

## Thales: 2011 first-half results

- **Order intake: €5.24 bn**, up +2%
- **Revenues: €5.97 bn**, stable compared with first half of 2010
- **EBIT<sup>1</sup>: €303m** (5.1% of revenues, increasing by +48% in comparison with the first half of 2010), compared with €204m (3.4% of revenues) at 30 June 2010
- **Net income, Group share<sup>1</sup>: €173m**, vs. €138m in first half of 2010

**Neuilly-sur-Seine, 27 July 2011** – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to review the accounts for the first half of 2011<sup>2</sup>. In that meeting, the Chairman and CEO of the Group, Luc Vigneron, stated: **“During the first half of the year, growth in orders and revenues in the Aerospace & Transport sector offset a less dynamic environment in Defence & Security. Our EBIT is progressing significantly, thanks to better project execution and the initial results of our Probasis performance plan. This encouraging performance and the signing of an agreement with Airbus on the execution conditions of the A400M project put the Group on a favourable path for reaching its targets for 2011 and 2012.”**

Key figures (in millions of euros)	H1 2011	H1 2010	Reported change	Organic <sup>3</sup> change
Order intake	5,241	5,144	+2%	+2%
Order book	24,335	25,418 <sup>4</sup>	-4%	-3%
Revenues	5,968	5,955	+0%	+0%
EBIT <sup>1</sup>	303	204	+48%	+39%
% of revenues	5.1%	3.4%		
Net income, Group share <sup>1</sup>	173	138	+25%	
Net debt	175	595		

<sup>1</sup> After restructuring and before impact of purchase price allocation (PPA). After PPA impact, amounting to €36 million compared with €41 million in the first half of 2010, the reported EBIT is €268 million compared with €164 million in the first half of 2010. The reported net income is €145 million compared with €106 million in the first half of 2010.

<sup>2</sup> As of 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.

<sup>3</sup> In this press release, “organic” means “on a like-for-like basis and with constant exchange rates”

<sup>4</sup> As of 31 December 2010

## Order intake

**New order intake** for the first half of 2011 amounted to €5,241 million, slightly up from the first half of 2010 (+2%). This development reflects the positive dynamics of the Aerospace & Transport sector, which offset an ever more difficult environment in defence in Europe and in North America. The book-to-bill ratio stood at 0.96 over the second quarter, thus reaching 0.88 over the first six months of the year. Exchange rate variations had a negative impact of €-36 million on order intake, mainly related to the weakening of the US dollar.

The half-year order intake includes several orders with a unit value of more than €100 million, such as a contract for the security systems and the secure communications network of the new French Ministry of Defence complex (the "Balard" project), an order for in-flight entertainment systems with a major airline, and a contract for the Galileo European space programme. Orders of a unit value of less than €10 million have been stable over the half year and continue to represent more than half of the value of the order intake.

As of 30 June 2011, the consolidated order book reached €24,335 million, i.e. more than 22 months of revenues.

## Order intake by business<sup>1</sup>

Order intake (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change	Book-to-bill
<b>Defence &amp; Security</b>	<b>2,531</b>	<b>2,605</b>	<b>-3%</b>	-3%	0.77
<b>Aerospace &amp; Transport</b>	<b>2,690</b>	<b>2,514</b>	<b>+7%</b>	+8%	1.02
<i>Other and divested businesses</i>	20	25	n/a	n/a	n/a
<b>Order intake</b>	<b>5,241</b>	<b>5,144</b>	<b>+2%</b>	+2%	0.88

**Defence & Security** order intake amounted to €2,531 million, 3% lower than in the first half of 2010. Thus, despite good performance in sonar, there was a marked contraction in order intake in Defence Mission Systems business, which had booked the Watchkeeper logistics support contract in the United Kingdom and naval export contracts in the first half of last year. Air Operations activities also posted a reduction in order intake during this first half year, despite the signing of air traffic management contracts in Europe and in Asia. On the other hand, C4I Systems experienced significant growth in order intake, with several orders for

<sup>1</sup> Refer to appendix for the definition of the business sectors

secure communications networks, including the “Balard” project for the French Defence ministry<sup>1</sup>. Likewise, Land Defence order intake advanced strongly, thanks to the signing of several contracts in the United States, in Australia (order for 101 Bushmaster vehicles), and in France.

