

Thales: Full-year results 2010

- **Order intake : €13.1bn**, down **-6%** (-9% in organic terms¹) from the very high levels of 2008 and 2009
- **Revenues: €13.1bn**, up **+2%** (-1% in organic terms¹)
- **EBIT²: -€92m** (-0.7% of revenues), compared with €151m in 2009
- **Net income, Group share: -€45m**, compared with -€128m in 2009

Neuilly-sur-Seine, 24 February 2011 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to close the financial statements for 2010³. Thales Chairman and CEO, Luc Vigneron, commented: *"As the pressure on European defence markets was confirmed, order intake exceeded our expectations in 2010. With an order book worth more than €25 billion, the Group's business is on a solid footing. Although our results have been impacted by significant charges on certain pre-2009 contracts, the operational uncertainties on these programmes can be removed thanks to the increased visibility that we now enjoy. We are confident that Thales will swiftly return to profitability, underpinned by the results of the Probasis plan and our stronger presence in growth markets."*

Key figures at 31 December 2010 (in millions of euros)	2010	2009	Total change	Organic change
Order intake	13,081	13,927	-6%	-9%
Order book	25,418	24,731	+3%	+0%
Revenues	13,125	12,881	+2%	-1%
EBIT ²	(92)	151		
As % of revenues	-0.7%	1.2%		
Net income, Group share ²	(45)	(128)		
Net debt	(191)	91		

¹ In this release, "organic" means "on a like-for-like basis and with constant exchange rates".

² Before impact of purchase price allocation (PPA): see details in appendix.

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. 1

Order intake

New orders booked in the 2010 financial year amounted to €13,081 million, down by 6% (-9% in organic terms) from the very high level of 2009 (Tranche 4 of the Rafale programme and national stimulus plan in France). The expected pressure on defence budgets in Europe was partially offset by very strong orders in the space segment, and the confirmation of a gradual recovery in the civil aerospace market. The book-to-bill ratio stood at 1.00 at 31 December 2010. Exchange rate variations had a positive impact of €361 million, of which €125 million was due to variations in the Australian dollar rate.

The order intake figures include eight contracts with a unit value in excess of €100 million. These major orders include the Iridium Next and O3b satellite constellations, France's CSO military programme, the Göktürk military observation satellite, a logistic support contract for the Watchkeeper UAV programme in the United Kingdom, the deployment of a major secure communications network for NATO, and an order for in-flight entertainment systems for Qatar Airways. Orders with a unit value of less than €100 million, which had been the most affected by the economic environment in 2009, recorded an upturn in 2010.

At 31 December 2010, the consolidated order book stood at €25,418 million – a slight increase compared with 31 December 2009 – and continues to represent approximately 23 months of revenues.

Order intake by business¹

2010 order intake (in millions of euros)	2010	2009	Total change	Organic change	Book-to-bill
Defence & Security	6,173	8,372	-26%	-28%	0.8
Aerospace & Transport	6,845	5,439	+26%	+23%	1.2
<i>Other and divested businesses</i>	63	116	-46%	-48%	0.9
Order intake	13,081	13,927	-6%	-9%	1.0

Defence & Security order intake stood at €6,173 million, down 26% (-28% in organic terms) compared with the previous year. Overall, after the very strong order intake in 2009 (partly as a result of the national stimulus plan in France), the expected pressure on defence orders was confirmed in 2010. The reduction in order intake was particularly pronounced in Defence Mission Systems, which had won the Rafale tranche 4 contract in the fourth quarter of 2009. Order intake in Air Operations also fell significantly, in spite of orders in air traffic control (mainly in Asia and Europe), the success of the GM400 radar in Germany, and the continuation of the SCCOA programme in France. Despite a major order for a secure communications

¹ Refer to appendix for definition of business segments

network for NATO, orders for C4I Systems were also substantially down from the high levels of the previous year (during which export contracts were signed in security and radio communications). However, there have been signs of a recovery in the critical information systems business. The downturn in order intake was somewhat less marked in the land defence business, thanks to the signing of a number of armaments and optronics contracts.

