THALES

PRESS RELEASE

↘ Neuilly, 19 February 2012

Thales: 2013 annual results

The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to close the financial statements for 2013[1]. Commenting on the results, Jean-Bernard Lévy, Chairman & Chief Executive Officer, said: "***In 2013, Thales achieved a substantial improvement in operating profitability and a very strong growth of order intake in emerging countries. These results are a very encouraging first step. Despite a persistently unfavourable environment in Western defence markets, our results confirm our ambition to return to profitable growth, based on competitiveness efforts, a stronger international presence and the mobilisation of a unique set of capacities***."

Key points

- **Order intake**: **€14.17bn**, an increase of 7%
- **Sales: €14.19bn**, stable
- **EBIT[2]: €1,003m**, an increase of 8%
- **Adjusted net income**, Group share[2]: **€644m**, up 13%
- **Adjusted net income per share[2]: €3.20**, up 12%
- **Dividend per share: €1,12**, up 27%%

in millions of euros	2013	2012	Total change	Organic change[3]
Order intake	**14,168**	**13,285**	+7%	+10%
Order book[4]	**29,527**	**29,849**	-1%	+0%
Sales	**14,194**	**14,158**	+0%	+3%
EBIT[2]	**1,003**	**927**	+8%	+11%
in % of sales	***7.1%***	***6.5%***		
Adjusted net result, Group share[2]	**644**	**570[5]**	+13%	
Adjusted net income per share[2]	**3.20**	**2.86[5]**	+12%	
Net result, Group share	**573**	**586[5]**	-2%	
Dividend per share	**1.12[6]**	**0.88**	+27%	
Free operating cash-flow[2]	**466**	**669**		
Net cash	**1,666**	**1,528**		

[1] On the date of this press release, the account audit procedures were completed and the certification report is in the process of being issued.
[2] Non-GAAP measure, see definition in appendix.
[3] In this report, "organic" means "at constant scope and exchange rates".
[4] 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.
[5] Restated to take into account the application of the IAS19R accounting standard.
[6] Total amount proposed to the AGM on 14 May 2014, including the interim dividend of €0.27 paid in December 2013.

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Key figures at 31 December 2013

in millions of euros	2013	2012	Total change	Organic change
Order intake				
Aerospace	**4,130**	**4,051**	+2%	+9%
Transport	**1,492**	**1,653**	-10%	-8%
Defence & Security	**7,661**	**6,748**	+14%	+17%
DCNS (at 35%)	**795**	**758**	+5%	+5%
Other and discontinued activities	90	75		
Total	**14,168**	**13,285**	+7%	+10%
Sales				
Aerospace	**4,451**	**4,417**	+1%	+6%
Transport	**1,481**	**1,535**	-4%	-2%
Defence & Security	**6,988**	**7,081**	-1%	+1%
DCNS (at 35%)	**1,176**	**1,027**	+14%	+14%
Other and discontinued activities	98	98		
Total	**14,194**	**14,158**	+0%	+3%
EBIT[1]				
Aerospace	**370**	**297**	+24%	+26%
in % of sales	*8.3%*	*6.7%*		
Transport	**97**	**95**	+3%	+7%
in % of sales	*6.5%*	*6.2%*		
Defence & Security	**518**	**504**	+3%	+5%
in % of sales	*7.4%*	*7.1%*		
DCNS (at 35%)	**63**	**79**	-20%	-15%
in % of sales	*5.4%*	*7.7%*		
Other and discontinued activities	**-45**	**-48**		
Total	**1,003**	**927**	+8%	+11%
in % of sales	**7.1%**	**6.5%**		

[1] Non-GAAP measure, see definition in appendix.

Order intake

New orders booked in 2013 amounted to **€14,168m**, a **7%** increase compared to 2012 (+10% at constant exchange rates and scope). At 31 December 2013, the consolidated **order book** stood at **€29,527m**, representing more than two years of sales. The book-to-bill ratio amounted to 1.00 for the full year 2013.

