ISRAEL AEROSPACE INDUSTRIES (IAI) PUBLISHES ITS FINANCIAL STATEMENT FOR Q2 2015

News / Finance

Sales reach USD 928 million
• Gross profit of USD 125 million
• Operating income of USD 11 million
• Net income totaling USD 20 million
• Order backlog at USD 8.6 billion, representing about 2.2 years of operation
• The Company's cash balances total approximately USD 1.23 billion

August 27th, 2015- Israel Aerospace Industries Ltd. ("the Company" or "IAI"), Israel's largest aerospace and civilian security company, has issued its consolidated interim financial statements for the period of six months ended June 30, 2015.

Rafi Maor, Chairman of the Board:
"The results of the second quarter of 2015 reflect the Company's continued efforts to face the challenges of the changing global markets in which it operates. The military segment continues to demonstrate strong results. We are working continuously to strengthen the Company's position as a global leader in its areas of activity both in the main markets in which it operates as well as in

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other target markets. In the civilian segment we are pursuing the implementation of strategic measures, including efficiency measures, with the aim of coping with existing challenges and improving our competitiveness. In parallel, we continue preparations for the issue of a minority share in IAI, planned for the first half of 2017, which will allow us to further develop the Company and secure its continued growth."

Joseph Weiss, Company President & CEO:
"We continue to act towards improving the Company's profit parameters and competitiveness in global markets in all our areas of activity. In the Bedek Aviation Group, we are witnessing the first signs of recovery with the signing of several contracts and the apparent positive impact of the decline in oil prices on the aircraft conversion market which is showing signs of awakening from its previous stagnation.

Concurrently, we continue examine adopting significant efficiency measures are vital for improving the Company's profitability and competitiveness and for securing its continued growth while maintaining ongoing contact with the workers' unions. We are also continuing to make considerable investments in research and development activities, including in highly advanced and disruptive technologies, with the aim of preserving and enhancing our technological advantage and with an emphasis on issues defined as growth engines for the Company."

Main results in Q2 2015

The Company's sales in Q2 2015 amounted to USD 928 million compared to USD 939 million in the corresponding quarter of 2014, a decrease of 1%. The decrease in sales in the second quarter compared with the corresponding quarter of last year is mainly a result of the decrease in the revenues of the Systems Missiles & Space Group and the decrease in the revenues of the Commercial Aircraft Group.

Sales for export in Q2 2015 accounted for 79% of sales (21% to Israel) compared to 78% (22% to Israel) in the corresponding quarter of 2014.

Sales to the military market in Q2 2015 accounted for 74% of sales (26% to the civilian market) compared to 69% (31% to the civilian market) in the corresponding quarter of 2014. The decrease in the share of sales to the civilian market of total sales arises from the decrease in revenues recognized from the Amos 6 communications satellite in view of the significant progress made in the project in the corresponding quarter of last year.

Gross profit in Q2 2015 amounted to USD 125 million (13.43% of sales) compared with USD 131 million (13.98% of sales) in the corresponding quarter of 2014, a decrease of about 5% arising mainly from the decrease in the scope of sales. The gross profit in Q2 2015 was positively affected by recording non-recurring income of approximately USD 8 million owing to the increase in the discount rate of a long-term actuarial liability.

Research and development expenses in Q2 2015 totaled approximately USD 44 million compared with approximately USD 41 million in the corresponding quarter of 2014 (accounting for about 4.7% and 4.4% of sales, respectively).
Expenses for early retirement of employees – as part of the efficiency measures undertaken by the Company, in Q2 2015, 66 employees retired early from the Company at a cost of approximately USD 11 million, the vast majority of whom from the Commercial Groups, compared to 44 employees who retired early in the corresponding quarter of 2014 at a cost of approximately USD 8 million.

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Operating income in Q2 2015 amounted to USD 11 million (1.2% of sales) compared with USD 18 million (1.9% of sales) in the corresponding quarter of 2014, a decrease of approximately 40% explained by the decrease in gross profit coupled with an increase in expenses for the early retirement of employees and in research and development expenses.

EBITDA in Q2 2015 amounted to USD 38 million compared with USD 49 million in Q2 2014, a decrease of about 22% which is mainly the result of the decrease in operating income as explained above.

Net financial expenses in Q2 2015 amounted to USD 10 million compared with net financial expenses of USD 9 million in the corresponding quarter of 2014, an increase of about 11% which mainly stems from increased financial expenses in respect of the issuance of debentures (series D) in July 2014.

Net tax income in Q2 2015 totaled USD 19 million compared to net tax income of USD 5 million in the corresponding quarter of 2014. The main gap is attributed to accounting deferred tax income of USD 23 million resulting from a decrease of about 5.3% in the US dollar exchange rate in the second quarter of 2015 compared to a decrease of about 1.4% in the US dollar exchange rate in the corresponding quarter of last year, which led to recording deferred tax income in respect of exchange rate differences of USD 8 million in the corresponding quarter of 2014. As discussed above, the tax income represents accounting income (mostly in respect of deferred taxes) given that the Company's income tax returns are prepared in NIS whereas the functional currency in the financial statements is the US dollar.

The Company's net income in Q2 2015 amounted to USD 20 million (2.1% of sales) compared with USD 12 million (1.2% of sales) in the corresponding quarter of 2014, an increase of about 67%. The increase in net income is mostly a result of the increase in net tax income as explained above.
The order backlog at the end of the second quarter of 2015 totaled USD 8.6 billion compared with USD 9.1 billion at the end of 2014. The decrease is mainly a result of the delay in engagements in mega-projects. 83% of the order backlog is held for sale to foreign customers with a wide geographic dispersion. The order backlog comprises a wide variety of products and ensures 2.2 years of operation.

The book to bill ratio in the second quarter of 2015 is 0.8, mainly as a result of the deferral of major engagements.

The Company's negative cash flow from operating activities in Q2 2015 amounted to USD 105 million compared with negative cash flow from operating activities of USD 132 million in the corresponding quarter of 2014. The negative cash flow from operating activities arises mainly from changes in the Company's working capital items – mainly an increase in income receivable from work in progress, a decrease in payables for work in progress and an increase in trade receivables. It should be noted that the nature of the Company's operations requires entering into engagements most of which involve complex mega-projects involving development and manufacturing that span several years. The pre-sales process underlying these contracts can also last several years. In this type of projects, once the contract is secured, the Company receives significant advances from customers to initiate development. The nature of the Company's operations causes fluctuations in its cash flows from operating activities.

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