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Thales: 2012 first-half results

- **Order intake: €6.10bn,** up +16% (**€5.84bn,** an increase of +11% excluding DCNS impact[1])
- **Revenues: €6.41bn,** an increase of 7% (**€5.96bn** excluding DCNS impact[1], a level equivalent to the first half of 2011)
- **EBIT[2]: €338m,** representing **5.3%** of revenues (+11%) and **€301m,** or **5.0%** of revenues, excluding DCNS impact[1], stable compared with the results of the first half of 2011
- **Net income, Group share[2]: €175m,** vs. €173m in first half of 2011

Neuilly-sur-Seine, 25 July 2012 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to review the accounts for the first half of 2012[3]. In that meeting, the Chairman and CEO of the Group, Luc Vigneron, stated: ***"During the first half, the Group demonstrated its resilience in a difficult environment. Our order intake is up in all our segments. The increase in revenues in our civil activities mitigates the impact of strong budget pressures in Defence and our results continue to improve. These elements and the continuation of the effort to improve our performance, which we have been engaged in for over two years, consolidate our position towards achieving our objectives for 2012."***

Key figures ***(in millions of euros)***	**H1 2012**	***H1 2012 excl. DCNS impact***	**H1 2011**	***Total change***	*Organic change[4]*
Order intake	**6,102**	***5,839***	**5,241**	***+16%***	*+9%*
Order book	**30,689**	**25,988**	**25,841[5]**		
Revenues	**6,413**	***5,963***	**5,968**	***+7%***	*-2%*
EBIT[2]	**338**	***301***	**303**	***+11%***	*-1%*
% of revenues	**5.3%**	***5.0%***	**5.1%**		
Net income, Group share[2]	**175**	***175***	**173**	***+1%***	
Net cash flow / (net debt)	**607**	***(14)***	**(175)**		

[1] In this press release, "DCNS impact" means "impact of the 35% proportionate consolidation of DCNS vs. consolidation under the equity method at 35%"

[2] After restructuring and before impact of purchase price allocation (PPA). After PPA impact, amounting to €55 million compared with €36 million in the first half of 2012, reported EBIT (after restructuring) is €283 compared with €268 million in the first half of 2011. Reported net income is €139 million compared with €145 million in H1 2011

[3] On the date of this press release, the limited review of the financial statements has been completed and the report from the statutory auditors is in the process of being issued

[4] In this press release, "organic" means "on a like-for-like basis and at constant exchange rates"

[5] Order book at 31 December 2011, excluding DCNS impact

Order intake

Order intake *(in millions of euros)*	H1 2012	H1 2011[1]	*Total change*	*Organic change*	Book-to-bill
Defence & Security	**3,039**	**2,499**	***+22%***	*+18%*	*0.94*
Aerospace & Transport	**2,758**	**2,690**	***+3%***	*+0%*	*1.02*
Other and divested businesses	*42*	*52*	*n/a*	*n/a*	*n/a*
Order intake excl. DCNS impact	***5,839***	***5,241***	***+11%***	*+9%*	*0.98*
DCNS impact	**263**		*n/a*	*n/a*	*n/a*
Total order intake	**6,102**	**5,241**	**+16%**	+9%	0.95

New orders for the first half of 2012 totalled €6,102 million, up 16% from the first half of 2011 (+11% excluding DCNS impact). The foreign exchange impact on order intake was positive at +€132 million, primarily because of the appreciation of the US dollar, the Australian dollar and the pound sterling against the euro.

This increase in order intake over the first half occurred in both the Defence & Security segment, despite a still tight budget environment in Europe and North America, and the Aerospace & Transport segment with the closing of several rail signalling contracts and continued steady orders in civil aeronautics. The ratio of orders to revenues ("book-to-bill") was therefore 0.98 (excluding DCNS impact) over the first six months of the year. At 30 June 2012, the consolidated order book totalled €30,689 million, representing more than 26 months of revenues (€25,988 million excluding DCNS impact, or nearly two years of revenues).

Several large orders, each valued at more than €100 million, were notified in this first half. In Transportation Systems, the Group won a major contract to deploy the European signalling standard ETCS over more than half the main line rail network in Denmark, and was awarded the signalling contract for the Compass line of the Singapore metro. In civil aeronautics, a significant order for in-flight entertainment systems was received from a major North American airline. In defence, the Group was awarded the Contact contract to develop new-generation software radios for the French armed forces and a major radar system contract for the Dutch navy. In addition, orders with a unit value of less than €10 million were up over the first half of 2011 and continue to represent more than half of the value of the order intake.