Order intake for the **Aerospace & Transport** business segment amounted to €6,845 million, an increase of +26% (+23% in organic terms) compared with 2009, with a book-to-bill ratio of 1.2. This strong growth was driven by exceptional performance in the space segment, where order intake was double the level posted in the previous year, resulting in a book-to-bill ratio of 2.2 for this business. In addition to the €1.1 billion¹ contract with Iridium in the United States for an 81-satellite constellation, order intake in 2010 included the O3b constellation, observation satellites for France (CSO) and Turkey (Göktürk), and several telecommunications satellites (Yamal Gazprom, Apstar and Eutelsat). Avionics orders also posted a clear increase in order intake, on the back of strong momentum in in-flight entertainment (with orders to supply IFE equipment for Qatar Airways B787s and Saudi Arabian Airlines B777s), as well as growth in orders for commercial flight simulators and tubes and medical imaging systems. However, Transport Systems orders were markedly lower than in 2009, when major orders were booked (notably in Saudi Arabia), in spite of the award of the contracts for the upgrading of the Flushing line on the New York subway and the extension of the Manchester Metrolink public transport system.

Order intake by geographical area of origin ²

2010 order intake (in millions of euros)	2010	2009	Total change	Organic change	Book-to-bill
Area A	3,637	3,797	-4%	-12%	0.8
Area B	2,561	3,019	-15%	-17%	0.9
France	6,880	7,105	-3%	-3%	1.1
Other and divested businesses	3	6	-48%	+23%	0.8
Order intake	13,081	13,927	-6%	-9%	1.0

In **Area A**, order intake stood at **€3,637 million** in 2010, down 4% (-12% in organic terms) compared with the previous year. The decrease in orders was felt most significantly in the United Kingdom, where business wins in 2010 (the Watchkeeper UAV support contract, the Manchester Metrolink, and follow-on orders on the

¹ 67% of the total contract value, corresponding to Thales's shareholding in Thales Alenia Space

² Refer to appendix for definition of geographical areas

aircraft carrier programme) only partly compensated for the high level of orders booked in 2009. However, the United States posted a significant increase in order intake, with the signing of in-flight entertainment contracts as well as the New York subway upgrade referred to above. Order intake in the Netherlands also rose sharply (after a disappointing year in 2009), thanks to several naval support contracts and a major contract with Dutch railways.

Order intake in **Area B** stood at **€2,561 million**, a decrease of 15% (-17% in organic terms) compared with the previous year. The downturn was particularly marked in Saudi Arabia, where several major orders for Transportation Systems had been booked in 2009. Order intake in Spain was down slightly on the previous year, when major contracts were signed for high-speed rail lines. Germany, however, posted a rise in order intake thanks to civil aerospace business and export contracts for air traffic control systems. New orders booked in Italy also increased, driven by space business and a follow-on order for the Dubai metro.

Order intake for Group companies based in **France** stood at **€6,880 million** (down 3% compared with 2009). This slight drop in orders masks a significant disparity in performance in different segments: although growth in civil orders was strong (particularly in the space segment, but also in tubes and imaging systems, as well as in critical information systems), defence activities posted a significantly lower total order intake compared with the exceptionally high level of 2009 (with the exception of Air Systems, where orders remained stable).

Revenues

Consolidated revenues amounted to **€13,125 million** at 31 December 2010, compared with €12,881 million at 31 December 2009, an increase of **+2%** (-1% in organic terms). **Exchange rate fluctuations** impacted revenues by +€384 million, almost entirely as a result of the conversion into euros of the revenues of subsidiaries based outside the euro zone. The main factors were the strengthening of the Australian dollar (+€136 million), the US dollar (+€74 million) and sterling (+€66 million) against the euro. Changes in the scope of consolidation¹ impacted revenues by +€26 million.

¹ In particular, consolidation from 1 July 2009 of CMT Medical Technologies and from 1 January 2010 of Pons and 50% of Sapura Thales Electronics.

