THALES

PRESS RELEASE

Paris La Défense, 26 February 2015

2014 Annual Results

The Thales (Euronext Paris: HO) Board of Directors met on 25 February 2015 to close the financial statements for financial year 2014[1].

Patrice Caine, Chairman & Chief Executive Officer, stated: ***"Thales achieved a very good commercial performance in 2014, with a significant increase in order intake in all our business segments. Excluding the impact of DCNS, the Group's profitability improved yet again. This positive momentum should continue in 2015, with the return to a growth in sales and increased results".***

Key points

- **Order intakes**: **€14.36 billion** up 11%
- **Sales** stable at **€12.97 billion**
- **EBIT[4]**: **€985 million**, after the deduction of €117 million for the impact of the net loss by DCNS
- **Adjusted net income - Group share[4]: €562 million**
- **Dividend per share: €1.12**

(€ million)	2014	2013[2]	Total change	Organic change[3]
Order intake	**14,363**	**12,928**	+11%	+8%
Order book	**27,285**	**24,469**	+12%	+6%
Sales	**12,974**	**12,698**	+2%	-1%
EBIT[4] excluding DCNS[5]	**1,102**	**971**	+13%	+8%
in % of sales	8.5%	7.6%		
EBIT[4]	**985**	**1,011**	-3%	-8%
in % of sales	7.6%	8.0%		
Adjusted net income - Group share[4]	**565**	**642**	-12%	
Adjusted net income - Group share, per share[4]	**€2.75**	**€3.20**	-14%	
Consolidated net income – Group share	**714**	**573**	+25%	
Dividend per share	**€1.12**	**€1.12**	0%	
Free operating cash flow[6]	**501**	**477**	+5%	
Net cash	**1,006**	**1,077**	-7%	

[1] On the date of this press release, the account audit procedures were complete and the Statutory Auditors' Report was in the process of being issued.
[2] In this press release, all of the 2013 data have been restated to take into account the introduction of the IFRS 10/11 standards.
[3] In this press release, "organic" means "at constant scope and exchange rates".
[4] Non-GAAP measure, see definition in the appendix.
[5] In this press release, "excluding DCNS" means "excluding the impact of the 35% share in the net income (loss) from DCNS", i.e. a loss of €117 million for 2014 and profit of €40 million for 2013.
[6] Operating cash flow before interest and tax + change in working capital requirements and provisions for contingencies - net financial interest paid - pension benefits (excluding payments to reduce deficits and changes in the United Kingdom) - taxes paid - net operating investments.

Key figures (in € million)	2014	2013	Total change	Organic change
Order intake				
Aerospace	**5,024**	**4,297**	+17%	+11%
Transport	**1,652**	**1,454**	+14%	+14%
Defence & Security	**7,608**	**7,114**	+7%	+4%
Total - operating segments	**14,284**	**12,865**	+11%	+7%
Others	79	63		
Total	**14,363**	**12,928**	+11%	+8%
Sales				
Aerospace	**5,014**	**4,713**	+6%	+1%
Transport	**1,402**	**1,447**	-3%	-4%
Defence & Security	**6,480**	**6,455**	+0%	-2%
Total - operating segments	**12,895**	**12,616**	+2%	-1%
Others	79	82		
Total	**12,974**	**12,698**	+2%	-1%
EBIT[1]				
Aerospace	**505**	**420**	+20%	+11%
in % of sales	*10.1%*	*8.9%*		
Transport	**32**	**97**	-67%	-68%
in % of sales	*2.3%*	*6.7%*		
Defence & Security	**620**	**499**	+24%	+21%
in % of sales	*9.6%*	*7.7%*		
Total - operating segments	**1,157**	**1,016**	+14%	+8%
in % of sales	*9%*	*8.1%*		
Others - excluding DCNS	(55)	(45)		
Total - excluding DCNS	**1,102**	**971**	+13%	+8%
in % of sales	*8.5%*	*7.6%*		
DCNS (share at 35%)	(117)	40		
Total	**985**	**1,011**	-3%	-8%
in % of sales	*7.6%*	*8.0%*		

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

Order intake

The **new orders** entered in the order book during 2014 amount to **€14,363 million**, representing an **increase of 11%** compared to 2013 (+8% at constant scope and exchange rates[1]). At 31 December 2014, the consolidated **order book** totalled **€27,285 million**, i.e. more than two years of sales. The **book-to-bill** ratio amounted to **1.11** at the end of 2014.

