5.3)
Net foreign exchange gain (loss)	(5.5)	(29.4)	(53.1)
Net interest income (expense) on non-financial receivables and payables	5.5	3.5	6.0
Dividends received	3.7	3.4	6.1
Impairment of available-for-sale investments	(4.6)	(0.3)	--
Impairment of loans	(1.7)	--	0.9
Other	(1.4)	(4.6)	(4.8)
<b>Total</b>	<b>(4.0)</b>	<b>(27.4)</b>	<b>(44.9)</b>

## 9. PENSIONS AND OTHER EMPLOYEE BENEFITS

	2010 First Half	2009 First Half	2009 Full Year
<b>Current service cost</b>	<b>(31.2)</b>	<b>(28.6)</b>	<b>(57.5)</b>
Interest cost	(107.1)	(101.6)	(204.6)
Expected return on plan assets	80.2	72.2	140.5
Curtailments and settlements	--	(16.6)	(12.0)
Past service cost	(5.9)	(5.6)	(17.0)
Amortisation of actuarial gains(losses)	(5.4)	(6.9)	(12.0)
<b>Other components of pension charge</b>	<b>(38.2)</b>	<b>(58.5)</b>	<b>(105.1)</b>
<b>Defined benefit plans: total cost</b>	<b>(69.4)</b>	<b>(87.1)</b>	<b>(162.6)</b>

	2010 First Half	2009 First Half	2009 Full Year
<b>Net provisions at 1 January</b>	<b>(790.7)</b>	<b>(803.5)</b>	<b>(803.5)</b>
<b>Defined benefit plans: total cost</b>	<b>(69.4)</b>	<b>(87.1)</b>	<b>(162.6)</b>
<b>Benefits and contributions</b>	<b>66.3</b>	<b>62.1</b>	<b>156.2</b>
- Deficit payment in the UK	31.4	27.6	57.6
- Future service cash	34.9	34.5	98.6
<b>Exchange rate variation</b>	<b>(3.4)</b>	<b>(2.9)</b>	<b>(5.9)</b>
<b>Change in scope of consolidation and other</b>	<b>3.2</b>	<b>23.0</b>	<b>25.1</b>
<b>Net provisions at closing date</b>	<b>(794.0)</b>	<b>(808.4)</b>	<b>(790.7)</b>
<b>Of which:</b> Assets	68.2	46.5	66.0
Liabilities	(862.2)	(854.9)	(856.7)

## 10. INCOME TAX

	2010 First Half	2009 First Half	2009 Full Year
Net income (loss)	106.4	(25.4)	(201.6)
Less: income tax	(1.4)	(50.0)	(175.3)
Less: equity in income of unconsolidated affiliates	(25.4)	(24.7)	(48.0)
<b>Profit before tax and unconsolidated affiliates</b>	<b>79.6</b>	<b>(100.1)</b>	<b>(424.9)</b>
Average tax rate	27.0%	36.5%	38.1%
<b>Theoretical tax income (expense)</b>	<b>(21.5)</b>	<b>36.5</b>	<b>161.9</b>
Permanent differences	33.9	25.3	49.4
Variation of deferred tax assets non-recognised in the balance sheet	(11.5)	(8.7)	(22.7)
Reduction of goodwill due to the recognition of deferred tax assets	--	(1.5)	(26.4)
Other	0.5	(1.6)	13.1
<b>Income tax</b>	<b>1.4</b>	<b>50.0</b>	<b>175.3</b>

## 11. EARNINGS PER SHARE

		2010 First Half	2009 First Half	2009 Full Year
<b>Numerator (in millions of euros) :</b>				
Net income (loss), group share	(a)	106.4	(25.3)	(201.8)
Diluted net income (loss), group share	(b)	106.4	(25.3)	(201.8)
<b>Denominator (in thousands) :</b>				
Average number of shares outstanding	(c)	195,422	194,970	195,054
Share options		181	429	434
Diluted average number of shares outstanding	(d)	195,603	195,399	195,488
<b>Earnings per share (in euros)</b>	<b>(a) / (c)</b>	<b>0.54</b>	<b>(0.13)</b>	<b>(1.03)</b>
<b>Diluted earnings per share (in euros)</b>	<b>(b) / (d)</b>	<b>0.54</b>	<b>(0.13)</b>	<b>(1.03)</b>

## 12. GOODWILL

Following Thales new organisation, goodwills have been reallocated to new operating divisions. This reallocation has been performed on the basis of transferred activities or, if needed, using the related value method. This reallocation has no impact on impairment tests at 31 December 2009.

