THALES

PRESS RELEASE

Neuilly-sur-Seine, 24 July 2014

2014 half year results

The Board of Directors of Thales (Euronext Paris: HO) met on 24 July 2014 to review the financial statements for the first half of 2014[1].

Commenting on the results, Jean-Bernard Lévy, Chairman and Chief Executive Officer, said: ***"During this first half-year, Thales recorded another increase of its results. Despite persistent pressures on Western defence budgets, the Group continues to strengthen its position in emerging markets and to improve its profitability. We therefore confirm all of our objectives for 2014 and the medium term."***

Key points

- **Order intake**: **€5.22bn** (-0.8%), up by 13% in emerging markets
- **Sales** almost stable (-0.6%) at **€5.70bn**
- **EBIT**[5]: **€422m**, an increase of 15%
- **Adjusted net income, Group share**[5]: **€257m**, up by 13%
- **Objectives confirmed**

in millions of euros	H1 2014	H1 2013[2]	Total change	Organic change[3]
Order intake	**5,220**	**5,262**	-1%	-1%
Order book	**25,148**	**24,469**[4]	+3%	-2%
Sales	**5,695**	**5,732**	-1%	-2%
EBIT[5] ***in % of sales***	**422** ***7.4%***	**368** ***6.4%***	+15%	+10%
Adjusted net income, Group share[5]	**257**	**227**	+13%	
Adjusted net income per share, Group share[5]	**1.26**	**1.14**	+11%	
Free operating cash-flow[6]	**(535)**	**(387)**		
Net cash	**53**	**281**		

[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] IFRS 10/11 restated.

[3] In this press release, « organic » means « on a like-for-like basis and at constant exchange rates ».

[4] At 31 December 2013.

[5] Non-GAAP measures, see definitions in appendix.

[6] Operating cash flow before interests and tax + 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.

Key figures in millions of euros	H1 2014	H1 2013[1]	Total change	Organic change
Order intake				
Aerospace	**2,077**	**1,729**	+20%	+17%
Transport	**637**	**725**	-12%	-9%
Defence & Security	**2,485**	**2,783**	-11%	-10%
Total – operating segments	**5,199**	**5,237**	-1%	-1%
Other	21	25		
Total	**5,220**	**5,262**	-1%	-1%
Sales				
Aerospace	**2,216**	**2,110**	+5%	+2%
Transport	**571**	**591**	-3%	-3%
Defence & Security	**2,873**	**2,995**	-4%	-5%
Total – operating segments	**5,660**	**5,696**	-1%	-2%
Other	35	36		
Total	**5,695**	**5,732**	-1%	-2%
EBIT[2]				
Aerospace	**207**	**184**	+13%	+2%
in % of sales	***9.3%***	***8.7%***		
Transport	**11**	**7**	+57%	+74%
in % of sales	***1.9%***	***1.2%***		
Defence & Security	**237**	**196**	+21%	+22%
in % of sales	***8.2%***	***6.5%***		
Total – operating segments	**455**	**387**	+18%	+13%
in % of sales	***8.0%***	***6.8%***		
Other	(33)[3]	(19)		
Total	**422**	**368**	+15%	+10%
in % of sales	***7.4%***	***6.4%***		

[1] IFRS 10/11 restated.
[2] Non-GAAP measures, see definitions in appendix.
[3] Including the 35% share in net income of DCNS for €12 million, compared to €26 million for the first half of 2013.

Orders

New orders in the first half of 2014 totalled **€5,220 million**, **a decrease of 0.8%** compared with the first half of 2013 (-1% on a like-for-like basis and at constant exchange rates[1]). At 30 June 2014, the consolidated **order book** amounted to **€25,148 million**, nearly two years of sales. The book-to-bill ratio came to 0.92 in the first six months of 2014, unchanged compared to the first half of 2013.

Five **large orders**, each valued at more than €100 million, were recorded in the first half:

- Four in the Space activities, including two contracts for civil telecommunications satellites, the first for Inmarsat/Arabsat and the second for two satellites for the South Korean operator KT Sat, as well as a multi-year contract for the European navigation network Egnos. Lastly, a contract for observation radar satellite equipment for a European client was recorded during the first quarter.
- A new urban security contract for Mexico City, to double system capacity installed under the first contract won in 2009.

