THALES

PRESS RELEASE

Paris La Défense, 22 July 2016

2016 Half-year results

- **Order intake in line with expectations: €5.4 billion, down 13%**
- **Sales: €6.85 billion, up 8.9% at constant scope and currency (+7.9% on a reported basis)**
- **EBIT[1]: €551 million, up 17%**
- **Adjusted net income, Group share[1]: €367 million, up 17%**
- **Very good level of free operating cash flow[1] for a first half year: +€45 million (H1 2015: -€304 million)**
- **Objectives confirmed**

Thales's Board of Directors (Euronext Paris: HO) met on 21 July 2016 to review the financial statements for the first half of 2016[2].

Patrice Caine, Chairman & Chief Executive Officer, commented, *"The H1 2016 results perfectly illustrate the momentum created by Thales over the past 18 months, combining growth in sales and improvement in margins. All segments contributed to growth, and profitability rose in line with our targets for the year and with our medium-term objectives. The order intake is in line with our expectations; it is comparable to last year if we take away the exceptional contracts that were recorded in H1 2015. All the Group's teams remain focused on the initiatives launched as part of the Ambition 10 plan, which will continue to foster profitable growth."*

Key figures

New orders booked over the first half of 2016 amounted to **€5,423 million**, representing a **decrease of 13%** compared to the first half of 2015 (-12% at constant scope and exchange rates). In all the Group's businesses, commercial momentum remained buoyant, with the decline explained by an exceptional volume of large orders in the first half of 2015. At 30 June 2016, the consolidated **order book** stood at **€30,374 million**, which represents almost 2.1 years of sales and strengthens the visibility of activity in the coming years.

Over H1 2016, **sales** stood at **€6,846 million**, up 7.9% on a reported basis, and by **8.9% at constant scope and exchange rates** ("organic" change). Emerging markets[3] maintained a high level of growth (organic

[1] Non-GAAP measures, see definitions in the appendix, page 8. The definitions of EBIT and adjusted net income were changed from 1 January 2016 to exclude the charges recorded in the income from operations that are directly related to business combinations. In H1 2016, these adjustments accounted for €7 million of EBIT and €5 million of adjusted net income (no impact in H1 2015).

[2] The limited review of the financial statements has been completed and the statutory auditors' report has been issued following the meeting of the Board of Directors.

[3] In this press release, "mature markets" include Europe, North America, Australia and New Zealand. "Emerging markets" include all other countries: Asia, the Middle East, Latin America and Africa.

growth of +14% after +21% for H1 2015), while mature markets returned to growth (+6.8%). Emerging markets thus represented 29% of the Group's sales, compared to 24% for H1 2014 and 28% for H1 2015.

in millions of euros except income per share (in euros)	H1 2016	H1 2015	Total change	Organic change
Order intake	**5,423**	**6,224**	-13%	-12%
Order book at end of period	**30,374**	**32,292**[1]	-6%	-4%
Sales	**6,846**	**6,347**	+7.9%	+8.9%
EBIT[2]	**551**	**473**	+17%	+19%
in % of sales	*8.1%*	*7.5%*	*+0.6 pts*	*+0.7 pts*
Adjusted net income, Group share[2]	**367**	**313**	+17%	
Adjusted net income, Group share, per share[2]	**1.74**	**1.51**	+15%	
Consolidated net income, Group share	**384**	**266**	+44%	
Free operating cash flow[2]	**45**	**(304)**	NM	
Net cash at end of period	**1,439**	**1,978**[1]	-27%	

In H1 2016, the Group's **EBIT** was **€551 million** (**8.1%** of sales), compared to €473 million (7.5% of sales) for the same period in 2015. EBIT benefited in particular from the first effects of the operational recovery in the transport segment as well as the continued solid performance of the Aerospace and Defence & Security segments.

The **adjusted net income, Group share** rose by **17%** to **€367 million**, benefiting from the improvement in EBIT and a lower effective tax rate.

