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Thales: Full-year results 2009

- **Revenues: €12,881m,** organic[1] growth of **+2%**
- **Order intake: €13,927m (–2%[1])**, with several major contracts booked in France and on export
- **EBIT[2]: €151m**, affected by significant charges on programmes and a difficult economic environment in aerospace and security
- **Net income, Group share[2]: –€128m**, after significant impairment of intangible assets
- **Solid financial position, with a marked increase in free operating cash flow to €800m**

Neuilly-sur-Seine, 18 February 2010 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to close the financial statements for 2009[3]. Thales Chairman and CEO, Luc Vigneron, commented: "*In a persistently depressed global economic environment, our revenue growth and robust order intake are testimony to the solid foundations of our customer base, primarily governments and infrastructure operators. However, our results have been affected by significant difficulties on a number of contracts and by the crisis in the air transport sector. With a new management team in place, clear targets through the Probasis action plan and an organisational structure that brings us closer to our customers, the entire company is focused on returning to profitable growth*."

Key figures 2009 ***(in millions of euros)***	**2009**	**2008**	***Total change***	***Organic change***
Order intake	**13,927**	***14,298***	***-3%***	***-2%***
Order book at 31 December	**24,731**	***22,938***	***+8%***	***+5%***
Revenues	**12,881**	***12,665***	***+2%***	***+2%***
EBIT[2]	**151**	***877***	***-83%***	***-84%***
As % of revenues	**1.2%**	***6.9%***		
Net income, Group share[2]	**(128)**	***650***	***-120%***	
Net debt at 31 December	**91**	***456***		

[1] In this release, "organic" signifies "on a like-for-like basis and with constant exchange rates". **Unless stated otherwise, all percentage changes in this release are organic changes**.

[2] Results before adjustment for purchase price allocation (PPA). PPA reduced EBIT by €-99m and reduced net income by €-74m as detailed in appendix. In view of these adjustments, net income, Group share, stood at €-202m at end-2009, compared with €560m at end-2008.

[3] At the date of this release, the audit of financial statements is complete and the certification report is in the process of being issued.

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Order intake

New orders booked in the 2009 financial year amounted to **€13,927m**, a slight decrease of –2% on an organic basis compared with 2008, when order intake was particularly brisk. The book-to-bill ratio[1] stood at 1.08.

The order intake figure reflects several major orders worth a total of €3,513m, including Tranche 4 of the *Rafale* programme and FREMM frigates in France, the *Sentinel* programme for the European Space Agency, the *North-South rail link* in Saudi Arabia, the Mexico City urban security programme and air defence radars in Finland. However, the volume of orders with a unit value of less than €100m fell, particularly in Aerospace & Space and Security.

2009 order intake ***(in millions of euros)***	**2009**	**2008**	***Total change***	***Organic change***	**Book-to-bill**
Aerospace & Space	**4,332**	**4,184**	***+4%***	***+1%***	**1.06**
Defence	**6,093**	**6,547**	***-7%***	***-5%***	**1.06**
Security	**3,390**	**3,461**	***-2%***	***-1%***	**1.14**
Others and divested businesses	*112*	*106*	*ns*	*ns*	ns
Consolidated order intake	**13,927**	**14,298**	***-3%***	***-2%***	**1.08**

> Aerospace & Space

In the **Aerospace & Space** segment, order intake amounted to **€4,332m**, up by 1%, with a book-to-bill ratio of 1.06.

- **Aerospace** orders fell by 7% to **€2,736m**, but the book-to-bill ratio remained higher than 1 (at 1.04). Order intake by the civil aerospace businesses fell by –34% compared with 2008 and continued to reflect the crisis in air transport, with significantly lower orders for avionics for regional and business aircraft (*Dash, CRJ, Global Express*), in-flight entertainment (IFE) systems and, to a lesser extent, support services. Conversely, orders in military aerospace were higher, thanks in particular to the contract for Tranche 4 of the *Rafale* programme in France and sustained sales of support services (*Rafale*, *ATL2* upgrade).