	31/12/09 Net	Acquisitions	Disposal	Impairment	Exch rate var. & other	30/06/10 Net
Avionics	352.9	--	--	--	3.4	356.3
Transportation Systems	871.0	--	--	--	0.1	871.1
Space	467.2	--	--	--	--	467.2
<b>Aerospace and Transport</b>	<b>1,691.1</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3.5</b>	<b>1,694.6</b>
Defence & Security C4I Systems	566.7	--	--	(4.1)	18.8	581.4
Defence Mission Systems	411.4	--	--	--	6.3	417.7
Land Defence	269.1	--	--	--	4.0	273.1
Air Operations	40.6	--	--	--	1.2	41.8
<b>Defence and Security</b>	<b>1,287.8</b>	<b>--</b>	<b>--</b>	<b>(4.1)</b>	<b>30.3</b>	<b>1,314.0</b>
<b>Other</b>	<b>8.0</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0.4</b>	<b>8.4</b>
<b>Total</b>	<b>2,986.9</b>	<b>--</b>	<b>--</b>	<b>(4.1)</b>	<b>34.2</b>	<b>3,017.0</b>

### 13. TANGIBLE AND INTANGIBLE ASSETS

	31/12/09 Net	Changes in scope	Acquisition	Disposal	Deprec.	Exch rate var. & other	30/06/10 Net
Customer relationships: long-term	320.9	--	--	--	(13.0)	0.6	308.5
Customer relationships : backlog	53.0	--	--	--	(12.4)	--	40.6
Acquired technologies	163.4	--	--	--	(14.6)	0.2	149.0
Other	13.3	--	--	--	(0.8)	1.1	13.6
<b>Intangible assets acquired in the context of business combination</b>	<b>550.6</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(40.8)</b>	<b>1.9</b>	<b>511.7</b>
Development costs	253.7	--	18.3	--	(20.9)	11.9	263.0
Other	121.0	0.2	5.7	(0.4)	(15.0)	7.5	119.0
<b>Intangible assets (excl. goodwill)</b>	<b>925.3</b>	<b>0.2</b>	<b>24.0</b>	<b>(0.4)</b>	<b>(76.7)</b>	<b>21.3</b>	<b>893.7</b>
<b>Tangible assets</b>	<b>1,338.3</b>	<b>0.8</b>	<b>120.4</b>	<b>(3.0)</b>	<b>(130.7)</b>	<b>43.2</b>	<b>1,369.0</b>
<b>Total</b>	<b>2,263.6</b>	<b>1.0</b>	<b>144.4</b>	<b>(3.4)</b>	<b>(207.4)</b>	<b>64.5</b>	<b>2,262.7</b>

### 14. EQUITY IN UNCONSOLIDATED AFFILIATES

	Ownership %		Net equity		Income (loss)		
	30 June	31 Dec.	30 June	31 Dec.	2010	2009	2009
	2010	2009	2010	2009	First Half	First Half	Full Year
Aviation Communications & Surveillance Syst.	30	30	63.9	54.9	1.5	1.6	4.6
Camelot (sold in 2010 – note 2 )	--	20	--	50.0	3.4	4.3	6.4
DCNS	25	25	521.9	520.2	10.5	11.2	23.5
DpiX	20	20	19.5	16.4	0.2	1.1	1.3
Elettronica	33	33	34.3	30.4	4.0	3.4	6.1
Indra Espacio	33	33	16.8	16.3	0.5	1.0	1.2
Other	--	--	31.5	22.8	5.3	2.1	4.9
<b>Total</b>			<b>687.9</b>	<b>711.0</b>	<b>25,4</b>	<b>24.7</b>	<b>48.0</b>