Revenues by business

2010 revenues (in millions of euros)	2010	2009	Total change	Organic change
Defence & Security	7,515	7,492	+0%	-3%
Aerospace & Transport	5,539	5,317	+4%	+1%
<i>Other and divested businesses</i>	71	72	-2%	-1%
Revenues	13,125	12,881	+2%	-1%

Revenues from the **Defence & Security** business segment were stable, at **€7,515 million**, compared with €7,492 million in 2009 (-3% in organic terms). Defence Mission systems revenues fell slightly, in particular due to lower billings in electronic warfare and on the Watchkeeper programme, and despite sustained progress in naval sales (sonar systems in France and the USA, Colombian frigates upgrade). Revenues from Land Defence activities were also down, particularly in optronics. Revenues from C4I Systems remained stable overall, in spite of lower business volumes in tactical radios in the United States, while Air Operations revenues grew during 2010, reflecting the major orders booked in 2009 (GM400 radars, LOC1 replication).

Revenues from the **Aerospace & Transport** segment grew to **€5,539 million**, an increase of 4% (+1% in organic terms) over 2009. Revenues from space business rose very slightly, as did revenues from Transportation Systems, in particular due to ramped up billings on the rail contracts booked in 2009 in Saudi Arabia. Avionics revenues showed more significant progress, driven by an increase in billings for in-flight entertainment systems, which offset lower sales for regional aircraft and for Airbus (with lower volumes and a less favourable pricing), while revenues from support markets remained stable overall. Finally, a significant increase in revenues from tubes and imaging systems, reflecting the upturn in orders in these short-cycle activities, contributed to the revenue growth in avionics.

Revenues by geographical area of origin

Revenues 2010 (in millions of euros)	2010	2009	Total change	Organic change
Area A	4,370	4,135	+6%	-2%
Area B	2,764	2,590	+7%	+5%
France	5,987	6,150	-3%	-3%
<i>Other and divested businesses</i>	4	6	-40%	+27%
Revenues	13,125	12,881	+2%	-1%

In **Area A**, revenues amounted to **€4,370 million**, up 6% (-2% in organic terms) compared with the previous year. Growth was particularly strong in the United States and the Netherlands. Growth in the United States was driven by in-flight entertainment and defence radar systems, which offset lower tactical radio business. The Netherlands recorded a strong increase in revenues as a result of more business on naval contracts, particularly with Morocco and Denmark. In the United Kingdom, however, revenues dropped as a result of lower billings on the Watchkeeper contract. Revenues in Australia were also lower as a result of lower revenues from the Bushmaster.

In **Area B**, revenues amounted to **€2,764 million**, up 7% (5% in organic terms) in comparison with 2009. The improvement was driven by Italy, Saudi Arabia, and to a lesser extent Germany. Revenues grew in Italy, due to aerospace activities (Cygnus contracts for the international space station) and billings on the Dubai metro programme. In Saudi Arabia, the increase in revenues reflects billings on the transport contracts signed last year, which compensate for a drop in revenues from defence activities. The slight increase in revenues in Germany comes primarily from transportation business and tubes and imaging systems. These positive changes compensate for a drop in business in Spain, where revenues in defence and security have declined.

In **France**, revenues decreased by 3%, to **€5,987 million**. There has been a sharper decline in the revenues of companies specialised in airborne equipment and optronics, whereas the large tranche 4 Rafale order recorded at the end of 2009 is not yet generating revenues. Space revenues were practically unchanged, with the continuation of the Globalstar constellation project and the start of the Iridium project. By contrast, solid revenue growth was recorded by French units active in sonar (with projects in France and the United States), surface radar (NATO projects, in Finland and Asia), military simulation, and tubes and imaging systems.

Results

EBIT¹, at **€-92 million**, represents **-0.7%** of revenues, compared with €151 million (1.2% of revenues) in the previous year, in particular as a result of additional charges and provisions on the contracts and activities mentioned below, which reached €721 million.

For the ticketing contract in Denmark, an amendment was signed at the end of December 2010, which confirms the conditions of execution of the contract until completion. For the Meltem (maritime patrol aircraft in Turkey) and A400M contracts, discussions are still ongoing as of today, with a view to reach a final agreement on these two contracts with, respectively, the Turkish Ministry of Defence and Airbus. The schedules and detailed technical execution conditions have been stabilised on both contracts. These recent developments significantly enhance the visibility on the execution conditions of these contracts and allow to remove the main operational uncertainties and better assess the estimates of their cost at completion and associated risks.