Orders for the **Aerospace & Transport** sector reached €2,690 million, up 7% from the first half of 2010. Order intake for the Space business declined compared with the very high level of last year, despite the booking of a significant contract for the ground segment of the Galileo programme. Transportation Systems order intake remained stable compared with the same period last year, with several successes both in main lines (Hungary and Poland) and urban rail. Finally, the Avionics business posted higher orders, driven by Airbus, the growth in in-flight entertainment and support activities, and the continuation of growth in tubes & imaging sub-systems.

## Orders intake by geographical area of origin

Order intake (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change	Book-to-bill
Area A	1,653	1,766	-6%	-6%	0.82
Area B	947	1,067	-11%	-11%	0.80
France	2,641	2,308	+14%	+14%	0.95
Other and divested businesses	-	3	n/a	n/a	n/a
<b>Order intake</b>	<b>5,241</b>	<b>5,144</b>	<b>+2%</b>	<b>+2%</b>	<b>0.88</b>

In **Area A**, order intake stood at €1,653 million, a decrease of 6% compared with the first half of 2010 when several major orders were received, particularly in the United Kingdom (Watchkeeper support) and the United States (in-flight entertainment). In those two countries, the order intake was down despite a significant new in-flight entertainment contract and an additional order on aircraft carriers in the United Kingdom. On the other hand, good performance was registered in Australia (protected vehicles, armaments, and air traffic management) as well as in Canada (C4I Systems and Transport businesses).

**Area B** order intake declined by 11% to €947 million compared with €1,067 million, mainly due to a strong reduction in space orders in Italy, a domain that benefited from very significant orders over the first six months of last year, and in Spain, where the orders received in Transport failed to reach last year’s level. Conversely, order intake rose in Germany in the avionics, radio communications, and rail signalling businesses.

<sup>1</sup> This contract should also give rise to additional orders in the operational phase that have not been included at this stage in the Group order book.

Orders in **France** increased sharply (+14%) over the first half year to €2,641 million. Order intake from French companies active in avionics, tubes and imaging systems, and critical information systems rose substantially. Orders for defence activities are stable overall, with declines in optronics, air operations and airborne systems offset by increased orders in communications, armaments and sonar.

## Revenues

Consolidated revenues were stable at **€5,968 million** at 30 June 2011, compared with €5,955 million at 30 June 2010. **Exchange rate fluctuations** impacted revenues by €-17 million, mainly as a result of the conversion into euros of revenues of subsidiaries based outside the euro zone. These fluctuations reflected the weakening of the US dollar (€-28 million) and sterling (€-12 million) against the euro, partially offset by a strengthening of the Australian dollar (+€25 million). Changes in the scope of consolidation<sup>1</sup> impacted revenues by +€12 million.

## Revenues by business

Revenues (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change
<b>Defence &amp; Security</b>	<b>3,288</b>	<b>3,401</b>	<b>-3%</b>	<b>-4%</b>
<b>Aerospace &amp; Transport</b>	<b>2,640</b>	<b>2,520</b>	<b>+5%</b>	<b>+5%</b>
<i>Other and divested businesses</i>	<i>40</i>	<i>34</i>	<i>n/a</i>	<i>n/a</i>
<b>Revenues</b>	<b>5,968</b>	<b>5,955</b>	<b>+0%</b>	<b>+0%</b>

The **Defence & Security** sector posted revenues **€3,288 million**, down 3% compared with €3,401 million in the first half of 2010. The revenues of the Defence Mission Systems are stable overall, thanks in particular to the Rafale programme in France and Watchkeeper in the United Kingdom. Likewise, Land Defence maintained stable revenues compared with the first half of 2010, supported by the growth in revenues from armaments and protected vehicles. The revenues of the C4I Systems division declined slightly due to lower billings for the civil security business. Finally, revenues from Air Operations decreased more markedly, both in defence as well as in air traffic management.