[1] Total value of orders booked divided by total revenues for the year.

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– Order intake by the **space businesses** increased sharply (+17%) to **€1,596m**, with several major orders for observation satellites (*Sentinel 3* for the European Space Agency) and telecommunication satellites (*Eutelsat W3B, Globalstar*) as well as pressurised modules for the International Space Station (*Cygnus*). The book-to-bill ratio was 1.11.

> Defence

Defence orders decreased by –5% to **€6,093m**, compared with €6,547m in 2008. The book-to-bill ratio remained higher than 1 (at 1.06), even though the naval business benefited from a volume of major contracts in 2008 (*CVF* aircraft carrier programme in the United Kingdom, corvettes for Morocco and *FREMM* frigates for Italy) that was not repeated this year, despite several significant successes, including the minehunter upgrade programme in Singapore and equipment for the three additional *FREMM* frigates in France. Order intake by the Air Systems business was also lower, with the replication orders of the *ACCS LOC1* air command and control system contract for NATO and the *GM400* radar contract for Finland failing to offset the decrease in orders for civil air traffic control systems, weapon systems and missile electronics (the air traffic control business had booked the *Lorads III* contract in Singapore in early 2008). By contrast, new orders booked by the Land & Joint Systems business increased significantly, with growth driven in particular by major contracts in domestic markets (*Rafale* optronics in France, *FIST* future soldier system contract in the United Kingdom) as well as tactical communication and vehicle system contracts in export markets.

> Security

Security orders were virtually stable compared with 2008, at **€3,390m** (–1% on an organic basis). The book-to-bill ratio remained high, however, at 1.14. Order intake from institutional customers was strong. Several key orders were booked in rail signalling and rail traffic management, both for urban transportation projects (Mecca, Dubai, Cairo, etc.) and main line projects (*North-South rail link* in Saudi Arabia, Barcelona-Figueras high-speed line in Spain). In security systems, Thales won the major *Ciudad Segura* urban security contract in Mexico City. However, order intake showed a sharp downturn in areas directly affected by the economic environment, with a decrease of up to –25% in industry and services (critical information systems, special components) and exceeding –50% in simulation.

At 31 December 2009, the consolidated **order book** stood at **€24,731m**, or approximately **23 months** of revenues (compared with 22 months at end-2008).

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Revenues

Consolidated revenues amounted to **€12,881m** at 31 December 2009, compared with €12,665m in 2008, an organic increase of **+2%**. **Exchange rate fluctuations** reduced revenues by –€134m, almost entirely as a result of the conversion into euros of sales by subsidiaries based outside the euro zone. The main fluctuations involved the weakening of the pound sterling (–€168m) against the euro, which was partially offset by the stronger US dollar (+€59m). Changes in the scope of consolidation[1] correspond to a net increase in revenues of +€161m.

Revenues *(in millions of euros)*	**2009**	**2008**	***Total change***	***Organic change***
Aerospace & Space	**4,071**	**4,140**	***-2%***	***-5%***
Defence	**5,763**	**5,502**	***+5%***	***+6%***
Security	**2,977**	**2,893**	***+3%***	***+4%***
Others and divested businesses	*70*	*130*	*ns*	*ns*
Consolidated revenues	**12,881**	**12,665**	***+2%***	***+2%***

> *Aerospace & Space*

The **Aerospace & Space** businesses recorded revenues of **€4,071m**, a decrease of –5% from 2008.

- **Aerospace** revenues decreased by –7% to **€2,638m**, both in the civil sector and in military markets (military avionics, helicopter systems). The downturn was particularly significant in regional aviation, reflecting the drop in aircraft production rates at Bombardier, and in IFE, reflecting lower investments by airlines as well as delays on the Boeing B787 programme.
- Lower sales by the **space businesses** (**€1,433m**, down –2%), despite their substantial underlying strengths, reflects the impact of the earthquake at L'Aquila in Italy in early April, which damaged Thales Alenia Space's facilities and affected billing cycles, as well as the temporary suspension of the Globalstar programme and a slowdown in services activities (Telespazio).