19 significant **orders over €100m unit value** were registered in 2013 opposed to 10[1] in 2012. 10 of these major contracts for 2013 are for emerging market customers, compared with 2 in 2012.

- In **Aerospace**, the Group won several major contracts: in Avionics, a UK A400M aircrew training and simulation service contract and in Space, a contract with the European Space Agency (ESA) as prime contractor for the 2016 and 2018 missions of the Exomars scientific programme, as well as several contracts for satellites, including a dual-use communication satellite for Brazil, an observation satellite for an African country and a new tranche of the Meteosat European programme;
- In **Transport**, two major main line rail signalling orders were signed in South Africa and Egypt;
- In **Defence & Security**, the Group booked several large orders. In France, it won the second tranche of the Contact software defined radio programme, the Atlantique 2 maritime patrol aircraft renovation and the new F3R standard Rafale (laser targeting pod, electronic systems). In the United Kingdom, Thales was awarded a sensor system support contract for the Royal Navy. In emerging markets, several major contracts were captured in Defence & Security, particularly in the Middle East (Saudi frigates upgrade, air defence radars in the United Arab Emirates, optronics and critical infrastructure security).

Orders with a unit value of less than €10m represent almost half the order intake in terms of value.

New orders in emerging markets recorded a sharp rise (+30%) compared to 2012 at **€4,566m** and amounted to **32%** of total order intake, compared to 26% over the same period in 2012. This growth was particularly significant in the Middle East, where the Group order intake nearly doubled compared to 2012.

New orders for the **Aerospace** segment amounted to **€4,130m**, compared to €4,051m in 2012. Excluding the impact due to the disposal of activities in 2012 (civil fixed-wing aircraft simulation and Diehl Aircabin), Avionics order intake remained generally stable, as the continued growth of on-board avionics activities, both original equipment and support, and helicopter avionics compensated lower orders in in-flight entertainment and tubes & imaging businesses (after the high level witnessed in 2012). Space activities saw major growth in orders, particularly in observation and exploration satellites (Exomars, Meteosat and Cosmo-Skymed programmes), whereas the Telecom segment was down, despite the signature of the above-mentioned contract for a dual-use communication satellite in Brazil.

In the **Transport** segment, new orders amounted to **€1,492m**, compared to €1,653m in 2012 (during which several high unit value contracts were notified: mainline rail in Denmark and urban rail in Singapore). However, 2013 witnessed several significant commercial successes, particularly in emerging markets: mainline rail signalling contracts in South Africa (Cape region) and in Egypt (Cairo-Alexandria line) and metros in China (Hong Kong, Guangzhou, Nanjing) and in Latin America (Santiago).

Defence & Security order intake stood at **€7,661m** versus €6,748m in 2012, which represented an organic growth of **14%**. This evolution reflects the sharp rise in orders for Defence Mission Systems, driven in particular by the UK Royal Navy sensor system support contract, the new F3R standard Rafale and the French Atlantique 2 maritime patrol aircraft renovation and the Sawari I Saudi frigates upgrade. Orders for Secure Communications and Information Systems recorded a strong increase, particularly in radio-

[1] Including 2 contracts booked by DCNS.

communications (new tranche of the French Contact software defined radio contract), in military communications networks (France, NATO), as well as in cybersecurity. Order intake for Land and Air Systems was mainly stable, with successes in air defence, optronics and weapons systems in the Middle East or in air traffic management in the Philippines, Brazil and Africa.

DCNS order intake (at 35%) totalled **€795m** in 2013, compared to €758m in 2012. The key orders booked during the period were the Sawari I frigates upgrade contract for Saudi Arabia, as well as amendments to the French FREMM frigates and submarine programmes.

Sales

Group sales totalled **€14,194m** at 31 December 2013, which is almost identical to the 2012[1] figures.