In H1 2016, the **free operating cash flow** was a positive €45 million, driven by the solid performance achieved in terms of working capital requirements. At 30 June 2016, **net cash** stood at **€1,439 million**, down €539 million compared to 31 December 2015, but up €825 million over the last 12 months (€614 million at 30 June 2015).

[1] At 31 December 2015

[2] Non-GAAP measures, see definitions in the appendix, page 8.

Order intake

€ million	H1 2016	H1 2015	Total change	Organic change
Aerospace	2,218	1,851	+20%	+21%
Transport	507	1,197	-58%	-56%
Defence & Security	2,665	3,150	-15%	-15%
Total – operating segments	**5,391**	**6,198**	**-13%**	**-12%**
Other	33	26		
Total	**5,423**	**6,224**	**-13%**	**-12%**
Of which mature markets[1]	3,806	3,732	+2%	+3%
Of which emerging markets[1]	1,617	2,492	-35%	-34%

New orders booked in H1 2016 amounted to **€5,423 million**, representing a **fall of 13%** compared to H1 2015 (-12% at constant scope and exchange rates[2]). The **book-to-bill** ratio amounted to **0.8** over the first half-year, and **1.2** over 12 months.

In H1 2016, Thales received three **large orders** (with a unit value over €100 million), for a total amount of €521 million: a support contract for Watchkeeper unmanned air vehicles for the British army, a contract covering the security of 170 Ministry of Defence sites in the Netherlands, and the production of a military satellite for a client in the Middle East. H1 2015 had benefited from an exceptional volume of large orders, including notably the order of Rafale fighter jets by Egypt and signalling contracts for the Doha and Hong Kong metro systems, for a total amount of €1,733 million.

Orders with a unit value of less than €100 million remained dynamic, posting growth of 9%.

From a geographical point of view[3], orders were logically down in emerging markets (€1,617 million, -35%), where the clients behind the three major orders quoted above were located. Mature markets posted a slight growth (€3,806 million, organic growth of +3%, led by Europe, +9%).

Order intake for the **Aerospace** segment rose sharply to **€2,218 million** compared to €1,851 million in H1 2015 (+20%). Avionics orders rose, sustained in particular by military avionics. In-flight entertainment (IFE) remained dynamic, but no large orders were placed during H1 2016. The Space segment is still benefiting from a good momentum in sales, particularly with the order for a military satellite for a client in the Middle East, as previously mentioned.

At **€507 million**, order intake in the **Transport** segment was down 58% compared to H1 2015, when the Group won two large urban rail signalling contracts in Doha and Hong Kong.

Order intake in the **Defence & Security** segment stood at **€2,665 million** compared to €3,150 million for H1 2015 (-15%). It was naturally lower compared to H1 2015 when a "jumbo" contract (with a unit value over €500 million) was recorded: the contract for systems and equipment as part of the order of 24

[1] Mature markets: Europe, North America, Australia, New Zealand; emerging markets: all other countries. See page 12

[2] Given a negative exchange rate effect of €103 million and a net positive scope effect of €35 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment).

[3] See table on page 12

Rafale fighter jets by Egypt. Excluding this contract, orders in this segment were on the increase, confirming the Group's continuing sound commercial momentum.

Sales

€ million	H1 2016	H1 2015	Total change	Organic change
Aerospace	2,667	2,512	+6.2%	+6.8%
Transport	717	569	+26.1%	+29.2%
Defence & Security	3,421	3,228	+6.0%	+6.9%
Total – operating segments	**6,806**	**6,309**	**+7.9%**	**+8.9%**
Other	40	38		
Total	**6,846**	**6,347**	**+7.9%**	**+8.9%**
Of which mature markets[1]	4,856	4,594	+5.7%	+6.8%
Of which emerging markets[1]	1,990	1,753	+13.5%	+14.2%

Sales for the first half of 2016 stood at **€6,846 million**, compared to €6,347 million in H1 2015, up 7.9% on a reported basis[2], and up 8.9% at constant scope and exchange rates ("organic" change), driven by an excellent momentum in all segments.