In the **Aerospace & Transport** sector, revenues reached **€2,640 million**, an increase of 5% compared with the first half of 2010. Revenues from Space activities increased in line with the progressive ramp up in billings on recent orders (CSO, Iridium, Eutelsat, etc.). Avionics revenues also rose with a confirmed upturn

<sup>1</sup> And, in particular, the consolidation as of December 31, 2010 of AAC (Advanced Acoustic Concepts, Inc.) in the United States

in support activities, an increase in Airbus sales (cockpit and cabin equipments), and the first billings on recently certified regional aircraft (ATR 600, SSJ). Finally, revenues for Tubes & Imaging Systems increased sharply, in line with the continued increase in orders in these short-cycle businesses. Revenues from Transportation Systems, by contrast, declined slightly, particularly due to lower activity on main lines in Germany and Switzerland and on urban rail in the United Kingdom.

## Revenues by geographical area of origin

Revenues (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change
<b>Area A</b>	<b>2,009</b>	<b>2,073</b>	<b>-3%</b>	-3%
<b>Area B</b>	<b>1,178</b>	<b>1,184</b>	<b>-1%</b>	+0%
<b>France</b>	<b>2,782</b>	<b>2,695</b>	<b>+3%</b>	+3%
<i>Other and divested businesses</i>	-1	3	n/a	n/a
<b>Revenues</b>	<b>5,968</b>	<b>5,955</b>	<b>+0%</b>	<b>+0%</b>

Revenues for **Area A** amounted to **€2,009 million**, a slight decline compared with 30 June 2010 (-3%). The decline was particularly clear in the United Kingdom, in Transportation Systems and defence. In the Netherlands revenues were also down with lower billings on several naval export contracts. Conversely, Australia posted higher revenues (armaments), as did Canada with, in particular, the ramp-up of Transportation Systems export contracts signed in 2010.

**Area B** posted revenues of **€1,178 million**, virtually unchanged from the first half of 2010. This overall stability, however, masks some disparity from country to country. Thus, Germany and Italy posted good growth thanks to the Avionics and Space businesses, respectively. By contrast, revenues declined substantially in Switzerland, with lower billing in C4I Systems and Transportation Systems, as well as in Saudi Arabia, with less significant business in Transportation Systems.

In **France**, revenues increased by 3% to **€2,782 million**. This development resulted, in particular, from growth in revenues from French companies specialising in avionics, tubes & imaging systems, and space. On the other hand, with the exception of armaments and sonar, French companies active in defence posted declining revenues overall.

## Results

**EBIT<sup>1</sup>**, at **€303 million**, represents **5.1%** of revenues, compared with €204 million (3.4% of revenues) in the first half of 2010. This growth in EBIT<sup>1</sup> reflects, among others, improved project execution, with the non-occurrence of the negative variances on complex contracts that weighed on earnings in the first half of 2010.

Increased research and development costs, resulting from the more restrictive approach on capitalisation adopted since the beginning of 2010, reduced the EBIT<sup>1</sup> margin by about 30 basis points compared with the same period last year. The reform of the research tax credit in France further reduces the EBIT<sup>1</sup> ratio by about 30 basis points.

Restructuring costs increased very significantly to reach €78 million, i.e. 1.3% of revenues, compared with €47 million (0.8% of revenues) in the first half of 2010.

## EBIT<sup>1</sup> by business

EBIT <sup>1</sup> (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change
<b>Defence &amp; Security</b>	<b>202</b>	<b>207</b>	<b>-3%</b>	<b>-7%</b>
<i>in % of revenues</i>	<b>6.1%</b>	<b>6.1%</b>		
<b>Aerospace &amp; Transport</b>	<b>110</b>	<b>7</b>	<b>x15</b>	<b>x8</b>
<i>in % of revenues</i>	<b>4.2%</b>	<b>0.3%</b>		
<i>Other and divested businesses</i>	-9	-10	n/a	n/a
<b>EBIT<sup>1</sup></b>	<b>303</b>	<b>204</b>	<b>+48%</b>	<b>+39%</b>
<i>in % of revenues</i>	<b>5.1%</b>	<b>3.4%</b>		

The **Defence & Security** sector posted EBIT<sup>1</sup> of **€202 million**, down 3%, though maintaining its margin rate unchanged at **6.1%** of revenues, despite sharply increased restructuring costs (€49 million compared with €17 million). The operating profitability on Air Operations, down sharply in the first half of 2011, was affected by lower volumes, increased research and development costs (development of the Ground Master military radar range), and increased restructuring costs. The EBIT<sup>1</sup> margin for the Land Defence business, like that for Defence Mission Systems, is down slightly, mainly because of sharply increased restructuring costs. By contrast, despite reduced revenues, C4I Systems posted clear growth in results thanks to better project execution and lower overheads.