In **Aerospace**, sales amounted to **€4,451m**, a **1%** increase compared to 2012 (+6% at constant exchange rates and scope). Avionics activities continued their strong progression, driven by flight avionics systems (Airbus, Bombardier), in-flight entertainment and military simulation activities (A400M). Tubes and imaging activities also made a positive contribution to sales. Space sales increased slightly, both in observation and exploration activities (Cosmo-Skymed, Exomars) and in Telecom (Iridium, Eutelsat and Arabsat programmes).

Sales for **Transport** segment recorded **€1,481m**, compared to €1,535m at end of 2012 (**-2%** at constant exchange rates and scope). Signalling activity sales were slightly up due to recent order intake while only partially offsetting lower sales in ticketing due to some major contracts coming to an end.

Defence & Security sales came to **€6,988m**, down **1%** (+1% at constant exchange rates and scope). Secure Communications and Information Systems sales were slightly down over the period, despite the increase of radio communications (ramp up of the Contact contract in France) and of cybersecurity. Land and Air Systems recorded slightly lower sales in 2013, particularly in armaments and air defence activities. At the same time, sales of Defence Mission Systems saw a major increase over the period, mainly driven by the French Rafale programme, the Indian Mirage 2000 upgrade, as well as electronic warfare and sonar activities.

DCNS sales (at 35%) amounted to **€1,176m** at 31 December 2012, a **14%** increase compared to 31 December 2012. This evolution reflects a good progress of the programmes in France (FREMM frigates, Barracuda submarines) and internationally (submarines in India and Brazil, Mistral-class projection and command ship for Russia).

Results

In 2013, the Group's EBIT[2] came to **€1,003m**, or **7.1%** of sales compared to €927m (or 6.5% of sales) in 2012. This **8% increase** of EBIT[2] (+11% in organic terms) reflects ongoing performance improvement measures.

The **Aerospace** sector's EBIT[2] continues to grow and reached **€370m** (8.3% of sales) compared to €297m (6.7% of sales) in 2012. In Avionics, the marked growth in results, boosted by civil avionics activities and in-flight entertainment, is due to a favourable volume impact and improved project execution. Space activities also recorded improved EBIT[2] in 2013 thanks to more efficient project management and reduced restructuring costs.

[1] The foreign exchange impact on sales was -€227m, mainly because of the appreciation of the euro against the Australian dollar, the pound sterling, and the American dollar.

[2] Non-GAAP measure, see definition in appendix.

The **Transport** segment posted an EBIT[1] of **€97m** (6.5% of sales), stable compared with 31 December 2012 (€95m, or 6.2% of sales). This stable profit level over 2013 reflects a more efficient execution of contracts during the second half-year despite an unfavourable mix and volume effect.

The EBIT[1] of **Defence & Security** increased in 2013 and totalled **€518m** (7.4% of sales), compared to €504m in 2012 (or 7.1% of sales). Thanks to good contract execution and efficient cost control, Secure Communications and Information Systems showed an increasing EBIT[1] in 2013. Defence Mission Systems recorded a slight increase in EBIT[1] compared to last year, despite higher restructuring costs, which offset the project execution improvement. By contrast, EBIT[1] for Land and Air was lower, mainly due to an unfavourable volume effect during the period.

EBIT[1] for **DCNS** (at 35%) totalled **€63m** at 31 December 2013, significantly lower than in 2012 (-20%) despite strong sales growth. The deterioration of operating profitability is due to difficulties in the execution of civil nuclear projects.

After accounting for the €98m impact of purchase price allocation (PPA), compared to €112m in 2012, reported income from operations (after restructuring) was €905m, compared to €816m in 2012 (representing an 11% increase).

The **adjusted net financial expense[1]** came to **-€22m** compared to -€40m in 2012. This was mostly due to the fall of interest expenses following the refinancing the 2013 bond at favourable market conditions. **Adjusted finance costs on pensions and other employee benefits[1]** dropped to **-€72m**, compared to -€84m[2] in 2012, thanks to the fall of interest costs. **Share in income of equity affiliates** recorded a slight decrease, at **€20m**, compared to €24m last year.

