THALES

Thales: 2013 first-half results

Neuilly-sur-Seine, 24 July 2013 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to review the accounts for the first half of 2013.[1] Commenting on the results, Jean-Bernard Lévy, Chairman and Chief Executive Officer, said: ***"In the first six months of 2013, we saw further improvements in our results, thanks to our ongoing performance plan and a positive trend in sales. This encouraging performance enables us to confirm all our 2013 objectives."***

- **Order intake:** **€5.73bn**, a **3.4%** organic[2] decline compared to 30 June 2012
- **Sales:** **€6.47bn**, a **3.9%** organic[2] increase compared to 30 June 2012
- **EBIT[3]:** **€360m**, an **8.7%** organic[2] increase compared to 30 June 2012
- **Adjusted net income[4]:** **€225m**, a **4.7%** increase compared to 30 June 2012
- **Consolidated net income:** **€190m,** a **17.2%** increase compared to 30 June 2012
- **2013 objectives confirmed**

in millions of euros	**H1 2013**	**H1 2012**	*Total change*	***Organic change[2]***
Order intake	**5,728**	**6,115[5]**	-6%	**-3%**
Order book[5]	**28,946**	**29,849[6]**	-3%	**-2%**
Sales	**6,473**	**6,413**	+1%	**+4%**
EBIT[3] ***in % of sales***	**360** **5.6%**	**338** **5.3%**	+7%	**+9%**
Adjusted net income[4]	**225**	**215**	+5%	
Adjusted net income per share[4]	**1.12**	**1.08**	+4%	
Consolidated net income	**190**	**162**	+17%	
Net cash	**881**	**607**		

[1] 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.
[2] In this press release, "organic" means "on a like-for-like basis and at constant exchange rates".
[3] After restructuring and before impact of purchase price allocation (PPA).
[4] In order to enable better monitoring and comparison of its financial and operating performance, Thales presents an adjusted net income, which is not strictly a GAAP measure, excluding non-operating and non-recurring items. Details of these adjustments can be found in the appendix.
[5] In 2013, the Group revised the rules for valuing the order book, especially in civil avionics, so that the approach provides a better reflection of the economic reality.
[6] Order book at 31 December 2012.

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Key figures at 30 June 2013 (***in millions of euros***)	**H1 2013**	**H1 2012**	*Total change*	***Organic change***
Order intake				
Aerospace	**1,767**	**1,927**	-8%	***-2%***
Transport	**736**	**845**	-13%	***-12%***
Defence & Security	**2,994**	**3,018**	-1%	***+1%***
DCNS	**202**	**283**	-29%	***-29%***
Other	29	42	n/a	*n/a*
Total	**5,728**	**6,115**	-6%	***-3%***
Sales				
Aerospace	**2,027**	**2,051**	-1%	***+5%***
Transport	**603**	**640**	-6%	***-5%***
Defence & Security	**3,229**	**3,189**	+1%	***+3%***
DCNS	**571**	**489**	+17%	***+17%***
Other	43	44	n/a	*n/a*
Total	**6,473**	**6,413**	+1%	***+4%***
EBIT[1]				
Aerospace	**168**	**117**	+44%	***+47%***
in % of sales	*8.3%*	*5.7%*		
Transport	**6**	**24**	-75%	***-72%***
in % of sales	*1.0%*	*3.8%*		
Defence & Security	**198**	**191**	+4%	***+5%***
in % of sales	*6.1%*	*6.0%*		
DCNS	**36**	**37**	-4%	***-4%***
in % of sales	*6.3%*	*7.6%*		
Other	**-48**	**-31**	n/a	*n/a*
Total	**360**	**338**	+7%	***+9%***
in % of sales	**5.6%**	**5.3%**		

[1] After restructuring and before impact of purchase price allocation (PPA), see details in the appendix.

Order intake

New orders in the first half of 2013 totalled **€5,728 million**, down 6% (-3% on an organic basis[1]) compared to the same period in 2012. At 30 June 2013, **the consolidated order book** amounted to **€28,946 million**, still representing around two years of sales. The book-to-bill ratio was 0.88 in the first half of 2013 (0.99 for the second quarter of 2013 only).

