



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 980 149 404
Organisasjonsform: Aksjeselskap
Foretaksnavn: THALES HOLDING NORWAY AS
Forretningsadresse: Langkaia 1
0150 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

Konsern

Morselskap i konsern: Ja
Konsernregnskap lagt ved: Nei

Regnskapsregler

Regler for små foretak benyttet: Ja
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Tom Tuhus
Dato for fastsettelse av årsregnskapet: 08.06.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 17.07.2022



Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Kostnader			
Annen driftskostnad		19 000	11 000
Sum kostnader		19 000	11 000
Driftsresultat		-19 000	-11 000
Nedskrivning av andre finansielle anleggsmidler	2		
Netto finans			
Ordinært resultat før skattekostnad		-19 000	-11 000
Ordinært resultat etter skattekostnad		-19 000	-11 000
Årsresultat		-19 000	-11 000
Årsresultat etter minoritetsinteresser		-19 000	-11 000
Totalresultat		-19 000	-11 000



Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Finansielle anleggsmidler			
Investering i datterselskap	2	230 745 000	230 745 000
Sum finansielle anleggsmidler		230 745 000	230 745 000
Sum anleggsmidler		230 745 000	230 745 000
Omløpsmidler			
Varer			
Fordringer			
Konsernfordringer		2 211 860	2 230 860
Sum fordringer		2 211 860	2 230 860
Sum omløpsmidler		2 211 860	2 230 860
SUM EIENDELER		232 956 860	232 975 860
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Aksjekapital	5	419 845 000	419 845 000
Overkurs	5		
Sum innskutt egenkapital		419 845 000	419 845 000
Opptjent egenkapital			
Udekket tap		186 888 140	186 869 140
Sum opptjent egenkapital		-186 888 140	-186 869 140
Sum egenkapital	4	232 956 860	232 975 860



Balanse

Beløp i: NOK	Note	2020	2019
Sum langsiktig gjeld		0	0
Sum gjeld		0	0
SUM EGENKAPITAL OG GJELD		232 956 860	232 975 860



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Journalnummer: 2021 885826

Enheten

Organisasjonsnummer: 980 149 404
Organisasjonsform: Aksjeselskap
Foretaksnavn: THALES HOLDING NORWAY AS
Forretningsadresse: Nedre Vollgate 11
0158 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

Konsern

Morselskap i konsern: Ja
Konsernregnskap lagt ved: Nei

Regnskapsregler

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årsregnskapet til selskapet: Regnskapslovens alminnelige regler

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Tom Tuhus
Dato for fastsettelse av årsregnskapet: 08.06.2021

Revisjon

Årsregnskapet er utarbeidet av ekstern
autorisert regnskapsfører: Ja
Ekstern autorisert regnskapsfører har i
løpet av regnskapsåret bistått ved den
løpende regnskapsføringen eller utført
andre tjenester for selskapet enn å
utarbeide årsregnskapet: Ja

Grunnlag for avgivelse

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Brønnøysundregistrene, 30.10.2021

Brønnøysundregistrene
Postadresse: Postboks 900, 8910 Brønnøysund
Telefon: 75 00 75 00
E-post: firmapost@brreg.no Internett: www.brreg.no
Organisasjonsnummer: 974 760 673



Organisasjonsnr: 980 149 404
THALES HOLDING NORWAY AS

RESULTATREGNSKAP

Beløp i: NOK	Note	2020	2019
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Kostnader			
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Organisasjonsnr: 980 149 404
THALES HOLDING NORWAY AS

BALANSE

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Udekket tap		186 888 140	186 869 140
Sum opptjent egenkapital		-186 888 140	-186 869 140
Sum egenkapital	4	232 956 860	232 975 860
Sum langsiktig gjeld		0	0
Sum gjeld		0	0
SUM EGENKAPITAL OG GJELD		232 956 860	232 975 860



Organisasjonsnr: 980 149 404
THALES HOLDING NORWAY AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note

Antall årsverk i regnskapsåret

Virksomheten har hatt følgende antall årsverk:
0.00



THALES

www.thalesgroup.com

Annual report 2020
Thales Holding Norway AS





Thales Holding Norway AS

Report from the Board of Directors for 2020

Business idea and location

The company is a holding company that owns the operating companies Thales Norway AS and Thales Commercial Norway AS.

The operations are conducted from leased premises in Oslo.

Continued operation

The board of directors is of the opinion that the conditions for continued operations of the company are adequate and the annual accounts are presented with this precondition in mind.

Accounting information

The board of directors is of the opinion that the accounts presented including notes give adequate information about the company's operations and status at year's end.

Nothing has occurred after the conclusion of the financial year that has materially affected the status of the company.

The board proposes the following allocation of the loss NOK -19 000

Settling of losses from previous years:	NOK	-19.000
Net loss for the year	NOK	-19.000

Comparison 2020 expectation and future development

The company is a holding company with no activity. The Board expects that Thales Holding Norway AS will have an operating result at the same level in the future.

Financial risk

The company has only short-term balance items in foreign currency.

Working conditions

The company has no employees.

The board of directors is of the opinion that the working conditions and the general wellbeing in the work place are good.

Corporate responsibility

The company follows Thales Group policy on Corporate responsibility and emphasizes that relevant laws and regulations shall be followed at all times. In cooperation with the rest of the Thales Group, we have a Compliance System that is continuously improved and that facilitates dissemination of information to all employees within the relevant Compliance areas.

Equal opportunity


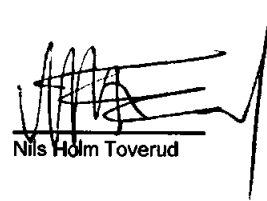

The company has as a goal to provide a work place where there is full equality between the genders. The company is committed to offer each person equal opportunity regardless of age, race, sex, sexual orientation, color, creed, religion, marital status or handicap including decisions regarding, for instance, wages, advancement, recruitment etc.



Equal opportunity

The company does not conduct activities that materially pollute the external environment and has consequently not taken any protective actions.

Oslo, June 8th, 2021


Tommy Ayouty
Tommi Marjakaarto
Nils Holm Toverud
Tom Tuhus



THALES HOLDING NORWAY AS

Income statement 2020


	Note	2020	2019
Other operating expenses	6	-19 000	-11 000
Total operating expenses		-19 000	-11 000
OPERATING PROFIT		-19 000	-11 000
Operating result before tax	3	-19 000	-11 000
NET PROFIT FOR THE YEAR		-19 000	-11 000



THALES HOLDING NORWAY AS

Balance Sheet December 31st 2020

	Note	2020	2019
ASSETS			
FIXED ASSETS			
Investments in shares	2	<u>230 745 000</u>	230 745 000
Total financial fixed assets		<u>230 745 000</u>	230 745 000
TOTAL FIXED ASSETS		<u>230 745 000</u>	<u>230 745 000</u>
CURRENT ASSETS			
Group receivable		2 211 860	2 230 860
Total financial fixed assets		2 211 860	2 230 860
TOTAL CURRENT ASSETS		<u>2 211 860</u>	<u>2 230 860</u>
TOTAL ASSETS		<u>232 956 860</u>	<u>232 975 860</u>
EQUITY AND LIABILITIES			
Share capital	5	419 845 000	419 845 000
Total share capital		419 845 000	419 845 000
Uncovered loss		-186 888 140	-186 869 140
Total acquired equity		-186 888 140	-186 869 140
TOTAL EQUITY	4	<u>232 956 860</u>	<u>232 975 860</u>

Oslo, June 8th, 2021
Tommy Aycuty
Tommi Marjakaarto
Niels Holm Toverud
Tom Tuhus



NOTES TO THE 2020 ACCOUNTS

NOTE 1 – ACCOUNTING PRINCIPLES

The financial statement is set up according to the accounting law and Norwegian generally accepted accounting principles.

Investments in subsidiaries are booked according to the cost price principle.

As the Norwegian Thales companies are included in the consolidated accounts of Thales, France, there are no consolidated reports for the Norwegian companies. The Thales consolidated reports can be obtained at thalesgroup.com

NOTE 2 – SHARES

Per Dec. 31, 2020 the company had the following shares in subsidiaries.

Company name	Date of acquisition	Main office	Ownership share	Acquisition price	Book value
Thales Norway AS	1998, 1999, 2004	Oslo	100,0%	417 523 000	148 336 122
Thales Com. N. AS	2018	Oslo	100,0%	231 957 000	82 408 878
Total				649 480 000	230 745 000

NOTE 3 - TAXES

RELATIONSHIP BETWEEN BOOKED AND TAXABLE RESULTS

Operating result before tax	-19 000
Non-deductible costs	0
Taxable profit (loss)	-19 000
Negative profit carry forward	-268 075
Taxable profit (loss)	-279 575

The company has a negative profit carry forward of NOK 279.575
Deferred tax is not booked as an asset in the balance sheet.

NOTE 4 - SHAREHOLDERS' EQUITY

	Share capital	Retained earnings	Losses from previous years	Total
Equity 31.12.2019	419 845 000	0	-186 869 140	232 975 860
Net profit for the year			-19 000	-19 000
Group transfer				0
Equity 31.12.2020	419 845 000	0	-186 888 140	232 956 860

NOTE 5 - SHARE CAPITAL AND SHAREHOLDER INFORMATION

Share capital Dec. 31, 2020

Owner	Number	Total	Share
Thales S.A (France)	419 845	419 845 000	100%



NOTE 6 -AUDITOR

Expensed auditor's fee for 2020 is NOK 19.000



mazars

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0369 Oslo
Norway
Tel: +47 23 19 63 00
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To the Shareholders' Meeting of

Thales Holding Norway AS

INDEPENDENT AUDITOR'S REPORT

Statement of the auditing of the annual accounts

Conclusion

We have audited the financial statements of Thales Holding Norway AS, showing a loss of NOK 19 000. The financial statements comprise the balance sheet as at 31 December 2020 and income statement for the financial year ended on this date and notes to the financial statements, including a summary of important accounting principles.

In our opinion, the accompanying financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the company's financial position as at 31 December 2020 and its results and cash flows for the financial year ended on this date in accordance with the accounting rules and generally accepted accounting principles Norway.

Basis for the conclusion

We have conducted the audit in accordance with the laws, regulations and generally accepted accounting practices in Norway, including the International Audit Standards (ISAs). Our duties and duties under these standards are described in the Auditor's duties and duties when auditing the financial statements. We are independent of the company as required by law and regulations, and have complied with our other ethical obligations in accordance with these requirements. In our view, audit evidence obtained is sufficient and appropriate as the basis for our conclusion.

Other information

Management is responsible for other information. Other information consists of the annual report, but does not include the annual accounts and the audit report.

Our statement regarding the audit of the annual accounts does not cover other information and we do not certify the other information.

In connection with the audit of the annual accounts, it is our responsibility to read other information for the purpose of assessing whether there is material inconsistency between other information and the annual accounts, knowledge we have acquired during the audit, or whether it appears to contain material misstatement.

If we had concluded that the other information contains material misstatement, we are required to report it. We have nothing to report in this regard.

Mazars AS
Org. no. 979 605 994



mazars

The responsibility of the Board and Managing Director for the annual accounts

The board and the general manager (management) are responsible for preparing the annual accounts in accordance with laws and regulations, including for giving a true and fair view in accordance with the Norwegian Accounting Act and generally accepted accounting principles. Management is also responsible for such internal control as it deems necessary in order to prepare an annual financial statement that does not contain material misstatement, either as a result of fraud or unintended errors.

In preparing the annual accounts, management must take a stand on the company's ability to continue operations and disclose matters of importance to continued operations. The assumption of continued operations shall be used as the basis for the financial statements as long as it is unlikely that the business will be discontinued.

Auditor's duties and duties in the audit of the annual accounts

Our goal is to provide reasonable assurance that the annual accounts as a whole do not contain material misstatement, either as a result of fraud or unintended errors, and to provide an audit report containing our conclusion. Reliable security is a high level of security, but no guarantee that an audit performed in accordance with statute, regulations and generally accepted auditing practices in Norway, including the ISAs, will always reveal material misstatement that exists. Incorrect information may occur as a result of fraud or accidental errors. Incorrect information is considered to be significant if individually or collectively it can reasonably be expected to affect the financial decisions made by users based on the financial statements.

For a further description of the auditor's duties and duties, please refer to <https://revisorforeningen.no/revisionsberetninger>.

Statement of other legal requirements

Conclusion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Conclusion on registration and documentation

Based on our audit of the annual accounts as described above, and control actions we have found necessary in accordance with the International Standard for Attestation Assignments (ISAE) 3000 "Attestation Assignments that are not audits or simplified auditor's review of historical financial information", we believe that management has fulfilled its duty to ensure proper and transparent registration and documentation of the company's accounting information in accordance with law and good accounting practice in Norway.

Oslo, 08.06.2021
Mazars Revisjon AS

Alexander Hanevold
State Authorized Public Accountant



Skattedirektoratet

Saksbehandler Jeanette Munkvold Skovhoit	Deres dato 21.04.2017	Vår dato 27.04.2017
Telefon 90076012	Deres referanse Tom Tuhus	Vår referanse 2017/435371

THALES HOLDING NORWAY AS
Postboks 744 , Sentrum
0106 OSLO

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Thales Holding Norway AS, org. nr. 980 149 404

Vi viser til deres brev av 21. april 2017 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for Thales Holding Norway AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering Thales Holding Norway AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Fra søknaden gjengis:

THN er et heleid datterselskap av det franske selskapet Thales S.A. og inngår i Thales-konsernet. Thales S.A. er et fransk børsnotert selskap. THN eier samtlige aksjer i det norske driftsselskapet Thales Norway AS, men THN har ingen aktiv virksomhet og ingen ansatte. Følgelig er THN et rent holdingselskap for Thales Norway AS.

Thales-konsernet er en verdensledende aktør innen forsvarsindustrien, sikkerhet, romfart, luftfart og bakketransport.

Thales Norway AS har leveranser direkte til norske og utenlandske kunder og fikk allerede i 2015 innvilget dispensasjon fra kravet om å utarbeide årsregnskap og årsberetning på norsk. Thales Norway AS har 230 ansatte i Norge med både norske og utenlandske arbeidstakere og det formelle arbeidsspråket er engelsk.

Regnskapsbrukerne i THN vil primært være det franske morselskapet, som ikke behersker norsk.

Aksjene i THN omsettes ikke i markedet.

En norsk oversettelse vil kun ha til formål å oppfylle regnskapslovens språkkrav.