Order intake for the **Defence & Security** segment was up **+22%** compared with the first half of 2011 at **€3,039 million**. Air Operations recorded significant growth in orders, with the radar systems contract for the

[1] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and IT services businesses in Switzerland, Austria, Argentina and Spain in the "Defence & Security" operating segment as "Other and divested businesses"

Dutch navy mentioned above and air defence export contracts. Orders in Defence Mission Systems also increased, led in particular by naval contracts in the Middle East and an order for electronic systems for the British navy. At the same time, order intake for C4I Systems was up, driven by radio communications in Europe and for export, and by protection systems. Land Defence also saw improved order intake with, in particular, missile electronics contracts in France and India, and optronics export contracts.

Orders in the **Aerospace & Transport** segment totalled **€2,758 million**, an increase of **+3%** compared with the first half of 2011. This growth was primarily driven by the large orders recorded in ground transportation described above (Denmark, Singapore). In addition, avionics continued to benefit from the positive trend observed last year, with the impact of the increase in Airbus deliveries, the solid performance of support activities, several in-flight entertainment contracts with airlines in North America, the Middle East and Asia, as well as the positive contribution from Tubes and Imaging systems. In contrast, orders were down sharply in Space activities, as a major contract for the Galileo program had been booked in the first half of 2011.

Revenues

Revenues *(in millions of euros)*	**H1 2012**	**H1 2011**[1]	***Total change***	*Organic change*
Defence & Security	**3,228**	**3,250**	***-1%***	*-4%*
Aerospace & Transport	**2,691**	**2,640**	***+2%***	*-0%*
Other and divested businesses	*44*	*78*	*n/a*	*n/a*
Revenues excl. DCNS impact	**5,963**	**5,968**	***-0%***	*-2%*
DCNS impact	**450**		*n/a*	*n/a*
Total revenues	**6,413**	**5,968**	***+7%***	*-2%*

Total revenues amounted to **€6,413 million** at 30 June 2012, an increase of **7%**, because of the impact of the proportionate consolidation of DCNS at 35%. Excluding this impact, revenues remained almost unchanged from the first half of 2011 at **€5,963 million** compared with €5,968 million. The foreign exchange impact on revenues was a gain of +€145 million, resulting from the appreciation of the pound sterling and US and Australian dollars against the euro.

[1] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and IT services businesses in Switzerland, Austria, Argentina and Spain in the “Defence &Security” operating segment as “Other and divested businesses”

Defence & Security revenues declined slightly to **€3,228 million** from €3,250 million in the first half of 2011 (-1%). With less activity in the United Kingdom and several export naval contracts ending, revenues from Defence Mission Systems were down, despite the growth in electronic combat systems activity. C4I Systems recorded stable revenues, as the decline in radio revenues was offset by the growth in secure networks. On the other hand, Land Defence generated higher revenues thanks to optronics, missile electronics and armaments activities. Revenues also rose in Air Operations, mainly driven by military naval businesses.

In the **Aerospace & Transport** segment, revenues totalled **€2,691 million**, an increase of **+2%** over the first half of 2011. In particular, Avionics revenues benefited from the increase in Airbus production rates and growth in the support and helicopter businesses. Space activities generated slightly higher revenues with the progressive ramp-up in the Iridium Next and Meteosat programmes. In contrast, the completion of several contracts in the Middle East and the relative decline of orders recorded in 2010 generated lower revenues in Transportation Systems compared with the first half of last year.

Results

EBIT[1] ***(in millions of euros)***	**H1 2012**	**H1 2011**[2]	***Total change***	*Organic change*
Defence & Security	**191**	**195**	***-2%***	*-4%*
% of revenues	***5.9%***	***6.0%***		
Aerospace & Transport	**140**	**101**	***+39%***	*+29%*
% of revenues	***5.2%***	***3.8%***		
Other and divested businesses	*-31*	*7*	*n/a*	*n/a*
EBIT excl. DCNS impact[1]	**301**	**303**	***-1%***	*-1%*
% of revenues	***5.0%***	***5.1%***		
DCNS impact	**37**		***n/a***	***n/a***
Consolidated EBIT[1]	**338**	**303**	***+11%***	*-1%*
% of revenues	***5.3%***	***5.1%***		

