THALES

PRESS RELEASE

↘ Paris La Défense, 23 July 2015

2015 half year results

The Board of Directors of Thales (Euronext Paris: HO) met on 23 July 2015 to review the financial statements for the first half of 2015[1].

Patrice Caine, Chairman & Chief Executive Officer, stated: ***"Thales's first half performance shows the relevance of our profitable growth strategy. There was a strong rise in order intake, driven in particular by emerging markets, whilst our sales have registered a marked progression, in both our civil and defence activities. Thanks to this momentum and our competitiveness actions, our operating margin is continuing to improve. These positive trends allow us to confirm all of our objectives".***

Key points

- **Order intake**: **€6.22 billion,** +19%
- **Sales**: **€6.35 billion,** +11%
- **EBIT[5]**: **€473 million**, +18%
- **Adjusted net income, Group share[5]**: **€313 million** (+29%)
- **Objectives confirmed**

in millions of euros	H1 2015	H1 2014[2]	Total change	Organic change[3]
Order intake	**6,224**	**5,220**	+19%	+14%
Order book	**27,668**	**27,285[4]**	+1%	-1%
Sales	**6,347**	**5,695**	+11%	+6%
EBIT[5]	**473**	**402**	+18%	+10%
in % of sales	***7.5%***	***7.1%***		
Adjusted net income, Group share[5]	**313**	**243**	+29%	
Adjusted net income per share, Group share[5]	**€1.51**	**€1.19**	+27%	
Free operating cash flow[6]	**(304)**	**(535)**		
Net cash	**614**	**53**		

[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, the data for the first half of 2014 has been restated to reflect the introduction of the IFRIC 21 interpretation.
[3] In this press release, "organic" means "on a like-for-like basis and at constant exchange rates".
[4] At 31 December 2014
[5] Non-GAAP measure, see definitions in appendix.
[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 millions of euros	H1 2015	H1 2014	Total change	Organic change
Order intake				
Aerospace	**1,849**	**2,077**	-11%	-16%
Transport	**1,197**	**637**	+88%	+80%
Defence & Security	**3,152**	**2,485**	+27%	+22%
Total – operating segments	**6,198**	**5,199**	+19%	+14%
Other	26	21		
Total	**6,224**	**5,220**	+19%	+14%
Sales				
Aerospace	**2,511**	**2,216**	+13%	+5%
Transport	**569**	**571**	0%	-6%
Defence & Security	**3,229**	**2,873**	+12%	+9%
Total – operating segments	**6,309**	**5,660**	+11%	+6%
Other	38	35		
Total	**6,347**	**5,695**	11%	6%
EBIT[1]				
Aerospace	**224**	**201**	+11%	+3%
in % of sales	8.9%	9.1%		
Transport	**(39)**	**11**	NM	NM
in % of sales	-6.9%	1.9%		
Defence & Security	**301**	**226**	+33%	+26%
in % of sales	9.3%	7.9%		
Total – operating segments	**485**	**438**	+11%	+4%
in % of sales	7.7%	7.7%		
DCNS (share of net result at 35%)	10	10		
Others – excluding DCNS	(22)	(46)		
Total	**473**	**402**	+18%	+10%
in % of sales	7.5%	7.1%		

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

Order intake

New orders booked over the first half of 2015 amounted to **€6,224 million,** representing an **increase of 19%** compared to the first half of 2014 (+14% at constant scope and exchange rates[1]). At 30 June 2015, the consolidated **order book** totalled **€27,668 million**, which represents more than two years of sales. The book-to-bill ratio came to **0.98** in the first six months of 2015, compared to 0.92 in the same period last year.

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

- a systems and equipment contract as part of the order for 24 Rafale combat aircraft from the Egyptian government;
- two urban rail supervision and signalling contracts, one for the Doha (Qatar) metro and the other for the Hong Kong metro;
- an optronics land system contract as part of the Scout SV programme in the United Kingdom;
- a French military intelligence satellite system contract (Ceres programme)

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

Thanks to the Rafale contract in Egypt and the commercial successes in urban railway, **new orders in emerging markets**[2] grew by **51%** compared to the first half of 2014 and amounted to **€2,492 million**, which represents. 40% of total orders compared to 32% for the same period last year.