Nineteen large **orders for an amount over €100 million** were recorded in 2014 (the same number as in 2013):

- 8 in the Aerospace segment, including a major supply contract for two observation satellites for the United Arab Emirates (Falcon Eye), three contracts for commercial telecommunications satellites (Inmarsat/Arabsat, KT Sat in Korea and Telkomsat in Indonesia), contracts for the Egnos (navigation) and Exomars (exploration) space programmes, as well as a satellite supply contract for a European customer;
- 1 in the Transport segment for signalling and control systems for the Olmedo-Orense high-speed rail line in Spain;
- 10 in the Defence & Security segment, half of them in the emerging markets (a military communication network and a port infrastructure security contract in Qatar; an air defence system in Indonesia; an urban security contract for Mexico City; systems for the corvettes sold by DCNS in Egypt) and half of the them in the main countries in which the Group is based (air defence radars, Scorpion programme for the land forces and laser designation pods in France; modernisation of military air control in the United Kingdom; and land defence systems in Australia).

Orders with a unit value less than €10 million represent just under half of the order intake in terms of value.

With significantly marked growth in the Middle East, **order intake in the emerging markets**[2] continued to grow (**+8%** compared to 2013) reaching **€4,267 million** or 30% of total order intake. Since 2012, there has been a 40% increase in order intake in emerging markets.

Order intake for the **Aerospace** segment rose sharply to **€5,024 million** compared to €4,297 million in 2013 (+17%). Avionics orders increased, boosted by continued growth in commercial and military avionics, both original equipment and support. There was significant growth in the Space business, both in the institutional segment for observation, navigation and exploration satellites as well as in the telecommunications segment, with the signing of the previously mentioned major contracts.

Order intake for the **Transport** sector was particularly strong in the fourth quarter and increased to **€1,651 million** in 2014 compared to €1,454 million in 2013 (+14%). The main lines business benefits from contracts in Spain, Poland, Mexico and the United Kingdom in particular, and activity is sustained in urban rail, with projects in Qatar, Brazil and the United States.

[1] Taking into account a positive exchange rate effect of €16 million and a positive scope effect of €441 million linked to the full consolidation of Thales Raytheon Company Systems SAS (Defence & Security) and Trixell SAS (Aerospace) from 1 January 2014 following changes to the shareholders' agreements and the first consolidation of Live TV from 1 July 2014 (Aerospace).

[2] In this press release, "emerging markets" refers to all countries in Asia, the Middle East, Latin America and Africa.

Order intake in the **Defence & Security** segment totalled **€7,608 million** compared to €7,114 million in 2013 (+7%). This trend reflects the significant growth in orders for Land and Air Systems, which reported several large orders in the fourth quarter: the Marshall contract for the renovation of the UK military air control, air defence radars in France and a land defence contract in Australia. Order intake for Secure Communications and Information Systems remains stable overall, with an increased order intake for protection systems (Mexico, Qatar, France) offsetting the decline in radiocommunications orders, following the notification in 2013 of the major French software-defined radio contract. However, as expected, and despite several successes in surface ships systems (Egypt, United Kingdom, Netherlands, Australia), the Defence Mission systems business did not match the very high level of order intake achieved in 2013, driven by the multi-annual SSOP contract for the UK Royal Navy.

Sales

Group **sales**[1] totalled **€12,974 million** at 31 December 2014 compared to €12,698 million at the end of December 2013, which represents an increase of 2% (-1% at a constant scope and exchange rates).

In the **Aerospace** segment, sales amounted to **€5,014 million**, up 6% compared to 2013 (+1% at constant scope and exchange rates). Avionics continued to grow thanks to commercial on-board avionics, which benefited from increased production rates at aircraft manufacturers and the growth of aftermarket activities, while the military business (helicopters and simulation) sales were lower. There was also continued growth in in-flight entertainment sales, following large orders in 2013. Space sales were relatively stable; the increase in new programmes (Brazil, observation satellites) did not offset the reduced contribution of constellation programmes (Iridium, O3b).

The **Transport** segment recorded sales of **€1,402 million** compared to €1,447 million in 2013, representing a decrease of 3% (-4% at constant scope and exchange rates). The main line signalling business reported sales growth, thanks in particular to several projects in Europe (Poland, Hungary, Austria). Nevertheless, this trend did not completely offset lower sales in the ticketing business which saw several contracts come to an end, and in urban rail signalling, in which several projects have had delays.