Moreover, important milestones have been met on current developments in avionics. Priority has been given to the satisfaction of operational commitments towards our clients. This required the mobilisation of significant resources and weighed on earnings. In addition, using its own resources, Thales strengthened the project management capabilities of its French subsidiary Thales Security Solutions & Services, which is facing important risks on certain complex contracts. Finally, difficulties for Thales Australia on the Lorads III air traffic management contract also impacted results.

Against this backdrop and after in-depth review, the Group has decided to revise its evaluation of the most probable scenarios² on these pre-2009 programmes, with a more cautious approach than considered up to now.

Restructuring costs amounted to €130 million, the equivalent of 1% of revenues, compared with €116 million in 2009.

After taking into account the purchase price allocation (PPA), which amounted to €82 million compared with €99 million in 2009, the reported EBIT is €-173 million, compared to €52 million in 2009.

¹ Before impact of purchase price allocation (PPA)

² These scenarios assume potential cost variances that are considered as probable, taking into account the contractual, commercial and technical track record on these contracts. These scenarios do not take into account the receipt of any additional, as yet uncertain, funding, in particular for the A400M contract.

EBIT¹ by business

EBIT ¹ 2010 (in millions of euros)	2010	2009	Total change	Organic change
Defence & Security	153	329	-54%	-56%
<i>as a % of revenues</i>	<i>+2.0%</i>	<i>+4.4%</i>		
Aerospace & Transport	(221)	(105)		
<i>as a % of revenues</i>	<i>-4.0%</i>	<i>-2.0%</i>		
<i>Other and divested businesses</i>	<i>(24)</i>	<i>(73)</i>		
EBIT¹	(92)	151		
<i>as a % of revenues</i>	<i>-0.7%</i>	<i>+1.2%</i>		

Defence & Security recorded EBIT¹ of **€153 million**, which represents a 54% drop (-56% in organic terms) and corresponds to 2% of revenues. This deterioration of the result masks performance disparities in different segments. The profitability of C4I Systems, which fell sharply in 2010, was affected by civil contracts for which additional resources had to be mobilised. Results for the Air Operations business also fell significantly as a result of provisions booked on the air traffic control contract mentioned above and high R&D costs resulting from renewal of the range of radar systems. Land Defence results were strongly down because of the drop in volumes in the missiles and optronics businesses and an unfavourable contract mix in weapon systems. However, despite new provisions for the Meltem programme, the results of the Defence Missions Systems business improved as a result of a favourable contract mix in the activities of electronic combat and underwater warfare systems.

Aerospace & Transport recorded negative EBIT¹ of **€-221 million** (-4% of revenues), compared with a loss of €-105 million in 2009. Despite the upturn in tubes and imaging systems activities and better margins in in-flight entertainment systems, the results of Avionics businesses have deteriorated and remain strongly in the red primarily as a result of additional expenses for the A400M contract and the mobilisation of significant resources to meet customer milestones in developments currently underway. The results of Transportation Systems businesses, still affected by provisions from the Danish ticketing contract, have worsened as a result of a less favourable contract mix and an increase in restructuring costs. Finally, EBIT¹ for space activities remained stable overall.

¹ Before impact of purchase price allocation (PPA)

EBIT¹ by geographical area of origin

EBIT ¹ 2010 (in millions of euros)	2010	2009	Total change	Organic change
Area A	92	192	-52%	-57%
as a % of revenues	+2.1%	+4.6%		
Area B	111	228	-51%	-54%
as a % of revenues	+4.0%	+8.8%		
France	(291)	(216)		
as a % of revenues	-4.9%	-3.5%		
<i>Other and divested businesses</i>	<i>(4)</i>	<i>(53)</i>		
EBIT¹	(92)	151		
as a % of revenues	-0.7%	+1.2%		

EBIT¹ for **Area A** dropped by 52% to a level of **€92 million** (2.1% of revenues) primarily due to negative results in the United Kingdom and Australia. In the United Kingdom, the drop in revenues, an increase in research and development spending and the deterioration of margins in civil business weighed on results. Lower results in Australia were caused primarily by difficulties on the air traffic control contract mentioned earlier and increased spending for research and development in land defence systems. The United States, however, performed well as a result of higher volumes in in-flight entertainment systems. The Netherlands also achieved good results in the naval sector, and Canada as a result of better contract execution.