Postadresse Postboks 9200 Grønland 0134 Oslo	Besøksadresse: Se www.skatteetaten.no Org.nr: 996250318 E-post: skatteetaten.no/sendepost	Sentralbord 800 80 000 Telefaks 22 17 08 60
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Skattedirektoratets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruket i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjævt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til "informative regnskaper for ulike grupper av regnskapsbrukere". Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt vekt på at selskapet er heleid av et utenlandsk selskap. Eierkretsen er begrenset. Selskapet opererer i en internasjonal bransje. Arbeidsspråket er engelsk. Videre er det vektlagt at alle sentrale aktører og samarbeidspartnere innen denne bransjen behersker og benytter engelsk, og det anses at ingen øvrige brukere av regnskapsinformasjon blir negativt berørt av at årsregnskapet og årsberetningen utarbeides på engelsk språk.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Torstein Kinden Helleland
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Jeanette Munkvold Skovholt

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer



THALES

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2020



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CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(in € millions)</i>	Notes	2020	2019
Sales	note 2	16,988.9	18,401.0
Cost of sales		(13,053.7)	(13,877.3)
Research and development expenses		(1,024.7)	(1,098.5)
Marketing and selling expenses		(1,306.2)	(1,382.9)
General and administrative expenses		(613.1)	(636.7)
Restructuring costs	note 10.3	(173.6)	(122.2)
Income from operations	note 2	817.6	1,283.4
Disposal of assets, changes in scope of consolidation and other	note 3.2	42.0	218.6
Impairment on non-current fixed assets	note 4.1	(135.4)	
Income of operating activities before share in net income of equity affiliates		724.2	1,502.0
Share in net income of equity affiliates	note 5.1	44.3	142.0
Income of operating activities after share in net income of equity affiliates		768.5	1,644.0
Interest expense on gross debt		(67.3)	(62.9)
Interest income on cash and cash equivalents		7.6	19.6
Interest income (expenses), net	note 6.1	(59.7)	(43.3)
Other financial expenses	note 6.1	(81.5)	(84.4)
Finance costs on pensions and other employee benefits	note 9.3	(45.1)	(68.9)
Income tax	note 7.1	(90.3)	(301.0)
Net income		491.9	1,146.4
Attributable to:			
Shareholders of the parent company		483.4	1,121.9
Non-controlling interests		8.5	24.5
Basic earnings per share (in euros)	note 8.2	2.27	5.28
Diluted earnings per share (in euros)	note 8.2	2.27	5.26

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



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020			2019		
	Total attributable to:			Total attributable to:		
	Shareholders of the parent company	Non-controlling interests	Total	Shareholders of the parent company	Non-controlling interests	Total
<i>(in € millions)</i>						
Net income	483.4	8.5	491.9	1,121.9	24.5	1,146.4
Translation adjustments *	(79.4)	(2.5)	(81.9)	35.9	(0.3)	35.6
Cash flow hedge *	93.7	0.6	94.3	(40.8)	0.6	(40.2)
Equity affiliates	(11.5)	–	(11.5)	3.9	–	3.9
Items that may be reclassified to income	2.8	(1.9)	0.9	(1.0)	0.3	(0.7)
Actuarial gains (losses) on pensions *	(641.3)	(5.0)	(646.3)	(510.9)	(8.8)	(519.7)
Financial assets at fair value *	(55.8)	(22.5)	(78.3)	(12.4)	–	(12.4)
Deferred tax *	54.2	1.3	55.5	56.7	2.2	58.9
Equity affiliates	(0.8)	–	(0.8)	(15.7)	–	(15.7)
Items that will not be reclassified to income	(643.7)	(26.2)	(669.9)	(482.3)	(6.6)	(488.9)
Other comprehensive income (loss) for the period net of tax	(640.9)	(28.1)	(669.0)	(483.3)	(6.3)	(489.6)
Total comprehensive income for the period	(157.5)	(19.6)	(177.1)	638.6	18.2	656.8

* controlled companies



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Number of shares outstanding (thousands)	Share capital	Additional paid-in capital	Retained earnings*	Cash flow hedge	Cumulative transition adjustment	Treasury shares	Total attributable to shareholders of the parent company	Non-controlling interests	Total equity
At 1st January 2019	212,456	639.3	4,068.1	1,339.0	(48.7)	(225.1)	(67.3)	5,705.3	224.9	5,930.2
Net income				1,121.9				1,121.9	24.5	1,146.4
Other comprehensive income - Controlled companies				(466.6)	(40.8)	35.9		(471.5)	(6.3)	(477.8)
Other comprehensive income - Equity affiliates				(15.7)	(4.6)	8.5		(11.8)		(11.8)
Total comprehensive income for 2019				639.6	(45.4)	44.4		638.6	18.2	656.8
Employee share issues	213	0.7	6.2					6.9		6.9
Parent company dividend distribution				(463.1)				(463.1)		(463.1)
Third-party share in dividend distribution of subsidiaries									(18.3)	(18.3)
Share-based payments				26.3				26.3		26.3
Acquisitions/disposals of treasury shares	88			(40.8)			10.8	(30.0)		(30.0)
Purchase of Gemalto minority interests				(437.0)				(437.0)	7.2	(429.8)
Other				2.2				2.2	0.9	3.1
At 31 December 2019	212,757	640.0	4,074.3	1,066.2	(94.1)	(180.7)	(56.5)	5,449.2	232.9	5,682.1
Net income				483.4				483.4	8.5	491.9
Other comprehensive income - Controlled companies				(642.9)	93.7	(79.4)		(628.6)	(28.1)	(656.7)
Other comprehensive income - Equity affiliates				(0.8)	11.8	(23.3)		(12.3)		(12.3)
Total comprehensive income for 2020				(160.3)	105.5	(102.7)		(157.5)	(19.6)	(177.1)
Employee share issues	48	0.1	1.2					1.3		1.3
Parent company dividend distribution				(85.1)				(85.1)		(85.1)
Third-party share in dividend distribution of subsidiaries									(12.1)	(12.1)
Share-based payments				13.4				13.4		13.4
Acquisitions/disposals of treasury shares	63			(28.0)			17.9	(10.1)		(10.1)
Gemalto PPA adjustments : minority interests				(29.7)				(29.7)		(29.7)
Other changes in scope				(20.6)				(20.6)	(2.3)	(22.9)
Other				(46.2)		0.2		(46.0)	(3.9)	(49.9)
At 31 December 2020	212,868	640.1	4,075.5	709.7	11.4	(283.4)	(38.6)	5,114.9	195.0	5,309.9

* This item includes actuarial gains and losses on net pension obligations, recognised directly in equity and not subsequently reclassified to profit and loss (-€2,132.5 million at end 2019, -€2,773.8 million at end 2020).



CONSOLIDATED BALANCE SHEET

<i>(in € millions)</i>			
ASSETS	Notes	31/12/20	31/12/19
Goodwill, net	note 4.1	6,034.4	5,981.5
Other intangible assets, net	note 4.2	2,284.5	2,810.4
Property, plant and equipment, net	note 4.2	3,569.9	3,830.4
Investments in equity affiliates	note 5	1,283.1	1,333.1
Non-consolidated investments	note 6.4	90.7	196.3
Other non-current financial assets	note 6.4	138.9	174.1
Non-current derivatives - assets	note 6.6	13.0	16.8
Deferred tax assets	note 7.3	966.8	1,002.1
Non-current assets		14,381.3	15,344.7
Inventories, work in progress and set-up costs	note 10.1	3,508.5	3,731.3
Contract assets	note 10.2	2,935.2	3,088.9
Advances to suppliers	note 10	433.9	549.5
Accounts, notes and other current receivables	note 10.4	5,038.3	5,239.5
Current derivatives - assets	note 6.6	254.2	109.6
Current tax receivable	note 7.3	220.2	212.6
Current financial assets	note 6.2	32.3	15.9
Cash and cash equivalents	note 6.2	5,003.9	2,931.4
Current assets		17,426.5	15,878.7
Total assets		31,807.8	31,223.4
EQUITY AND LIABILITIES			
	Notes	31/12/20	31/12/19
Capital, additional paid-in capital and other reserves		5,436.7	5,686.4
Cumulative translation adjustments		(283.2)	(180.7)
Treasury shares		(38.6)	(56.5)
Total attributable to shareholders of the parent company		5,114.9	5,449.2
Non-controlling interests		195.0	232.9
Total equity	note 8.1	5,309.9	5,682.1
Long-term loans and borrowings	note 6.2	5,209.7	4,306.4
Non-current derivatives - liabilities	note 6.6	13.5	14.5
Pensions and other long-term employee benefits	note 9.3	3,441.4	2,945.2
Deferred tax liabilities	note 7.3	657.6	783.3
Non-current liabilities		9,322.2	8,049.4
Contract liabilities	note 10.2	6,453.5	6,414.9
Reserves for contingencies	note 10.3	2,052.2	1,960.0
Accounts, notes and other current payables	note 10.4	5,998.0	6,813.7
Current derivatives - liabilities	note 6.6	134.0	150.5
Current tax payable	note 7.3	149.3	184.5
Short-term loans and borrowings	note 6.2	2,388.7	1,968.3
Current liabilities		17,175.7	17,491.9
Total equity and liabilities		31,807.8	31,223.4



CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in € millions)</i>	Notes	2020	2019
Net income		491.9	1,146.4
Add (deduct):			
Income tax expense (gain)		90.3	301.0
Net interest expenses (income)		59.7	43.3
Share in net income of equity affiliates		(44.3)	(142.0)
Dividends received from equity affiliates		71.6	111.0
Depreciation and amortisation of property, plant and equipment and intangible	note 4.2	1,178.0	1,112.5
Impairment on non-current fixed assets	note 4.1	135.4	–
Provisions for pensions and other employee benefits	note 9.3	183.3	154.9
Loss (gain) on disposal of assets and other	note 3.2	(42.0)	(218.6)
Provisions for restructuring, net	note 10.3	58.9	20.1
Other items		5.6	19.0
Operating cash flows before working capital changes, interest and tax		2,188.4	2,547.6
Change in working capital and reserves for contingencies	note 10	(420.3)	(341.3)
Cash contributions to pension plans and other long-term employee benefits, of which:	note 9.3	(261.5)	(245.9)
- UK deficit payment		(98.0)	(98.1)
- Recurring contributions / benefits		(163.5)	(147.8)
Interest paid		(63.7)	(53.5)
Interest received		11.3	16.9
Income tax paid		(108.6)	(153.6)
Net cash flow from operating activities	- I -	1,345.6	1,770.2
Acquisitions of property, plant and equipment and intangible assets		(395.4)	(503.3)
Disposals of property, plant and equipment and intangible assets		8.5	7.0
Net operating investments		(386.9)	(496.3)
Acquisitions of subsidiaries and affiliates	note 6.3	(23.0)	(4,980.1)
Related cash and cash equivalent acquired		–	271.9
Disposals of subsidiaries and affiliates	note 6.3	21.6	364.1
Decrease (increase) in loans and non-current financial assets		26.1	(11.1)
Decrease (increase) in current financial assets		(24.2)	236.3
Net financial investments		0.5	(4,118.9)
Net cash flow used in investing activities	- II -	(386.4)	(4,615.2)
Parent company dividend distribution		(85.1)	(463.1)
Third party share in dividend distribution of subsidiaries		(12.1)	(18.3)
Exercise of share subscription options and (purchase) sale of treasury shares		(8.9)	(23.0)
Issuance of debt		2,279.3	1,365.3
Repayment of debt		(975.9)	(732.6)
Net cash flow from / used in financing activities	- III -	1,197.3	128.3
Effect of exchange rate changes and other	- IV -	(84.0)	10.6
Increase (decrease) in cash and cash equivalents	I+II+III+IV	2,072.5	(2,706.1)
Cash and cash equivalents at beginning of period		2,931.4	5,637.5
Cash and cash equivalents at end of period		5,003.9	2,931.4

The Group's net debt position and the changes from one period to the next are presented in notes 6.2 and 6.3.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. ACCOUNTING STANDARDS FRAMEWORK

Thales's consolidated financial statements for the year ending 31 December 2020 were approved and authorised for issue by its Board of Directors on 3 March 2021. In accordance with French law, the financial statements will be deemed final once they have been adopted by the shareholders of the Group at the Annual General Meeting to be held on 6 May 2021.

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

1.1 BASIS OF PREPARATION FOR THE 2020 CONSOLIDATED FINANCIAL STATEMENTS

Thales's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union at 31 December 2020¹.

These accounting policies, described in note 13, are consistent with those applied by the Group for the year ending 31 December 2019. Amendments to existing standards, mandatory as from January 1st 2020, in particular amendments to IFRS 3 (Definition of a Business), to IAS 1 and IAS 8 (Definition of materiality in financial statements) and amendment to the conceptual framework, have no impact on the Group's financial statements.

1.2 NEW STANDARDS MANDATORY AFTER 31 DECEMBER 2020

On the 27 August 2020, the IASB has published the second phase of the "Interest Rate Benchmark project". This phase II objective is to treat the accounting impacts due to the replacement of the benchmarks.

As a reminder, Thales had chosen to early apply, as from 2019, the amendments to IFRS 9 and IFRS 7 related to the phase 1 of the "interest rates benchmark reform". The adoption of these amendments allows the Group to ignore uncertainties about the future of the benchmark rates when assessing the effectiveness of hedging relationships and / or in assessing the highly probable nature of the risk covered, thereby making it possible to secure existing or future hedging relationships until the removal of these uncertainties.

European Union has adopted amendments linked to the phase 2 in December 2020. Thales has decided not to early apply these new amendments at 31st December 2020. The early application of amendments linked to the phase 2 would have no impact for Thales in the absence of an actual change in the benchmark indices in the Group contracts at 31st December 2020.

Thales continued to conduct inventory work to ensure the transition to the new benchmarks. This project was set-up to anticipate the impacts associated with the reform and implement the transition process to the new indices. Documented interest rate derivatives hedging debts indexed to a reference rate are presented in note 6.6.

The other text adopted by the IASB and applicable after 31 December 2020, are minor amendments to existing standards and are not expected to have a significant impact on the Group. They are currently being analysed.

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



1.3 TRANSLATION

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

Euros	31 December 2020		31 December 2019		31 December 2018	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
Australian Dollar	1.5896	1.6567	1.5995	1.6079	1.6220	1.5832
Pound Sterling	0.8990	0.8894	0.8508	0.8759	0.8945	0.8860
U.S. Dollar	1,2271	1,1470	1.1234	1.1195	1.1450	1.1793

1.4 COVID-19 IMPACT

The global environment has been profoundly changed by the Covid-19 public health crisis, which has affected all companies, including Thales, since March 2020.

On one hand, this crisis has affected demand across the Group's markets, with a major impact on the civil aeronautics activities reported within the operational segment "Aerospace".

On the other hand, the measures implemented to limit the spread of Covid-19 had an impact on the Group's production, project execution, supply chain and customers' ability to take delivery of products and systems. That impact was particularly significant on the results at June 30th, 2020.

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

Items affecting the consolidated financial statements for 2020 are presented below:

Revenue recognition

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

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

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

Governmental support measures

State support measures (short-time working, incentives to maintain employment, etc.) are recorded as a reduction in the costs concerned, as soon as they are guaranteed.

Goodwill

In the context of this sanitary crisis, goodwill has been the subject of particular attention. The analyses carried out in this context led to the impairment of intangible assets associated with IFE (on-board multimedia) activities - see note 4.1.

Credit risk

The Group's exposure to credit risk on its operating activities has not led it to significantly reconsider the expected credit losses on customers in the 2020 financial statements.

Other assets

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



Pensions and other long-term employee benefits

At the end of December 2020, the corresponding commitments have been updated to take into account changing market conditions. The impacts are presented in note 9.3.

Liquidity risk

The Group has taken additional measures to strengthen its liquidity by setting up a new syndicated credit line and carrying out bond issues, the characteristics of which are described in note 6.2.

1.5 MAIN SOURCES OF ESTIMATES

The preparation of the Group's consolidated financial statements involves making estimates and assumptions that have an impact on the assessment of the Group's performance and its consolidated assets and liabilities. These estimates are based on past experience and factor in the economic conditions prevailing at the end of the reporting period and any information available as of the date at which the financial statements are prepared.

In today's global economic environment, the degree of volatility and subsequent lack of visibility are particularly high. Future facts and circumstances could lead to changes in these estimates or assumptions which could affect the Group's financial situation, profit and loss and/or cash flows, notably with regard to:

Recognition of revenue over time (note 10)

A very significant part of the Group's revenue and current operating income stems from contracts recognised according to the percentage of completion method. These contracts often span several financial years. In the accounting closing process, the recognition of revenue and operating margin relating to these contracts depends mainly:

- on estimates of revenue and margin at completion, including provisions for technical and commercial risks;
- on costs incurred to date compared to the total costs expected at completion.

Monitoring of costs incurred to date and estimates of figures at completion are based, for each contract, on the Group's internal systems and procedures, with project managers playing a key role. These estimates are reviewed regularly by the Operations and Finance departments, under the supervision of the Group's corporate management, particularly at each period-end reporting.

Litigation (note 11)

The Group conducts its business in France and abroad in complex, evolving legal and regulatory environments. As a result, it is exposed to technical and commercial disputes.

The Group regularly identifies and reviews all current commercial, civil or criminal litigation and pre-litigation, and recognises any accounting provisions that it considers to be reasonable. Uncertainties concerning litigation in progress are described in note 11.

Business combinations

Business combinations are accounted for in accordance with the purchase accounting method described in note 13-b: thus, on the date of the takeover of a company, the acquiree's identifiable assets and liabilities are measured at their fair value. These valuations are performed by independent experts who base their work on assumptions and must estimate the effects of future events, which are uncertain at the acquisition date.

Goodwill (note 4.1)

Goodwill is subject to impairment tests. The recoverable amount of goodwill is assessed based on forecasts extracted from the strategic plans prepared in accordance with Group procedures. Sensitivity tests are carried out on key assumptions in order to lend greater weight to the conclusions reached.

Pensions and other long-term employee benefits (note 9.3)

Pensions and other long-term employee benefit commitments are estimated on statistical and actuarial bases in accordance with the policies outlined in note 13-k. Actuarial assumptions made by the Group (discount rates, inflation rate, mortality tables, etc.) are reviewed each year with the actuaries.

Deferred tax assets (note 7)

Deferred tax assets are recognised for tax loss carry-forwards and temporary differences between the book value and the tax value of assets and liabilities. The recoverability of these assets is assessed on the basis of forecasts of future tax results of the tax entities over a period of three to five years, the entity's history of tax losses, past non-recurring items and tax strategies specific to each country.