Sales for the **Defence & Security** segment reached **€6,480 million**, almost identical to that of 2013 (-2% at constant scope and exchange rates). Excluding the positive impact of the full consolidation of the French Thales Raytheon Systems unit, Land and Air Systems reported lower sales compared to 2013, despite the good performance of airborne optronics. There was also a drop in sales in Defence Mission Systems, despite the growth of the sonar business driven in particular by the ramp-up of the SSOP contract in the United Kingdom. Finally, Secure Communications and Information Systems reported a slight fall in sales; the performance of the cybersecurity and secure networks business failed to fully offset the decline in the radiocommunications business, mainly in the United States.

[1] The exchange rate impact on sales is positive and amounts to €43 million while the scope impact amounts to €384 million, taking into account the full consolidation of Thales Raytheon Systems SAS (Defence & Security) and Trixell SAS (Aerospace) from 1 January 2014, following changes to the shareholders' agreements and the first consolidation of Live TV (Aerospace) from 1 July 2014.

Results

For 2014, the Group reported an **EBIT[1] of €985 million**, which represents 7.6% of sales compared to €1,011 million (8.0% of sales) in 2013. This decline is entirely attributable to the strongly negative contribution of DCNS (-€117 million compared to a positive contribution of €40 million in 2013) due to significant negative variances on several contracts, particularly in civil nuclear activities as well as the Barracuda submarine programme. **Excluding the contribution of DCNS**, the Group's **EBIT** totalled **€1,102 million** (**8.5%** of sales), up 13% compared to the previous financial year, as performance plans continued to be deployed.

The EBIT[1] for the **Aerospace** segment increased further to **€505 million** (**10.1%** of sales) compared to €420 million (8.9% of sales) in 2013. Avionics reported significant growth in their results, due to the higher sales volume in commercial avionics and in-flight entertainment and the results of competitiveness measures. Space reported a stable EBIT[1] compared to the previous year, the positive impact of performance plans offset by research and development expenses and increasing restructuring costs.

The **Transport** segment reported an EBIT[1] of **€32 million** (**2.3%** of sales) compared to €97 million (6.7% of sales) in 2013. The Transport business was affected by execution difficulties on several projects, particularly in urban rail. Corrective measures have been implemented in order to improve the quality of programme execution. These measures should gradually produce benefits.

Despite globally stable sales, the EBIT[1] for the **Defence & Security** segment increased significantly in 2014 totalling **€620 million** (**9.6%** of sales) compared to €499 million in 2013 (i.e. 7.7% of sales). The EBIT[1] for Land and Air Systems rose sharply as better execution of contracts offset the increased costs in self-funded R&D. Secure Communications and Information Systems reported an increased EBIT[1] in 2014, thanks to the good execution of projects and reduced restructuring costs. Likewise, the Defence Mission Systems Business reported an increase in EBIT[1] as a result of the better execution of contracts and lower restructuring costs.

The **adjusted financial costs**[1], remained practically unchanged at **-€25 million** compared to -€23 million in 2013. **Adjusted financial income on pensions and other employee benefits**[1] came to **-€77 million** compared to -€70 million during the previous financial year, since the interest rates at the end of 2013, which were used to calculate the 2014 financial cost, were higher than the 2012 rates.

Thus, the **adjusted net income - Group share**[1] for 2014 was **€562 million**, compared to €642 million in 2013, after an adjusted tax charge of €258 million compared to -€234 million, i.e., an effective tax rate of 29% compared to 30% in 2013. The **adjusted net income, Group share, per share**[1] amounted to **€2.75** compared to €3.20 at the end of December 2013.

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

Financial position at 31 December 2014

The **free operating cash flow**[1] increased compared to 2013 totalling **€501 million** compared to €477 million in 2013, despite a 24% increase in operating investments (€443 million compared to €358 million in 2013) as part of the optimisation of the Group's industrial base.

At 31 December 2014, **net cash** amounted to **€1,006 million** compared to €1,077 million at the end of December 2013, taking into account in particular the acquisition of the US company Live TV for €287 million and a significant increase in the dividend distributed (€242 million over the year compared to €181 million for the previous year).

Shareholders' equity, Group share, amounted to **€3,771 million** compared to €3,847 million at the end of December 2013, taking into account net consolidated income, Group share of €714 million and the significant increase in provisions for pensions and long-term benefits (€2,557 million compared to €1,858 million in 2013) linked to the extremely low interest rates at the end of 2014.

Proposed dividend

At the Annual General Meeting on 13 May 2015, the Board of Directors will propose the distribution of a **dividend** of **€1.12** per share to the shareholders.

If approved, the ex-dividend date will be 27 May 2015 and the payment date will be 29 May 2015. The dividend will be paid fully in cash and will amount to €0.78 per share, after deducting the interim dividend of €0.34 per share already paid in December 2014.