<sup>1</sup> After restructuring and before impact of purchase price allocation (PPA).

The EBIT<sup>1</sup> of the **Aerospace & Transport** sector rose strongly to reach **€110 million (4.2% of revenues)** compared with €7 million for the first half of 2010. This improvement is the result of a sharp recovery in Avionics profitability. Indeed, despite a new reduction in the capitalisation of research and development costs, Avionics benefited from the new execution conditions for the A400M programme agreed with Airbus and the reduction in negative variances that had weighed on results in the first half of 2010. The Space business posted a practically stable EBIT<sup>1</sup> as the performance in France has offset a more difficult situation in Italy. Transport Systems results have declined because of a reduction in business seen during the first half and an unfavourable contract mix.

## EBIT<sup>1</sup> by geographical area of origin

EBIT <sup>1</sup> (in millions of euros)	H1 2011	H1 2010	Reported change	Organic change
<b>Area A</b>	<b>90</b>	<b>95</b>	<b>-6%</b>	<b>-8%</b>
<i>in % of revenues</i>	<b>4.5%</b>	<b>4.6%</b>		
<b>Area B</b>	<b>15</b>	<b>49</b>	<b>-70%</b>	<b>-70%</b>
<i>in % of revenues</i>	<b>1.2%</b>	<b>4.1%</b>		
<b>France</b>	<b>217</b>	<b>62</b>	<b>+250%</b>	<b>+193%</b>
<i>in % of revenues</i>	<b>7.8%</b>	<b>2.3%</b>		
<i>Other and divested businesses</i>	<b>-19</b>	<b>-2</b>		
<b>EBIT<sup>1</sup></b>	<b>303</b>	<b>204</b>	<b>+48%</b>	<b>+39%</b>
<i>in % of revenues</i>	<b>5.1%</b>	<b>3.4%</b>		

EBIT<sup>1</sup> for **Area A** declined 6% to **€90 million**, although maintaining a nearly stable EBIT<sup>1</sup> margin, at **4.5%** of revenues. Thus, the Netherlands and, to a lesser extent, the United States, posted a decline in their EBIT<sup>1</sup> due to a negative volume effect. Conversely, the United Kingdom posted an increase in its EBIT<sup>1</sup> despite the decline in business during the half year, mainly by controlling overheads and with less significant cost variances on contracts than in the first half of 2010. Finally, Australia improved its results thanks to better project execution.

In **Area B**, the EBIT<sup>1</sup> was down compared with the first half of 2010, at **€15 million**, i.e. **1.2%** of revenues. Indeed, the good performance in Spain only partially offset the decline in profitability in Italy and in Germany, where research and development costs are rising.

<sup>1</sup> After restructuring and before impact of purchase price allocation (PPA).

France posted a sharply increased EBIT<sup>1</sup>, amounting to **€217 million** (7.8% of revenues), compared with €62 million in the first half of 2010. Despite a sharp increase in restructuring costs (reaching €59 million, i.e. more than double the amount seen in the same period last year) and in research and development costs, France has benefited from the improved results of Thales Avionics as well as lower overhead expenses.

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**Net financial expense**, at **€-57 million**, increased significantly from the first half of 2010 (€-34 million) due to deterioration in foreign exchange results linked to the mechanical impact of changes in the fair value of exchange rate derivatives (mainly euro/dollar). **Other components of pension charges** have remained practically unchanged, at **€-37 million**, compared with €-38 million during the first half of 2010. The **income of unconsolidated affiliates**<sup>2</sup> decreased to **€24 million** compared with €30 million in the first half of 2010, largely due to the disposal of the stake in Camelot in mid-2010.