[1] Primarily the sale of IT services activities in Germany in January 2009 and the consolidation of nCipher, Diehl Aircabin (both since 1 January 2009) and CMT Medical Technologies (since 1 July 2009).

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> Defence

Defence revenues stood at **€5,763m**, up +6% on 2008, with growth recorded in all the main segments of this market. The sharp increase in naval revenues is mainly due to increased activity on the *CVF* aircraft carrier programme in the United Kingdom as well as contracts to equip patrol boats for Denmark and *FREMM* frigates for France, Italy and Morocco. Air Systems sales were also higher, particularly in air traffic management (Nigeria, *Coopans* programme for Sweden, Denmark and Ireland). The increase in Land & Joint Systems revenues was driven by growth in optronics and networks.

> Security

Security revenues were up +4% to **€2,977m**, compared with €2,893m in 2008. Rail signalling revenues continued to grow, driven in particular by the Spanish high-speed rail and Dubai metro projects. However, the global economic crisis affected sales across the rest of the sector. In particular, the sharp decrease in revenues in critical information systems and special components (for industrial and medical applications) and the more moderate decrease in security systems reflect lower demand in these short-cycle segments.

Results

EBIT[1] stood at **€151m** and represented **1.2%** of revenues, compared with 6.9% in 2008, as the strong performance of the Defence segment failed to offset significant difficulties in the Aerospace and Security segments.

EBIT *(in millions of euros)*	**2009**	**2008**	***Total change***	***Organic change***
Aerospace & Space	**(310)**	**207**	***-250%***	***-261%***
Defence	**544**	**540**	***+1%***	***+3%***
Security	**(11)**	**157**	***-107%***	***-112%***
Others and divested businesses	*(73)*	*(27)*	*ns*	*ns*
EBIT	**151**	**877**	***-83%***	***-84%***

Restructuring costs amounted to €116m, the equivalent of 0.9% of revenues, compared with €33m (0.3% of revenues) in 2008.

[1] Before adjustment for purchase price allocation (PPA).

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> *Aerospace & Space*

The **Aerospace & Space** segment recorded EBIT[1] of **–€310m**, compared with a positive figure of €207m in 2008.

– In addition to further deterioration in the civil aerospace market, with a reduction in airline business, further delays on the B787 programme and a marked increase in restructuring costs (€43m compared with €10m), several unfavourable factors eroded the EBIT[1] of the **aerospace businesses**, which amounted to **–€389m** (compared with a positive figure of €127m in 2008):

  - cost overruns on several avionics software developments, which were charged as expenses;
  - an increase in estimated costs at completion for a naval electronic warfare programme;
  - uncertainties concerning the outcome of discussions with the customer on the Meltem programme (maritime patrol and surveillance aircraft for Turkey), with the risk of further delays to delivery schedules as well as additional expenses;
  - higher estimated development costs for the A400M flight management system, leading to booking a further charge of €102m in the first half of 2009 to account for the greater complexity of the technical solution and contingencies related to delays and general uncertainties on the programme. In addition, uncertainties about the consequences of the current discussions between the various stakeholders and about the stabilisation of the programme's functional and financial parameters could have a significant positive or negative impact on the overall profit or loss at completion of this programme over the coming years.

– The **space businesses** recorded EBIT of **€79m**, an organic increase of 7%, but the earthquake that damaged the L'Aquila facility in Italy in April 2009 had a negative impact on several programmes.

> *Defence*

The **Defence businesses** again performed very satisfactorily, with EBIT[1] amounting to **€544m**, representing **9.4%** of revenues, a level close to that achieved in 2008. Continued good performance by the three divisions in this segment is attributable to further growth in activity, smooth programme delivery and effective control of indirect costs.

> *Security*

The **Security** businesses recorded EBIT[1] of **–€11m**, compared with a positive figure of €157m in 2008. This decrease is due to two similarly significant factors:

[1] Before adjustment for purchase price allocation (PPA).