## 15. SHAREHOLDERS' EQUITY

### a) Share capital

At 30 June 2010, the share capital of Thales is comprised of 199,074,227 shares with a par value of € 3. The share capital is presented below:

	30/06/10			31/12/09		
	Number of shares	% capital	% voting rights	Number of shares	% capital	% voting rights
T.S.A. and its subsidiary Sofivision	52,670,906	26.46%	41.25%	52,670,906	26.46%	41.60%
French State (including one golden share)	2,022	--	--	2,022	--	--
Sogepa	1,081,256	0.54%	0.85%	1,081,256	0.54%	0.85%
<b>Public sector</b>	<b>53,754,184</b>	<b>27.00%</b>	<b>42.10%</b>	<b>53,754,184</b>	<b>27.00%</b>	<b>42.45%</b>
<b>Dassault Aviation</b>	<b>51,539,524</b>	<b>25.89%</b>	<b>20.18%</b>	<b>51,539,524</b>	<b>25.90%</b>	<b>20.35%</b>
<b>Thales</b>	<b>3,734,537</b>	<b>1.88 %</b>	<b>--</b>	<b>3,556,693</b>	<b>1.79%</b>	<b>--</b>
<b>Employees</b>	<b>5,923,210</b>	<b>2.97%</b>	<b>4.59%</b>	<b>5,965,354</b>	<b>3.00%</b>	<b>3.76%</b>
<b>Other shareholders</b>	<b>84,122,772</b>	<b>42.26%</b>	<b>33.13%</b>	<b>84,208,177</b>	<b>42.31%</b>	<b>33.44%</b>
<b>Total number of Thales shares</b>	<b>199,074,227</b>	<b>100.00%</b>	<b>100.00%</b>	<b>199,023,932</b>	<b>100.00%</b>	<b>100.00%</b>

### b) Share-based payments

The Group measures the amount of the benefit granted to employees receiving purchase and subscription stock options and free shares. The fair value of such instruments, measured using a binomial model, is determined at the grant date. The amounts thus obtained are taken to profit and loss over the vesting period of the rights and the corresponding expense is included in the income from operations.

Expenses related to share-based payments <sup>1</sup>:

Grant date	Initial number of options / shares	Fair value at grant date	Fair value at 30/06/10	2010 First Half expense	2009 First Half expense	2009 Full Year expense
01/07/03	3,034,200	(21.3)	--	--	--	--
01/07/04	2,638,750	(21.4)	--	--	--	--
30/06/05	2,201,500	(19.5)	--	--	0.2	0.2
09/11/06	2,223,950	(23.5)	(0.1)	0.5	1.6	2.8
04/07/07	1,654,530	(15.6)	(0.6)	0.7	1.9	3.3
01/07/08	1,688,076	(11.2)	(1.7)	1.0	2.9	6.1
25/11/08	71,700	(0.3)	(0.1)	0.1	0.1	0.2
25/06/09	1,600,340	(11.2)	(5.5)	2.6	0.1	3.3
<b>Total options</b>		<b>(124.0)</b>	<b>(8.0)</b>	<b>4.9</b>	<b>6.8</b>	<b>15.9</b>
04/07/07	312,435	(11.5)	(3.0)	1.5	1.6	3.1
01/07/08	317,705	(9.3)	(4.7)	1.2	1.2	2.4
25/06/09	334,980	(8.7)	(6.5)	1.1	--	1.1
<b>Free shares</b>		<b>(29.5)</b>	<b>(14.2)</b>	<b>3.8</b>	<b>2.8</b>	<b>6.6</b>
24/04/08	2,519,280	(5.0)	--	--	--	--
<b>Company savings</b>		<b>(5.0)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Total</b>		<b>(158.5)</b>	<b>(22.2)</b>	<b>8.7</b>	<b>9.6</b>	<b>22.5</b>

<sup>1</sup> Plans granted after 7 November 2002 (date of first application of the standard).