The first half of 2011 thus resulted in a **net profit, Group share**<sup>2</sup> of **€173 million** (compared with €138 million in the first half of 2010), after a tax charge<sup>2</sup> of €65 million compared with €12 million in the first half of 2010.

## Financial situation at 30 June 2011

**Free operating cash flow** for the first half of the year stood at €-265 million, compared with €-457 million for the first half of 2010, an improvement linked to the strict control of costs and working capital requirements.

At the end of June 2011, **net debt** reached €175 million, compared with a net cash position of €191 million at the end of December 2010, but in strong improvement compared with the level at the end of June 2010 (net debt of €595 million). **Shareholders' equity (excluding minority interests)** stood at €3,782 million compared with €3,807 million at the end of June 2010.

<sup>1</sup> After restructuring and before impact of purchase price allocation (PPA).

<sup>2</sup> Before impact of purchase price allocation (PPA)



## Recent events

### A400M Contract

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Thales and Airbus signed on 11 July 2011 an agreement relating to the technical, operational, and commercial aspects of the A400M flight management system project, so as to redefine its functional specifications, schedule, and related contractual and financial terms, and which strengthens the basis for a long-term cooperation with Airbus. This agreement, which terms and conditions are confidential, is positive for Thales.

### Taiwan arbitration

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Thales has been notified of the decision of the Paris Court of Appeal on 9 June 2011, rejecting the petition filed by the company to set aside the award handed down on 3 May 2010 in the arbitration against Taiwan, in relation to the procurement of six Lafayette-class frigates.

The decision of the Court of Appeal is enforceable and led Thales to disburse on 11 July 2011 an amount of €166 million, i.e. 27.46% of the total, corresponding to its industrial stake in the supply contract. This payment is neutral on the company's financial results, as this litigation had already been fully provisioned in previous years.

### Discussion with Safran

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On 10 May 2011 Thales confirmed that discussions were currently taking place with Safran. These discussions are following on earlier exchanges between the two groups aimed at seeking to optimise their business portfolios so as to strengthen competitiveness on the international markets. If a potential agreement is reached, it would be presented to the Board of Directors and to employee representative bodies, and appropriate information would be communicated.

## Views for the current year

The performance of Thales during the first six months of the year is in line with the views for this year that the Group announced last February.

In this context, and on the basis of current trends, Thales confirms that, for the full year 2011, it expects a book-to-bill ratio of about 1 and a slight growth in revenues. Beyond that date, a decrease in defence orders is to be expected, due to the budgetary situation of the main customers of the Group.

Moreover, the improvement in profitability seen in the first half as well as the agreements reached on the Group's main complex contracts, including the A400M, are consolidating the ability of Thales to reach the 5% EBIT margin target set for 2011. The EBIT margin objective for 2012 remains unchanged at 6%.

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This press release may contain forward-looking statements. Such forward-looking statements are trends or objectives, as the case may be, and shall not be construed as constituting forecasts regarding the Company's results or any other performance indicator. These statements are by nature subject to risks and uncertainties as described in the Company's registration document ("Document de référence") filed with the AMF (French financial markets authority). These statements do not therefore reflect future performance of the Company, which may be materially different.

## APPENDIX

### > Segment definitions

#### **Businesses – operating sectors (IFRS 8)**

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

#### **Geographical areas**

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

### > Order intake by destination – H1 2011

<i>(in millions of euros)</i>	H1 2011	H1 2010	<b>Reported change</b>	<i>Organic change</i>	H1 2011 %
France	1,438	1,074	<b>+34%</b>	+34%	27%
UK	412	536	<b>-23%</b>	-22%	8%
Other European countries	1,455	1,436	<b>+1%</b>	+1%	28%
<b>Total Europe</b>	<b>3,305</b>	<b>3,046</b>	<b>+9%</b>	<b>+9%</b>	<b>63%</b>
North America	566	610	<b>-7%</b>	-6%	11%
Australia	382	266	<b>+44%</b>	+32%	7%
Asia	364	427	<b>-15%</b>	-18%	7%
Near and Middle East	418	570	<b>-27%</b>	-24%	8%
Rest of world	206	225	<b>-8%</b>	-7%	4%
<b>Total outside Europe</b>	<b>1,936</b>	<b>2,098</b>	<b>-8%</b>	<b>-7%</b>	<b>37%</b>
<b>Order intake</b>	<b>5,241</b>	<b>5,144</b>	<b>+2%</b>	<b>+2%</b>	<b>100%</b>