Order intake in the **Aerospace** segment was down, at **€1,849 million** versus €2,077 million in the first six months of 2014. This was due to the Space activities, which in the first half of 2014 benefited from a particularly high level of order intake, following the signing of several significant contracts (Inmarsat and Koreasat). However, order intake for commercial avionics activities, both in on-board avionics and, to an even greater extent, in-flight entertainment (IFEC), continued their positive trend. These activities also benefitted from the integration of Live TV and favourable exchange rates.

In the **Transport** segment, order intake almost doubled compared to the first half of 2014 (+88%), reaching **€1,197 million** compared to €637 million during the same period last year. This positive evolution was mainly driven by the large orders in rail monitoring and signalling in Hong Kong and Qatar, which offset a decrease in order intake from the main lines activity.

Order intake in the **Defence & Security** segment also grew strongly, to **€3,152 million**, compared to €2,485 million at 30 June 2014 (+27%). This rise, driven by the large order for 24 Rafale combat aircraft for Egypt, was particularly prominent in the Defence Mission Systems activities. Order intake of Secure Communications and Information Systems were also up, thanks to civil security (infrastructure security in the Middle East) and cybersecurity. Land & Air Systems activities, however, recorded a lower order intake despite the above-mentioned significant optronics order in the United Kingdom.

[1] Given a positive exchange rate effect of €213 million and a positive scope of consolidation effect of €44 million linked to the incorporation of Live TV on 1 July 2014 (Aerospace segment).

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

Sales

As anticipated, Group **sales** returned to growth, registering a rise of 11%, to **€6,347 million** at 30 June 2015, compared to €5,695 million in the first half of 2014 (+6% at a constant scope and exchange rates[1]).

Sales in the **Aerospace** segment totalled **€2,511 million**, an increase of 13% compared to the first half of 2014 (+5% at constant scope and exchange rates). The Avionics activities continued to grow, essentially driven by aftermarket and in-flight entertainment, and also benefitted from a positive exchange rate impact as well as the acquisition of Live TV. Sales from the Space segment progressed significantly in both telecommunications and observation domains, after significant orders registered last year.

The **Transport** segment recorded virtually unchanged sales, at **€569 million,** compared to €571 million in the first half of 2014 (-6% at a constant scope and exchange rates). The main line signalling business reported sales growth, thanks in particular to several projects in Europe (Poland and Germany). This development, combined with a positive exchange rate impact, offset the decrease in activity registered in ticketing (with several projects coming to an end) and urban rail signalling.

Sales in the **Defence & Security** segment amounted to **€3,229 million** (against €2,873 million in 2014) , which represents an increase of 12% compared to the first half of 2014 (+9% at a constant scope and exchange rates). The Defence Mission Systems activities registered a rise in sales, thanks notably to the Indian Mirage upgrade programme and naval activities. Sales in Secure Communications and Information Systems also grew, particularly in civil security (with several projects in the Middle East) and in cybersecurity markets. Land & Air Systems also recorded a progression in sales, driven by air traffic management (ramp-up of the Marshall programme in the United Kingdom), weapons and air defence activities.

Results

In the first half of 2015, the Group's **EBIT**[2] grew 18% to **€473 million**, or **7.5%** of sales compared to €402 million (7.1% of sales) the same period in 2014. This progression is a result of the rise in sales and the impact of competitiveness plans – even though the Group further increased its commercial and research and development efforts and pension costs deteriorated by -€10 million compared to the first half of 2014.

The EBIT[1] for the **Aerospace** segment increased further to **€224 million**, (**8.9%** of sales) compared to €201 million (9.1% of sales) during the first six months of 2014. Avionics reported significant growth in its results, due to the higher sales volume in commercial avionics and in-flight entertainment and a favourable exchange rate. Space reported a stable EBIT[1] compared to the first half of 2014, as the

[1] Given a positive exchange rate effect of €239 million and a positive scope of consolidation effect of €78 million linked to the incorporation of Live TV on 1 July 2014 (Aerospace segment).

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

positive impact of performance plans were offset by higher commercial research and development expenses.

The **Transport** segment registered an EBIT[1] of **-€39 million**, against €11 million in the first half of 2014. Signalling activities are still suffering from an unfavourable volume effect, and to an even greater extent, execution difficulties on several projects, particularly in urban transport. Additional charges were booked as part of the in-depth review of the contract portfolio carried out during the first half of 2015. Corrective measures were implemented by the new management team which included a strengthening of resources in order to improve project execution quality. This activity is expected to register a slightly negative EBIT[1] for the whole financial year and then gradually return to profitability over the next few years.