### c) Treasury shares

Thales Parent Company held 3,734,537 of its own shares at 30 June 2010 (3,556,693 at 31 December 2009). In the consolidated financial statements, treasury shares are subtracted from consolidated shareholder's equity for an amount of € -144.8 million at 30 June 2010 (€ -141.5 million at 31 December 2009).

## 16. RESERVES FOR CONTINGENCIES

	31/12/09	Changes in exchange rates and other	Increase	Reversal	30/06/10
<b>Restructuring</b>	<b>118.6</b>	<b>2.1</b>	<b>39.9</b>	<b>(43.4)</b>	<b>117.2</b>
<b>Provisions on contracts:</b>	<b>704.4</b>	<b>67.0</b>	<b>144.6</b>	<b>(132.4)</b>	<b>783.6</b>
- Guarantees	248.1	10.5	39.5	(34.5)	263.6
- Litigation	210.8	23.7	43.8	(19.1)	259.2
- Estimated losses on long-term contracts	98.3	3.3	27.2	(45.2)	83.6
- Other	147.2	29.5	34.1	(33.6)	177.2
<b>Other reserves for contingencies</b>	<b>306.8</b>	<b>5.1</b>	<b>47.0</b>	<b>(34.4)</b>	<b>324.5</b>
<b>Total</b>	<b>1,129.8</b>	<b>74.2</b>	<b>231.5</b>	<b>(210.2)</b>	<b>1, 225.3</b>

## 17. NET FINANCIAL DEBT

	30/06/10	31/12/09
Long-term financial debt	1,655.8	1,651.6
Short-term financial debt	943.3	326.4
Current accounts payable with affiliated companies	180.9	196.9
Fair value of derivatives: interest rate risk management	(36.2)	(24.8)
<b>Total gross financial debt (I)</b>	<b>2,743.8</b>	<b>2,150.1</b>
Current accounts receivable with affiliated companies	118.3	94.8
Marketable securities	8.5	4.4
Cash at bank and equivalents	2,021.6	1,960.1
<b>Cash and other short-term financial assets (II)</b>	<b>2,148.4</b>	<b>2,059.3</b>
<b>Net financial debt (I-II)</b>	<b>595.4</b>	<b>90.8</b>

### - Gross financial debt

	30/06/10	31/12/09
Bond, maturity 2013	602.7	601.9
Bond, maturity 2011	797.2	785.6
Commercial paper	812.8	149.9
Project financing debt	205.6	199.5
Borrowings from financial institutions	59.7	115.0
Other borrowings	36.6	49.1
Capital lease obligations	19.1	20.5
Current accounts with affiliated companies	180.9	196.9
Bank overdrafts	36.4	22.7
Accrued interest	29.0	33.8
Fair value of derivatives: interest rate risk management (a)	(36.2)	(24.8)
<b>Gross financial debt</b>	<b>2,743.8</b>	<b>2,150.1</b>

- (a) In accordance with IAS 39, the value of borrowings takes into account changes in the fair value of hedged risk. This change in value of the debt is offset by changes in the value of swaps used as hedges, which are recognised on the "fair value of derivatives: interest rate risk management" line.

Nature of borrowings:	Nominal value	Maturity date	Rate			
			Nature		Nominal / Effective (excluding effect of hedging)	
Bond, maturity date 2013	€ 600 M	April 2013	Fixed	Including € 200 M swapped to floating rate	4.375%	4.5757%
Bond, maturity date 2011	€ 500 M € 275 M (cpt Jan 09)	July 2011	Fixed	Including € 575 M swapped to floating rate	4.375%	4.4776% 5.75%
Project financing debt	Non-recourse, or limited recourse, debt whose interest costs and repayment is covered by the share of project revenues which is guaranteed contractually by customers. The debt comprises fixed-rate loans (or floating-rate loans swapped to fixed-rate loans) maturing in years up to 2020.					