From a geographical perspective[3], this good performance was explained both by continued strong growth in emerging markets (+14.2%, following on from +21.4% in H1 2015) and organic growth in mature markets (+6.8% after +0.6% in H1 2015).

Sales in the **Aerospace** segment totalled **€2,667 million**, an increase of 6.2% compared to H1 2015 (+6.8% at constant scope and exchange rates). The Avionics segment remained strong, particularly in commercial and military aircraft, while IFE returned to high growth in Q2 2016 following a Q1 impacted by a particularly high basis for comparison. Avionics sales for helicopters, which started to slow in Q2 2015, were still down over the half-year. Sales in the Space segment were up sharply, thanks to contracts signed in 2014 and 2015, specifically in observation activities and in the field of telecom constellations.

In the **Transport** segment, sales amounted to **€717 million**, up 26.1% compared to H1 2015 (+29.2% at constant scope and exchange rates). This high growth reflects the start of invoicing on the three major projects won last year, combined with a recovery following an H1 2015 affected by execution difficulties. Growth will nevertheless be significantly lower in the second half of 2016, given that the basis for comparison will be significantly higher (organic growth in H1 2015: -5%, in H2 2015: +11%).

Sales in the **Defence & Security** segment totalled **€3,421 million**, an increase of 6.0% compared with H1 2015 (+6.9% at constant scope and exchange rates). Almost all businesses contributed to this momentum. The Land & Air Systems segment posted strong growth, specifically in air defence, civil and

[1] Mature markets: Europe, North America, Australia, New Zealand; emerging markets: all other countries. See page 12

[2] Taking into account a negative exchange rate effect of €88 million and a net positive scope effect of €32 million, mainly related to the consolidation of Vormetric on 16 March 2016 (Defence & Security segment).

[3] See table on page 12

military radars, as well as Air Traffic Management (ATM). The Defence Mission Systems segment benefited from high levels of business in fighter aircraft systems as well as surface ship systems. Only the Secure Communications and Information Systems segment witnessed a slowdown, following the delivery last year of several large projects, such as the new French Ministry of Defence site (“*Balard*”), in part offset by good momentum in radiocommunications.

Results

EBIT, *€ million*	H1 2016	H1 2015	Total change	Organic change
Aerospace	**239**	**224**	+7%	+8%
in % of sales	*9.0%*	*8.9%*		
Transport	**-12**	**-39**	-	-
in % of sales	*-1.6%*	*-6.9%*		
Defence & Security	**335**	**301**	+11%	+15%
in % of sales	*9.8%*	*9.3%*		
Total – operating segments	**562**	**485**	+16%	+18%
in % of sales	*8.3%*	*7.7%*		
Others – excluding DCNS	-30	-22		
Total – excluding DCNS	**532**	**463**	+15%	+17%
in % of sales	*7.8%*	*7.3%*		
DCNS (35% share)	20	10		
Total	**551**	**473**	+17%	+19%
in % of sales	*8.1%*	*7.5%*		

In H1 2016, the Group’s **EBIT**[1] was **€551 million**, or **8.1%** of sales, compared to €473 million (7.5% of sales) for the same period in 2015.

The **Aerospace** segment posted an EBIT of **€239 million** (**9.0%** of sales) compared to €224 million (8.9% of sales) for the same period in 2015. The moderate increase in the EBIT margin can be explained by a change in the rules to allocate shared marketing and selling expenses to the operating segments. This change of rules had a negative 0.2 point impact on the EBIT margin in this segment, offset by a non-material increase in the other segments.

EBIT in the **Transport** segment was up sharply, reaching **-€12 million** (**-1.6%** of sales), compared to -€39 million (-6.9% of sales) in H1 2015. The operational recovery plan implemented by the new management team continued as expected, but low or zero margin contracts still weighed on profitability. After 2016, which should see the break-even achieved, the impact of the recovery plan should allow this business to gradually return to profitability in the coming years.