Governance

As announced on 27 January, it will be proposed that the General Meeting to be held on 13 May 2015 approves the creation of two new board members positions and the appointment of Guylaine Dyèvre and Thierry Aulagnon to these positions.

In addition, it will also be proposed at this General Meeting to approve a change in the company's articles of association to raise the age limit for the Chairman of the Board. If approved, Thales will implement, as planned, the separation of the roles of Chairman of the Board and of Chief Executive Officer, to be respectively held by Henri Proglio and Patrice Caine.

[1] Operating cash flow before interest and tax + change in working capital requirements and provisions for contingencies - net financial interest paid - pension benefits (excluding payments to reduce deficits and changes in the United Kingdom) - taxes paid - net industrial investments.

Outlook

After an order growth of almost 20% over the last two years, order intake should remain high in 2015, with a new increase in order intake expected from emerging markets.

The continued growth in order intake over the last two years should result in a low-single digit increase in sales in 2015.

This positive trend, combined with competitiveness improvement efforts and the progressive return to profitability of DCNS should result in an EBIT[1] increase of around 15% compared to 2014 (based on current exchange rates), to total €1,130 million to €1,150 million.

Over the medium term, Thales confirms its objectives of a moderate increase in sales and an improvement in its EBIT[1] margin to reach a rate of 9.5 to 10% by 2017/2018.

About Thales

Thales is a global technology leader for the Aerospace, Transport, Defence and Security markets. With 61,000 employees in 56 countries, Thales reported sales of €13 billion in 2014. With over 20,000 engineers and researchers, Thales has a unique capability to design and deploy equipment, systems and services to meet the most complex security requirements. Its unique international footprint allows it to work closely with its customers all over the world

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

Appendices

↘ Operating segments

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

↘ Definition of financial indicators that are not strictly accounting-related

To facilitate better monitoring and benchmarking of its operating and financial performance, the Group presents two key indicators, which are not strictly accounting related, which allow it to exclude non-operating and non-recurring elements. They are determined as follows:

- **EBIT**, an adjusted operating metric, corresponds to income from operations plus the share of the net income (loss) of equity-accounted companies, excluding the amortisation of intangible assets acquired (purchase price allocation – PPA) recorded as part of business combinations;
- **Adjusted net income** corresponds to the net income attributable to shareholders of the parent company, excluding the following items, net of the corresponding tax effects:
  - amortisation of intangible assets,
  - results of disposals of assets, change in scope of consolidation and others,
  - change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts),
  - actuarial gains on long-term benefits (accounted within the "finance cost on pensions and other long-term benefits" in the consolidated accounts).

It is reminded that only the consolidated financial statements were audited by the Statutory Auditors at 31 December. The consolidated financial statements include the EBIT provided in Note 2 "Segment information" to the consolidated financial statements. Adjusted financial information other than that provided in Note 2 "Segment information" is subject to the verification procedures applicable to all information included in this press release.

The impact of these adjustment entries on the income statement at 31 December 2014 and 31 December 2013 is reflected in the tables below:

- **Impact of adjustment entries in the income statement – 2014**

(€ million)	2014 consolidated P&L	Adjustments				Adjusted 2014 P&L
		Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	**12,974**					**12,974**
Cost of sales	(9,792)					(9,792)
R&D	(641)					(641)
Selling, general and administrative expenses	(1,434)					(1,434)
Restructuring costs	(114)					(114)
Amortisation of purchased intangible assets (PPA)	(104)	104				0
Income from operations	**889**					N/A
Impairment of non-current operating assets	0					--- (*)
Income from disposals, changes in scope and others	249		(249)			0
Share of income (loss) in equity-accounted companies	(34)	27				(7)
Income from operations after income from equity-acctd cos	**1,104**					N/A
EBIT	N/A					**985**
Impairment of non-current operating assets	--- (*)					0
Cost of net financial debt	2					2
Other financial costs	(40)			12		(27)
Finance cost on pensions and other long-term benefits	(90)				13	(77)
Income tax	(214)	(35)	(1)	(4)	(4)	(258)
Net income (loss)	**762**					**625**
Minority interests	(48)	(15)				(62)
Net income, Group share	**714**	**80**	**(249)**	**8**	**9**	**562**

(*) included in "Income from operations after income from equity-accounted companies" in the consolidated income statement and in "Net income (loss)" in the adjusted income statement.