The **Defence & Security** segment saw a marked rise in EBIT[1] over the first six months of the year, to **€301 million,** (**9.3%** of sales), against €226 million in the first half of 2014 (7.9% of sales). The EBIT[1] of Land & Air Systems registered a marked increase, given a favourable volume effect and lower restructuring charges. Secure Information and Communication Systems registered strong growth in EBIT[1] over the first half, thanks to the rise in sales and good project execution. However, EBIT[1] for Defence Mission Systems was slightly down, essentially due to the rise in restructuring costs.

In the first half of 2015, **the adjusted cost of financial debt and other financial results**[1] was a positive figure of **€7 million** versus a net expense of -€13 million in the same period last year, which was caused in particular by a rise in dividends and financial income from shareholdings. **Adjusted financial income on pensions and other employee benefits**[1] slightly improved to **-€35 million** compared to -€38 million in the first half of 2014, due to lower interest rates.

The financial year thus ended with an **adjusted net income, Group share**[1] growing by 29% to **€313 million**, compared to €243 million in the first half of 2014, after adjusted income tax of -€109 million compared to -€86 million, i.e. an effective tax rate of 28%, against 29% in the first half of 2014. **Adjusted net income, Group share, per share**[1] amounted to **€1.51** compared to €1.19 at the end of June 2014.

Financial position at 30 June 2015

Free operating cash-flow[1] stood at -€304 million, compared to -€535 million in the first half of 2014. It reflected the usual seasonal nature of customer collections, but benefited from the positive impact of the advance received on the Egyptian Rafale contract.

At 30 June 2015, the **net cash** amounted to €614 million compared to €53 million at the end of June 2014 (and €1,006 million at the end of December 2014), after a distribution of dividends of -€161 million paid in the first half compared to -€173 million in the first half of 2014.

Equity, Group share, stood at **€4,156** million compared to €3,782 million at the end of December 2014, taking into account a consolidated net income, Group share of €266 million.

[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 operating investments.

Governance

Following the resignation of Ms Jeanne-Marie Prost from the Thales Board of Directors as of 24 July 2015, and upon the proposal of the Public Sector, the board co-opted Mr Thierry Aulagnon to succeed her as a director for the remaining duration of her mandate (until the end of the Annual General Meeting which will approve the 2017 financial statements). Mr Thierry Aulagnon will also replace Ms Jeanne-Marie Prost at the Audit and Accounts Committee.

Outlook

After a growth of almost 20% over the last two years, order intake should rise again in 2015, beyond the already high level reached in 2014, with an expected new increase in order intake 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 February 2015 exchange rates), to reach €1,130 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.

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

About Thales

Thales is a global technology leader for the Aerospace, Transportation, 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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Appendices

↘ Operating segments

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

↘ Definitions of non-GAAP financial indicators

In order to enable better monitoring and benchmarking of its operating and financial performance, the Group presents two main non-GAAP indicators, excluding non-operating and non-recurring items. 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 30 June. 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 adjustments on the income statement at 30 June 2015 and at 30 June 2014 is as follows:

- **Impact of adjustment entries on income statement – H1 2015**

in millions of euros	Consolidated income statement H1 2015	Adjustments				Adjusted income statement H1 2015
		Amort. of intangible assets (PPA)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	**6,347**					**6,347**
Cost of sales	(4,827)					(4,827)
R&D	(310)					(310)
Selling, general and administrative expenses	(754)					(754)
Restructuring costs	(43)					(43)
Amortisation of intangible assets (PPA)	(53)	53				0
Income from operations	**360**					**NA**
Impairment of non-current operating assets	0					--- (*)
Income (loss) from disposals, changes in scope and others	(3)		3			0
Share of income (loss) in equity- accounted companies	47	13				60
Income from operations after income from equity-acctd cos	**404**					**NA**
EBIT	**NA**					**473**
Impairment of non-current operating assets	--- (*)					0
Cost of net financial debt	5					5
Other financial income (expense)	(13)			15		2
Finance costs on pensions and other employee benefits	(25)				(10)	(35)
Income tax	(88)	(18)	(1)	(5)	3	(109)
Net income (loss)	**282**	**48**	**2**	**10**	**(7)**	**335**
Minority interests	(16)	(6)		(1)	1	(23)
Net income, Group share	**266**	**42**	**2**	**9**	**(6)**	**313**

(*) 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.