2013 closed with an **adjusted net profit, Group share[1]** of **€644m** representing an increase of **13%** compared to 2012, after adjusted net income tax[1] of -€281m compared to -€242m[2], giving an effective tax rate of 31%, which is similar to last year. **Adjusted net income per share[1]** came up to **€3.20** compared to €2.86[2] in 2012, up 12%.

Financial position at 31 December 2013

As expected, the **free operating cash flow[3]** dropped compared to 2012, which had benefited from significant payments at the end of the period, and totalled **€466m** compared to €669m in 2012.

At the end of December 2013, **net cash** amounted to **€1,666m** compared to €1,528m at the end of December 2012.

Equity, Group share, amounted to **€3,911m** compared to €3,541m[2] at end December 2012, which takes into account a consolidated net income of €573m.

[1] Non-GAAP measure, see definition in appendix.

[2] Restated to take into account the application of the IAS19R accounting standard.

[3] 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 pensions in the United Kingdom) - tax - net operating investments.

THALES

PRESS RELEASE

Proposed dividend

At the Annual General Meeting on 14 May 2014, the Board of Directors will recommend the distribution to shareholders of a **dividend** of **€1.12** per share, up 27%. This corresponds to an increase of the payout ratio to 35% of the adjusted net result[1], compared to 30% last year.

If approved, the ex-dividend date will be 27 May 2014 and the payment date 30 May 2014. The dividend will be paid entirely in cash and will total €0.85 per share, after deducting the interim dividend of €0.27 per share already paid in December 2013.

Outlook for 2014

Order intake in emerging markets should continue to increase, with a double digit growth expected for 2014, allowing to offset the expected fall of order intake from mature countries, particularly in defence markets.

Sales should remain stable.

A continuing drive to improve performance should enable the Group to post yet a new increase in EBIT[1], which should increase by 5 to 7% compared to 2013.

About Thales

Thales is a global technology leader in the Aerospace, Transportation and Defence & Security markets. In 2012, the company generated revenues of €14.2 billion with 65,000 employees in 56 countries. With its 25,000 engineers and researchers, Thales has a unique capability to design, develop and deploy equipment, systems and services that meet the most complex security requirements. Thales has an exceptional international footprint, with operations around the world working with customers and local partners

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[1] Non-GAAP measure, see definition in appendix.

Appendix

↘ Operating segments (IFRS 8)

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

↘ Definition of non-GAAP measures

In order to enable a better monitoring and benchmark of its economic and operating performance, Thales presents two main non-GAAP indicators, excluding non-operating and non-recurring items. They are determined as follows:

- **EBIT**: a measure of operational performance, equivalent to the income from operations, excluding the amortisation of intangible assets acquired (PPA).

  Starting from 1 January 2014 and the start of application of the new IFRS 10 and IFRS 11 standards, EBIT will also include share in net income (loss) of equity affiliates;

- **Adjusted net income** refers to net income, excluding (i) amortisation of intangible assets acquired, (ii) disposal of assets, changes in scope of consolidation and others, (iii) change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts), (iv) actuarial gains or losses on long-term benefits (accounted within the "finance costs on pensions and employee benefits" in the consolidated accounts), net of the corresponding tax effects.

Readers are reminded that only the consolidated financial statements are audited by the Group's statutory auditors. The consolidated financial statements include the EBIT set out in Note 3 “Segment Information”. 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.

- **Impact of adjustment entries on income statement – 2013**

in millions of euros	Consolidated income statement 2013	Adjustments			Adjusted income statement 2013
		Amort. of intangible assets (PPA)	Gain (loss) on disposal of assets and other	Change in fair value of derivative exchange instruments	
Sales	**14,194**				**14,194**
Cost of sales	(10,845)				(10,845)
R&D	(673)				(673)
Selling, general and administrative expenses	(1,554)				(1,554)
Restructuring costs	(119)				(119)
EBIT	**n/a**				**1,003**
Amort. of intangible assets acquired (PPA)	(98)	98			–
Income from operations	**905**	**98**			**n/a**
Impairment of non-current operating assets	(4)				(4)
Disposal of assets and other	12		(12)		–
Income of operating activities	**913**	**98**	**(12)**		**999**
Cost of net financial debt	*(1)*				*(1)*
Other financial income (expense)	*(50)*			*29*	*(21)*
Net financial expense	51)			29	(22)
Finance costs on pensions and other employee benefits	(72)				(72)
Income tax	(237)	(34)		(10)	(281)
Share in income (loss) of equity affiliates	20				20
Net result	**573**	**64**	**(12)**	**19**	**644**