EBIT[1], at €**338 million,** represents **5.3%** of revenues (€301 million excluding DCNS impact, or 5.0% of revenues) compared with €303 million (5.1% of revenues) in the first half of 2011. The EBIT[1] level recorded in the first half of this year reflects the continued roll-out of the Probasis plan and a decrease in restructuring expenses, which totalled €41 million or 0.7% of revenues (excluding DCNS impact), down from €78 million

[1] After restructuring and before impact of purchase price allocation (PPA)
[2] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and IT services businesses in Switzerland, Austria, Argentina and Spain in the "Defence &Security" operating segment as "Other and divested businesses"

(1.3% of revenues) in the first half of 2011. As a reminder, 2011 first half results benefited from the positive impact of the agreement signed with Airbus on the A400M programme, which nevertheless remains a strongly loss-making contract for Thales.

The **Defence & Security** segment posted EBIT[1] of **€191 million,** a decrease of –2%, i.e. an EBIT[1] margin of **5.9%** of revenues compared with 6.0% in the first half of 2011, despite lower restructuring expenses. Air Operations recorded a decrease in EBIT[1], primarily because of a less favourable contract mix. EBIT[1] for Defence Mission Systems was also down on the back of a negative volume impact . Similarly, EBIT[1] for C4I Systems remained stable overall for the first half. Land Defence improved its EBIT[1], thanks to the growth in optronics activities.

EBIT[1] for the **Aerospace & Transport** segment continued to rise to total **€140 million** (**5.2%** of revenues), up from €101 million (3.8% of revenues) in first half of 2011. This improvement reflects a confirmed upturn in profitability for the Avionics activities, with improved contract execution. Space saw improved EBIT[1] on the basis of a favourable volume effect and better project execution, despite higher restructuring costs. The Transportation Systems businesses also posted improved results.

After accounting for the impact of purchase price allocation (PPA), the amount of which was €55 million, compared with €36 million at the end of June 2011, reported EBIT (after restructuring) was €283 million, compared with €268 million at 30 June 2011.

Net financial expense amounted to **–€24 million** (–€34 million excluding DCNS impact), reduced from –€57 million at the end of June 2011, under the combined effect of improved foreign exchange results related to the mechanical impact of changes in the fair value of exchange rate hedges (essentially euro/dollar) and the decline in financial expenses, as the first half of 2011 was penalized by the early refinancing of the July 2011 bond payment. **Other components of pension charges** were higher at **-€75 million,** compared with –€37 million at the end of June 2011, as lower interest rates in the United Kingdom in particular led to an increase in the actuarial losses to be amortised. **Income from the equity-accounted companies**[2] fell to **€11 million,** down from €24 million over the same period last year, as the Group's stake in DCNS is now proportionately consolidated rather than using the equity method.

The first half of 2011 thus resulted in a **net profit, Group share[2]** of **€175 million** (compared with €173 million in the first half of 2011), after a tax charge[2] of €73 million compared with €65 million in the first half of 2011.

[1] After restructuring and before impact of purchase price allocation (PPA)
[2] Before impact of purchase price allocation (PPA)

Financial situation at 30 June 2012

Over the first six months of 2012, **free operating cash flow** improved compared with the same period last year and stood at **–€203 million** (–€110 million excluding DCNS impact), compared with –€266 million, thanks to the improvement in the working capital requirements.

At the end of June 2012, **net cash** totalled **€607 million** (a net debt of –€14 million excluding DCNS impact), compared with cash of €906 million (€192 million excluding DCNS impact) at the end of December 2011 and net debt of –€175 million at the end of June 2011.

Shareholders' equity, Group share, improved to total **€4,176 million**, up from €3,782 million at the end of June 2011.

Views for the current year[1]

Despite the positive trend in order intake recorded in the first half, the Group confirms that, over the full year, it expects a decline in military orders (excluding any exceptional export contract), which commercial orders are expected to offset only partially. Under this assumption, the book-to-bill ratio[2] could come to slightly less than 1, while revenues, at constant scope, should increase slightly.

In this context, the Group is resolutely pursuing the implementation of the Probasis performance plan and confirms its objective of a 6% EBIT[3] margin in 2012.