Eight large **orders, each valued at more than €100 million**, were received in the first half. In the Aerospace segment, the Group won two important contracts: one for simulation and training services for UK A400M crews and the other from the European Space Agency (ESA) as prime contractor for the 2016 and 2018 missions of the Exomars scientific programme. In Transport, two major mainline rail signalling orders were signed, in South Africa and Egypt. In Defence & Security, Thales won a sensor system support contract for the UK Royal Navy, a contract for a French military communication network, and two contracts in the Middle East, one for air defence and one for critical infrastructure security. **Orders for amounts of less than €10 million** continue to account for over half of the orders by value.

Over the first half of 2013, **order intake in emerging markets** rose by 6% organically, reaching **€1,594 million** and representing 28% of total order intake, vs. 25% over the first half of 2012.

Orders for the **Aerospace** segment amounted to **€1,767 million**, compared to €1,927 million at the end of June 2012 (-2% on an organic basis). The Avionics business benefited from the above-mentioned simulation contract for over €100 million and the continued growth of onboard avionics activities for Airbus and regional airlines, as well as support activities. However, in-flight entertainment orders failed to match the high level witnessed in the first half 2012. The Space business saw an increase in orders, with several successes in observation and exploration satellites from institutional clients (Exomars programmes for the ESA and Cosmo-Skymed for the Italian space agency).

In **Transport**, orders totalled **€736 million**, compared to €845 million in the first half of 2012, which had benefited from major orders (Denmark, Singapore). Several commercial successes should be noted in the first half: mainline rail signalling contracts in South Africa (Cape region), Egypt (Cairo–Alexandria line) and Poland, and urban rail signalling in Canada (Ottawa metro) and China.

In **Defence & Security**, the level of orders was stable at **€2,994 million** compared to €3,018 million at the end of June 2012. Orders for Secure Information and Communication Systems were down, especially in

[1] The foreign exchange impact on order intake was negative at -€47 million, primarily because of the appreciation of the Australian dollar, the pound sterling and the American dollar, to a lesser extent, against the euro.

radio activities which had the first tranche of the software radio Contact contract notified in France in the first half of 2012. Despite recent successes in air traffic management in Africa and air defence in the Middle East, Land & Air Systems saw a decline in orders compared to the first half of 2012 which had benefited from a significant radar systems contract in the Netherlands and several export naval contracts. However, orders for Mission Defence Systems increased sharply, driven by the sensor system support contract for the UK Royal Navy.

Orders at **DCNS** totalled **€202 million** at 30 June 2013 compared to €283 million at 30 June 2012. The main orders in the period were follow-on contracts for the French FREMM multi-mission frigates and submarine programmes.

Sales

Group sales totalled **€6,473 million** at 30 June 2013, which represents an increase of **4%** at constant scope and exchange rates[1].

In the **Aerospace** segment, sales totalled **€2,027 million**, up **5%** on an organic basis compared to the first half of 2012. At constant scope, Avionics activities significantly increased over the half-year, particularly flight avionics, both in original equipment and support activities, as well as in-flight entertainment. Military simulation activities also recorded increased sales (A400M, FSTA air tankers in the UK). In addition, tubes and imaging activities also made a positive contribution to sales. Space activities showed a slight decline in sales, as the increase in observation and exploration activities did not offset the downturn in telecommunications activities after the completion of a number of contracts.

The **Transport** segment posted sales of **€603 million**, down compared to 30 June 2012 (€640 million). The orders booked over the last eighteen months have not yet had a significant impact on sales, especially in the mainline rail signalling activity.

Sales in the **Defence & Security** segment came to **€3,229 million** in the first six months of the year, up **3%** on an organic basis. In particular, the Mission Defence Systems activities saw a major advance in the period, thanks particularly to increased sales for the French Rafale programme (ramp up of the 4th tranche, support activities), UK tactical drones and sonars. Secure Information and Communication Systems recorded a slight increase in the period, boosted by radio communication (ramp up of Contact contract in France) and cyber-security activities. By contrast, Land & Air Systems recorded lower sales at 30 June 2013, particularly in air defence and weapons activities.