EBIT for the **Defence & Security** segment increased significantly, totalling **€335 million** (**9.8%** of sales) compared to €301 million in H1 2015 (9.3% of sales). In addition to the satisfactory execution of

[1] Non-GAAP measure, see definitions in the appendix, page 8.

contracts, the increase in margins was driven by a good momentum in sales, with the strengthening of R&D expenditure being offset by savings made on commercial and administrative costs, and a reduction in restructuring expenses.

The contribution made by **DCNS** to EBIT amounted to **€20 million** in H1 2016, compared to €10 million in H1 2015. The industrial transformation plan is being rolled out as expected. In 2016, DCNS expects net profit to grow by around 10-15% in comparison to 2015.

Net financial interest remained very low at **€1 million** in H1 2016 compared to €5 million in H1 2015. The same can be said for **other adjusted financial income (expense)[1]** which stood at **-€4 million** in H1 2016 compared to +€2 million in H1 2015). The **adjusted finance cost on pensions and other long-term benefits**[1] was stable (-**€34 million** versus -€35 million for H1 2015), with the reduction in the deficit and changes in exchange rates offsetting the impact of lower discount rates.

The **adjusted net income, Group share**[2] thus stood at **€367 million**, compared to €313 million in H1 2015, after an adjusted tax charge[1] of -€117 million, compared to -€109 million in H1 2015. The effective tax rate reached 26%, compared to 28% in H1 2015.

Adjusted net income, Group share, per share[1] stood at **€1.74**, up 15% compared to H1 2015 (€1.51).

Financial position at 30 June 2016

Over the first six months of 2016, **free operating cash flow** stood at **€45 million**, a sharp rise compared to H1 2015 (-€304 million), despite the continued increase in net operating investments (€226 million compared to €198 million in H1 2015) as part of the optimisation of the Group's industrial base. This sound performance can be mainly attributed to the limited rise in working capital requirement during H1 2016 (+€337 million in H1 2016 compared to +€697 million in H1 2015).

At 30 June 2016, **net cash** amounted to **€1,439 million** compared to €614 million at 30 June 2015 and €1,978 million at 31 December 2015, after the distribution of €212 million in dividends during H1 2016 (€161 million in H1 2015), the acquisition of Vormetric, completed in March (€372 million), and the cash inflow in connection with the change in scope of the Thales Raytheon Systems joint venture (€81 million).

Shareholders' equity, Group share, stood at **€4,458 million**, compared to €4,646 million at 31 December 2015, with consolidated net income, Group share (€384 million) only partially offsetting the increase in net pension obligations and the distribution of dividends.

[1] See tables on pages 9 and 10.

[2] Non-GAAP measure, see definitions in the appendix, page 8.

Outlook

The results for the first half of the year are in line with expectations. As such, Thales confirms all its objectives, as set out below.

After the record level seen in 2015, new orders are expected to remain high in 2016, close to the level observed in 2013–2014[1]. Sales should see a mid-single digit organic growth compared to 2015.

This positive trend, combined with continuing efforts to improve competitiveness, should result in Thales posting an EBIT of between €1,300 and €1,330 million (based on exchange rates in February 2016), which will represent an increase of between 7% and 9% compared to 2015.

In this context, Thales targets a mid-single digit organic sales growth in 2017 and 2018, and an EBIT margin of 9.5–10% over the same time frame.

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About Thales

Thales is a global technology leader for the Aerospace, Transport, Defence and Security markets. Thanks to its 62,000 employees in 56 countries, in 2015 Thales recorded sales of €14 billion. With over 22,000 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] Average 2013–14 order intake: €13.6 billion

Appendices

Note on methodology

In this release, amounts expressed in millions of euros are rounded to the nearest million. As a result, the sums of the rounded amounts may differ very slightly from the reported totals. All ratios and variances are calculated based on underlying amounts, which feature in the consolidated financial statements.