2. SEGMENT INFORMATION

2.1 BUSINESS SEGMENTS

The business segments presented by the Group are as follows:

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

In 2020, the Group’s business is balanced between civilian customers for 53% and military customers for 47% (respectively 55% and 45% in 2019)

2.2 SALES

2020	Aerospace	Transport	Defence & Security	Digital I&S	Other	Thales
Sales by destination:						
Europe	2,805.7	965.2	4,789.4	839.5	32.7	9,432.5
North America	528.0	65.4	497.9	856.0	5.2	1,952.5
Australia and New Zealand	40.8	46.5	835.9	67.1	--	990.3
Total mature markets	3,374.5	1,077.1	6,123.2	1,762.6	37.9	12,375.3
Emerging markets *	842.5	540.8	1,961.6	1,229.2	39.5	4,613.6
Total	4,217.0	1,617.9	8,084.8	2,991.8	77.4	16,988.9
Revenue recognition method:						
Over time	2,653.6	1,341.8	6,635.4	704.0	41.8	11,376.6
At a point in time	1,563.4	276.1	1,449.4	2,287.8	35.6	5,612.3
Total	4,217.0	1,617.9	8,084.8	2,991.8	77.4	16,988.9

2019	Aerospace	Transport	Defence & Security	Digital I&S	Other	Thales
Sales by destination:						
Europe	3,462.7	1,049.5	4,521.7	735.8	28.6	9,798.3
North America	780.5	88.6	467.3	757.7	7.4	2,101.5
Australia and New Zealand	53.0	40.3	812.0	52.5	0.1	957.9
Total mature markets	4,296.2	1,178.4	5,801.0	1,546.0	36.1	12,857.7
Emerging markets *	1,298.9	731.7	2,464.5	1,005.0	43.2	5,543.3
Total	5,595.1	1,910.1	8,265.5	2,551.0	79.3	18,401.0
Revenue recognition method:						
Over time	3,383.9	1,632.4	6,709.0	472.0	36.1	12,233.4
At a point in time	2,211.2	277.7	1,556.5	2,079.0	43.2	6,167.6
Total	5,595.1	1,910.1	8,265.5	2,551.0	79.3	18,401.0

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



2.3 COMMERCIAL ACTIVITY AND EBIT BY SEGMENT

In order to monitor the operating and financial performance of the entities, the Group's management regularly considers certain key non-GAAP indicators as defined in note 13-a, 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 expenses related to business combinations (amortisation of acquisition-related assets (PPA) and other expenses directly linked to business combinations).

2020	Aerospace	Transport	Defence & Security	Digital I&S	Other *	Thales
Order book – non-Group at 31/12	6,590.7	3,917.5	23,245.3	588.8	87.3	34,429.6
Order intake – non-Group	3,821.8	1,651.9	9,922.5	3,022.9	57.0	18,476.1
Sales – non-Group	4,217.0	1,617.9	8,084.8	2,991.8	77.4	16,988.9
Sales – intersegment	94,8	4.4	286.0	25.5	(410.7)	–
Total sales	4,311.8	1,622.3	8,370.8	3,017.3	(333.3)	16,988.9
EBIT	(76.2)	86.1	1,038.9	324.3	(20.9)	1,352.2
<i>Of which, Naval Group</i>	–	–	–	–	21.6	21.6
<i>Excluding Naval Group</i>	(76.2)	86.1	1,038.9	324.3	(42.5)	1,330.6
Capital expenditures	83.5	15.9	135.8	73.1	87.1	395.4
Dep. and amort. of property, plant and equipment and intangible assets	151.0	31.6	147.4	121.9	288.3	740.2

2019	Aerospace	Transport	Defence & Security	Digital I&S	Other *	Thales
Order book – non-Group at 31/12	7,306.3	4,076.2	21,773.8	588.4	94.0	33,838.7
Order intake – non-Group	4,828.9	1,750.6	9,907.1	2,572.3	82.7	19,141.6
Sales – non-Group	5,595.1	1,910.1	8,265.5	2,551.0	79.3	18,401.0
Sales – intersegment	86.2	2.5	338.1	4.7	(431.5)	–
Total sales	5,681.3	1,912.6	8,603.6	2,555.7	(352.2)	18,401.0
EBIT	520.8	56.1	1,152.7	264.1	14.3	2,008.0
<i>Of which, Naval Group</i>	–	–	–	–	64.7	64.7
<i>Excluding Naval Group</i>	520.8	56.1	1,152.7	264.1	(50.4)	1,943.3
Capital expenditures	124.1	20.4	162.1	68.4	128.4	503.3
Dep. and amort. of property, plant and equipment and intangible assets	144.5	31.0	146.0	103.8	294.6	719.9

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

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



At the end of 2020, the order book stood at €34,429.6 million. Around 70% of this amount is expected to convert into sales within three years.

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

	2020	2019
Income from operations	817.6	1,283.4
Less, amortisation of acquisition-related assets (PPA)	456.6	527.5
- Intangible assets	414.8	375.3
- Property, plant and equipment	23.0	17.3
- Net inventories and work in progress	–	74.0
- Deferred revenue	18.8	60.9
Less, expenses directly linked to business combinations	6.6	26.5
- Restructuring costs	5.0	20.7
- Other expenses	1.6	5.8
Share in net income of equity affiliates	44.3	142.0
Less, PPA amortisation related to equity affiliates	27.1	28.6
EBIT	1,352.2	2,008.0

3. IMPACT OF CHANGES IN SCOPE OF CONSOLIDATION

3.1 MAIN CHANGES IN SCOPE OF CONSOLIDATION

On April 2, 2019, Thales took control of Gemalto, leader in cybersecurity. Gemalto is consolidated in Thales' financial statements since this date.

In accordance with accounting standards, the purchase price allocation was finalised at first trimester 2020, leading to final goodwill of €2,740 million.

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

	2020	2019
Disposal of investments:	50.1	213.9
GP HSM business	1.4	223.2
Other disposal of investments	48.7	(9.3)
Acquisition-related fees (consultants, legal counsel, etc.)	(5.4)	(28.3)
Disposal of real estate and other tangible and intangible assets	(0.5)	(1.5)
Impact of settlements / amendments to pension plans (note 9)	(2.2)	34.5
Total	42.0	218.6



4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

4.1 GOODWILL

a) Change in goodwill

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs corresponding to Thales's Global Business Units (GBU):

	01/01/20	Acquisitions	Disposals	Impairment	Exch. Rate and other	31/12/20
Avionics	465.8	--	--	(98.2)	(1.9)	365.7
Space	490.6	--	--	--	(0.6)	490.0
<i>Aerospace</i>	956.4	--	--	(98.2)	(2.5)	855.7
<i>Transport</i>	879.8	--	--	--	--	879.8
Secure Communication & Information Systems	651.3	--	--	--	0.7	652.0
Land and Air Systems	309.4	--	--	--	--	309.4
Defence Mission Systems	457.6	--	--	--	0.3	457.9
<i>Defence and Security</i>	1,418.3	--	--	--	1.0	1,419.3
Digital Identity and Security	2,727.0	165.6 (a)	--	--	(13.0)	2,879.6
Total	5,981.5	165.6	--	(98.2)	(14.5)	6,034.4

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

	01/01/19	Acquisitions	Disposals	Impairment (c)	Exch. Rate and other	31/12/19
Avionics	463.8	--	--	--	2.0	465.8
Space	489.2	--	--	--	1.4	490.6
<i>Aerospace</i>	953.0	--	--	--	3.4	956.4
<i>Transport</i>	875.3	4.5	--	--	--	879.8
Secure Communication & Information Systems	850.6	60.0 (a)	(142.0) (b)	(119.3)	2.0	651.3
Land and Air Systems	309.3	--	--	--	0.1	309.4
Defence Mission Systems	457.0	--	--	--	0.6	457.6
<i>Defence and Security</i>	1,616.9	60.0	(142.0)	(119.3)	2.7	1,418.3
Digital Identity and Security	--	2,605.5 (d)	--	119.3	2.2	2,727.0
Total	3,445.2	2,670.0	(142.0)	--	8.3	5,981.5

(a) Acquisition of Ercom and Suneris

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

(c) Reallocation of goodwill related to Guavus and e-Security businesses, given the organisational change. This reallocation was based on relative fair values at that date.

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

b) Impairment tests

Goodwill as well as cash-generating units (CGUs) are subject to annual impairment tests in accordance with the Group's budgetary timetable. Substantially all other intangible assets and property, plant and equipment are tested at the CGU level. For these tests, the value in use is based on discounted future operating cash flows over a three-year period and a terminal value. In certain specific cases (recent acquisitions, non-typical annual results, etc.), the terminal value is based on forecasts over an appropriate period of time. In the case of DIS, projections were made over a time horizon consistent with the acquisition business plan.

At the end of 2020, cash flows utilized for the tests came from the budget prepared for the following year, established in accordance with Group procedures, and extended over the next two years. These cash flows reflect management's best estimate of the medium-term consequences of the sanitary crisis in this specific case.



In addition to taking into account the consequences of the health crisis, the discount rate was recalculated by including this year a specific risk premium to reflect an additional level of uncertainty related to the Covid-19 context. The discount rate used was 8% for the Group at the end of 2020. The assumptions used for business growth and terminal value are based on a reasonable approach specific to each sector (terminal value generally based on the average income from operations over the three years, growth limited to 2%).

In the case of the Avionics business, revenue projections have been constructed taking into account the analyses of the International Air Transport Association (IATA), which does not expect air traffic to return to pre-crisis levels before the end of 2023 at the earliest. A one-year delay to the end of 2024 of the return of air traffic to pre-crisis levels would not lead to the recognition of an impairment loss for the Avionics CGUs (see below for the specific development of the IFE CGU), and the Avionics business considered as a whole.

On the basis of the values in use, the Group also tested the sensitivity of all other CGUs to changes in key assumptions. Taken individually, an increase by 1 point of the discount rate, a decrease by 1 point of the growth rate or a decrease by 2 points in operating profitability over the standard year would not lead to the recognition of any impairment loss.

At December 31, 2020, the impairment test based on IFE (on-board multimedia, within the Avionics business) CGU business projections led to the recognition of an impairment loss of €135.4 million on some of its assets. Goodwill and acquired intangible assets of this CGU were fully impaired for €98.2 million and €37.3 million respectively. In the specific case of IFE, a one year delay in business forecasts as well as any other negative change in key assumptions could expose the remaining assets of the business, with a residual impact considered non-material within the Group.

4.2 PLANT, PROPERTY AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

a) Change in net assets

	01/01/20	Acquisitions	Disposal	Depr., amort.	Impairment	Exch. Rate change in scope and other	31/12/20
Acquired intangible assets	2,561.0	--	--	(414.8)	(37.3)	(52.1)	2,056.8
Capitalised development costs	58.6	24.9	--	(28.7)	--	(3.0)	51.8
Other	190.8	53.0	(2.4)	(69.9)	--	4.4	175.9
Intangible assets	2,810.4	77.9	(2.4)	(513.4)	(37.3)	(50.7)	2,284.5
Right of use from lease contracts	1,650.9	164.3	--	(244.6)	--	(27.5)	1,543.1
Acquired tangible assets	97.7	--	--	(23.0)	--	0.1	74.8
Property, plant and equipment	2,081.8	317.5	(6.1)	(397.0)	--	(44.2)	1,952.0
Tangible assets	3,830.4	481.8	(6.1)	(664.6)	--	(71.6)	3,569.9
Total	6,640.8	559.7	(8.5)	(1,178.0)	(37.3)	(122.3)	5,854.4
Less, new lease contracts		(164.3)					
Operating investment *		395.4					

	01/01/19	Acquisitions	Disposal	Depr., amort.	Change in scope.	Exch. Rate and other	31/12/19
Acquired intangible assets	604.9	--	--	(375.3)	2,314.5	16.9	2,561.0
Capitalised development costs	30.8	28.2	--	(27.4)	26.5	0.5	58.6
Other	133.6	67.3	--	(64.3)	40.9	13.3	190.8
Intangible assets	769.3	95.5	--	(467.0)	2,381.9	30.7	2,810.4
Right of use from lease contracts	1,481.5	298.7	--	(229.3)	109.5	(9.5)	1,650.9
Acquired tangible assets	--	--	--	(17.3)	115.0	--	97.7
Property, plant and equipment	1,808.9	407.8	(7.0)	(398.9)	269.7	1.3	2,081.8
Tangible assets	3,290.4	706.5	(7.0)	(645.5)	494.2	(8.2)	3,830.4
Total	4,059.7	802.0	(7.0)	(1,112.5)	2,876.1	22.5	6,640.8
Less, new lease contracts		(298.7)					
Operating investment *		503.3					

* Presented in the statement of cash-flows



b) Breakdown by item

	31/12/20			31/12/19
	Gross	Depr., amort., and impairment	Net	Net
Technologies acquired	2,083.6	(939.9)	1,143.7	1,465.8
Customer relationships acquired	1,233.9	(551.4)	682.5	798.9
Order book acquired	282.4	(274.6)	7.8	15.3
Other intangible assets	385.4	(162.6)	222.8	281.0
Acquired intangible assets (business combinations)	3,985.3	(1,928.5)	2,056.8	2,561.0
Development costs	947.3	(895.5)	51.8	58.6
Other intangible assets	1,075.2	(899.2)	176.0	190.8
Intangible assets	6,007.8	(3,723.2)	2,284.6	2,810.4
Right of use from lease contracts	2,087.6	(544.5)	1,543.1	1,650.9
Land	64.2	(1.9)	62.3	53.5
Buildings	2,180.8	(1,407.0)	773.8	798.7
Technical facilities, industrial equipment and tooling	3,490.5	(2,713.6)	776.9	843.3
Other property, plant and equipment	1,258.0	(844.2)	413.8	484.0
Property, plant and equipment	9,081.1	(5,511.2)	3,569.9	3,830.4

5. INVESTMENTS IN EQUITY AFFILIATES

5.1 CHANGE IN INVESTMENT IN EQUITY AFFILIATES

	31/12/20	31/12/19
Investment at opening	1,333.1	1,306.3
Share in net income of equity affiliates	44.3	142.0
Translation adjustment	(23.3)	8.5
Cash flow hedge	11.8	(4.6)
Actuarial gains (losses) on pensions	(0.8)	(15.7)
Share in comprehensive income of equity affiliates	32.0	130.2
Dividends paid	(71.6)	(111.0)
Change in scope and other	(10.4)	7.6
Investments at closing	1,283.1	1,333.1
<i>Including Naval Group</i>	<i>715.1</i>	<i>746.7</i>

5.2 NAVAL GROUP : SUMMARY FINANCIAL INFORMATION

Thales holds 35% of the capital of Naval Group and participates jointly with the French government in the governance of the company. Naval Group is a group specialized in the naval defense industry. The financial statements of Naval Group, as restated in Thales' financial statements (PPA), are as follows:

Summary balance sheet (after PPA) based on a 100% interest	31/12/20	31/12/19
Non-current assets	2,253.0	2,184.4
Current assets	4,406.1	4,551.6
Total assets	6,659.1	6,736.0
Restated equity, attributable to shareholders of the company	1,208.6	1,299.1
Non-controlling interests	0.5	16.6
Non-current liabilities	558.7	609.1
Current liabilities	4,891.3	4,811.2
Total equity and liability	6,659.1	6,736.0
Net Cash	1,628.5	1,903.3



Consolidation by Thales :	31/12/20	31/12/19
Thales' share (35%)	423.1	454,7
Goodwill	292.0	292,0
Share in net assets of Naval Group	715.1	746,7

Income statement (after PPA), based on a 100% interest	2020	2019
Sales	3,323.0	3,712.1
Income (loss) from operating activities, after share in net income of equity affiliates	(36.0)	167.3
Financial income (loss)	(2.4)	(7.1)
Tax and other	21.9	(58.1)
Restated net income	(16.5)	101.7
<i>Of which, attributable to shareholders of the company</i>	<i>(11.7)</i>	<i>107.1</i>
<i>Of which, attributable to non-controlling interests</i>	<i>(4.8)</i>	<i>(5.4)</i>

Consolidation by Thales	2020	2019
Thales' share in net income attributable to shareholders of the company	(4.1)	37.5
<i>Of which, PPA amortisation</i>	<i>(25.7)</i>	<i>(27.2)</i>
Share in net income, before PPA	21.6	64.7
Dividends received from Naval Group	16.6	15.4

5.3 COMMITMENTS AND RELATED PARTIES

a) Commitments toward equity affiliates

At 31 December 2020, outstanding sureties, endorsements and guarantees granted by Thales S.A. (parent company) in support to its joint ventures amounted to €395.5 million (€390.2 million at 31 December 2019). The Group has no significant off-balance sheet commitments to associates.

The Group's policy is to issue these commitments only in proportion to its equity interest, or to obtain counter-guarantees from the other shareholders in proportion to their interest.

b) Transactions with equity affiliates

The volume of transactions with joint ventures is as follows:

	2020	2019
Sales	364.7	490.9
Purchases	130.5	191.6
Loans and current accounts receivables	29.3	32.6
Borrowings and current accounts payables	2.6	7.5



6. FINANCING AND FINANCIAL INSTRUMENTS

6.1 FINANCIAL INCOME

a) Net interest income

	2020	2019
Financial interests related to lease contracts	(27.3)	(27.4)
Other interest expense:		
- from financial gross debt	(30.7)	(24.2)
- from interest rate swaps	(9.3)	(11.3)
	(40.0)	(35.5)
Interest income on cash and cash equivalents	7,6	19.6
Total	(59,7)	(43,3)

b) Other financial income

	2020	2019
Foreign exchange gains (losses)	(22.6)	(9.0)
Cash flow hedges, ineffective portion	(4.1)	0.7
Change in fair value of currency derivatives*	(47.1)	(72.5)
Foreign exchange gains (losses)	(73.8)	(80.8)
Other	(7.7)	(3.6)
Total	(81.5)	(84.4)

* Includes the change in the fair value of swap points (- €37.9 million in 2020, - €64.8 million in 2019), and the time value of foreign exchange options documented as future cash flow hedges (- €6.0 million in 2020 and 2019), as well as changes in the fair value of derivatives not documented as hedges.