[1] The foreign exchange impact on sales was negative at -€54 million, primarily because of the appreciation of the Australian dollar and the pound sterling against the euro.

DCNS sales were **€571 million** at 30 June 2013, up 17% compared to 30 June 2012; in particular sales were higher for the French FREMM frigate programme and the Russian BPC projection and command ship.

Results

EBIT[1], at **€360 million**, represented 5.6% of sales compared to €338 million (5.3% of sales) in the first half of 2012. This 6.6% increase in EBIT[1] (+8.7% on an organic basis), despite higher restructuring costs than in the first half of 2012 (€53 million vs. €40 million), reflects the ongoing deployment of Thales's performance plan. The Group has also maintained its self-funded R&D effort, which grew by 7% on an organic basis.

EBIT[1] for the **Aerospace** segment continued to rise and came to **€168 million** (8.3% of sales), compared to €117 million (5.7% of sales) in the first half of 2012. In Avionics, despite higher self-funded R&D costs, the marked improvement in results is mainly due to improved project execution and a favourable volume impact. Space activities also recorded improved EBIT[1] over the period thanks to better project execution.

The **Transport** segment recorded **€6 million** of EBIT[1] (1% of sales), down compared to 30 June 2012 (€24 million, 3.8% of sales). The decline in results compared to the same period in the previous year is due to an unfavourable mix and volume effect over this first half-year, with the decline in sales on mainline rail signalling, as well as an unsatisfactory execution on some contracts. However, over the whole year, the Transport segment is expected to post results close to the 2012 level.

EBIT[1] for the **Defence & Security** segment slightly improved to **€198 million** (6.1% of sales) over the six-month period, compared to €191 million at 30 June 2012 (6% of sales). Defence Mission Systems recorded higher EBIT[1] over the first half, thanks to lower project variances and a positive volume effect. EBIT[1] for Secure Information and Communication Systems also increased at 30 June 2013, despite higher restructuring costs. By contrast, EBIT[1] for Land & Air Systems was lower, due in particular to an unfavourable volume effect in the period.

DCNS posted EBIT[1] of **€36 million** at 30 June 2013, down 4% compared to 30 June 2012. The lower operating margin during this half was mainly due to difficulties in the execution of civil nuclear projects.

After accounting for the €49 million impact of purchase price allocation (PPA), compared to €55 million at the end of June 2012, reported EBIT (after restructuring) was €311 million, compared to €283 million at 30 June 2012 (representing a 10% increase).

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

The adjusted net financial expense[1] came to **–€4 million** compared to –€11 million at the end of June 2012. This notably included the favourable conditions for the bond issued in April 2013 to refinance the March 2009 issue. **Adjusted finance costs of pension and other benefits**[1] came to **-€35 million** compared to **-**€42 million at the end of June 2012. **Income from equity-accounted companies** was stable at **€12 million**, compared to €11 million in the same period the previous year.

The first half of 2013 closed with **adjusted net profit, Group share**[1] of **€225 million** (compared to €215 million in the first half of 2012), after adjusted net income tax[1] of €108 million compared to €81 million in the first half of 2012, giving an effective tax rate of 33% compared to 28% in the same period of the previous year. **Adjusted net earnings per share**[1] came to **€1.12** compared to €1.08 at the end of June 2012**.**

Financial position at 30 June 2013

Following significant cash receipts at the end of 2012, **free cash-flow from operations**[2] was lower than in the first half of 2012 and came to **-€399 million** compared to -€202 million at 30 June 2012.

At the end of June 2013, **net cash** came to **€881 million** compared to net cash of €1,528 million at the end of December 2012 and €607 million at the end of June 2012.

Group **equity** amounted to **€3,635 million** compared to €3,541 million[3] at the end of December 2012.

[1] See details of adjustments in the appendix.
[2] Operating cash flow + changes in working capital requirement (WCR) and reserves for contingencies – net financial interests paid – payment of pension benefits (excluding deficit payments on pension in the United Kingdom) – tax – net operating investments.
[3] Restated to take into account of the application of the accounting standard IAS19R.