Orders with a unit value of less than €10 million are growing and represent more than half the orders received in terms of value.

New orders in emerging markets showed strong growth once again (**+13%** compared with the first half of 2013). They totalled **€1,651 million**, or 32% of total order intake, compared with 28% in the same period in 2013. This growth was particularly pronounced in Latin America, thanks to the major security contract for Mexico City, as well as in the Middle East and Asia, in both civil and defence activities.

Order intake in the **Aerospace** segment amounted to **€2,077 million,** compared with €1,729 million in the first six months of 2013 (+20%). Avionics orders are up, driven by continued growth in civil and military avionics, both in original and aftermarket equipment, despite reduced performance in simulation activities, as a multi-year simulation and training service contract for UK A400M crews was booked in the first half of 2013. Space activities show even greater growth, driven particularly by the aforementioned civil telecommunications satellite contracts.

Order intake in the **Transport** segment amounted to **€637 million,** compared with €725 million in the first six months of 2013 (-12%). Mainline signalling activities do not match the good performance of the first half 2013 (large contracts in South Africa and in Egypt), despite several successes in Europe (United Kingdom, Spain, Poland and Hungary). By contrast, urban signalling orders are increasing, in particular with the new metro system contract for Salvador, Brazil.

Order intake in the **Defence & Security** segment was down 11% to **€2,485 million,** compared with €2,783 million in the same period last year. This was expected due to having recorded the exceptional multi-year Sensor Support Optimisation Project (SSOP) contract for the UK Royal Navy in the first half of 2013. The decrease is marked in Defence Mission Systems despite commercial successes in the naval sector (Australia, United Kingdom and the Middle East), as well as in UAVs. The decrease in orders for Secure Communications and Information Systems for the half year is a reflection of low military orders in France, which is only partially compensated for by successes on export markets (urban security system for Mexico City, radio and communications networks in the Middle East). However, orders for Land and Air

[1] Foreign exchange had a negative impact of €68 million, mainly due to the depreciation of the Australian dollar against the euro, while changes in scope had a positive impact of €80 million linked to the full consolidation of Thales Raytheon Systems Company SAS (Defence & Security segment) and Trixell SAS (Aerospace segment) as at 1 January 2014, due to changes in the shareholders agreements.

Systems showed a noticeable increase, particularly in air traffic management (Asia, Africa, Middle East) and in optronics (United Kingdom, Middle East).

Sales

Group **sales**[1] reached **€5,695 million** at 30 June 2014, compared to €5,732 million at the end of June 2013 (**-0.6%**).

Sales in the **Aerospace** segment totalled **€2,216 million,** an increase of 5% compared with 2013 (+2% on a like-for-like basis and at constant exchange rates). Avionics activities are once again showing strong growth, driven by onboard avionics, which benefit from aircraft manufacturers' increased production rates and growth in aftermarket sales. In-flight entertainment also continues to record sustained growth, following on large orders last year. Space sales are almost stable, as the ramp-up of new programmes (Brazil, observation satellites) does not fully offset the lower contribution of constellation programmes (Iridium, O3b).

Sales in the **Transport** segment totalled **€571 million,** down 3% compared with €591 million in the same period last year (-3% on a like-for-like basis and at constant exchange rates). Sales for mainline signalling activities are up, thanks in large part to several projects in Europe (Poland, Switzerland, United Kingdom), however not enough to compensate for lower sales in ticketing systems and urban rail signalling.

Sales in the **Defence & Security** segment totalled **€2,873 million,** a decline of 4% (-5% on a like-for-like basis and at constant exchange rates). Defence Mission Systems activities recorded a decline in sales, despite growth in sonar systems in the United Kingdom and Australia. Secure Communications and Information Systems sales also recorded a slight decrease, as the cybersecurity and secure network activities, while enjoying good sales, were not sufficient to totally compensate for the drop in activity in radiocommunications, mainly in the United States. Lastly, sales for the Land and Air Systems activities are down in comparison with the first six months of last year, particularly in surface radar activities.