6.2 NET CASH (NET DEBT)

Group net cash (debt) is as follows:

	31/12/20	31/12/19
Current financial assets	32.3	15.9
Cash and cash equivalents	5,003.9	2,931.4
Cash and other short-term investments (I)	5,036.2	2,947.3
Financial debt	5,947.9	4,533.2
Lease debt	1,637.5	1,724.7
Gross debt * (II)	7,585.4	6,257.9
Net cash (I – II)	(2,549.2)	(3,310.6)

* Including :

Long term financial debt	5,209.7	4,306.4
Short term financial debt	2,388.7	1,968.3
Fair value of interest rate hedging derivatives	(13.0)	(16.8)



a) Current financial assets

	31/12/20	31/12/19
Current accounts receivable with related parties	32,2	15.5
Accrued interests	0.1	0.4
Current financial assets	32.3	15.9

b) Cash and cash equivalents

At 31 December 2020, cash recorded under consolidated assets amounted to €5,003.9 million (€2,931.4 million at 31 December 2019) and included:

- €4,095.4 million held by the parent company and available for immediate use (€1,961.5 million in 2019). These amounts include €2,870.9 million (€51.4 million in 2019) in very short-term deposits with tier-one banks or money market funds (UCITS);
- €908.5 million in the credit balances of subsidiaries (€969.9 million in 2019), most of them outside France. This figure includes payments received in the last days of the financial year and subsequently transferred to the cash pooling account.

c) Borrowings and debt

	31/12/20	31/12/19
Bond issues	4,486.7	3,286.7
Treasury bills	1,196.4	746.0
Term loan	80.0	80.0
Current accounts in credit with related parties	150.9	165.9
Bank overdrafts	14.3	167.7
Debt on investments in subsidiaries	3.7	59.6
Accrued interests and other debts	15.9	27.3
Financial debt	5,947.9	4,533.2

The Group carried out three bond issues in 2020. In January 2020, it refinanced in advance the bond issue maturing in April 2020. In May 2020, it issued a €700 million 8-year bond, and in November 2020, a €500 million issue maturing in March 2026, in order to anticipate 2021 bond maturities.

• Bonds: key features at the end of December 2020 :

Nominal value	Issue date	Maturity	Type of rate	Coupon	Effective rate	
					Before hedging	After hedging
€ 300 million	March 2013	March 2021	fixed *	2.25%	2.40%	1.04%
€ 387 million	Sept 2014	Sept. 2021	fixed	2.125%	0.55%	0.55%
€ 500 million	May 2019	May 2022	fixed	0%	0.02%	0.02%
€ 600 million	June 2016	June 2023	fixed *	0.75%	0.84%	0.98%
€ 500 million	April 2018	April 2024	fixed	0.875%	0.94%	1.11%
€ 500 million	January 2018	January 2025	fixed	0.75%	0.91%	0.91%
€ 500 million	November 2020	March 2026	fixed	0%	0.08%	0,08%
€ 500 million	January 2020	January 2027	fixed	0.25%	0.33%	0,33%
€ 700 million	May 2020	May 2028	fixed	1%	1,10%	1,10%

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

In addition, in order to strengthen its liquidity in the context of the health crisis, in April 2020, Thales concluded a bank bridge loan of € 2,000 million (reduced to € 800 million after the bond issues in May and November 2020). This bridging loan expires in April 2021 and includes an extension option for an additional 6 months; it does not provide for an early payment clause.



Finally, in December 2020, Thales renewed its € 1,500 million syndicated credit line, which expired in December 2021. The new line expires in December 2023, with the possibility of extension until December 2025.

• Breakdown of financial debt by maturity

31/12/20	Total	Maturity				
		2021	2022	2023	2024	>2024
Financial debt*	5,947.9	2,158.7	503.4	598.6	499.6	2,187.6
Contractual cash flows	6,063.3	2,161.6	525.8	622.8	517.5	2,235.6

31/12/19	Total	Maturity				
		2020	2021	2022	2023	>2023
Financial debt*	4,533.2	1,740.9	697.3	501.0	598.1	995.9
Contractual cash flows	4,605.3	1,742.0	716.1	515.4	614.5	1,017.3

* After deduction of fair value of interest-rate derivatives.

• Breakdown of financial debt by currency

	31/12/20	31/12/19
Euro	5,937.5	4,349.8
Canadian Dollar	--	109.5
US Dollar	3.8	54.9
Others	6.6	19.0
Total	5,947.9	4,533.2

• Change in financial debt

	31/12/19	Cash flow	Other changes			31/12/20
			Scope	Exchange rates	Other *	
Financial debt	4,533.2	1,526.5	--	(53.5)	(58.3)	5,947.9

	31/12/18	Cash flow	Other changes			31/12/19
			Scope	Exchange rates	Other *	
Financial debt	2,713.0	835.7	891.5	116.7	(23.7)	4,533.2

* Including issuance costs for new bonds, changes in the value of derivatives hedging bonds and changes in the value of debt on acquisition of subsidiaries.

d) Lease debt

• Change in lease debt

	01/01/20	Cash flow (a)	Other changes			31/12/20
			Scope	Exch. rate	New debt (b)	
Financial debt	1,724.7	(223.0)	--	(30.4)	166.2	1,637.5



	01/01/19	Cash flow (a)	Other changes			31/12/19
			Scope	Exch. rate	New debt (b)	
Financial debt	1,507.2	(203.0)	115.3	6.5	298.7	1,724.7

(a) Share of lease payments corresponding to the repayment of lease debt

(b) New lease contracts signed in 2020 and impact of the renegotiation of existing leases

• **Debt maturity**

31/12/20	Total	Maturity				
		2021	2022	2023	2024	>2024
Lease debt	1,637.5	224.9	207.7	190.6	156.2	858.1

31/12/19	Total	Maturity				
		2020	2021	2022	2023	>2023
Lease debt	1,724.7	227.4	210.6	185.3	163.3	938.1

6.3 CHANGES IN NET CASH

	2020	2019
Net cash (debt) at opening	(3,310.6)	1,673.3
Net cash flow from operating activities	1,345.6	1,770.2
Less, contributions to reduction of UK pension deficit	98.0	98.1
Net operating investments	(386.9)	(496.3)
Free Operating cash-flow	1,056.7	1,372.0
Acquisitions of subsidiaries and affiliates: of which, Gemalto	(23.0) --	(4,980.1) (4,762.4)
Net debt of acquired companies	--	(729.4)
Disposal of subsidiaries and affiliates of which, General Purpose HSM	21.6 3.1	364.1 361.7
Contributions to reduction of UK pension deficit	(98.0)	(98.1)
Changes in loans	26.1	(11.1)
Dividends paid by the parent company	(85.1)	(463.0)
Third-party share in dividend distributions of subsidiaries	(12.1)	(18.4)
Treasury shares and subscription options exercised	(8.9)	(23.0)
New lease debt	(166.2)	(298.7)
Changes in exchange rates and other	50.3	(98.2)
Total change	761.4	(4,983.9)
Net cash (debt) at closing	(2 549.2)	(3,310.6)

6.4 NON-CURRENT FINANCIAL ASSETS

a) Non-consolidated investments

Non-consolidated investments amounted to €90.7m at the end of 2020 compared to €196.3m at the end of 2019, a decrease of €105.6m over the year, of which €77.1m was due to changes in the value of foreign investments. At the end of 2020, this item is composed of individually non material investments.



b) Non-current financial assets

	31/12/20	31/12/19
Loans to related parties	53.6	72.7
Loans to employees in the context of share purchase plan	–	11.4
Loans and other financial assets at amortised cost	54.1	56.7
Loans and other financial assets at market value	37.4	38.2
Gross value	145.1	179.0
Impairment	(6.2)	(4.9)
Net	138.9	174.1

6.5 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

At end 2020, the classification of financial assets and liabilities remained identical to the one disclosed at end 2019.

Receivables, payables and refundable grants are financial assets and liabilities as defined by IAS 32 and IFRS 9, and are measured at amortised cost. They are detailed in note 10.

	31/12/20					31/12/19		
	At amortised cost	Profit or loss	Equity with no further reclassification	Equity with reclassification	Value in balance Sheet	Fair value	Value in balance Sheet	Fair value
Non-current financial assets:								
Non-consolidated investments	–	–	90.7	–	90.7	90.7	196.3	196.3
Non-current loans and financial assets	101.5	37.4	–	–	138.9	138.9	174.1	174.1
Derivatives documented as hedges	–	13.0	–	–	13.0	13.0	16.8	16.8
Current financial assets:								
Derivatives documented as hedges	–	–	–	254.2	254.2	254.2	108.2	108.2
Derivatives not documented as hedges	–	–	–	–	–	–	1.4	1.4
Current financial assets	32.3	–	–	–	32.3	32.3	15.9	15.9
Cash and cash equivalents	2,133.0	2,870.9	–	–	5,003.9	5,003.9	2,931.4	2,931.4
Non-current financial liabilities:								
Long-term debt	5,196.7	–	–	13.0	5,209.7	5,294.8	4,306.4	4,369.4
Derivative documented as hedges	–	–	–	13.5	13.5	13.5	14.5	14.5
Current financial liabilities:								
Derivatives documented as hedges	–	–	–	133.8	133.8	133.8	149.3	149.3
Derivatives not documented as hedges	–	0.2	–	–	0.2	0.2	1.2	1.2
Short-term debt	2,388.7	–	–	–	2,388.7	2,394.5	1,968.3	1,968.3

IFRS 13 categorises the various valuation techniques for each financial asset and liability according to a fair value hierarchy with three levels:

- ✓ level 1: valuation is based on quoted (non-adjusted) prices in active markets for identical assets or liabilities;
- ✓ level 2: valuation is based on information other than quoted market prices that is observable for the asset or liability, either directly or indirectly;
- ✓ level 3: valuation is based on unobservable information.

The fair value of financial assets and liabilities recorded at amortised cost approximates their carrying amount, except for borrowings and debts.

The fair value of bond debt is based on quoted prices (level 1). The fair value of other borrowings and debt is determined for each loan by discounting the expected future cash flows at the Euribor interest rate at the closing date, adjusted for the Group's credit risk (level 2).

The fair value of monetary and non-monetary UCITS funds is measured based on the last known net asset value. The fair value of interest rate products (certificates of deposit, short-term deposits, negotiable medium-term notes, etc.) is based on the discounting of coupon flows (nominal and interest) over the



remaining life of the product at the closing date. The discount rate used is the market rate corresponding to the maturity and product characteristics.

The fair value of derivatives is based on models commonly used to assess these financial instruments (models including observable market data). Counterparty default risk and credit risk have no material impact on the fair value of derivatives.

6.6 FINANCIAL RISK

a) Market risk

Thales hedges its foreign exchange and interest-rate risks using over-the-counter derivatives from tier-one banks. The book value of derivatives used to manage the Group's market risks is presented below:

	31/12/20		31/12/19	
	Assets	Liabilities	Assets	Liabilities
Non-current derivatives:				
- Interest-rate derivatives	13.0	13.5	16.8	14.5
Current derivatives:				
- Foreign exchange derivatives	254.2	134.0	108.2	150.5
- Interest-rate derivatives	--	--	1.4	--
Foreign exchange derivatives, net	120.2		(42.3)	
Interest-rate derivatives, net	(0.5)		3.7	

• Foreign exchange risk

Thales hedges currency risks arising in connection with the negotiation of contracts denominated in currencies other than the main production currency, currency risks generated by ordinary commercial operations, risks relating to cash pooling and, in some cases, risks relating to its net investments in foreign operations.

At 31 December 2019 and 2020, the amount of derivatives in the portfolio can be analysed as follows:

FOREIGN EXCHANGE DERIVATIVES	31/12/20				Market value	31/12/19	
	Nominal value					Nominal value	Market Value
	USD	GBP	Autres	Total			
Negotiations and trade operations hedges							
<i>Documented as hedges:</i>							
Forward currency sales	2,743.1	995.7	2 264.9	6,003.7	89.1	6,360.0	(41.1)
Forward currency purchases	1,060.9	853.8	1 670.6	3,585.3		3,556.6	
Currency sales (call and put options)	--	--	33.9	33.9	5.0	--	2.5
Currency purchases (call and put options)	122.2	--	33.9	156.1		133.5	
<i>Not documented as hedges:</i>							
Currency sales (call and put options)	15.3	1.1	33.6	50.0	0.8	94.2	0.5
Currency purchases (call and put options)	39.9	2.6	166.4	208.9		95.9	
Hedges related to cash pooling (documented as hedges)							
Currency sales: currency swaps	590.8	--	383.4	974.2	28.7	1,080.4	13.0
Currency purchases: currency swaps	17.7	400.4	300.7	718.8		437.1	
Hedges related to net investments in foreign operations (hedge accounting)							
Currency sales: currency swaps	590.3	--	--	590.3	(3.7)	655.9	(16.7)
Currency purchases: currency swaps	--	586.0	--	586.0		630.1	
Hedges related to net investments in foreign operations (not documented as hedges)							
Currency sales: currency swaps	10.2	--	--	10.2	0.3	29.2	(0.5)
Currency purchases: currency swaps	--	10.4	--	10.4		28.4	
Net assets (liabilities)					120.2	(42.3)	

Nominal amounts are translated into euros at the closing rate.

The maturity of the derivatives used to hedge commercial contracts is typically less than three years. Currency swaps are set up to align the maturities of derivatives to the maturities of hedged contracts. Other derivatives characteristics are consistent with the ones of the hedged risk.

The change in value of financial instruments (forward transactions) used to hedge cash flow is recognised in equity for the spot rate component. A decrease (increase) of 5% in the dollar against the euro, pound sterling, canadian dollar or australian dollar would have had a positive (negative) impact on equity of approximately €75 million at 31 December 2020 and €91 million at 31 December 2019.

The change in value of derivative instruments matched with commercial tender portfolio, which are not eligible for hedge accounting, is recognised in profit and loss. A decrease (increase) of 5% in the dollar against the euro, pound sterling canadian dollar or australian dollar would have no impact on profit or loss at 31 December 2020, as at 31 December 2019.

• **Interest-rate risk**

Thales is exposed to interest-rate volatility and in particular its impact on the conditions associated with variable-rate financing. To limit this risk, Thales operates an active interest-rate hedging policy. At 31 December 2019 and 2020, the amount of derivatives in the portfolio was as follows:

INTEREST-RATE DERIVATIVES	31/12/20		31/12/19	
	Nominal	Market value	Nominal	Market value
Fair value hedge (swaps with variable rate payables):				
- swaps related to bond maturing in 2023	400.0	7.9	400.0	6.7
- swaps related to bond maturing in 2021	300.0	5.1	300.0	10.1
		13.0		16.8
Cash flow hedge (swaps with fixed rate payables):				
- swaps related to bond maturing in 2023	400.0	(10.4)	400.0	(10.0)
- swaps related to bond maturing in 2021	300.0	(1.0)	300.0	(1.9)
- pre-hedging swap related to bond maturing in 2024	-- *	(2.1)	-- *	(2.6)
-		(13.5)		(14.5)
Swaps not documented as hedges:				
- cross-currency swap with fixed-rate payable, hedging a loan	--	--	12.2	1.4
- swap with fixed-rate payable, hedging a loan	1.2	--	1.2	--
Net assets		(0.5)		3.7

* € 500 million swaps set up prior the bond issue, and reversed on the issue date (April 2018).

The table below summarises the Group's exposure to interest-rate risk before and after hedging.

31/12/20	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt *	(1,986.6)	(172.1)	(3,784.3)	(4.9)	(5,770.9)	(177.0)
Financial assets, cash and cash equivalents	--	5,036.2	--	--	--	5,036.2
Net exposure before impact of derivative instruments	(1 986.6)	4,864.1	(3,784.3)	(4.9)	(5,770.9)	4,859.2
Hedging derivatives	--	--	--	--	--	--
Net exposure after impact of derivative instruments	(1,986.6)	4,864.1	(3,784.3)	(4.9)	(5,770.9)	4,859.2

* After deduction of the fair value of interest-rate derivatives.



31/12/19	< 1 year		> 1 year		Total	
	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate	Fixed-rate	Variable-rate
Financial debt*	(843.5)	(897.4)	(2,785.0)	(7.3)	(3,628.5)	(904.7)
Financial assets, cash and cash equivalents	--	2,947.3	--	--	--	2,947.3
Net exposure before impact of derivative instruments	(843.5)	2,049.9	(2,785.0)	(7.3)	(3,628.5)	2,042.6
Hedging derivatives	--	--	--	--	--	--
Net exposure after impact of derivative instruments	(843.5)	2,049.9	(2,785.0)	(7.3)	(3,628.5)	2,042.6

* After deduction of the fair value of interest-rate derivatives.