Area B recorded EBIT¹ of **€111 million** (4% of revenues), a decrease of 51% (-54% in organic terms) compared with 2009, with good performance in Italy only partly offsetting lower profitability in Spain (with lower revenues and higher restructuring costs), Germany (with a less favourable product mix in signalling systems and an increase in restructuring costs) and Saudi Arabia (where difficulties related to the development of civil security activities have weighed on results).

France recorded EBIT¹ of **€-291 million** (-4.9% of revenues), compared with €-216 million in 2009, as a result of large provisions booked at Thales Avionique (A400M), Thales Security Solutions & Services (Denmark's ticketing programme and others) and Thales Systèmes Aéroportés (Meltem). A less favourable contract mix in the Air Operations business also weighed on results.

¹ Before impact of purchase price allocation (PPA)

Income of operating activities includes a €35 million charge for the award handed down on 3 May 2010 in the arbitration against the Republic of China Navy (Taiwan), as well as a capital gain of €33 million related to the sale of the 20% stake held by Thales in Camelot Group plc, the operator of the UK national lottery.

Net financial expense, at **€-73 million**, has decreased significantly with respect to 2009 (€-111 million), particularly as the result of improvements in exchange rate fluctuations in currency markets that remain highly volatile. **Other components of pension charges** remained unchanged at **€-105 million**. **Equity in income of unconsolidated affiliates**¹ increased to **€63 million**, compared with €56 million in 2009, in particular as a result of good performance by DCNS.

Thus the year 2010 resulted in a **net loss, Group share**¹, of €-45 million (compared with €-128 million in 2009), after a tax income¹ of €193 million as compared with €142 million in 2009.

Financial situation at 31 December 2010

Tight control of costs and working capital requirements led to the generation a **free operating cash flow**² of **€271m**, against €800m the previous year, the exceptionally high figure for 2009 being due to payments received in advance from certain government customers.

Thales ended the year with a **net cash flow** of **€191m**, against a net debt of €-91m at end December 2009, and **shareholders' equity (excluding minority interests)** amounted to **€3,672m** compared with €3,744m at end-2009.

Recent events

Thales signed on 17 December 2010 with a group of 20 banks for a confirmed, renewable credit line worth €1.5 billion, maturing in December 2015. This operation refinances the current credit line maturing in December 2011.

¹ Before impact of purchase price allocation (PPA)

² Operating cash flow plus changes in working capital requirement (WCR) and reserves for contingencies less payment of pension benefits (excluding deficit payments on pensions in the UK) less tax less net operating investments: see details in appendix.

Proposed dividend

The Board of Directors will propose that the General Meeting of Shareholders of 18 May 2011 approve a **dividend of €0.50** per share. If approved, the ex-dividend day will be on 26 May 2011. Shareholders will be able to elect for payment of dividends either fully in cash or fully in shares.

The French State and Dassault Aviation indicated during the Board meeting that they would elect to receive dividend payments in the form of shares.

Views for 2011 and 2012

For 2011, the business environment will likely remain marked by pressures on defence budgets in Europe. On the other hand, the Group should start to see greater benefits from the gradual upturn in the civil aviation market, and the good momentum in the space and transport business is expected to continue.

In that situation, Thales expects revenues to increase slightly, thanks to the Aerospace and Transport sector, and yearly orders to be roughly equal to revenues, by leveraging the Group's presence in emerging countries.

As uncertainties on complex contracts are overcome and the Probasis performance plan is successfully implemented, Thales is increasingly confident in its ability to quickly improve its operational profitability. Objectives are of an EBIT¹ margin of 5% in 2011, rising to 6% in 2012.