Results

In the first half of 2014, the Group's **EBIT**[2] came to **€422 million**, or **7.4%** of sales compared to €368 million (6.4% of sales) at 30 June 2013. This **15% increase** of EBIT[2] (+10% in organic terms[3]) reflects ongoing performance improvement measures in all of the Group's operating segments. On the other hand, DCNS's contribution is down for the half year, due to lower sales and negative variances on several contracts.

The **Aerospace** sector's EBIT[2] continues to grow, reaching **€207 million** (**9.3%** of sales), compared to €184 million (8.7% of sales) in the first half of 2013. Avionics is showing significant growth in its results, mainly due to a favourable volume effect for the half year in the civil avionics and in-flight entertainment activities, even while the self-funded R&D effort has been maintained. Space activities have shown a

[1] Foreign exchange had a negative impact of €53 million on sales, due mainly to the depreciation of the Australian dollar against the euro. The impact of changes in scope comes to €144 million, taking the full consolidation of Thales Raytheon Systems Company SAS (Defence & Security segment) and Trixell SAS (Aerospace segment) into account as at 1 January 2014, due to changes in the shareholders agreements.

[2] Non-GAAP measures, see definitions in appendix.

[3] Including a positive scope effect of €13 million, linked to the full consolidation of Thales Raytheon Systems Company SAS (Defence segment) and Trixell SAS (Aerospace segment) as at 1 January 2014, due to changes in the shareholders agreements.

decrease in their EBIT[1] for the first six months of 2014, mainly due to on-going restructuring plans in France and Italy.

The **Transport** segment recorded **€11 million** of EBIT[1] (**1.9%** of sales), slightly up compared to 30 June 2013 (€7 million, 1.2% of sales). These activities continue to be impacted by an unfavourable volume effect, while measures implemented to improve programme execution produce their benefits gradually.

The EBIT[1] of **Defence & Security** increased in the first half of 2014 and totalled **€237 million** (**8.2%** of sales), compared to €196 million at 30 June 2013 (or 6.5% of sales). EBIT[1] for Secure Communications and Information Systems increased over the first half of 2014, thanks to good contract execution and to lower restructuring costs. EBIT[1] for Land and Air Systems is also on the rise for the first half, thanks to better contract execution and despite lower sales and an increase in self-funded R&D costs. Lastly, Defence Mission Systems recorded a slightly higher EBIT[1] this half year, despite increased restructuring costs.

Adjusted net interest[1] expense was at **-€13 million** compared to -€7 million in the first half of 2013, particularly due to adverse movements in foreign exchange rates. **Adjusted finance costs on pensions and other employee benefits[1]** amounted to **-€38 million** compared to -€34 million for the first six months of 2013.

The first half of 2014 closed with **adjusted net income, Group share[1]** of **€257 million**, up **13%** in comparison with the same period last year, after adjusted income tax[1] of -€92 million compared to -€84 million, giving an effective tax rate of 29% compared to 32% in the first half of 2013. **Adjusted net income per share**, **Group share[1]**, came to **€1.26**, compared with €1.14 at 30 June 2013, up 11%.

Financial position at 30 June 2014

Free operating cash flow[2] was negative during this first half of 2014 due to the usually seasonal nature of client payments, and amounted to **-€535 million**, compared to -€387 million for the first half of 2013.

At 30 June 2014, **net cash** amounted to **€53 million** compared to €281 million at the end of June 2013 (and €1,077 million at 30 December 2013), following the acquisition of LiveTV for €286 million.

Equity, Group share, was **€4,072 million** compared to €3,571 million at the end of June 2013, taking into account a consolidated net income, Group share of €447 million.

[1] Non-GAAP measures, see definitions in appendix.

[2] Operating cash flow before interests and tax + 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.

Outlook

Order intake in emerging markets should continue to increase, with double-digit growth expected for 2014, offsetting the fall in order intake expected in mature countries, particularly in defence markets.

Sales should remain stable.

A continuing drive to improve performance should enable the Group to post further growth in EBIT[1], which should increase by 5% to 7%[2] compared with 2013.