Outlook for the current year[1]

Thales confirms the outlook described in its 28 February 2013 press release issued for 2012 annual results.

Despite the continuing unfavourable economic environment in Europe, Thales is anticipating a slight upturn in orders in 2013, largely due to the expected performance in the emerging countries.

Sales should remain stable overall, with growth in civil activities offsetting a less favourable situation in defence.

Lastly, a continuing drive to improve performance is expected to enable the Group to post a further improvement in EBIT[2], which should increase between 5% and 8% compared to 2012.

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[1] Excluding exceptional export contracts.
[2] After restructuring and before impact of purchase price allocation (PPA).

APPENDIX

> Operating segments (*IFRS 8*)

- Aerospace	Avionics, Space
- Transport	Ground Transportation Systems
- Defence & Security:	Secure Information and Communications Systems, Land & Air Systems, Defence Mission Systems
- DCNS:	DCNS proportionally consolidated at 35%

> Adjustment entries on the income statement – H1 2013

In order to better monitor and compare its financial and operating performance, Thales prepares an adjusted net income, a non-GAAP measure, which excludes non-operating and non-recurring items.

Thales excludes from the adjusted net income the "disposal of assets, changes in scope of consolidation and other" (as disclosed in the consolidated financial statements), "changes in fair value derivative exchange instruments" (booked in other financial income (expense) in the consolidated financial statements), actuarial gains/losses on other post-retirement benefits booked in "finance costs on pensions and other employee benefits" in the consolidated financial statements, net of corresponding tax impacts.

Readers are reminded that only the interim condensed consolidated financial statements are subject to a limited review by the Group's statutory auditors at 30 June, including EBIT provided in the adjusted data described in Note 3 "Segment Information" of the consolidated financial statements. Adjusted financial data other than that provided in Note 3 "Segment Information" of the consolidated financial statements is subject to the verification procedures applicable to all of the information provided in this press release.

The impact of these adjustment entries on the income statement at 30 June 2013 and 30 June 2012 is set out in the following tables:

- Impact of adjustment entries on the income statement H1 2013

in millions of euros	Consolidated income statement H1 2013	Adjustments				Adjusted income statement H1 2013
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	Gain (loss) on disposal of assets and other	Change in fair value of derivative exchange instruments	Actuarial gains/losses on other post-retirement benefits	
Sales	**6,473**					**6,473**
Cost of sales	(4,970)					(4,970)
R&D	(307)					(307)
Selling, general and administrative expenses	(783)					(783)
Restructuring costs	(53)					(53)
Amortisation of intangible assets acquired (PPA)	(49)	49				-
Income from operations	**311**	**49**				**360**
Impairment of non-current operating assets						
Disposal of assets and other	10		(10)			-
Income of operating activities	**321**	**49**	**(10)**			**360**
Cost of net financial debt	*(2)*					*(2)*
Other financial income (expense)	*(16)*			*14*		*(2)*
Net financial expense	(18)			*14*		(4)
Finance costs on pensions and other employee benefits	(40)				*5*	(35)
Income tax	(85)	(17)	*1*	(5)	(2)	(108)
Share in income (loss) of equity affiliates	12					*12*
Net income (loss)	**190**	**32**	**(9)**	**9**	**3**	**225**

- Impact of adjustment entries on the income statement – H1 2012

in millions of euros	Consolidated income statement H1 2012[1]	Adjustments				Adjusted income statement H1 2012
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	Gain (loss) on disposal of assets and other	Change in fair value of derivative exchange instruments	Actuarial gains/losses on other post-retirement benefits	
Sales	**6,413**					**6,413**
Cost of sales	(4,959)					(4,959)
R&D	(304)					(304)
Selling, general and administrative expenses	(772)					(772)
Restructuring costs	(40)					(40)
Amortisation of intangible assets acquired (PPA)	(55)	55				-
Income from operations	**283**	**55**				**338**
Impairment of non-current operating assets	-					-
Disposal of assets and other	(4)		4			-
Income of operating activities	**279**	**55**	**4**			**338**
Cost of net financial debt	*(8)*					*(8)*
Other financial income (expense)	*(16)*			*13*		*(3)*
Net financial expense	(24)			*13*		(11)
Finance costs on pensions and other employee benefits	(49)				7	(42)
Income tax	(55)	(19)	(1)	(4)	(2)	(81)
Share in income (loss) of equity affiliates	11					11
Net income (loss)	**162**	**36**	**3**	**9**	**5**	**215**

[1] After adjustments taking into account the first application of the IAS19 revised accounting standard.