Based on the Group's average net cash, taking into account hedging instruments, a 1-point rise in interest rates would increase net interest income by €29.9 million in 2020 (€20.9 million in 2019).

b) Customer credit risk

Credit risk relates to the risk that a party to a contract will default on its commitments or fail to pay what it owes.

- **Credit risk relating to governmental customers**

Governmental customers account for around 60% of Thales's sales. Some of the countries with which Thales works could present a significant credit risk which could, for example, lead them to suspend an order in production, or render them unable to pay on delivery, as agreed under the terms of the contract. To limit its exposure to these risks, Thales takes out insurance with export credit agencies (such as BPIFrance) or private insurers.

At 31 December 2020, only three customers accounted for annual sales in excess of €500 million: the French government (around €3.1 billion), the UK government (around €0.8 billion) and the Australian government (around €0.7 billion).

At 31 December 2020, these three countries had first-class or high-quality ratings (France: AA by S&P Global Ratings and Aa2 by Moody's; the United Kingdom: AA by S&P Global Ratings and Aa3 by Moody's; Australia: AAA by S&P Global Ratings and Aaa by Moody's).

- **Risk of default relating to non-governmental customers**

Non-governmental customers (private critical infrastructure operators, aircraft operators, etc...) account for approximately 40% of Thales's sales. These customers may encounter major and/or prolonged financial difficulties that could lead to payment defaults or order cancellations. Such occurrences could have a negative impact on the Group's sales, profitability and financial position.

To mitigate these risks, Thales conducts regular analyses of the ability of its customers to meet their obligations. When necessary, Thales may request bank guarantees or corporate guarantees, or may use credit insurers.

The Group's Finance Department consolidates all the information relating to the Group's exposure to credit risk, notably by identifying and analysing the ageing of overdue accounts and notes receivable that have not been impaired. At 31 December 2020 and 2019, the ageing of these accounts and notes receivable is as follows:

At 31 December 2020	Total	Accounts and notes receivables past due:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue receivables not subject to provision				
Total	1,122.0	776.9	133.7	211.4

At 31 December 2019	Total	Accounts and notes receivables past due:		
		Less than 3 months	3 to 6 months	More than 6 months
Overdue receivables not subject to provision				
Total	1,087.2	731.8	136.7	218.7

• **Credit risk related to banking counterparties**

Financial investments are diversified. They relate to first ranking debt and are negotiated with tier-one banks.

Thales trades over-the-counter derivatives with tier-one banks under agreements which provide for the offsetting of amounts payable and receivable in the event of default by one of the contracting parties. These conditional offsetting agreements do not meet the eligibility criteria within the meaning of IAS 32 for offsetting derivative instruments recorded on the balance sheet under assets and liabilities. However, they do fall within the scope of disclosures to be provided under IFRS 7 on offsetting.

At 31 December 2020	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collateral	
Derivatives – Assets	266.0	--	266.0	(139.0)	--	127.0
Derivatives – Liabilities	147.0	--	147.0	(139.0)	--	8.0

At 31 December 2019	Gross value (before offset)	Offset amounts on balance sheet	Net presented in balance sheet	Impact of other offsetting agreements		Net
				Offsetting agreements	Financial collateral	
Derivatives – Assets	126.4	--	126.4	(99.0)	--	27.4
Derivatives – Liabilities	165.0	--	165.0	(99.0)	--	66.0

c) Liquidity risk

The Group's liquidity risk is the risk of not being able to meet its cash needs out of its financial resources. In particular, it relates specifically to Thales's level of exposure to changes in the main market indicators that could lead to an increase in the cost of credit or even to a temporary limitation of access to external sources of financing.

The Group manages this risk by trying to anticipate its cash needs and ensures that these are covered by the Group's short-term and long-term financial resources, as follows:

- shareholders' equity (note 8.1);
- financial debt (listed by date of maturity in note 6.2);
- confirmed bank credit line, undrawn as of December 31, 2020, amounting to €1,500 million and maturing in 2023,
- a €800 million bank bridge loan, unused as of December 31, 2020
- as well as a commercial paper programme (NeuCP).

The Group consolidates and pools its cash surpluses and needs for its various businesses, allowing it to simplify the cash management of those businesses by managing a consolidated position and accessing the financial markets through Thales parent company, which is rated by S&P Global Ratings (BBB+, stable outlook) and Moody's (A2, negative outlook).

The Group's funding agreements contain no covenants linked to changes in Thales's credit rating. A lower credit rating would result in an increase (capped) in the margins applicable to the confirmed bank credit line mentioned above; symmetrically, a higher rating would lead to a decrease in the applicable margin (with a floor).



7. INCOME TAX

The income tax expense takes into account specific local tax rules, including the tax consolidation systems in France and the United States, Group Relief in the United Kingdom and *Organschaft* rules in Germany.

7.1 INCOME TAX EXPENSE

	2020	2019
Current tax	(169.8)	(397.0)
Deferred tax	79.5	96.0
Total	(90.3)	(301.0)

Reconciliation between theoretical and actual tax expense

	2020	2019
Net income	491.9	1,146.4
Less: income tax	90.3	301.0
Less: share in net income of equity affiliates	(44.3)	(142.0)
Net income before tax and share in net income of equity affiliates	537.9	1 305.4
Theoretical average tax rate	27.0%	28.1%
Theoretical tax benefit (expense)	(145.0)	(366.8)
Reconciliation items:		
- Impact of tax credits	68.7	75.8
- Impact of reduced tax rates	18.3	
- Taxes not taken into account in the theoretical rate	(1.5)	2.9
- Impact of dividends paid	(1.2)	(8.6)
- Impact of tax rates changes on deferred tax	(26.3)	(2.5)
- Change in provision for deferred tax assets	(11.1)	(16.3)
- Adjustments in respect of prior periods	2.6	7.3
- Other	5.2	7.2
Income tax benefit (expense) recognised in profit and loss	90.3	(301.0)
Effective tax rate	16,8%	23.1%

The theoretical average tax rate corresponds to the sum of theoretical taxes of consolidated companies, divided by the consolidated net income before tax and share in net income of equity affiliates. The theoretical tax of each consolidated company corresponds to the application of the local tax rate to net income before tax. Accordingly, the theoretical average tax rate reflects the relative contribution of the different countries to the Group's consolidated net income. France, which has a tax rate of 32.02%, represented almost 55% of income before tax in 2020 (60% in 2019 with a tax rate of 34.43%).

The impact of tax credits includes:

- the impact of tax exemption on research tax credits (€184.6 million in 2020, €204.9 million in 2019)
- the tax advantages related to research that are recognised in income tax (notably in the United States, Australia and the Netherlands).

Taxes not taken into account in the theoretical rate mainly include state taxes in the United States, the IRAP in Italy, and taxes on foreign establishments.

The impact of " tax rates changes on deferred tax " corresponds to the effect of the decrease in future tax rates in France on provisions and other temporary differences recognized during the year.



7.2 DEFERRED TAX RECOGNISED IN EQUITY

Fully consolidated entities	2020		2019	
	Base	Tax	Base	Tax
Translation of the financial statements of foreign subsidiaries	(81.6)	--	35.6	--
Cash flow hedges	135.8	(41.5)	(64.3)	24.1
Other items reclassified to income	54.2	(41.5)	(28.7)	24.1
Actuarial gains and losses/pensions – United Kingdom	(491.8)	16.0	(290.1)	--
Actuarial gains and losses/pensions – Other countries	(154.5)	39.5	(229.6)	58.9
Other items not reclassified to income	(646.3)	55.5	(519.7)	58.9
Treasury shares and share-based payment		2.3		3.0
Total deferred tax recognised in equity during the year		16.3		86.0

7.3 TAX ASSETS AND LIABILITIES PRESENTED ON THE BALANCE SHEET

	01/01/20	Income (expense)	Equity	Cash flow	Changes in exch. rates, scope	Other	31/12/20
Current income tax assets	212.6	(21.3)	--	38.3	(9.4)	--	220.2
Current income tax liabilities	(184.5)	(148.5)	--	70.3	4.7	108.7	(149.3)
Current income tax, net	28.1	(169.8)	--	108.6	(4.7)	108.7	70.9
Deferred tax assets	1,002.1	(26.8)	16.3	--	(22.9)	(1.9)	966.8
Deferred tax liabilities	(783.3)	106.3	--	--	12.9	6.5	(657.6)
Deferred tax, net	218.8	79.5	16.3	--	(10.0)	4.6	309.2
Total		(90.3)	16.3	108.6			

*

	01/01/19	Income (expense)	Equity	Cash flow	Changes in exch. rates, scope	Other	31/12/19
Current income tax assets	45.8	(38.4)	--	162.4	42.8	--	212.6
Current income tax liabilities	(34.2)	(358.6)	--	(8.8)	(54.5)	278.9	(184.5)
Current income tax, net	11.6	(397.0)	--	153.6	(11.7)	278.9	28.1
Deferred tax assets	891.7	(41.7)	86.0	--	74.2	(8.1)	1,002.1
Deferred tax liabilities	(216.4)	137.7	--	--	(704.6) *	--	(783.3)
Deferred tax, net	675.3	96.0	86.0	--	(630.4)	(8.1)	218.8
Total		(301.0)	86.0	153.6			

* This amount represents mainly the deferred tax liability related to the intangible assets recognised in the framework of Gemalto's purchase price allocation.

a) Current income tax

Income tax paid is presented net of tax credits utilised. Tax credits allocated to tax payments during the current year or to tax to be paid in the coming year is presented under "Other".



b) Deferred tax

• **Changes by type**

	01/01/20	(Expense)/ Income for the period	Equity	Changes in exch. rates, scope and other	31/12/20
Temporary differences:	504.5	(48.2)	123.9	264.5	844.7
- pensions and similar benefits	581.9	(18.3)	163.7	(15.4)	711.9
- intangible assets	(693.4)	146.0	--	30.3	(517.1)
- provisions on contract	264.4	(27.4)	--	34.6	271.6
- other	351.6	(148.5)	(39.8)	215.0	378.3
Tax loss carry-forwards	484.6	138.8	--	(10.6)	612.8
Total before depreciation	989.1	90.6	123.9	253.9	1,457.5
Depreciation	(770.3)	(11.1)	(107.6)	(259.2)	(1,148.2)
Total net deferred tax assets	218.8	79.5	16.3	(5.3)	309.3

	01/01/19	(Expense)/ Income for the period	Equity	Changes in exch. rates, scope and other	31/12/19
Temporary differences:	852.5	76.2	133.6	(557.8)	504.5
- pensions and similar benefits	464.9	(19.1)	108.6	27.5	581.9
- intangible assets	(194.2)	83.4	--	(582.6)	(693.4)
- provisions on contract	273.7	9.3	--	(18.6)	264.4
- other	308.1	2.6	25.0	15.9	351.6
Tax loss carry-forwards	158.1	36.1	--	290.4	484.6
Total before depreciation	1,010.6	112.3	133.6	(267.4)	989.1
Depreciation	(335.3)	(16.3)	(47.6)	(371.1)	(770.3)
Total net deferred tax assets	675.3	96.0	86.0	(638.5)	218.8

• **Tax loss carry-forwards**

Total tax loss carry-forwards represent a potential tax saving of €612.8 million at 31 December 2020 (€484.6 million at 31 December 2019). The corresponding expiry dates are as follows:

	31/12/20		31/12/19
2021	3.4	2020	1.2
2022-2025	5.1	2021-2024	15.3
Beyond 2025	59.8	Beyond 2024	50.7
Not time limited	544.5	Not time limited	417.4
Total	612.8	Total	484.6
O/w, depreciated	(568.8)	O/w, depreciated	(433.1)
Net deferred tax asset	44.0	Net deferred tax asset	51.5

As described in note 13-j, only deferred tax assets related to tax losses which the Group expects to recover are recognised on the balance sheet. In particular, the Group takes into account any loss carry-forward limitations.



8. EQUITY AND EARNINGS PER SHARE

8.1 EQUITY

a) Share capital

At 31 December 2020, the share capital of Thales parent company amounted to €640,097,874 and comprised 213,365,958 shares with a par value of €3, compared with 213,317,506 shares at 31 December 2019. This represents an increase of 48,452 shares resulting from the exercise of share subscription options.

b) Outstanding securities giving access to the share capital

At 31st December 2020, there were no securities that gave access to the share capital of the company with the exception of the purchase options described in note 9.4.

c) Treasury shares

Thales parent company held 497,596 of its own shares at 31 December 2020. They were accounted for as a deduction from equity for an amount of €38.6 million.

In accordance with the authorisations granted to the Board of Directors by the Annual General Meeting, the Company carried out the following transactions in 2019 and 2020 :

	2020	2019
Treasury shares at 1 January	560,866	648,295
Purchases as part of a liquidity agreement	1,310,502	906,402
Disposals as part of a liquidity agreement	(1,285,002)	(993,676)
Transfer to employees as part of the employee share purchase plan	(42,645)	(506,515)
Delivery of free shares	(226,125)	(223,640)
Market purchases	180,000	730,000
Treasury shares at 31 December	497,596	560,866

At 31 December 2020 and 2019, as part of the liquidity agreement managed by Kepler Cheuvreux, the following numbers of shares were held in the liquidity account:

	2020	2019
Number of shares at 31 December	200,500	175,000
Value (€ million)	12.7	13.5

d) Translation adjustments

Translation adjustments result from the translation of financial statements of companies whose functional currency is not the euro, offset as applicable by the impact of derivative instruments denominated in foreign currencies to hedge net investments in foreign operations.

Translation adjustments are recorded in equity as "other comprehensive income", and are subsequently reclassified to income on the disposal date of related investments. They break down as follows:

	2020	2019
Translation adjustments at 1 January	(180.7)	(225.1)
Changes in value	(102.7)	44.3
Reclassified to profit and loss	–	0.1
Gross change	(102.7)	44.4
Deferred tax	–	--
Scope and other	0.2	--
Translation adjustments at 31 December	(283.2)	(180.7)

In 2020, the unfavorable change is mainly due to the evolution of the pound sterling.



e) Reserves for cash flow hedge

The Group uses foreign exchange derivatives to hedge against changes in the value of future cash flows related to commercial cash flows in foreign currencies. In the consolidated financial statements, the effective portion of changes in fair value of these derivatives is recognised directly in equity, until such time as the hedged flows affect profit and loss.

	2020	2019
Cash flow hedge at 1 January	(94.1)	(48.7)
Changes in value of derivatives	69.0	(28.3)
Reclassified to operating (income)/expense	53.1	(32.9)
Reclassified to income tax (benefit)/expense	(16.5)	15.8
Changes in scope and exchange rates	–	--
Cash flow hedge at 31 December*	11.4	(94.1)

* A negative balance at closing means that the exchange rates of the derivative instruments documented as hedges are generally less favourable than the exchange rates prevailing at the closing date.

f) Parent Company dividend distribution

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

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

On 3 March 2021, the Board of Directors decided to propose to shareholders, who will be convened to a General Meeting on 6th May 2021, the payment of a dividend of €1.76 per share.

If approved, the ex-dividend date will be 18th May 2021 and the payment date will be 20th May 2021. The dividend will be paid fully in cash and will amount to €1.36 per share, after deducting the interim dividend of €0,40 per share paid in December 2020.

Dividends paid in 2019 and 2020 are described below:

Year	Approved by	Description	Dividend per share (in euros)	Payment date	Payment method	Total (€ million)
2019	Board of Directors meeting on 30 September 2020	2020 Interim dividend	€0.40	Dec. 2020	Cash	€85.1 m
	General meeting on 6 May 2020	Balance 2019	None	N/A	None	None
	Total dividends paid in 2020					€85.1 m
2019	Board of Directors meeting on 25 September 2019	2019 Interim dividend	€0.60	Dec. 2019	cash	€127.5 m
	General meeting on 15 May 2019	Balance 2018	€1.58	May 2019	cash	€335.6 m
	Total dividends paid in 2019					€463.1 m
2018	Board of Directors meeting on 27 September 2018	2018 Interim dividend	€0.50	Dec. 2018	cash	€106.3 m



g) Non-controlling interests

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

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

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

8.2 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the *pro rata temporis* weighted average number of shares outstanding during the period, excluding treasury shares.

Diluted earnings per share take only into account instruments with a dilutive effect on earnings per share. The dilutive effect of share subscription and share purchase options, free shares and unit allotments is calculated using the treasury stock method, taking into account the average share price over the relevant period.