Over the medium term, Thales should deliver a moderate sales growth, driven by emerging markets and civil activities, and improve its EBIT[1] margin, thanks to regular competitiveness efforts, to reach 9.5 to 10% by 2017/2018.

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 measures, see definitions in appendix.
[2] Based on exchange rates of February 2014.

Appendix

↘ Operating segments

Aerospace	Avionics, Space
Transport	Ground Transportation Systems
Defence & Security	Secure Communications and Information Systems, Land & Air Systems, Defence Mission Systems

↘ Definition of non-GAAP measures

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

- **EBIT**, an adjusted operating metric, equivalent to income from operations, excluding the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations.

  As from 1 January 2014 and the start of application of the new IFRS 10 and IFRS 11 standards, EBIT includes share in net income (loss) of equity affiliates.
- **Adjusted net income** refers to net income, excluding (i) amortization of intangible assets, (ii) result of disposals of assets, change in scope of consolidation and other, (iii) change in fair value of derivative foreign exchange instruments (recorded in "other financial income" in the consolidated accounts), (iv) actuarial gains on long-term benefits (accounted within the "finance costs on pensions and other employee benefits" in the consolidated accounts) net of the corresponding tax effects.

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

The impact of these adjustments on the income statement at 30 June 2014 and at 30 June 2013 is as follows:

- **Impact of adjustment entries on income statement – H1 2014**

In millions of euros	Consolidated income statement H1 2014	Adjustments				Adjusted income statement H1 2014
		Amort. of intangible assets (PPA)	Disposal of assets and other	Change in fair value of derivative exchange instruments	Actuarial gains / losses and other long-term benefits	
Sales	**5,695**					**5,695**
Cost of sales	(4,277)					(4,277)
R&D	(286)					(286)
Selling, general and administrative expenses	(712)					(712)
Restructuring costs	(53)					(53)
Amortisation of intangible assets acquired (PPA)	(27)	27				–
Income from operations	**341**					**N/A**
Impairment of non-current operating assets	–					–
Disposal of assets, change in scope of consolidation and other	225		(225)			–
Share in income (loss) of equity affiliates	41	13				54
Income of operating activities after share in net income of equity affiliates	**607**					**N/A**
EBIT	**N/A**					**422**
Cost of net financial debt	*(1)*					*(1)*
Other financial income (expense)	*(15)*			*3*		*(12)*
Net financial expense	(16)			3		(13)
Finance costs on pensions and other employee benefits	(43)				6	(38)
Income tax	(79)	(9)	(1)	(1)	(2)	(92)
Net income	**468**	**31**	**(225)**	**2**	**4**	**280**
Net income, Group share	**447**	**30**	**(225)**	**2**	**4**	**257**

- **Impact of adjustment entries on income statement – H1 2013**

In millions of euros	Consolidated income statement H1 2013	Adjustments				Adjusted income statement H1 2013
		Amort. of intangible assets (PPA)	Disposal of assets and other	Change in fair value of derivative exchange instruments	Actuarial gains / losses and other long-term benefits	
Sales	**5,732**					**5,732**
Cost of sales	(4,394)					(4,394)
R&D	(272)					(272)
Selling, general and administrative expenses	(707)					(707)
Restructuring costs	(54)					(54)
Amortisation of intangible assets acquired (PPA)	(30)	30				–
Income from operations	**275**					**N/A**
Impairment of non-current operating assets	–					–
Disposal of assets, change in scope of consolidation and other	10		(10)			–
Share in income (loss) of equity affiliates	49	13				62
Income of operating activities after share in net income of equity affiliates	**334**					**N/A**
EBIT	**N/A**					**368**
Cost of net financial debt	*(6)*					*(6)*
Other financial income (expense)	*(16)*			*15*		*(1)*
Net financial expense	(22)			15		(7)
Finance costs on pensions and other employee benefits	(40)				5	(34)
Income tax	(67)	(10)	1	(5)	(2)	(84)
Net income	**205**	**34**	**(9)**	**10**	**3**	**243**
Net income, Group share	**190**	**32**	**(7)**	**9**	**3**	**227**