Recent events

Members of Board committees

At its meeting on 28 June 2012, the Board of Directors unanimously appointed (the interested parties did not vote): Anne-Claire Taittinger, member and Chairman of the Audit and Accounts Committee and Stève Gentili, member of the Strategic Committee. As a result, the Board committees now consist of the following:

– Audit & Accounts Committee: Anne-Claire Taittinger (independent director), Chairman; Olivier Bourges; Martine Saunier; Loïk Segalen

[1] Excluding DCNS impact
[2] Ratio of order intake/revenues
[3] After restructuring and before impact of purchase price allocation (PPA)

- Appointments and Remuneration Committee: Yannick d'Escatha (independent director), Chairman; Olivier Bourges; Eric Trappier
- Strategic Committee: Luc Vigneron, Chairman; Olivier Bourges; Charles Edelstenne; Dominique Floch; Stève Gentili (independent director); Philippe Lépinay

Declaration of crossing threshold of 25% of voting rights by Dassault Aviation

On 12 July 2012, Dassault Aviation notified the French *Autorité des Marchés Financiers* that on 9 July 2012, it had exceeded the threshold of 25% of Thales voting rights and individually held 52,531,431 Thales shares representing 86,531,431 voting rights, which is 25.96% of the capital and 29.33% of the voting rights. This threshold was exceeded as a result of the statutory allocation of double voting rights to Dassault Aviation because it had held registered shares for more than two years. On the other hand, the concert formed by the Public sector and Dassault Aviation crossed no threshold and holds 107,318,085 Thales shares, representing 193,988,991 voting rights, or 53.04% of the capital and 65.75% of the voting rights.

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APPENDIX

> Segment definitions

Businesses – operating segments (IFRS 8)

- Defence & Security: Defence & Security C4I Systems, Defence Mission Systems, Land Defence, Air Operations

- Aerospace & Transport: Avionics, Transportation Systems, Space

Geographical areas

- Area A: USA, Canada, UK, Netherlands, Norway, South Korea, Australia, Northern and Central Europe, Northern Asia

- Area B: Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Rest of Europe, Middle East & Africa, Western Asia, Southern Asia

- **France**

> Order intake by geographic area of origin – H1 2012

Order intake by origin *(in millions of euros)*	**H1 2012**	**H1 2011[1]**	***Total change***	*Organic change*	Book-to-bill
Area A	**2,306**	**1,640**	***+41%***	*+30%*	1.16
Area B	**1,141**	**927**	***+23%***	*+22%*	1.03
France	**2,392**	**2,642**	***-10%***	*-10%*	0.83
Other and divested businesses		*32*	*n/a*	*n/a*	*n/a*
Order intake excl. DCNS impact	***5,839***	***5,241***	***+11%***	*+9%*	*0.98*
DCNS impact	**263**		*n/a*	*n/a*	n/a
Total orders	**6,102**	**5,241**	***+16%***	*+9%*	0.95

[1] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and IT services businesses in Switzerland, Austria, Argentina and Spain as "Other and divested businesses"

> Revenues by geographic area of origin – H1 2012

Revenues by origin *(in millions of euros)*	H1 2012	H1 2011[1]	*Total change*	*Organic change*
Area A	**1,992**	**1,997**	***-0%***	*-7%*
Area B	**1,106**	**1,153**	***-4%***	*-6%*
France	**2,865**	**2,782**	***+3%***	*+3%*
Other and divested businesses		*36*	*n/a*	*n/a*
Revenues excl. DCNS impact	**5 ,963**	**5,968**	***-0%***	*-2%*
DCNS impact	**450**		*n/a*	*n/a*
Total revenues	**6,413**	**5,968**	***+7%***	*-2%*

> EBIT[2] by geographic area of origin – H1 2012

EBIT[2] by origin *(in millions of euros)*	H1 2012	H1 2011[1]	*Total change*	*Organic change*
Area A	**77**	**83**	***-7%***	*-12%*
% of revenues	**3.9%**	**4.2%**		
Area B	**18**	**15**	***+20%***	*-2%*
% of revenues	**1.6%**	**1.3%**		
France	**237**	**214**	***+10%***	*+10%*
% of revenues	**8.3%**	**7.7%**		
Other and divested businesses	*-31*	*-9*	*n/a*	*n/a*
EBIT excl. DCNS impact[2]	**301**	**303**	***-1%***	*-1%*
% of revenues	***5.0%***	***5.1%***		
DCNS impact	**37**		*n/a*	*n/a*
Consolidated EBIT[2]	**338**	**303**	***+11%***	*-1%*
% of revenues	***5.3%***	***5.1%***		

[1] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and IT services businesses in Switzerland, Austria, Argentina and Spain as "Other and divested businesses"
[2] After restructuring and before impact of purchase price allocation (PPA)