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 facilitate better monitoring and benchmarking of its financial and operating performance, the Group presents three key non-GAAP indicators, which allow it to exclude 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 affiliates, before the impact of entries relating to the amortisation of intangible assets acquired (purchase price allocation, "PPA") recorded as part of business combinations. From 1 January 2016, it also excludes charges recorded in the income from operations that are directly related to business combinations, which by their nature are unusual.
- **Adjusted net income** corresponds to net income, excluding the following items, net of the corresponding tax effects:
  - amortisation of intangible assets acquired (PPA) recorded as part of business combinations;
  - charges recorded in the income from operations which are directly related to business combinations, which by their nature are unusual;
  - results of disposals of assets, changes in scope of consolidation and others;
  - change in the value of foreign exchange derivatives (recorded under "other financial income (expense)" in the consolidated financial statements);
  - actuarial gains and losses on long-term benefits (recorded under "finance costs on pensions and other long-term benefits" in the consolidated financial statements).
- **Free operating cash flow** corresponds to the net cash flow from operating activities before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

It should be noted that only the consolidated financial statements at 30 June were audited by the statutory auditors. The consolidated financial statements include the EBIT, the calculation of which is outlined 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 statements at 30 June 2016 and 30 June 2015 is shown in the tables on pages 9 and 10. The calculation of free operating cash flow is outlined on page 11.

Impact of adjustment entries on the income statement – H1 2016

€ million	Consolidated income statement – H1 2016	Adjustments				Adjusted income statement H1 2016
		Amort. of intangible assets (PPA), related charges*	Income (loss) from disposals and others	Change in fair value of FX derivatives	Actuarial differences, long-term benefits	
Sales	**6,846**					**6,846**
Cost of sales	(5,212)					(5,212)
R&D costs	(327)	2				(325)
Marketing and selling expenses	(528)	2				(526)
General and administrative expenses	(270)	3				(268)
Restructuring costs	(34)					(34)
Amortisation of acquired intangible assets (PPA)	(40)	40				0
Income from operations	**435**					**N/A**
Impairment of non-current operating assets**	0					-
Income from disposals, changes in scope and others	95		(95)			0
Share of income (loss) in equity affiliates	56	13				69
Income from operating activities after impact of equity affiliates	586					-
EBIT	**N/A**					**551**
Impairment of non-current operating assets**	-					0
Cost of net financial debt	1					1
Other financial income (expense)	(49)			46		(4)
Finance costs on pensions and other long-term benefits	(48)				15	(34)
Income tax	(80)	(16)	0	(16)	(5)	(117)
Net income	**410**	**44**	**(95)**	**30**	**10**	**398**
Non-controlling interests	(26)	(5)		(1)		(31)
Net income, Group share	**384**	**39**	**(95)**	**29**	**10**	**367**
Average number of shares (thousands)	*210,547*					*210,547*
Net income, Group share, per share (in euros)	**1.82**					**1.74**

(*) Including expenses related to acquisitions recorded in the income from operations. See definitions of EBIT and adjusted net income, page 8.
(**) Included in "Income from operating activities after impact of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

Impact of adjustment entries on the income statement – H1 2015

€ million	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 costs	(310)					(310)
Marketing and selling expenses	(495)					(495)
General and administrative expenses	(259)					(259)
Restructuring costs	(43)					(43)
Amortisation of acquired intangible assets (PPA)	(53)	53				0
Income from operations	**360**					**N/A**
Impairment of non-current operating assets*	0					-
Income from disposals, changes in scope and others	(3)		3			0
Share of income (loss) in equity affiliates	47	13				60
Income from operating activities after impact of equity affiliates	404					-
EBIT	**N/A**					**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 long-term benefits	(25)				(10)	(35)
Income tax	(88)	(18)	(1)	(5)	3	(109)
Net income	**282**	**48**	**2**	**10**	**(7)**	**336**
Non-controlling interests	(16)	(6)		(1)	1	(23)
Net income, Group share	**266**	**42**	**2**	**9**	**(6)**	**313**
Average number of shares (thousands)	*207,141*					*207,141*
Net income, Group share, per share (in euros)	**1.28**					**1.51**

(*) Included in "Income from operating activities after impact of equity affiliates" in the consolidated income statement and in "Net income" in the adjusted income statement.