## > Consolidated revenues by destination – H1 2011

<i>(in millions of euros)</i>	H1 2011	H1 2010	Reported change	Organic change	H1 2011 in %
France	1,588	1,309	+21%	+21%	27%
UK	732	767	-5%	-3%	12%
Other European countries	1,497	1,530	-2%	-3%	25%
<b>Total Europe</b>	<b>3,817</b>	<b>3,606</b>	<b>+6%</b>	<b>+6%</b>	<b>64%</b>
North America	580	590	-2%	+0%	10%
Australia	303	272	+11%	+3%	5%
Asia	545	548	-1%	+0%	9%
Near and Middle East	448	600	-25%	-24%	8%
Rest of world	275	339	-19%	-18%	4%
<b>Total outside Europe</b>	<b>2,151</b>	<b>2,349</b>	<b>-9%</b>	<b>-8%</b>	<b>36%</b>
<b>Consolidated revenue</b>	<b>5,968</b>	<b>5,955</b>	<b>+0%</b>	<b>+0%</b>	<b>100%</b>

## > Order book by destination – H1 2011

<i>(in millions of euros)</i>	H1 2011	December 2010	H1 2011 in %
France	6,890	6,815	28%
UK	3,614	4,053	15%
Other European countries	6,054	6,214	25%
<b>Total Europe</b>	<b>16,558</b>	<b>17,082</b>	<b>68%</b>
North America	2,244	2,300	9%
Australia	899	863	4%
Asia	1,872	2,123	8%
Near and Middle East	1,605	1,755	6%
Rest of world	1,157	1,295	5%
<b>Total outside Europe</b>	<b>7,777</b>	<b>8,336</b>	<b>32%</b>
<b>Total order book</b>	<b>24,335</b>	<b>25,418</b>	<b>100%</b>

## > Order book by business – H1 2011

<i>(in millions of euros)</i>	H1 2011	December 2010	Reported change	Organic change
<b>Defence &amp; Security</b>	13,365	14,310	-7%	-5%
<b>Aerospace &amp; Transport</b>	10,898	11,022	-1%	+0%
<i>Other and divested businesses</i>	72	86	-15%	-13%
<b>Total</b>	<b>24,335</b>	<b>25,418</b>	<b>-4%</b>	<b>-3%</b>

## > Impact of purchase price allocation (PPA)

<i>(in millions of euros)</i>	H1 2011 excluding PPA	PPA impact	H1 2011 published
Amortisation of intangible assets acquired	-	(36)	(36)
<b>EBIT</b>	<b>303</b>	<b>(36)</b>	<b>268</b>

Income tax	(65)	12	(53)
Share in net income (loss) of equity affiliates	24	(4)	20
<b>Net income, Group share</b>	<b>173</b>	<b>(28)</b>	<b>145</b>

## > Net cash flow – H1 2011

<i>(in millions of euros)</i>	H1 2011	H1 2010
<b>Operating cash flow</b>	<b>500</b>	<b>390</b>
Change in WCR and contingency reserves	(575)	(633)
Payment of pension benefits and scheme settlements	(50)	(35)
Income tax paid	(32)	(38)
<b>Net operating cash flow</b>	<b>(157)</b>	<b>(316)</b>
Net operating investments	(108)	(141)
<i>of which capitalized R&amp;D</i>	(2)	(18)
<b>Free operating cash flow</b>	<b>(265)</b>	<b>(457)</b>
Net (acquisitions)/disposals	(18)	(5)
Deficit payments on pensions in the UK	(29)	(32)
Cash dividends	(14)	(98)
<b>Net cash flow</b>	<b>(326)</b>	<b>(592)</b>