- **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)	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences long-term benefits	
Sales	**5,695**					**5,695**
Cost of sales	(4,296)					(4,296)
R&D	(286)					(286)
Selling, general and administrative expenses	(712)					(712)
Restructuring costs	(53)					(53)
Amortisation of intangible assets (PPA)	(27)	27				0
Income from operations	**322**					**NA**
Impairment of non-current operating assets						--- (*)
Income (loss) from disposals, changes in scope and others	225		(225)			0
Share of income (loss) in equity- accounted companies	39	13				52
Income from operations after income from equity-acctd cos	**586**					**NA**
EBIT	**NA**					**402**
Impairment of non-current operating assets	--- (*)					0
Cost of net financial debt	(1)					(1)
Other financial income (expense)	(15)			3		(12)
Finance costs on pensions and other employee benefits	(43)				6	(38)
Income tax	(73)	(9)	(1)	(1)	(2)	(86)
Net income (loss)	**454**	**31**	**(226)**	**2**	**4**	**265**
Minority interests	(21)	(1)				(22)
Net income, Group share	**433**	**30**	**(226)**	**2**	**4**	**243**

(*) 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 - H1 2015

in millions of euros	**H1 2015**	**H1 2014**	Total change	Organic change	**H1 2015 in %**
France	1,225	1,059	+16%	+16%	20%
United Kingdom	513	563	-9%	-17%	8%
Rest of Europe	1,031	1,162	-11%	-12%	17%
Europe	**2,769**	**2,784**	**-1%**	**-3%**	**45%**
United States and Canada	**564**	**431**	**+31%**	**+4%**	**9%**
Australia and New Zealand	**399**	**354**	**+13%**	**+8%**	**6%**
Asia	665	673	-1%	-6%	11%
Middle East	1,688	655	+158%	+150%	27%
Rest of world	139	323	-57%	-58%	2%
Emerging markets	**2,492**	**1,651**	**+51%**	**+46%**	**40%**
Order intake	**6,224**	**5,220**	**+19%**	**+14%**	**100%**

↘ Sales by destination - H1 2015

in millions of euros	**H1 2015**	**H1 2014**	Total change	Organic change	**H1 2015 in %**
France	1,569	1,610	-3%	-3%	25%
United Kingdom	638	621	+3%	-8%	10%
Other European countries	1,263	1,232	+2%	+1%	20%
Europe	**3,470**	**3,463**	**0%**	**-2%**	**55%**
United States and Canada	**759**	**536**	**+42%**	**+15%**	**12%**
Australia and New Zealand	**365**	**327**	**+12%**	**+7%**	**6%**
Asia	842	784	+7%	+2%	13%
Middle East	647	377	+71%	+61%	10%
Rest of world	265	208	+27%	+24%	4%
Emerging markets	**1,683**	**1,369**	**+28%**	**+21%**	**27%**
Sales	**6,347**	**5,695**	**+11%**	**+6%**	**100%**

↘ Order intake and sales – Q2 2015

in millions of euros	Q2 2015	Q2 2014	Total change	Organic change
Order intake				
Aerospace	**1,067**	**1,301**	-18%	-22%
Transport	**735**	**380**	+93%	+83%
Defence & Security	**1,586**	**1,461**	+9%	+4%
Total – operating segments	**3,388**	**3,142**	+8%	+3%
Other	13	3		
Total	**3,401**	**3,145**	+8%	+3%
Sales				
Aerospace	**1,430**	**1,261**	+13%	+6%
Transport	**335**	**342**	-2%	-7%
Defence & Security	**1,985**	**1,608**	+24%	+19%
Total – operating segments	**3,750**	**3,211**	+17%	+11%
Other	20	17		
Total	**3,770**	**3,228**	+17%	+11%

↘ Cash-flow – H1 2015

in millions of euros	H1 2015	H1 2014
Net cash flows from operating activities	**683**	**582**
Changes in WCR and reserves for contingencies	(697)	(824)
Payment of contributions/pension benefits	(60)	(56)
Financial interest paid	10	(4)
Income tax paid	(42)	(44)
Net cash flows from operating activities[1]	**(106)**	**(347)**
Net operating investments	(198)	(188)
Free operating cash flow	**(304)**	**(535)**
Net (acquisitions)/disposals	(20)	(306)
Deficit payments on pensions in the United Kingdom	(46)	(34)
Dividends	(161)	(173)
Changes in exch. rate, scope and other	138	23
Change in net cash	**(392)**	**(1.025)**

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