		2020	2019
Numerator (in € millions):			
Net income attributable to shareholders of the parent company	(a)	483.4	1,121.9
Denominator (in thousands):			
Average number of shares outstanding	(b)	212,704	212,502
Share subscription and share purchase options *		44	123
Free shares and units plans **		140	465
Diluted average number of shares outstanding	(c)	212,888	213,090
Net earnings per share (in euros)	(a) / (b)	2.27	5.28
Diluted net earnings per share (in euros)	(a) / (c)	2.27	5.26

Average share price	2020	2019
	74.58 €	99.48 €

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

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

9. EMPLOYEE BENEFITS

9.1 CONSOLIDATED HEADCOUNT

Consolidated headcount includes all employees of fully consolidated companies. It does not include employees of equity affiliates. At end 2020, Thales's headcount stood at 80,702 compared to 82,605 at end 2019.

Three-quarters of the headcount comprises employees with grades equivalent to engineer, specialist or manager.

9.2 PERSONNEL EXPENSES

	2020	2019
Wages and salaries and payroll taxes*	(7,268.0)	(7,220.1)
Defined-benefit pension expense: current service cost (note 9.3)	(135.9)	(120.5)
Share-based payments (note 9.4)	(15.3)	(47.9)
Total	(7,419.2)	(7,388.5)

* These amounts include defined-contribution pension expenses, employee profit-sharing and incentive plans.



9.3 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

The Group grants to its employees post-employment benefits (pensions, end-of-career severance, medical coverage, etc.) and other long-term benefits (long-service and jubilee awards, etc.).

a) Description of the plans

The Group's existing plans are either defined-contribution plans or defined-benefit plans.

• Defined-contribution plans

In certain countries, the Group pays contributions based on salaries to state organisations overseeing basic pension schemes (e.g., *Securité Sociale* or the compulsory supplementary schemes ARRCO and AGIRC in France). Beyond these basic pension schemes, Thales also contributes to other defined-contribution plans (e.g., in the Netherlands and the United Kingdom since 2002). These plans do not impose any obligations on the Group other than the payment of contributions: there is no related benefit obligation and contributions are expensed in the period they are incurred.

• Defined-benefit plans

Defined-benefit plans relate to different types of benefits:

- pensions and end-of-career indemnities (legal or contractual), and other long-term benefits (jubilee awards, etc.), particularly in France. In general, these commitments are not covered by any assets;
- supplementary pension schemes, mainly in the United Kingdom, where the main scheme, "Thales UK Pension Scheme," provides a pension based on the beneficiary's average salary, indexed to inflation. This plan has been closed to new entrants since 2002, and is managed by a trust according to minimum local funding regulations.

The present value of the Group's obligations and the value of plan assets are measured independently. A provision is recognised if the value of the assets is insufficient to cover the obligations.

b) Provisions recognised on the balance sheet

	2020	2019
Provision at 1 January	(2,945.2)	(2,326.7)
Current service cost (income from operations)	(135.9)	(120.5)
Amendments and settlements (non-recurring operating income)	(2.3)	34.5
Interest expense	(34.9)	(49.0)
Pension fund management cost	(5.9)	(6.8)
Actuarial gains and losses on other long-term benefits	(4.3)	(13.1)
Finance costs on pensions and other long-term employee benefits	(45.1)	(68.9)
Total expense for the period	(183.3)	(154.9)
Actuarial gains and losses (other comprehensive income) *	(646.3)	(519.7)
Benefits and contributions	261.5	245.9
<i>Of which, deficit payment in the United Kingdom</i>	<i>98.0</i>	<i>98.1</i>
<i>Of which, other benefits and contributions</i>	<i>163.5</i>	<i>147.8</i>
Translation adjustment	69.0	(54.8)
Changes in scope of consolidation and other	2.9	(135.0)
Provision at 31 December	(3,441.4)	(2,945.2)
Of which: Post-employment benefits	(3,176.1)	(2,690.9)
Other long-term benefits	(265.3)	(254.3)

* Mainly due to the decrease of the actuarial rates, especially in United Kingdom



c) Changes in defined benefit obligations and plans assets

2020	UK	France	Other	Total
Obligation at 1 January	(4,811.1)	(1,422.5)	(816.0)	(7,049.6)
Current service cost	(22.4)	(82.6)	(30.9)	(135.9)
Interest cost	(90.4)	(10.6)	(7.8)	(108.8)
Plan participant contributions	(8.4)	--	--	(8.4)
Amendments/settlements	(3.0)	3.2	(2.5)	(2.3)
Experience gains (losses)	10.5	(46.3)	(8.2)	(44.0)
Actuarial gains (losses)/financial assumptions	(623.6)	(96.0)	(18.3)	(737.9)
Actuarial gains (losses)/demographic assumptions	(0.2)	(0.1)	(0.3)	(0.6)
Actuarial gains (losses) on long-term benefits	--	(1.7)	(2.6)	(4.3)
Benefits paid by plan assets	170.2	2.8	15.5	188.5
Benefits paid by employer	0.7	103.9	33.1	137.7
Changes in scope, exchange rates and other	263.2	1.5	7.4	272.1
Obligation at 31 December	(5,114.5)	(1,548.4)	(830.6)	(7,493.5)
Plan assets at 1 January	3,669.3	157.4	277.7	4,104.4
Expected return on plan assets	69.8	1.1	3.0	73.9
Employer's contribution	115.9	0.4	7.5	123.8
Plan participant contributions	8.4	--	--	8.4
Amendments/settlements	--	--	--	--
Benefits paid by plans assets	(170.2)	(2.8)	(15.5)	(188.5)
Experience gains (losses)	121.5	(1.1)	15.8	136.2
Changes in scope, exchange rates and other	(202.5)	0.1	(3.7)	(206.1)
Plan assets at 31 December	3,612.2	155.1	284.8	4,052.1
Provisions at 31 December	(1,502.3)	(1,393.3)	(545.8)	(3,441.4)
2019	UK	France	Other	Total
Obligation at 1 January	(4,029.7)	(1,183.2)	(602.2)	(5,815.1)
Current service cost	(19.6)	(68.0)	(32.8)	(120.4)
Interest cost	(115.0)	(18.4)	(13.6)	(147.0)
Plan participant contributions	(9.0)	--	(2.1)	(11.1)
Amendments/settlements	12.6	21.9	--	34.5
Experience gains (losses)	0.2	(36.2)	(11.1)	(47.1)
Actuarial gains (losses)/financial assumptions	(530.9)	(141.6)	(69.9)	(742.4)
Actuarial gains (losses)/demographic assumptions	(0.5)	(4.4)	2.5	(2.4)
Actuarial gains (losses) on long-term benefits	--	(8.5)	(4.6)	(13.1)
Benefits paid by plan assets	165.1	2.8	11.0	178.9
Benefits paid by employer	2.6	89.2	27.0	118.8
Changes in scope, exchange rates and other	(286.9)	(76.1)	(120.2)	(483.2)
Obligation at 31 December	(4,811.1)	(1,422.5)	(816.0)	(7,049.6)
Plan assets at 1 January	3,164.9	147.9	175.6	3,488.4
Expected return on plan assets	91.5	2.3	4.2	98.0
Employer's contribution	115.0	2.0	10.1	127.1
Plan participant contributions	9.0	--	2.1	11.1
Amendments/settlements	--	--	--	--
Benefits paid by plans assets	(165.1)	(2.8)	(11.0)	(178.9)
Experience gains (losses)	241.1	7.6	23.5	272.2
Changes in scope, exchange rates and other	212.9	0.4	73.2	286.5
Plan assets at 31 December	3,669.3	157.4	277.7	4,104.4
Provisions at 31 December	(1,141.8)	(1,265.1)	(538.3)	(2,945.2)

d) Actuarial assumptions used

The actuarial assumptions used are determined according to the economic environment and specific criteria of each country and each system. The most sensitive assumptions are as follows :

2020	UK	France
Inflation rate	2.94%	1.00%
Discount rate	1.34%	0.35%
Average duration of the plans	17 years	10 years
2019	UK	France
Inflation rate	2.97%	1.15%
Discount rate	2.00%	0.73%
Average duration of the plans	17 years	10 years

For each country, the discount rates are obtained by reference to the Iboxx Corporate AA index, which reflects the rate of return of very high-quality corporate bonds, with maturity dates equivalent to the duration of the plans being measured, and in the same currency.

At 31 December 2020, the sensitivity of the net obligation to a change in the discount rate is as follows:

Sensitivity in basis points	+25	+50	+100	-25	-50	-100
Decrease (increase) in provision (in € millions)	292.8	547.7	1,015.3	(278.4)	(583.1)	(1,248.5)

In the United Kingdom, a 25 basis-point increase in the inflation rate would lead to a €124.7 million increase in the obligation. Conversely, a 25 basis-point decrease in the inflation rate would lead to a €114.8 million decrease in the obligation.

e) Allocation and return on plan assets

Plan assets generated an actual average return of 5.1% in 2020, compared to 10.6% in 2019. At 31 December 2020, the allocation of assets, mainly invested in the United Kingdom, breaks down as follows:

	2020	2019
Fixed-rate bonds	24%	25%
Index-linked bonds	13%	13%
Equities	27%	28%
Alternative placement	36%	34%
Total	100%	100%

f) Funding

Thales is subject to funding obligations in respect of its defined-benefit pension commitments in the United Kingdom.

In accordance with the regulations in force, the level of funding for its pension obligation is re-measured every three years, further to which the suitability of a new funding plan and/or the implementation of guarantees for the plan is decided in consultation with the trustees.

The latest measurement, based on the situation at end 2017, led from 2019, to an annual contribution of £75 million for the main Thales UK Pension scheme (£5 million for other schemes) to reduce the funding shortfall. A new assessment will be carried out based on the situation at the end of 2020.

In support of the contributions made by Thales UK Ltd to the British pension plans, Thales parent company has also guaranteed the future liabilities linked to the funding plans for the subsidiaries concerned. At 31 December 2020, the balance of these guarantees was £900 million.



9.4 SHARE-BASED PAYMENT

At 31 December 2020, the following options, shares and units were outstanding:

- 43,305 share purchase options with a weighted average exercise price of €26.34 ;
- 908,889 free shares ;
- 467,297 phantom shares, payable in cash at the end of a four-year vesting period

All of these plans are submitted to internal performance conditions over the three financing years following their grant date. The features of these plans are described in chapter 6.2 of the 2019 Registration Document.

a) Outstanding share subscription option plans

Date of Board decision	Exercise period	Exercise price	Number of options outstanding at 31/12/2019	Options exercised in 2020	Options cancelled in 2020	Number of options outstanding at 31/12/2020
15/09/2011	15/09/2015 to 14/09/2021	€26.34	54,603	(9,252)	(2,046)	43,305
23/09/2010	23/09/2014 to 22/09/2020	€26.34	39,200	(39,200)	--	--
						43,305

b) Allotment of free shares

Date of Board decision	Vesting period	Share price at grant date	Number of free shares at 31/12/2019	Shares allotted in 2020	Shares cancelled in 2020 *	Shares issued in 2020	Number of free shares at 31/12/2020
24/11/2020	24/11/2020 to 24/11/2024	€79.60	--	375,235	--	--	375,235
25/09/2019	25/09/2019 to 25/09/2023	€104.50	325,545	--	(82,566)	--	242,979
27/09/2018	27/09/2018 to 27/09/2022	€121.75	179,790	--	(44,592)	(195)	135,003
28/09/2017	28/09/2017 to 28/09/2021	€94.66	208,210	--	(52,288)	(250)	155,672
27/10/2016	27/10/2016 to 27/10/2020	€83.10	84,290	--	(1,480)	(82,810)	--
			142,590	--	280	(142,870)	--
							908,889

* Of which, respectively for the 2017, 2018 and 2019 plans: 50,068, 43,107 and 78,341 shares cancelled as a result of the failure to achieve the performance targets for financial year 2020.

c) Allotment of phantom shares indexed to the value of Thales shares

Date of the allocation decision	Vesting period	Number of phantom shares at 31/12/2019	Phantom shares issued in 2020	Phantom shares cancelled in 2020 *	Phantom shares delivered in 2020	Number of phantom shares at 31/12/2020
24/11/2020	24/11/2020 to 24/11/2024	--	224,160	--	--	224,160
25/09/2019	25/09/2019 to 25/09/2023	211,070	--	(57,931)	--	153,139
27/09/2018	27/09/2018 to 27/09/2022	61,775	--	(17,378)	--	44,397
28/09/2017	28/09/2017 to 28/09/2021	62,950	--	(17,349)	--	45,601
27/10/2016	27/10/2016 to 27/10/2020	37,150	--	(2,900)	(34,250)	--
		34,170	--	(4,700)	(29,470)	--
						467,297

* Of which, respectively for the 2017, 2018 and 2019 plans: 14,979, 14,258 and 49,336 phantom shares cancelled as a result of the failure to achieve the performance targets for finance year 2020.



d) Expenses related to share-based payments

In the consolidated financial statements, the benefit granted to beneficiaries of the above-mentioned plans is recognised as an operating expense. These amounts are presented below:

Plans	Residual fair value at the end of 2020	2020 expense	2019 expense
Free shares	47.1	(13.4)	(15.5)
Share units indexed to the value of the Thales share	--	--	(11.0)
<i>Phantom shares and other schemes*</i>	21.8	(1.3)	(5.1)
Employee share purchase plan	--	--	(7.6)
Social contributions related to the plans	11.3	(0.6)	(8.7)
Total	80.2	(15.3)	(47.9)

Of which, offsetting entries:

Shareholders' equity	13.4	26.3
Debt	1.9	21.6

* In 2020, this line includes the expense relating to the long-term incentive plan (LTIP) of the Chairman and CEO the conditions of which are described in the concerned years Registration our Universal Registration documents.

The 2020 expense includes the impact of the cancellation of certain instruments on the 2017, 2018 and 2019 plans.

9.5 COMPENSATION OF DIRECTORS AND SENIOR CORPORATE OFFICERS

Expenses recognised in respect of compensation, benefits and social security contributions attributed to Directors and members of the Executive Committee are as follows:

	2020	2019
Short-term benefits:		
- Fixed compensation	6.7	6.2
- Variable compensation	3.3	5.2
- Severance payment	2.4	--
- Employer social security contributions	4.0	3.6
- Board attendance fees	0.6	0.6
Other benefits (including social contributions):		
- Post-employment benefits	3.8	3.0
- Share-based payments	1.5	5.1

At 31 December 2020, the share of directors and senior corporate officers in net Group pension obligations (note 9.3) amounted to €21.1 million.



10. CURRENT OPERATING ASSETS AND LIABILITIES

Current operating assets and liabilities include working capital (WCR) components and reserves for contingencies, as defined in note 13-d. The changes in these items are presented below:

Evolution over the period	01/01/19	Change in WCR and reserves	Scope exch. rate and reclass	31/12/19	Change in WCR and reserves	Change in WCR and reserves	31/12/20
Inventories, work in progress and set up costs	3,080.6	219.4	431.3	3,731.3	(149.4)	(73.4)	3,508.5
Contract assets	2,538.4	335.2	215.3	3,088.9	(97.5)	(56.2)	2,935.2
Advance to suppliers	652.3	(122.5)	19.7	549.5	(111.3)	(4.3)	433.9
Accounts, notes and other receivables	4,671.7	(13.8)	581.6	5,239.5	(109.4)	(91.8)	5,038.3
Current derivatives - assets	91.6	34.8	(16.8)	109.6	162.0	(17.4)	254.2
Contract liabilities	(6,108.2)	(92.3)	(214.4)	(6,414.9)	(139.8)	101.2	(6,453.5)
Reserves for contingencies	(1,730.8)	(44.1)	(185.1)	(1,960.0)	104.0	(196.2)	(2,052.2)
Accounts, notes and other payables	(6,148.5)	4.5	(669.7)	(6,813.7)	702.8	112.9	(5,998.0)
Current derivatives - liabilities	(273.7)	--	123.2	(150.5)	--	16.5	(134.0)
Net WCR and reserves	(3,226.6)	321.2	285.1	(2,620.3)	361.4	(208.7)	(2,467.6)
Restructuring provision	62	20.1	18.6	100.7	58.9	2.7	162.3
Increase (decrease) in WCR and reserves		341.3			420.3		

10.1 INVENTORIES, WORK IN PROGRESS, AND SET-UP COSTS

	31/12/20	31/12/19
Goods	105.4	91.9
Raw materials	1,018.2	1,136.7
Semi-finished and finished goods	1,876.4	1,961.1
Work in progress	1,079.0	1,174.1
Gross value	4,079.0	4,363.8
Depreciation	(745.0)	(809.0)
Inventories and work in progress, net	3,334.0	3,554.8
Gross	757.3	744.1
Depreciation	(582.8)	(567.6)
Set-up costs, net	174.5	176.5
Total	3,508.5	3,731.3

10.2 CONTRACT ASSETS AND LIABILITIES

	31/12/20	31/12/19
Unbilled receivables, gross	11,176.6	10,804.6
Unbilled receivables, depreciation	(16.9)	(12.5)
Advances received from customers	(8,224.5)	(7,703.2)
Contract assets	2,935.2	3,088.9
Advances received from customers	(9,929.1)	(8,898.5)
Unbilled receivables	5,331.3	4,287.5
Deferred income	(1,855.7)	(1,803.9)
Contract liabilities	(6,453.5)	(6,414.9)

For a given contract, a contract asset (liability) represents the accumulated revenue not yet invoiced, less advances received from customers. This amount increases as and when revenue is recognised, and decreases when invoices are issued to the customers or advance payments are received.