At the date of publication, Thales's credit risk ratings were as follows:

<b>Medium and long-term loans</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
<b>Outlook</b>	A2	BBB+
<b>Commercial paper &amp; short-term loans</b>	Outlook stable	Outlook stable
	Prime-1	A2

At the end of 2009, Moody's long-term rating was A1 and Standard & Poor's Thales's long-term rating was A-.

A decrease of Thales's credit risk ratings has no impact on the terms and conditions of committed financings, since they are not linked to financial covenants included in financing contracts. Pursuant to the credit facility documents, clauses providing for accelerated repayment only apply in the event that the State no longer held its golden share and, simultaneously, the ratio of consolidated net financial debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) were to exceed 3.

## 18. STATEMENT OF CASH FLOWS

### a) Capital expenditure

Only capital expenditure paid during the period is presented in the statement of cash flows. It includes capitalised development costs for an amount of € 18.3 million in the first half of 2010, € 48.3 million in the first half of 2009 and € 113.2 million in 2009.

### b) Net financial investment

Acquisitions:	2010 First half	2009 First half	2009 Full year
Additional purchase consideration / Alcatel Alenia Space (note 2)	--	(129.6)	(129.6)
CMT Medical technologies Ltd	--	(20.3)	(20.3)
Other	(6.1)	3.1	(5.5)
<b>Acquisitions</b>	<b>(6.1)</b>	<b>(146.8)</b>	<b>(155.4)</b>
<b>- Cash position of companies acquired</b>	<b>--</b>	<b>4.9</b>	<b>7.4</b>
<b>Acquisitions, net</b>	<b>(6.1)</b>	<b>(141.9)</b>	<b>(148.0)</b>

<b>Disposals:</b>	<b>2010 First half</b>	<b>2009 First half</b>	<b>2009 Full year</b>
Other	0.9	(1.7)	5.3
<b>Disposals</b>	<b>0.9</b>	<b>(1.7)</b>	<b>5.3</b>
- Cash position of companies sold	--	(5.2)	(5.3)
<b>Disposals, net</b>	<b>0.9</b>	<b>(6.9)</b>	<b>--</b>

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

	<b>2010 First half</b>	<b>2009 First half</b>	<b>2009 Full year</b>
Increase in capital / exercise of stock options	5.5	0.4	4.6
Sale (purchase) of treasury shares	(5.2)	9.9	17.0
<b>Total</b>	<b>0.3</b>	<b>10.3</b>	<b>21.6</b>

## **19. LITIGATION**

Due to the nature of its business activities, Thales is exposed to the risk of technical and commercial litigation. Litigations mentioned in last year's annual report have evolved as follows:

Thales has been notified of the award handed down on 3 May 2010, in the arbitration against the Republic of China Navy (Taiwan). This award was made as a result of an alleged breach of the terms pertaining to the use of intermediaries contained in a contract entered into in 1991 by Thomson-CSF (now Thales) for the supply of six Lafayette frigates to Taiwan. The total amount of the award is set to US\$ 482 million and € 82 million, bearing interest as from August 2001; as well as around € 15 million, bearing interest as from 3 May 2010, i.e. a total of around € 630 million (including interest).

The company has filed petition for nullity in front of the Paris Court of Appeal.

The Thales share in this litigation represents 27.463% of the total, and corresponds to its industrial share in the supply contract. In view of the provisions booked earlier, an additional amount of € 35 million (before tax) has been recorded in the financial statements at 30 June 2010.

No other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the company is aware) have had significant effects on the company and/or group's financial position or profitability since the start of 2010.

## **20. RELATED PARTY TRANSACTIONS**

Main related party transactions are disclosed in the notes to 2009 consolidated financial statements (note 19) included in the annual report.

Revenues with French Government amounted to € 870 million in the first half of 2010 (€ 900 million in the first half of 2009).

At 30 June 2010, overdue receivables bearing interests from the French defence procurement agency amounted to € 450 million (€ 45 million at 31 December 2009).