Order intake by destination – H1 2014

in millions of euros	H1 2014	H1 2013 pro forma IFRS 10/11	Total change	Organic change	H1 2014 in %
France	1,059	1,143	-7%	-6%	20%
United Kingdom	563	823	-32%	-34%	11%
Other European countries	1,162	1,066	+9%	+2%	22%
Europe	**2,784**	**3,032**	**-8%**	**-11%**	**53%**
United States and Canada	**431**	**401**	**+7%**	**+12%**	**8%**
Australia and New Zealand	**354**	**370**	**-4%**	**+10%**	**7%**
Asia	673	606	+11%	+11%	13%
Middle East	655	591	+11%	+12%	13%
Rest of the World	323	262	+23%	+30%	6%
Emerging markets	**1,651**	**1,459**	**+13%**	**+15%**	**32%**
Order intake	**5,220**	**5,262**	**-1%**	**-1%**	**100%**

Sales by destination – H1 2014

in millions of euros	H1 2014	H1 2013 pro forma IFRS 10/11	Total change	Organic change	H1 2014 in %
France	1,610	1,629	-1%	-3%	28%
United Kingdom	621	738	-16%	-19%	11%
Other European countries	1,232	1,114	+11%	+3%	21%
Europe	**3,463**	**3,481**	**-1%**	**-5%**	**60%**
United States and Canada	**536**	**684**	**-22%**	**-19%**	**9%**
Australia and New Zealand	**327**	**356**	**-8%**	**+5%**	**6%**
Asia	784	706	+11%	+11%	14%
Middle East	377	327	+15%	+13%	7%
Rest of the World	208	178	+17%	+18%	4%
Emerging markets	**1,369**	**1,211**	**+13%**	**+12%**	**25%**
Sales	**5,695**	**5,732**	**-1%**	**-2%**	**100%**

↘ Order intake and sales – Q2 2014

in millions of euros	**Q2 2014**	**Q2 2013 pro forma IFRS 10/11**	Total change	Organic change
Order intake				
Aerospace	**1,301**	**899**	+45%	+42%
Transport	**380**	**414**	-8%	-6%
Defence & Security	**1,461**	**2,097**	-30%	-30%
Total – operating segments	**3,142**	**3,410**	-8%	-8%
Other	3	9		
Total	**3,145**	**3,419**	**-8%**	**-8%**
Sales				
Aerospace	**1,261**	**1,239**	+2%	-1%
Transport	**342**	**355**	-4%	-3%
Defence & Security	**1,608**	**1,719**	-6%	-8%
Total – operating segments	**3,211**	**3,313**	-3%	-5%
Other	17	22		
Total	**3,228**	**3,335**	**-3%**	**-5%**

↘ Order intake and sales – Q1 2014

in millions of euros	**Q1 2014**	**Q1 2013 pro forma IFRS 10/11**	Total change	Organic change
Order intake				
Aerospace	**777**	**830**	-6%	-10%
Transport	**257**	**310**	-17%	-15%
Defence & Security	**1,023**	**686**	+49%	+54%
Total – operating segments	**2,057**	**1,826**	+13%	+13%
Other	17	17		
Total	**2,074**	**1,843**	**+13%**	**+13%**
Sales				
Aerospace	**955**	**870**	+10%	+6%
Transport	**229**	**236**	-3%	-2%
Defence & Security	**1,266**	**1,276**	-1%	-2%
Total – operating segments	**2,450**	**2,382**	+3%	+1%
Other	17	15		
Total	**2,467**	**2,397**	**+3%**	**+1%**

↘ Cash-flow – H1 2014

in millions of euros	H1 2014	H1 2013
Operating cash flows before working capital changes, interests and tax	**601**	**529**
Change in working capital requirements and in reserves for contingencies	(843)	(671)
Payment of contributions/pension benefits	(56)	(59)
Net financial interest paid	(4)	(24)
Income tax paid	(44)	(19)
Net cash flows from operating activities[1]	**(346)**	**(244)**
Net operating investments	(188)	(143)
Free operating cash-flow	**(535)**	**(387)**
Net (acquisitions)/disposals	(306)	(25)
Deficit payments on pensions in the United Kingdom	(34)	(31)
Dividends	(173)	(126)
FX and other	23	(80)
Change in net cash	**(1,025)**	**(649)**

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