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- The global economic crisis, as lower revenues (with the exception of rail transport) negatively impacted profitability.
- Continued difficulties on a number of programmes, particularly for ticketing, where, despite ongoing corrective measures, the company booked further and significant charges to ensure smooth contract delivery and completion. Also, in simulation, the development of the new product range generated cost overruns.

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As part of its systematic review of the value of assets on the balance sheet, the Group recorded **€240m of impairment charges on capitalised development costs**, almost entirely for aerospace-related businesses. The fall in value has no impact on cash flows and is attributable to a combination of unfavourable factors (crisis in the air transport sector leading to a sharp fall in expected business volumes, the persistently weak dollar, development cost overruns and new aircraft programme delays) affecting the business plans of the programmes concerned. In view of these developments, Thales decided at the end of 2009 to introduce stricter criteria for recognising research and development expenses as assets (higher hurdle rate of return required and more stringent evaluation of project feasibility).

Net financial expense amounted to **–€111m**, which is a higher expense than in 2008, due in particular to the cost of hedging strategies in persistently volatile foreign exchange markets and expenses related to the bond issues conducted early in the year to secure the company's liquidity. The **other components of pension charges** amounted to **–€105m**, compared with –€11m in 2008, essentially as a result of a significant reduction in investment income forecasts and some non-recurring costs (and whereas the 2008 figure benefited from a one-off positive impact related to the renegotiations of the pension scheme concluded in 2007 and 2008). **Income of equity affiliates**[1] amounted to **€56m**, compared with €66m in 2008.

Net income, Group share[1]**,** for 2009 stood at **–€128m** (compared with a positive figure of €650m in 2008), after an income tax income of €142m[1] compared with –€145m in 2008.

[1] Before adjustment for purchase price allocation (PPA).

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Financial situation at 31 December 2009

In 2009, **free operating cash flow**[1] stood at **€800m**, a very significant improvement over 2008 (€377m). The improvement is the result of significant cash inflows from customers at the end of the year and unrelenting efforts to manage working capital requirements throughout the year.

At 31 December 2009, **net debt** was significantly lower than a year before, standing at **€91m** compared with €456m at end-2008. **Shareholders' equity (excluding minority interests)** amounted to **€3,744m**, compared with €3,949m at end-2008. Thales has access to confirmed, undrawn bank credit lines for an amount of €1,500m, maturing at end-2011, with no prepayment provisions linked to ratings or financial covenants. Standard & Poor's and Moody's also recently confirmed Thales's long-term rating of A- /A1.

Recent events

In December 2009, Thales announced a proposed **new organisation** to simplify its working methods, develop synergies across the Group, make commercial decisions more quickly and improve performance. Under the new organisation, the Group will conduct its business through three large geographical areas and seven divisions. Each geographical area will have responsibility for its profit and loss statement. As from the 2010 financial year, first-level sector information will therefore be consolidated by geographical area. The divisions will have global responsibility for research and development, product policy and industrial policy.

Proposed dividend

In view of the loss reported for the 2009 financial year and the business outlook in the Group's main markets, which have led to the launch of an ambitious performance improvement plan, the Board of Directors will propose that the General Meeting of Shareholders of 20 May 2010 approve a reduced **dividend** of **€0.50** per share. If approved, the dividend will be paid on 31 May 2010 (ex-dividend day: 26 May 2010).

[1] Operating cash flow plus changes in working capital requirement (WCR) and reserves for contingencies less payment of pension benefits (excluding deficit payments on pensions or scheme amendments in the UK) less tax less net operating investments: see details in appendix.

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Views for 2010

For 2010, Thales expects revenues to remain stable, with the significant volume of new orders recorded over the last two years from institutional customers (government and infrastructure operators) offsetting the unfavourable impact of the economic climate and the crisis in the air transport sector.

Growing pressure on budgets in Thales's main domestic markets could lead to lower order intake in 2010 and a book-to-bill ratio substantially lower than 1.