> Order intake by destination – H1 2013

(in millions of euros)	H1 2013	H1 2012	*Reported change*	*Organic change*	H1 2013 in %
France	1,320	1,561	*-15%*	*-14%*	23%
United Kingdom	911	371	*+145%*	*+154%*	16%
Other European countries	1,090	1,481	-26%	-22%	19%
Europe	**3,321**	**3,413**	***-3%***	***+1%***	**58%**
United States and Canada	**442**	**655**	***-33%***	***-32%***	**8%**
Australia & New Zealand	**371**	**489**	**-24%**	**-21%**	**6%**
Asia	683	815	*-16%*	*-11%*	12%
Middle East	633	564	*+12%*	*+13%*	11%
Rest of the World	278	179	*+55%*	*+59%*	5%
Emerging markets	**1,594**	**1,558**	***+2%***	***+6%***	**28%**
Order intake	**5,728**	**6,115**	***-6%***	***-3%***	**100%**

> Consolidated sales by destination – H1 2013

(in millions of euros)	H1 2013	H1 2012	*Reported change*	*Organic change*	S1 2013 en %
France	1,961	1,927	*+2%*	*+4%*	*30%*
United Kingdom	765	763	*+0%*	*+4%*	12%
Other European countries	1,178	1,298	-9%	-4%	18%
Europe	**3,904**	**3,988**	***-2%***	***+1%***	**60%**
United States and Canada	**699**	**620**	***+13%***	***+13%***	**11%**
Australia & New Zealand	**361**	**351**	**+3%**	**+7%**	**5%**
Asia	890	844	*+6%*	*+9%*	14%
Middle East	362	316	*+15%*	*+18%*	6%
Rest of the World	257	294	*-12%*	*-12%*	4%
Emerging markets	**1,509**	**1,454**	***+4%***	***+6%***	**24%**
Sales	**6,473**	**6,413**	***+1%***	***+4%***	**100%**

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> Order intake and sales – Q2 2013

(in millions of euros)	Q2 2013	Q2 2012	*Total change*	***Organic change***
Order intake				
Aerospace	**863**	**977**	-12%	***-2%***
Transport	**425**	**218**	+95%	***+100%***
Defence & Security	**2,254**	**2,042**	+10%	***+13%***
DCNS	**125**	**234**	-47%	***-47%***
Other	11	20	n/a	*n/a*
Total	**3,678**	**3,491**	**+5%**	***+10%***
Sales				
Aerospace	**1,169**	**1,167**	+0%	***+7%***
Transport	**363**	**385**	-6%	***-4%***
Defence & Security	**1,846**	**1,875**	-2%	***+1%***
DCNS	**313**	**275**	+14%	***+14%***
Other	27	27	n/a	*n/a*
Total	**3,718**	**3,729**	**-0%**	***+3%***

> Cash flow

in millions of euros	**H1 2013**	**H1 2012**
Operating cash flow	**561**	**521**
Change in working capital requirements and in reserves for contingencies	(667)	(464)
Payment of contributions / pension benefits	(60)	(48)
Net financial interest paid	(20)	(21)
Income tax paid	(40)	(53)
Net operating cash flow	**(226)**	**(65)**
Net operating investments	(173)	(137)
o/w capitalized R&D	*13*	*6*
Free operating cash flow	**(399)**	**(202)**
Net (acquisitions)/disposals	(80)	5
Deficit payments on pensions in the UK	(31)	(31)
Dividends	(126)	(106)
FX and others	(11)	35
Change in net cash	**(647)**	**(299)**