10.3 RESERVES FOR CONTINGENCIES

	01/01/20	Utilisation	Additions	Reversal (surplus)	Exch. rates and other	31/12/20
Restructuring	100.7	(29.0)	100.5	(12.6)	2.7	162.3
Technical and other litigation	212.0	(51.6)	42.3	(16.0)	**187.1	373.8
Guarantees	370.4	(86.1)	100.0	(27.8)	(5.0)	351.5
Losses at completion	658.2	(195.1)	104.7	(13.8)	(6.6)	547.4
Provisions on contracts	397.7	(65.6)	92.2	(42.3)	10.1	392.1
Other *	221.0	(49.7)	61.8	(11.5)	3.5	225.1
Total	1,960.0	(477.1)	501.5	(124.0)	191.8	2,052.2

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

* This line includes technical provisions of insurance companies, provisions for labour-related risks, vendor warranties, environmental guarantees and other. Reserves for tax risks linked to income tax (€34 million) have been reclassified to income tax liabilities for the year 2019.

** Reserves recognized in the context of the finalisation of the Gemalto's purchase price allocation.

The breakdown of restructuring costs is as follows:

	2020	2019
Additions for the period	(100,5)	(81,9)
Utilisation for the period	29,0	51,4
Reversals for the period	12,6	10,4
Net	(58,9)	(20,1)
Expenses for the period	(114,7)	(102,1)
Restructuring costs	(173,6)	(122,2)

10.4 MATURITY OF CURRENT RECEIVABLES AND PAYABLES

The amounts presented in the balance sheet for this item break down as follows:

	31/12/20			31/12/19
	Total	< 1 year	> 1 year	Total
Accounts and accrued receivables gross	3,439.1	3,264.1	175.0	3,625.2
Accounts and accrued receivables depreciation	(153.7)	(106.2)	(47.5)	(121.7)
Accounts and accrued receivables, net	3,285.4	3,157.9	127.5	3,503.5
Tax receivables (excluding income tax)	1,167.9	1,095.4	72.5	1,194.1
Other receivables, gross	594.6	538.2	56.4	550.6
Other receivables, depreciation	(9.6)	(9.8)	0.2	(8.7)
Other receivables, net	1,752.9	1,623.8	129.1	1,736.0
Account, notes and other receivables	5,038.3	4,781.7	256.6	5,239.5
Accounts and notes payable	2,215.1	2,213.3	1.8	2,960.5
Accrued holiday pay and payroll taxes	1,810.9	1,763.3	47.6	1,854.8
Tax payables (excluding income tax)	1,211.9	1,210.6	1.3	1,122.6
Other creditors and accrued liabilities	760.1	737.4	22.7	875.8
Accounts notes and other payables	5,998.0	5,924.6	73.4	6,813.7



The changes in provisions on accounts and notes receivable break down as follows:

	31/12/19	Additions / reversal	Exchange rate and scope	31/12/20
Provisions on accounts and notes receivable	(121.7)	(19.4)	(12.6)	(153.7)

The Group may assign trade receivables, mainly from the French State, and commercial paper. At 31 December 2020, outstanding derecognised receivables amounted to €294.1 million (€715.2 million at 31 December 2019). The variation of outstanding receivables mainly comes from the high level of overdue receivables on the French government at 31 December 2019.

Since these assignments are without recourse in case of debtor default, the receivables in question are subject to "de-recognition" of the asset.

10.5 COMMITMENTS LINKED TO COMMERCIAL CONTRACTS

The Group's contractual commitments towards its counterparties (mainly its customers) can be subject to three types of guarantees or warranties:

a) Bank guarantees

- **Bid bonds:** In the ordinary course of its activities, the Group regularly responds to invitations to tender. When requested by the customer, bid bonds are delivered in order to demonstrate the definitive nature of the bid and to indemnify the customer if the Group fails to meet its commitments. At 31 December 2020, bid bonds issued amounted to €24.5 million (€32.0 million at 31 December 2019).
- **Performance bonds:** From the signature of a contract up until its completion, the Group may also issue performance bonds for its customers, with a bank acting as an intermediary, in order to cover the payment of damages to the customer in the event that the Group does not meet its contractual commitments. At 31 December 2020, performance bonds amounted to €1,926.5 million (€1,976.6 million at 31 December 2019). Technical, operational and financial costs incurred by the Group in order to meet its obligations are valued on a contract-by-contract basis, and are included in the cost to completion of the contract. Where this is not the case, a provision is set aside in the consolidated financial statements for any potential risk, estimated on a contract-by-contract basis.
- **Advance payment bonds:** In order to finance contract execution, the Group may receive advance payments from its customers, in accordance with contractual terms, which are recognised in liabilities in the balance sheet. In order to guarantee reimbursement of these advance payments if the contractual obligations are not met, the Group may deliver, at the customer's request, an advance payment bond. At 31 December 2020, advance payment bonds amounted to €2,310.2 million (€2,099.2 million at 31 December 2019).
- **Warranty retention bonds:** The Group evaluates and sets aside provisions for warranty costs in order to guarantee the conformity of goods sold to the customer during the contractual warranty period. In many cases, the provisional withholding of payment contractually applying during this period can be replaced by a warranty retention bond using a bank as intermediary. At 31 December 2020, warranty retention bonds amount to €217.1 million (€159.0 million at 31 December 2019).

The maturity dates of these commitments are:

	< 1 year	1 to 5 years	> 5 years	31/12/20	31/12/19
Bid bonds	20.6	2.6	1.3	24.5	32.0
Performance bonds	887.6	737.2	301.7	1,926.5	1,976.6
Advance payment bonds	1,379.0	715.6	215.6	2,310.2	2,009.2
Warranty retention bonds	114.5	63.9	38.7	217.1	159.0
Other bank bonds	152.0	94.4	85.4	331.8	275.8
Total	2,553.7	1,613.7	642.7	4,810.1	4,452.6



b) Parent company guarantees

Parent company guarantees are issued by Thales parent company and are intended to guarantee the obligations of its subsidiaries mainly to their customers under commercial contracts, but also occasionally to suppliers under long-term service purchase commitments.

They may also be issued to financial institutions, in order to improve the conditions of supports they grant to some subsidiaries.

At December 2020, these guarantees amounted to €14,148.9 million (€15,278.5 million at 31 December 2019).

c) Offsetting commitments

The awarding of major contracts, particularly within the defence sector, may be subject to legal or regulatory offsetting of the execution of local obligations, which can take the form of direct offsetting, semi-direct offsetting or indirect offsetting.

The associated risks are described in section 1.1.2.1.10 of the 2019 universal registration document.

11. LITIGATION

At the date of publication, there are no government, judicial or arbitration claims of which the Group is aware, which are pending or threatened and which could have or have had, any significant effect on the financial position or profitability of the Company and/or the Group in the last 12 months.

12. SUBSEQUENT EVENTS

To the best of the group's knowledge, no significant event occurred after the end of the reporting.



13. ACCOUNTING POLICIES

a) Presentation of the financial statements

Consolidated profit and loss account

Expenses in the income statement are presented analytically by purpose.

Income from operations is equal to income of operating activities before taking into account:

- gains and losses on disposals of property, plant and equipment and intangible assets, businesses or investments;
- the impact of changes in scope on consolidated net income before tax (note 13-b);
- the impact of the amendment, curtailment or settlement of pension plans and other long-term benefits;
- the impairment of non-current assets;
- other operating items resulting from unusual events, with a material impact on the financial statements.

Consolidated balance sheet

A significant portion of the Group's activities in its different business segments have long-term operating cycles. Accordingly, assets (liabilities) that are usually realised (settled) within the entities' operating cycles (inventory, accounts receivable and payable, advance payments, reserves, etc.) are classified in the consolidated balance sheet as current assets and liabilities, with no distinction between the amounts due within one year and those due after one year.

Consolidated statement of cash flows

The statement of cash flows provides an analysis of the change in cash and cash equivalents, as presented in the balance sheet and defined in note 13-l. The statement of cash flows is prepared using the indirect method based on consolidated net income and is broken down into three categories:

- net cash flow from operating activities, including interest. Income tax payments are included in this caption, except when directly associated to investing or financing activities;
- net cash flow used in investing activities, including net operating investments (acquisition and disposal of property, plant and equipment and intangible assets, capitalisation of development costs) and net financial investments;
- net cash flow used in financing activities including dividends paid, capital subscriptions (exercise of options by employees), the purchase/sale of treasury shares, the issuance and repayment of debt, and changes in bank overdrafts, etc.

The Group also discloses the changes in its **net cash**, which is a non-GAAP measure. It includes financial debt, net of cash and cash equivalents and liquid investments. Changes in net cash, presented in note 6.3, notably reflect **free operating cash flow**, defined as net cash flow from operating activities less net operating investments, plus the deficit payment linked to UK pension plans.

Adjusted net income

In order to monitor and compare its operating and financial performances, the Group presents the following key indicators:

EBIT, corresponding to income from operations plus the share in net income of equity affiliates. This total is then adjusted for entries directly related to business combinations (amortisation of assets recognized in the context of purchase price allocation and other acquisition-related expenses).

Adjusted net income, the calculation of which is presented in the Group's management report. It corresponds to consolidated net income attributable to shareholders of the parent company, less the following items, net of the corresponding tax impacts:

- amortisation of assets valued when determining the purchase price allocation (business combinations);
- other expenses directly related to these business combinations;
- impairment of non-current assets;
- gains and losses on disposal of assets, changes in scope of consolidation and others;
- changes in the fair value of derivative foreign exchange instruments, recognised in "Other financial income and expenses";
- actuarial gains and losses on long-term employee benefits, included in "Finance costs on pensions and other employee benefits".

Adjusted net income per share corresponds to the adjusted net income attributable to shareholders of the parent company, divided by the average number of shares outstanding during the period concerned.



Off-balance sheet commitments

Disclosures regarding off-balance sheet commitments are presented in the following notes:

- Note 9.3-f: funding obligations in respect of pensions;
- Note 10.5: commercial contract commitments.

Related parties

The Group has identified the following related parties: shareholders of Thales SA (parent company), notably the French State and Dassault Aviation, companies controlled by these shareholders, companies under joint control or significant influence, Directors and Senior Corporate Officers.

Section 6.2.3.3 of the 2019 Universal Registration Document describes the main provisions concerning the shareholders' agreement governing relations between the French State ("Public Sector") and Dassault Aviation ("Industrial Partner") within Thales, the convention on the protection of national strategic interests and the specific convention binding the State and Thales.

Information related to transactions with related parties is presented in the following notes:

- Sales with the French State (mainly with the *Direction Générale de l'Armement*, the French defence procurement agency) in note 6.6-b;
- Transactions with equity affiliates in note 5.3.

Transactions with other related parties are not material.

Expenses recognised in respect of compensation, benefits and social security contributions attributable to Directors and members of the Executive Committee are presented in note 9.5.

b) Scope of consolidation and changes in scope

Scope of consolidation

The financial statements of material subsidiaries directly or indirectly controlled by Thales are fully consolidated. The financial statements of material subsidiaries jointly controlled by Thales (Joint Ventures) or in which the Group has significant influence (associates) are accounted for under the equity method.

The main consolidated companies are listed in note 15.

The full list of affiliates outside of France is available on the Group's website

([https:// www.thalesgroup.com/en/global/corporate-responsibility/corporate-social-responsibility](https://www.thalesgroup.com/en/global/corporate-responsibility/corporate-social-responsibility)).

Business combinations

Business combinations are accounted for under the acquisition method as described in IFRS 3. Under this method, the Group recognises identifiable assets acquired and liabilities assumed at fair value on their acquisition date. It also recognises non-controlling interests in an acquiree on their acquisition date.

Non-controlling interests are measured either at fair value or proportionate to the share of the identifiable net assets. This is determined on a case-by-case by the Group depending on the option it applies.

Acquisition-related costs (valuation fees, consulting fees, etc.) are recognised under "other operating expenses" as incurred.

Negative goodwill is immediately recognised in "other operating income". Positive goodwill related to controlled companies is recognised in balance sheet assets under intangible assets. Positive goodwill related to equity affiliates is recognised under "investments in joint-venture / associates".

Goodwill is not amortised but is subject to impairment tests each year. Goodwill impairment is booked as an expense under "impairment" and may not be reversed. Goodwill impairment related to equity affiliates is recognised in "share in net income of equity affiliates" and may be reversed.



c) Revenue

The Group's principles of revenue recognition are the following:

Unbundling of multiple performance obligations within a single contract

Some contracts include the supply to the customer of distinct goods and services (for instance contracts combining building of assets, followed by operation and maintenance). In such situations, the contract must be segmented into several components ("*performance obligations*"), each component being accounted for separately, with its own revenue recognition method and margin rate.

The contract price is allocated to each performance obligation in proportion to the specific selling price of the underlying goods and services. This allocation should reflect the share of the price to which Thales expects to be entitled in exchange for the supply of these goods or services.

Options notified by the customer for the supply of distinct additional goods or services are generally accounted for separately from the initial contract.

Evaluation of revenue allocated to performance obligations

Variable considerations included in the selling price are taken into account only to the extent that it is highly probable that a significant reversal in the amount of revenue already recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Penalties for late delivery or for the improper execution of a performance obligation are recognised as a deduction from revenue.

If the financing component is deemed significant, the selling price is adjusted to reflect a "cash" selling price for the goods and services provided. A financing component exists when parties have agreed to set up a financing to the advantage of one of them, through contractual terms.

Revenue includes income from claims only when it is highly probable that such claims will be accepted by the customer.

Contractual amendments negotiated with customers are included in the selling price only when they become legally enforceable.

Recognition of revenue over time or at a point in time

Revenue associated with each performance obligation identified within a contract is recognised when the obligation is satisfied, i.e., when the control of the promised goods or services is transferred to the customer.

To demonstrate that the transfer of goods is progressive and recognise revenue over time, the following cumulative criteria are required:

- The goods sold have no alternative use, and
- The Group has an irrevocable right to payment (corresponding to costs incurred, plus a reasonable profit margin) for the work performed to date, in the event of termination for reasons other than Thales' failure to perform as promised.

These criteria are fulfilled by the vast majority of Group contracts that include the design and delivery of complex goods.

Revenue from the sale of goods with an alternative use, and/or for which the Group has no enforceable right to payment in case of termination for convenience by the customer, is recognised when the goods are delivered to the customer. This essentially concerns equipment (mainly in civil avionics) and spare parts.

Revenue from service contracts is generally recognised over time, as the customer simultaneously receives and consumes the benefits of these services provided by Thales.

Percentage of completion method

The percentage of completion method generally used by the Group is expense-based: revenue is recognised based on costs incurred to date in relation to all the costs expected upon completion.

Margin recognition

Expected losses on contracts are fully recognised as soon as they are identified, pursuant to the provisions of IAS 37 on onerous contracts.



Order book

Order book (as disclosed in note 2.3) corresponds to the amounts of the selling price allocated to the performance obligations not yet unsatisfied (or partially unsatisfied) at the closing date.

d) Operating assets and liabilities

Inventories and work in progress

Inventories and work in progress are carried at their production cost (determined using the FIFO or weighted-average cost method) and written down when their net sale value becomes lower than the production cost. Work in progress, semi-finished and finished goods are stated at direct cost of raw materials, production labour and subcontractor costs incurred during production, plus an appropriate portion of production overhead and any other costs that can be directly allocated to contracts.

When material, the cost of debt incurred during the construction period of a qualifying asset is incorporated in the value of this asset. If the funding is specific, the loan interest rate is used, otherwise the Group's financing rate is used.

Set-up costs

These costs cover preparatory work, not directly financed by the customer but necessary for the execution of the contract. They do not participate to the determination of the percentage of completion of the contract. They are capitalised and amortised as and when the revenue is recognised.

Contract assets and liabilities

The cumulated amount of revenue accounted for, less progress payments and accounts receivable (presented on a dedicated line of the balance sheet) is determined on a contract-by-contract basis. If this amount is positive, the balance is recognised under "contract assets" in the balance sheet. If it is negative, the balance is recognised under "contract liabilities".

Customer receivables

A receivable is an unconditional right to payment by the customer.

Impairment losses are accounted for, based on a prospective assessment of the credit risk on the initiation of the receivable, and its deterioration over time. The changes in impairment are presented in note 10.4.