- **Impact of adjustment entries on income statement – 2012**

in millions of euros	Consolidated income statement 2012[1]	Adjustments				Adjusted income statement 2012
		Amort. of intangible assets (PPA)	Gain (loss) on disposal of assets and other	Change in fair value of derivative exchange instruments	Actuarial gains / losses on other post retirements benefits	
Sales	**14,158**					**14,158**
Cost of sales	(10,868)					(10,868)
R&D	(687)					(687)
Selling, general and administrative expenses	(1,558)					(1,558)
Restructuring costs	(118)					(118)
EBIT	**n/a**					**927**
Amort. of intangible assets acquired (PPA)	(112)	112				–
Income from operations	**816**	**112**				**n/a**
Impairment of non-current operating assets	(15)					(15)
Disposal of assets and other	123		(123)			–
Income of operating activities	**923**	**112**	**(123)**			**913**
Cost of net financial debt	*(13)*					*(13)*
Other financial income (expense)	*(53)*			*26*		*(27)*
Net financial expense	(66)			26		(40)
Finance costs on pensions and other employee benefits	(99)				15	(84)
Income tax	(197)	(39)	8	(9)	(5)	(242)
Share in income (loss) of equity affiliates	24					24
Net result	**586**	**73**	**(115)**	**17**	**10**	**570**

[1] Restated to take into account the first application of the IAS19R accounting standard.

↘ Expected impact of the new IFRS 10 and IFRS 11 consolidation rules (unaudited estimates)

The impact of IFRS 10 and IFRS 11 on the Group's key figures is as follows:

Adjusted income statement 2013 *in millions of euros*	**2013 reported**	**2013 proforma IFRS 10 and IFRS 11**
Order intake	**14,168**	**12,928**
Sales	**14,194**	**12,698**
Gross margin	**3,349**	**3,012**
Indirect costs		
R&D	(673)	(612)
Marketing & selling expenses	(958)	(894)
General and administrative expenses	(596)	(506)
Restructuring costs	(119)	(122)
EBIT – old definition	**1,003**	**_**
Share in net income of equity affiliates	20	133
EBIT – new definition	**_**	**1,011**
Adjusted net income, Group share	**644**	**644**

Segment information 2013 *in millions of euros* **PROFORMA IFRS 10 and IFRS 11**	**Order intake**	**Sales**	**EBIT[1]**	
Aerospace	4,297	4,713	419	*8.9%*
Transport	1,454	1,447	97	*6.7%*
Defence & Security	7,088	6,440	501	*7.8%*
Other and discontinued activities	89	98	(6)	
Total	**12,928**	**12,698**	**1,011**	***8.0%***

[1] Cf. new definition above.

↘ Order intake by destination - 2013

in millions of euros	2013	2012	Total change	Organic change	2013 in %
France	3,796	3,559	+7%	+10%	27%
United Kingdom	1,362	1,043	+31%	+36%	10%
Other European countries	2,756	2,875	-4%	0%	19%
Europe	**7,914**	**7,477**	**+6%**	**+10%**	**56%**
United States and Canada	**1,005**	**1,365**	**-26%**	**-26%**	**7%**
Australia and New Zealand	**683**	**929**	**-26%**	**-18%**	**5%**
Asia	1,752	2,028	-14%	-12%	12%
Middle East	1,836	1,036	+77%	+79%	13%
Rest of the world	978	450	+117%	+123%	7%
Emerging markets	**4,566**	**3,514**	**+30%**	**+32%**	**32%**
Order intake	**14,168**	**13,285**	**+7%**	**+10%**	**100%**