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> Order intake by destination – H1 2012 – excluding DCNS impact

in millions of euros	**H1 2012**	**H1 2011**	***Total change***	*Organic change*	**H1 2012 as %**
France	1,326	1,489	***-11%***	*-11%*	23%
UK	371	430	***-14%***	*-19%*	6%
Other European countries	1,673	1,460	***+15%***	*+15%*	29%
Europe	**3,370**	**3,379**	***0%***	***-1%***	**58%**
North America	**652**	**522**	**+25%**	**+21%**	**11%**
Asia-Pacific	1,091	754	***+45%***	*+35%*	19%
Middle East	554	418	***+33%***	*+25%*	9%
Rest of world	172	168	***+2%***	*+3%*	3%
Emerging countries	**1,817**	**1,340**	***+35%***	***+30%***	**31%**
Order intake — excl. DCNS impact	**5,839**	**5,241**	***+11%***	***+9%***	**100%**

> Consolidated revenues by destination – H1 2012 – excluding DCNS impact

in millions of euros	**H1 2012**	**H1 2011**	***Total change***	*Organic change*	**H1 2012 as %**
France	1,609	1,588	***+1%***	*+1%*	27%
UK	763	732	***+4%***	*-2%*	13%
Other European countries	1,521	1,497	***+2%***	*+2%*	25%
Europe	**3,893**	**3,817**	***+2%***	***+1%***	**65%**
North America	**621**	**580**	***+7%***	***+3%***	**10%**
Asia-Pacific	907	848	***+7%***	*+1%*	15%
Middle East	301	448	***-33%***	*-34%*	5%
Rest of world	241	275	***-12%***	*-12%*	5%
Emerging countries	**1,449**	**1,571**	***-8%***	***-11%***	**25%**
Consolidated revenues – excl. DCNS impact	**5,963**	**5,968**	***0%***	***-2%***	**100%**

> Order book by destination – 30 June 2012 – excluding DCNS impact

in millions of euros	30 June 2012	31 Dec. 2011	H1 2012 in %
France	6,909	7,189	26%
UK	3,566	3,813	14%
Other European countries	5,927	5,762	23%
Europe	**16,402**	**16,764**	**63%**
North America	**2,295**	**2,274**	**9%**
Asia-Pacific	4,312	4,046	17%
Middle East	1,934	1,649	7%
Rest of world	1,045	1,108	4%
Emerging countries	**7,291**	**6,803**	**28%**
Total order book – excl. DCNS impact	**25,988**	**25,841**	**100%**

> Order book by operating segment – H1 2012

in millions of euros	30 June 2012	31 Dec. 2011[1]	***Total change***	*Organic change*
Defence & Security	14,351	14,375	***0%***	*-1%*
Aerospace & Transport	11,563	11,372	***+2%***	*+1%*
Other and divested businesses	*74*	*94*	*n/a*	*n/a*
Order book excl. DCNS impact	**25,988**	**25,841**	***+1%***	***0%***
DCNS impact	**4,701**	**4,855**	*n/a*	*n/a*
Total	**30,689**	**30,696**	***0%***	***0%***

[1] Reclassification in the first half of 2011 of the divested businesses in Navigation Solutions and the information services in Switzerland, Austria, Argentina and Spain as “Other and divested businesses”

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> Impact of purchase price allocation (PPA)

in millions of euros	**H1 2012 excl. PPA**	**PPA impact**	**Reported H1 2012**
Amortisation of intangible assets acquired	-	(55)	(55)
EBIT	**338**	**(55)**	**283**

Income tax	(73)	19	(54)
Share in net income (loss) from equity affiliates	11	-	11
Net income, Group share	**175**	**(36)**	**139**

> Cash flow – H1 2012

in millions of euros	**H1 2012**	**H1 2011**
Operating cash flow	**521**	**524**
Change in WCR and contingency reserves	(464)	(571)
Pension contributions/pension benefits	(48)	(50)
Net financial interest paid	(21)	(29)
Income tax paid	(54)	(32)
Net operating cash flow	**(66)**	**(158)**
Net operating investments	(137)	(108)
of which capitalized R&D	*(6)*	*(2)*
Free operating cash flow	**(203)**	**(266)**
Net (acquisitions)/disposals	(8)	(18)
Deficit payments on pensions in the UK	(31)	(29)
Dividends	(106)	(14)
Foreign exchange and other	49	(39)
Net cash flow	**(299)**	**(366)**