While the 2009 financial year was marked by considerable difficulties on a number of complex programmes, Thales is focused on the target of a gradual improvement of its EBIT margin, through the launch of the Probasis plan, which is expected to generate €1.3bn in full-year savings in 2014. Against this backdrop, Thales expects to achieve an EBIT margin of between 3% and 4% in 2010, taking into account a persistently unfavourable situation in the air transport sector and certain other civil businesses, restructuring costs as high as 1.5% of revenues, lower capitalisation of research and development expenses and the dilutive effect on EBIT of the provisions on contracts booked in 2009.

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APPENDIX

Impact of purchase price allocation (PPA)

in millions of euros	2009 excl. PPA	Impact of PPA	2009 published
Cost of sales	(10,619)	(15)	(10,633)
Amortisation of intangible assets acquired	-	(84)	(84)
EBIT	**151**	**(99)**	**52**
Income tax	142	34	175
Equity in income of unconsolidated affiliates	56	(8)	48
Net income, Group share	**(128)**	**(74)**	**(202)**

Net cash flow

in millions of euros	2009	2008
Operating cash flow	**485**	**1,135**
Change in WCR and contingency reserves	925	(44)
Payment of pension benefits and scheme settlements	(99)	(111)
Income tax paid	(98)	(80)
Net operating cash flow	**1,213**	**900**
Net operating investments	(413)	(523)
Of which capitalised R&D	*(113)*	*(129)*
Free operating cash flow	**800**	**377**
Net (acquisitions) / disposals	(148)	(84)
Deficit payments on pensions in the UK	(58)	(79)
Dividends	(205)	(195)
Net cash flow	**389**	**19**

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Order intake by destination

in millions of euros	2009	2008	*Organic change*	2009 (%)
France	3,792	2,660	+42%	27%
United Kingdom	1,350	2,755	-47%	10%
Other European countries	3,639	3,409	+5%	26%
Total Europe	**8,781**	**8,823**	**+1%**	**63%**
North America	1,092	1,223	-15%	8%
Australia	464	585	-20%	3%
Asia	1,220	1,447	-16%	9%
Near & Middle East	1,238	906	+36%	9%
Rest of world	1,132	1,314	-14%	8%
Total outside Europe	**5,146**	**5,475**	**-7%**	**37%**
Total order intake	**13,927**	**14,298**	**-2%**	**100%**

Consolidated revenues by destination at 31 December 2009

Revenues ***(in millions of euros)***	**2009**	**2008**	***Organic change***	**2009 (%)**
France	3,019	3,165	-6%	23%
United Kingdom	1,467	1,556	+3%	11%
Other European countries	3,464	3,301	+3%	28%
Total Europe	**7,950**	**8,022**	**-1%**	**62%**
North America	1,158	1,190	-7%	9%
Australia	525	571	-7%	4%
Asia	1,158	1,139	+2%	9%
Near & Middle East	1,319	1,135	+17%	10%
Rest of world	771	608	+26%	6%
Total outside Europe	**4,931**	**4,643**	**+5%**	**38%**
Consolidated revenues at 31 December	**12,881**	**12,665**	**+2%**	**100%**

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Order book by destination

in millions of euros	31/12/2009	31/12/2008	*Organic change*
France	6,607	5,795	+14%
United Kingdom	4,065	3,841	-1%
Other European countries	5,991	5,607	+4%
Total Europe	**16,663**	**15,243**	**+6%**
North America	1,282	1,243	+1%
Asia-Pacific	3,071	2,863	-1%
Near & Middle East	2,154	2,125	+1%
Rest of world	1,560	1,464	+5%
Total outside Europe	**8,067**	**7,695**	**+1%**
Total order book	**24,731**	**22,938**	**+5%**

Order book by segment

in millions of euros	31/12/2009	31/12/2008	*Organic change*
Aerospace / Space	7,529	7,020	*+4%*
Defence	11,544	*10,880*	*+3%*
Security	5,558	*4,983*	*+8%*
Others and divested businesses	*100*	*55*	*ns*
Total	**24,731**	**22,938**	***+5%***

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