↘ Sales by destination - 2013

in millions of euros	2013	2012	Total change	Organic change	2013 in %
France	4,141	4,196	-1%	+1%	29%
United Kingdom	1,494	1,570	-5%	-1%	11%
Other European countries	2,796	2,959	-6%	-2%	20%
Europe	**8,431**	**8,725**	**-3%**	**+0%**	**60%**
United States and Canada	**1,490**	**1,400**	**+6%**	**+7%**	**11%**
Australia and New Zealand	**709**	**720**	**-1%**	**+10%**	**5%**
Asia	2,037	1,902	+7%	+9%	14%
Middle East	916	775	+18%	+20%	6%
Rest of the world	611	636	-4%	-2%	4%
Emerging markets	**3,564**	**3,313**	**+8%**	**+9%**	**24%**
Sales	**14,194**	**14,158**	**+0%**	**+3%**	**100%**

↘ Consolidated order book by destination – 2013

in millions of euros	2013	2012	Total change	Organic change	2013 in %
France	9,656	9,952	-3%	-3%	33%
United Kingdom	2,780	2,986	-7%	-4%	9%
Other European countries	4,583	4,611	-1%	+0%	16%
Europe	**17,019**	**17,550**	**-3%**	**-3%**	**58%**
United States and Canada	**1,789**	**2,273**	**-21%**	**-20%**	**6%**
Australia and New Zealand	**917**	**1,126**	**-19%**	**-3%**	**3%**
Asia	4,455	4,917	-9%	-8%	15%
Middle East	2,767	1,901	+46%	+48%	9%
Rest of the world	2,580	2,082	+24%	+25%	9%
Emerging markets	**9,802**	**8,900**	**+10%**	**+12%**	**33%**
Order book	**29,527**	**29,849**	**-1%**	**+1%**	**100%**

↘ Order intake and sales – Q4 2013

in millions of euros	Q4 2013	Q4 2012	Total change	Organic change
Order intake				
Aerospace	**1,655**	**949**	+74%	+82%
Transport	**537**	**516**	+4%	+8%
Defence & Security	**3,452**	**2,539**	+36%	+39%
DCNS (at 35%)	**305**	**223**	+37%	+36%
Other and discontinued activities	41	14		
Total	**5,990**	**4,241**	**+41%**	**+45%**
Sales				
Aerospace	**1,419**	**1,444**	-2%	+1%
Transport	**581**	**598**	-3%	-1%
Defence & Security	**2,334**	**2,454**	-5%	-3%
DCNS (at 35%)	**353**	**333**	+6%	+6%
Other and discontinued activities	22	30		
Total	**4,709**	**4,859**	**-3%**	**-1%**

↘ Consolidated order book by operating segment – 2013

in millions of euros	31.12.2013	31.12.2012	Total change	Organic change
Aerospace	**7,274**	7,580	-4%	-3%
Transport	**3,411**	3,513	-3%	+0%
Defence & Security	**14,140**	13,792	+3%	+5%
DCNS (at 35%)	**4,631**	4,905	-6%	-6%
Other and discontinued activities	71	59		
Total	**29,527**	**29,849**	**-1%**	**+0%**

↘ Cash flow – 2013

in millions of euros	2013	2012
Operating cash flow	**1,415**	**1,346**
Change in working capital requirements and in reserves for contingencies	(275)	13
Payment of contributions/pension benefits	(126)	(113)
Net financial interest paid	(24)	(37)
Income tax paid	(91)	(125)
Net operating cash flow[1]	**899**	**1,084**
Net operating investments	(433)	(415)
Free operating cash flow	**466**	**669**
Net (acquisitions)/disposals	(89)	156
Deficit payments on pension in the United Kingdom	(64)	(64)
Dividends	(181)	(155)
FX and others	6	17
Change in net cash	**138**	**623**

[1] Excluding deficit payments on pensions in the United Kingdom.