Calculation of free operating cash-flow

€ million	H1 2016	H1 2015
Operating cash-flow before interest and tax	**704**	**683**
Changes in Working Capital Requirements and in reserves for contingencies	(337)	(697)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(52)	(60)
Net financial interest paid	(5)	10
Income tax paid	(39)	(42)
Net cash flow from operating activities, excluding contributions related to the reduction of the UK pension deficit	**271**	**(106)**
Net operating investments	(226)	(198)
Free operating cash-flow	**45**	**(304)**
Net (acquisitions)/disposals	(281)	(20)
Contributions related to the reduction of the UK pension deficit	(45)	(46)
Dividends	(212)	(161)
Exchange rate and other	(46)	138
Change in net cash	**(539)**	**(392)**

Order intake by destination – H1 2016

€ million	H1 2016	H1 2015	Total change	Organic change	H1 2016 weighting in %
France	1,201	1,225	-2%	-2%	22%
United Kingdom	463	513	-10%	-4%	9%
Rest of Europe	1,304	1,031	+27%	+27%	24%
Sub-total Europe	**2,968**	**2,769**	**+7%**	**+9%**	**55%**
United States and Canada	492	564	-13%	-18%	9%
Australia and New Zealand	346	399	-13%	-9%	6%
Total mature markets	**3,806**	**3,732**	**+2%**	**+3%**	**70%**
Asia	659	665	-1%	-1%	12%
Middle East	755	1,688	-55%	-55%	14%
Rest of the world	203	139	+46%	+52%	4%
Total emerging markets	**1,617**	**2,492**	-35%	-34%	**30%**
Total all markets	**5,423**	**6,224**	**-13%**	**-12%**	**100%**

Sales by destination – H1 2016

€ million	H1 2016	H1 2015	Total change	Organic change	H1 2016 weighting in %
France	1,661	1,569	+5.9%	+5.9%	24%
United-Kingdom	623	638	-2.4%	+4.1%	9%
Rest of Europe	1,417	1,263	+12.2%	+13.1%	21%
Sub-total Europe	**3,701**	**3,470**	**+6.7%**	**+8.2%**	**54%**
United States and Canada	780	759	+2.7%	-0.3%	11%
Australia and New Zealand	375	365	+2.8%	+8.1%	5%
Total mature markets	**4,856**	**4,594**	**+5.7%**	**+6.8%**	**71%**
Asia	953	842	+13.2%	+13.8%	14%
Middle East	804	647	+24.3%	+24.8%	12%
Rest of the world	233	265	-11.8%	-10.4%	3%
Total emerging markets	**1,990**	**1,753**	**+13.5%**	**+14.2%**	**29%**
Total all markets	**6,846**	**6,347**	**+7.9%**	**+8.9%**	**100%**

Order intake and sales for Q2 2016

€ million	Q2 2016	Q2 2015	Total change	Organic change
Order intake				
Aerospace	1,189	1,067	+11%	+12%
Transport	276	735	-62%	-61%
Defence & Security	1,636	1,586	+3%	+4%
Total – operating segments	**3,101**	**3,388**	**-8%**	**-7%**
Other	10	13		
Total	**3,111**	**3,401**	**-9%**	**-7%**
Sales				
Aerospace	1,600	1,431	+11.8%	+12.7%
Transport	457	335	+36.4%	+40.1%
Defence & Security	2,037	1,985	+2.6%	+3.0%
Total – operating segments	**4,094**	**3,750**	**+9.2%**	**+10.0%**
Other	20	20		
Total	**4,113**	**3,770**	**+9.1%**	**+9.9%**