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¹ Before impact of purchase price allocation (PPA)

APPENDIX

> Definition of segments

Business

- **Defence & Security:** Defence & Security C4I Systems, Defence Missions Systems, Land Defence, Air Operations
- **Aerospace & Transport:** Avionics, Transportation Systems, Space

Geographical areas

- **Area A :** USA, Canada, United Kingdom, Netherlands, Norway, South Korea, Australia, Central and Northern Europe, North Asia
- **Area B** Germany, Austria, Switzerland, Italy, Spain, Singapore, Latin America, Rest of Europe, Middle East & Africa, Western Asia, South Asia
- **France**

> Order intake by destination – 2010

<i>(in millions of euros)</i>	2010	2009	Total change	<i>Organic Change</i>	2010 %
France	3,083	3,792	-19%	-19%	24%
United Kingdom	1,301	1,350	-4%	-7%	10%
Other Europe	3,462	3,639	-5%	-6%	26%
Total Europe	7,846	8,781	-11%	-12%	60%
North America	2,226	1,092	+104%	+93%	17%
Australia	473	464	+2%	-16%	3%
Asia	1,005	1,220	-18%	-22%	8%
Near and Middle East	870	1,238	-30%	-31%	7%
Rest of World	661	1,132	-42%	-43%	5%
Total excl. Europe	5,235	5,146	+2%	-3%	40%
Order intake	13,081	13,927	-6%	-9%	100%

> Consolidated revenues by destination – 2010

<i>(in millions of euros)</i>	2010	2009	Total change	Organic change	2010 in %
France	2,931	3,019	-3%	-3%	22%
United Kingdom	1,500	1,467	+2%	-1%	11%
Other Europe	3,419	3,464	-1%	-2%	26%
Total Europe	7,850	7,950	-1%	-2%	60%
North America	1,315	1,158	+14%	+7%	10%
Australia	584	525	+11%	-8%	4%
Asia	1,304	1,158	+13%	+5%	10%
Near and Middle East	1,257	1,319	-5%	-6%	10%
Rest of World	815	771	+6%	+4%	6%
Total excl. Europe	5,275	4,931	+7%	+1%	40%
Consolidated revenues	13,125	12,881	+2%	-1%	100%

> Order book by destination – 2010

<i>In millions of euros</i>	31 Dec. 2010	31 Dec. 2009	2010 in %
France	6,815	6,607	27%
United Kingdom	4,053	4,065	16%
Other Europe	6,214	5,991	24%
Total Europe	17,082	16,663	67%
North America	2,300	1,282	9%
Australia	863	819	4%
Asia	2,123	2,252	8%
Near and Middle East	1,755	2,154	7%
Rest of World	1,295	1,560	5%
Total excl. Europe	8,336	8,067	33%
Total order book	25,418	24,731	100%

> Order book by segment – 2010

<i>in millions of euros</i>	2010	2009	Total change	Organic change
Defence & Security	14,310	15,223	-6%	-9%
Aerospace & Transport	11,022	9,408	+17%	+14%
<i>Other and divested businesses</i>	86	100	-14%	-21%
Total	25,418	24,731	+3%	+0%

> Impact of purchase price allocation (PPA)

<i>in millions of euros</i>	2010 excl. PPA	Impact of PPA	2010 published
Cost of sales	(11,029)		(11,029)
Amortisation of intangible assets acquired		(82)	(82)
EBIT	(92)	(82)	(173)

Income tax	193	28	221
Equity in income of unconsolidated affiliates	63	(8)	55
Net income, Group share	(45)	(62)	(108)

> Net cash flow – 2010

<i>in millions of euros</i>	2010	2009
Operating cash flow	331	485
Change in WCR and contingency reserves	462	925
Payment of pension benefits and scheme settlements	(106)	(99)
Income tax paid	(107)	(98)
Net operating cash flow	580	1,213
Net operating investments	(309)	(413)
<i>of which capitalised R&D</i>	(43)	(113)
Free operating cash flow	271	800
Net (acquisitions)/disposals	87	(148)
Deficit payments on pensions in the UK	(57)	(58)
Dividends	(98)	(205)
Net cash flow	203	389