- **Impact of adjustment entries in the income statement – 2013**

(€ million)	2013 consolidated P&L	Adjustments				2013 adjusted P&L
		Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	**12,698**					**12,628**
Cost of sales	(9,685)					(9,685)
R&D	(612)					(612)
Selling, general and administrative expenses	(1,400)					(1,400)
Restructuring costs	(122)					(122)
Amortisation of purchased intangible assets (PPA)	(62)	62				0
Income from operations	**817**					N/A
Impairment of non-current operating assets	(3)					--- (*)
Income (loss) from disposals, changes in scope and others	16		(16)			0
Share of income (loss) in equity-accounted companies	106	27				133
Income from operations after income from equity-accounted companies	**936**					N/A
EBIT	N/A					**1,011**
Impairment of non-current operating assets	--- (*)					(3)
Cost of net financial debt	(9)					(9)
Other financial costs	(45)			31		(14)
Finance cost on pensions and other long-term benefits	(69)					(70)
Income tax	(204)	(21)	1	(11)	0	(234)
Net income (loss)	**609**	**67**	**(15)**	**20**	**(0)**	**681**
Minority interests	**(35)**	(3)	2	(3)	(1)	(39)
Net income, Group share	**573**	**65**	**(13)**	**18**	**(1)**	**642**

(*) included in "Income from operations after income from equity-accounted companies" in the consolidated income statement and "Net income (loss)" in the adjusted income statement.

Order intake by destination - 2014

(€ million)	**2014**	**2013**	Total change	Organic change	**2014 in %**
France	3,594	3,343	+8%	+3%	25%
United Kingdom	1,326	1,256	+6%	-1%	9%
Rest of Europe	3,173	2,745	+16%	+9%	22%
Europe	**8,093**	**7,344**	+10%	+5%	**56%**
United States and Canada	**1,036**	**915**	+13%	+7%	**7%**
Australia and New Zealand	**967**	**681**	+42%	+49%	**7%**
Asia	1,701	1,479	+15%	+14%	12%
Near and Middle East	1,929	1,401	+38%	+37%	13%
Rest of world	637	1,108	-43%	-42%	4%
Emerging markets	**4,267**	**3,988**	+7%	+7%	**30%**
Order intake	**14,363**	**12,928**	**+11%**	**+8%**	**100%**

↘ Sales by destination - 2014

(€ million)	**2014**	**2013**	Total change	Organic change	**2014 in %**
France	3,419	3,497	-2%	-2%	26%
United Kingdom	1,314	1,440	-9%	-13%	10%
Rest of Europe	2,938	2,708	+8%	+0%	23%
Europe	**7,671**	**7,645**	**+0%**	**-4%**	**59%**
United States and Canada	**1,350**	**1,479**	**-9%**	**-15%**	**10%**
Australia and New Zealand	**667**	**697**	**-4%**	**+1%**	**5%**
Asia	1,823	1,597	+14%	+12%	14%
Near and Middle East	912	833	+9%	+6%	7%
Rest of world	551	447	+23%	+23%	4%
Emerging markets	**3,286**	**2,877**	**+14%**	**+12%**	**25%**
Sales	**12,974**	**12,698**	**+2%**	**-1%**	**100%**

↘ Order intakes and sales Q4 2014

(€ million)	Q4 2014	Q4 2013	Total change	Organic change
Order intake				
Aerospace	**1,869**	**1,938**	-4%	-8%
Transport	**827**	**509**	+62%	+61%
Defence & Security	**4,082**	**3,144**	+30%	+25%
Total - operating segments	**6,778**	**5,591**	**+21%**	**+17%**
Others	46	18		
Total	**6,824**	**5,609**	**+22%**	**+17%**
Sales				
Aerospace	**1,731**	**1,564**	+11%	+3%
Transport	**555**	**565**	-2%	-3%
Defence & Security	**2,243**	**2,156**	+4%	0%
Total - operating segments	**4,529**	**4,285**	+6%	+1%
Others	31	17		
Total	**4,560**	**4,302**	**+6%**	**+1%**

↘ Cash-flow – 2014

(€ million)	2014	2013
Operating cash flow before interest and tax	**1,466**	**1,330**
Change in working capital requirements and provisions for contingencies	(287)	(301)
Payment of contributions/pension benefits	(122)	(123)
Net financial interest paid	(14)	(31)
Income tax paid	(98)	(40)
Net cash flows from operating activities[1]	**944**	**835**
Net operating investments	(443)	(358)
Free operating cash flow	**501**	**477**
Net (acquisitions)/disposals	(374)	(35)
Deficit payments on pensions in the United Kingdom	(69)	(64)
Dividends	(243)	(181)
Exchange rate and others	114	(50)
Change in net cash	**(71)**	**147**

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