The Group is authorised to assign trade receivables, mainly from the French State, and commercial paper. As these assignments, which are without recourse in case of default by the debtor, involve the transfer of substantially all corresponding risks and rewards (Thales holding the dilution risk), they are "derecognised." Thales' continued involvement (as this is defined by IFRS 7) in the transferred receivables corresponds to the keeping of the recovery mandate.

e) Research and development expenses

A significant share of research and development expenses is funded by customers and government agencies. Internally funded research and development expenses are charged to the profit and loss account as incurred, except for project development costs which meet the criteria of capitalization below:

- the product or process is clearly defined, and costs are separately identified and reliably measured;
- the technical feasibility of the product or project is clearly demonstrated, and the Group's experience in this area is established;
- adequate resources are available to complete the project successfully;
- a potential market for the products exists or their usefulness, in case of internal use, is demonstrated;
- the company intends to produce and market, or use the new product or process, and can demonstrate its profitability. Profitability is assessed on the basis of prudent commercial assumptions in order to reflect contingencies inherent to the long cycles of the Group's activities, in particular Aerospace. Minimum internal rates of return are required in the case of projects deemed risky.

Capitalised development costs mainly relate to the Group's Aerospace and Security activities, for which the developed products are relatively generic and can be sold to a large number of potential customers. By contrast, development costs linked to Defence activities are for more specific and restricted markets with a limited number of players: the specific features of the products developed make it harder to share development work and therefore harder to capitalise the associated costs.

Development costs are then amortised over the useful life of the product. The method of amortisation is generally determined by reference to expected future quantities over the period in which future economic benefits will be earned. If the method cannot be determined reliably, straight-line amortisation is adopted. The period of amortisation depends on the type of activity.



Assets are also subjected to impairment loss tests. The terms and assumptions taken into account to conduct these tests are described in note 4.1. These impairment losses can be reversed. Impairment loss reversal criteria are identical to those retained when first capitalising development costs on a new project.

The Group receives tax credits related to research carried out by its subsidiaries. These tax credits are considered as operating grants and are therefore included in income from operations, when their award is not dependent on the generation of taxable income. Otherwise, they are recognised as a deduction from income tax expense.

f) Restructuring costs

Provisions for restructuring costs are accounted for when restructuring programmes have been agreed and approved by a competent body and have been announced before the balance sheet date, resulting in an obligating event of the Group to the third parties in question, as long as the Group does not expect compensation for these costs.

These costs primarily relate to severance payments, costs for notice periods not worked and other costs linked to the closure of facilities such as write-offs of fixed assets. These costs and the costs directly linked to restructuring measures (removal costs, training costs of transferred employees, etc.) are recognised under "restructuring costs" in the profit and loss account.

g) Property, plant and equipment and intangible assets

Intangible assets

The Group's intangible assets mainly include:

- goodwill (note 13-b),
- assets acquired in business combinations, primarily acquired technologies, customer relationships and the order book. These assets are recognised at fair value and amortised over their useful lives. The fair value of the assets is based on the market value. If no active market exists, the Group uses methods based on forecasts of the present value of the expected future operating cash flows (excess earnings method, royalty method, etc.).
- capitalised development costs (note 13-e).

Intangible assets are submitted to impairment tests.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of any accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment is generally calculated on the basis of the following typical useful lives:

- 20 years for buildings;
- 1 to 10 years for technical facilities and industrial equipment and tooling;
- 5 to 10 years for other property, plant and equipment (vehicles, fixtures, etc.).

The depreciable amount takes into account the residual value of the asset. The various components of property, plant and equipment are recognised separately when their estimated useful lives or patterns of use, and thus the period over which they are depreciated or the depreciation methods applicable to them, are materially different.

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset.



h) Leases

Contracts defined as a lease according to IFRS16 (that is to say contracts which give the lessee a right to control the use of an identified asset for a period of time in exchange for consideration) are accounted for in the balance sheet, with the exception of low value assets and contracts with a duration below 12 months (by simplification, as allowed by the standard). In the Group's financial statements, lease contracts accounted for in the balance sheet are mainly real estate contracts (offices and production sites) and, in a lesser extent, service vehicles and few IT equipment.

Leases are accrued on the balance sheet at the date when the underlying asset is made available to the lessee. The lease liability is accrued against a right to use the rent asset, and is equal to the committed future lease payments discounted over the duration of the lease, as well as the exercise price of the options when it is reasonably certain that they will be exercised. The right-of-use asset is adjusted, if applicable, by the payments made in advance to the lessor, the initial direct costs incurred net of the incentives received by the lessor, and dismantling costs when an obligation is identified.

In the case of real estate contracts, the initial lease term retained for the lease liability calculation corresponds to the contractual term which is usually non-cancellable, the Group accepting most of the time to renounce to early termination options in order to benefit from favorable economic conditions. For these contracts, renewal options are generally not taken into account as the contractual terms are long and the date of exercise of these options is too far for the Group to be able to judge their exercise reasonably certain.

The Group may reassess this duration in the course of a contract duration in the case where a significant event would occur, such as a reorganization plan or expensive leasehold improvements. In such situations, the Group pays attention to the consistency between the amortization duration of the leasehold improvements and the term retained for the calculation of the lease liability.

Besides, when the end date of a contract is close, and in the absence of a moving project, the lease term is re-estimated in order to reflect the Group's intention to renew the contract. In such a situation, as for open-end contracts (but cancellable anytime with termination notice by the lessee or the lessor) or for short-term contracts renewable without limitation by tacit agreement, the end date of the contract is estimated taken into account the legal and contractual applicable conditions, but also the particular context of each contract (fluidity of the local real estate market, relations with the lessor,...) and economic conditions surrounding the lease (appreciation of the economic loss which represents, for the Group, to abandon the improvements or constructions made on the leased asset, ...). This methodology is consistent with the IFRIC's position taken on November 2019.

For other natures of lease, there is usually no early termination or extension options, the lease term retained therefore corresponds to the non-cancellable period.

Future lease payments are discounted using the incremental borrowing rate of the lessee. The latest is calculated taking into account the financing arrangements of the Group, that is to say it is based on both the risk-free rate of the lessee and the margin applicable to Thales SA for financing of maturity corresponding to the duration of the commitment.

The right-of-use asset is presented within the tangible assets (note 4.2). It is amortized on a straight-line basis over the useful life of the underlying asset. The amortization charge for the right of use is included in EBIT.

The lease liability is presented in the balance-sheet within the financial debt (note 6.2). The interest charge is presented in the profit and loss account within the net interest income (note 6.1).

Within the statement of cash flows :

- the interests paid are included within the net cash-flow from operating activities,
- the reimbursement of the debt (« capital » portion of the rent paid) is presented in the financing cash-flow on the line « repayment of debt ». Thus, it is not included in the cash-flow from operating activities

- new lease liabilities have no effect on the cash flow statement insofar as they are balanced with a right of use recognized in the assets of the balance sheet.

i) Financial assets, financial liabilities and derivatives

Financial assets

IFRS 9 introduces a single approach to classification and measurement of financial assets, based on the characteristics of the financial instruments and on the Group's management intention. Thus:

- Financial assets with expected cash-flows that solely correspond to principal and interest payments are measured at amortised costs if managed only to collect these flows;
- In other cases, financial assets are measured at fair value through the income statement, except for equity investments not held for trading and whose changes in value affect optionally the Other Comprehensive Income (OCI).

These principles are reflected as follows on the assets presented in the Group's balance sheet:

- Investments are measured at fair value. Fair value corresponds to the market price for shares quoted on a regulated market. For other shares, fair value is usually determined using valuation models provided by independent third parties, or by reference to the share in net equity held by the Group.

Changes in fair value are recognised either on the income statement or, subject to an irrevocable option, investment by investment, through OCI with no reclassification to the income statement. This latter option has been chosen by the Group for all non-consolidated investments at the end of 2020. Consequently, subsequent changes in fair value and gains (losses) on disposal will be directly accounted for through shareholders' equity, with no impact on the income statement. Only dividends must remain accounted for through the financial result.

- Receivables and financial loans are recognised at amortised cost. They are subject to impairment if an expected loss or an impairment indicator is identified. This impairment, recognised in "other financial income (expense)", may subsequently be reversed through profit and loss if the conditions so justify.
- Deposits that Thales intends to hold until maturity are recognised at amortised cost.
- Other financial assets (including mutual funds and equivalent products) are estimated at fair value through profit and loss.
- "Cash and cash equivalents" include cash at bank and in hand as well as cash equivalents (short-term and liquid investments that are easily converted into a known amount of cash and exposed to negligible risk of a change in value).

Financial liabilities

Borrowings and other financial liabilities are measured at amortised cost using the effective interest rate. Upon initial recognition, premiums, redemption and issuance costs are included in the calculation of the effective interest rate and are recognised in the profit and loss account on an actuarial basis over the life of the loan.

Derivatives

The Group uses financial instruments to manage and reduce its exposure to risks of changes in interest rates and foreign exchange rates.

Foreign exchange derivatives used to hedge commercial contracts, and eligible for hedge accounting are accounted for as follows:

- the effective portion of the change in fair value of the hedging instrument is recognised directly in equity until such time as the hedged flows affect profit and loss. The ineffective portion is recognised in profit and loss.
- the amount of the foreign currency denominated transaction is subsequently translated at the exchange rate prevailing at the date of inception of the hedge.

Changes in the fair value of premiums or discounts related to forward foreign currency contracts are recognised in "other financial income (expense)" as they are excluded from the hedging relationship.

The time value of foreign exchange options documented as hedges is considered as a cost of hedging: changes in fair value are accounted for through OCI, with reclassification to the financial result in line with the hedged item.

Concerning **foreign exchange derivatives subscribed to hedge financial assets / liabilities**, documented as fair value hedges, the swap point is spread over the duration of the financial asset / liability.

Interest-rate derivatives are used either as fair value hedges or cash flow hedges:

- a fair value hedge is a hedge of the exposure to changes in the value of assets and liabilities,

- a cash flow hedge is a hedge of the exposure to changes in the value of future cash flows (unknown future interest flows payable on existing variable-rate borrowings or on highly probable future borrowing issues, for example).

In the case of fair value hedge relationships, particularly for the portion of fixed-rate bond debt swapped for a variable rate, the financial liabilities hedged by the interest-rate derivatives are re-measured to the extent of risk hedged. Changes in the value of hedged items are recognised in profit and loss for the period and are offset by symmetrical adjustments in interest-rate derivatives.

In the case of cash flow hedging relationships, the effective portion of changes in fair value of interest-rate derivatives shown in the balance sheet is recognised directly in equity until such time as the hedged flows affect profit and loss.

j) Deferred tax assets and liabilities

Thales recognises deferred taxes when the tax value of an asset or liability differs from its book value.

Deferred tax assets are not recognised on the balance sheet if it is likely that the company concerned will not be able to recover them. To assess its ability to recover deferred tax assets, the Group takes into account forecast taxable income of the tax entities concerned, over a three to five-year time-frame, entity's tax loss history, non-recurring past events and tax strategies specific to each country.

k) Pensions and other long-term employee benefits

The Group's defined benefit plan commitments are measured by independent actuaries using the projected unit credit method on the basis of estimated salaries at the date of retirement. The calculations mainly take into account assumptions concerning discounting as well as inflation, mortality and staff turnover rates, etc. Changes in actuarial assumptions and experience adjustments – corresponding to the effects of differences between projected and actual results – give rise to actuarial gains and losses:

- Actuarial gains and losses on post-employment benefits are recognised in full within other comprehensive income, and are not subsequently reclassified to profit and loss. Where appropriate, the same treatment is applied to adjustments linked to the ceiling on net assets for plans in surplus.
- Actuarial gains and losses on other long-term benefits are recognised immediately in financial income (note 9.3).

Past service cost, measured in cases of amendments or curtailments of plans, and plan settlements are recognised in full within other operating income (loss) in the period in which it is incurred.

Net interest expense, determined based on the discount rate of obligations, is recognised in financial income.

l) Share-based payment

Free share plans

Thales regularly grants free shares and/or performance shares to its employees. These allotments give rise to an expense representing the fair value of services received at the grant date. This payroll expense is recognised against equity.

The fair value of the services received is calculated by reference to the fair value of the shares at the grant date, less the present value of dividends forfeited by employees during the vesting period, taking into account the presence conditions.

Internal performance conditions are taken into account only by means of an adjustment in the projected number of instruments acquired by employees at the end of the vesting period. Therefore, they are not taken into account in the fair value estimate of the instruments granted, which is determined at the grant date.

The expense related to these plans is included in the income from operations with the consolidated reserves account as counterpart without impact on total equity. As the payment of compensation is subject to presence conditions, the corresponding expense is recorded over the vesting period on a straight-line basis. When appropriate, the expense is adjusted over the vesting period to reflect any losses of rights.



Phantom shares indexed to the value of Thales shares

Since those are cash-settled plans, IFRS 2 requires an evaluation of vested services and the liability assumed at fair value. Until the payment of this liability, the debt is re-measured at the closing date and taken to profit and loss. The re-measurement of the debt takes into account the achievement of performance and/or presence conditions, as well as the change in value of the underlying shares.

Company savings plans

Employee share offerings with a discount to the average market price proposed within Company savings plans do not include any vesting period for rights but are subject to a legal five-year lock-up period. The measurement of the benefits granted to employees takes into account the cost of the five-year lock-up period.

14. FEES PAID TO STATUTORY AUDITORS

Total fees paid to Thales's statutory auditors by the parent company and members of their consolidated networks for financial years 2020 and 2019 are shown below.

Other services cover tasks required by law (e.g., interim dividend, capital increase, etc.) and other services compatible with the statutory auditors' role (certification of expenditures, agreed procedures engagements, services of a tax-related nature without material impact, etc.).

In € thousands	Mazars		E Y		Total	
	2020	2019	2020	2019	2020	2019
Certification of accounts	5,427	5,584	5,327	6,595	10,754	* 12,179
- Issuer	896	965	398	595	1,294	1,560
- Subsidiaries	4,531	4,619	4,929	6,000	9,460	10,620
Other services	785	720	893	727	1,678	1,447
- Issuer	251	286	58	43	171	329
- Subsidiaries	534	434	835	684	1,507	1,118
Total	6,212	6,304	6,220	7,322	12,432	13,626

* Including, in 2019, the audit of the Gemalto acquisition balance sheet.



15. LIST OF MAIN CONSOLIDATED COMPANIES

(excluding Thales SA, the parent company)

	COUNTRY	% Interest	
		31/12/20	31/12/19
1. CONSOLIDATED SUBSIDIARIES *			
Tampa Microwave, LLC	United States	51%	51%
Thales Alenia Space France SAS	France	67%	67%
Thales Alenia Space Italia SpA	Italy	67%	67%
Thales Australia Ltd	Australia	100%	100%
Thales Avionics, Inc.	United States	100%	100%
Thales Avionics Electrical Systems SAS	France	100%	100%
Thales AVS France SAS	France	100%	100%
Thales Belgium S.A	Belgium	100%	100%
Thales Canada Inc.	Canada	100%	100%
Thales Defense & Security, Inc.	United States	100%	100%
Thales Deutschland GmbH	Germany	100%	100%
Thales DIS AIS Deutschland GmbH	Germany	100%	100%
Thales DIS CPL USA, Inc.	United States	100%	100%
Thales DIS France SA	France	100%	100%
Thales DIS Mexico SA de CV	Mexico	100%	100%
Thales DIS (Singapore) Pte Ltd	Singapore	100%	100%
Thales DIS Technologies B.V	Netherlands	100%	100%
Thales DIS UK Ltd	United Kingdom	100%	100%
Thales DIS USA, Inc.	United States	100%	100%
Thales DMS France SAS	France	100%	100%
Thales Espana Grp, S.A.U.	Spain	100%	100%
Thales Ground Transportation Systems Ltd	United Kingdom	100%	100%
Thales GTS Uk Ltd	United Kingdom	100%	100%
Thales LAS France SAS	France	100%	100%
Thales Nederland B.V.	Netherlands	99%	99%
Thales Services Numériques SAS	France	100%	100%
Thales SIX GTS France SAS	France	100%	100%
Thales Solutions Asia Pte Ltd	Singapore	100%	100%
Thales UK Ltd	United Kingdom	100%	100%
Trixiell	France	51%	51%
2. JOINT VENTURES & ASSOCIATES (EQUITY METHOD)			
Aviation Communications & Surveillance Systems	United States	30%	30%
Airtanker Ltd	United Kingdom	15%	13%
Electronica SpA	Italy	33%	33%
Naval Group	France	35%	35%
Diehl Aerospace GmbH	Germany	49%	49%
Lynred	France	50%	50%
Telespazio SpA	Italy	33%	33%

* Companies with sales representing more than 0.5% of consolidated sales.

Exemptions for subsidiaries publication :

Gemalto Holding BV (previously Gemalto NV) is exempted from its obligation to publish consolidated financial statements from 2019, as Thales applies the exemption 408 in Netherlands,

German entity Electronic Signalling Services (ESS) GmbH, located at 1 Thalesplatz, 71254 Ditzingen, has requested to be exempted from its obligation to publish statutory financial statements for the year 2020, pursuant to paragraph 3, subparagraph 264, of the German Commercial Code.