THALES

Thales: 2011 annual results

- **Order intake: €13.21bn (+1% organic growth[1])**
  Book-to-bill[2]: 1.01

  Order intake increase driven by the Mirage 2000 upgrade contract in India and the good performance of civil aeronautics, mitigating the impact of reduced space orders after the exceptional level in 2010

- **Revenues: €13.03bn, organically stable[1]** compared with 2010

  Strong resilience of defence activities and growth in civil activities

- **EBIT[3]: €749m (5.7% of revenues),** compared with -€92m in 2010

  Strong upturn reflecting a better project execution and the positive impact of the Probasis performance plan

- **Net profit, Group share[3]: €566m** compared with -€45m in 2010

- **Net cash: €192 m[4]** on the back of a continued steady generation of cash flow

Neuilly-sur-Seine, 6 March 2012 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today to close the financial statements for 2011[5]. Group Chairman and CEO Luc Vigneron commented: ***"Although the economic environment worsened more markedly than expected, particularly in defence, our order intake increased and our revenues held up well. A marked upturn in our results is now underway, driven by better contract execution, the momentum of the Probasis plan and our stronger footprint in growth regions. On the basis of this strong performance, which confirms the relevance of our strategy, we are confident in our ability to continue to improve our results, despite the serious economic uncertainties in Europe."***

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

2 Order intake/revenues ratio.

3 After restructuring and before impact of purchase price allocation ("PPA"), cf. details in appendix.

4 After payment for the additional 10% stake in DCNS, but excluding the impact of the proportionate consolidation of DCNS at 35% at 31 December 2011. Including this impact, net cash at year end 2011 was €906m.

5 On the date of this press release, the account audit procedures were completed and the certification report is in the process of being issued.

Key figures (in millions of euros)	2011	2010	*Reported change*	*Organic change*
Order intake	**13,214**	**13,081**	***+1%***	***+1%***
Order book [1]	**25,841**	**25,418**	***+2%***	***+1%***
Revenues	**13,028**	**13,125**	***-1%***	***-0%***
EBIT[2]	**749**	**(92)**		
as % of revenues	**5.7%**	**-0.7%**		
Net income, Group share[2]	**566**	**(45)**		
Earnings per share (in euros)[2]	**2.80**	**(0.23)**		
Net cash[1]	**192**	**191**		

Order intake

New orders booked in 2011 amounted to **€13,214m,** up **+1%**. Over the year, the **book-to-bill** ratio came to **1.01**, in line with the full-year target set by the Group for 2011.

As budget pressures in Europe are confirmed, this favourable change reflects the continuing positive trend throughout the year in the civil aeronautics business, while the signature of the Mirage 2000 upgrade contract in India, worth more than €1bn, made up for the reduction in space orders after the exceptional level achieved in 2010 (which saw the booking of 81 satellites for the Iridium NEXT constellation in the amount of €1.1bn for Thales's share).

The impact of foreign exchange rate fluctuations on orders booked was negative for -€52m, primarily as a result of the conversion into euros of the orders of subsidiaries based outside the euro zone. These fluctuations were primarily driven by the decline of the US dollar (-€62m) and the pound sterling (-€23m) against the euro, partially offset by a stronger Australian dollar (+€38m). Changes in the scope of consolidation[3] impacted revenues by +€23m.

Several major orders (over €100m unit value) were notified during the year in all the Group's major areas of business. These contracts included the Indian Mirage 2000 upgrade already mentioned, the secure communications network for the future headquarters of the French Ministry of Defence, the maintenance in operational condition for the Rafale aircraft, in-flight entertainment for Qatar Airways, the ground segment of

---

1 Excluding the impact of the proportionate consolidation of DCNS at 35% at 31 December 2011.

2 After restructuring and before impact of purchase price allocation of ("PPA"), cf. details in appendix.

3 In particular, the consolidation since 31 December 2010 of AAC (Advanced Acoustic Concepts, Inc) in the United States and the sale, retroactive to 1 January 2011, of the IT services businesses in Switzerland.

the European Galileo space programme, and the heavy goods vehicle eco-tax collection and control system in France ("Ecomouv" project).

Orders with a unit value of less than €10m rose slightly compared with 2010 and continue to represent more than half the orders received in terms of value.

The **total order book**, taking into account the consolidation of DCNS under the proportionate method at 35% at 31 December 2011, amounted to €30,715m. Restated to exclude this impact, the order book increased by **+2%** and stood at **€25,841m** at the end of December 2011, representing nearly 2 years of revenues.

Order intake by business sector

Order intake ***(in millions of euros)***	**2011**	**2010**	*Reported change*	***Organic change***	Book-to-bill
Defence & Security	**7,210**	**6,173**	*+17%*	***+17%***	*0.99*
Aerospace & Transport	**5,953**	**6,845**	*-13%*	***-13%***	*1.05*
Other & unallocated	*51*	*63*	*-18%*	***-17%***	*n/a*
Order intake	**13,214**	**13,081**	*+1%*	***+1%***	*1.01*

Defence & Security order intake amounted to **€7,210m**, an increase of **+17%** compared with 2010. The Defence Mission Systems activities, which booked the contract to upgrade the Mirage 2000 aircraft in India, logically show a significant increase in orders booked. Land Defence order intake also increased sharply, with the signature of several contracts in Australia (order for 101 Bushmaster vehicles), the Middle East (air defence) and France. C4I Systems orders were stable compared with the previous year, with several contracts for secure communications networks, including the project for the new headquarters of the Ministry of Defence in France. In contrast, Air Operations orders were down significantly, despite several successes in air traffic management in Europe (particularly the 4-Flight contract to upgrade the French en-route control systems).

Orders in the **Aerospace & Transport** sector reached **€5,953m**, down **-13%** from 31 December 2010. This decrease reflects the reduction in orders in the Space segment, despite a major contract for the Galileo programme and several payload orders in Russia, after an historically exceptional year in 2010 (with the order for the Iridium NEXT satellite constellation). In contrast, orders booked for Transport Systems were significantly higher, driven by several export successes in rail signalling for main lines (Poland, Hungary) and urban lines (Brazil, Malaysia, South Korea, Hong Kong) and the award of the Ecomouv contract in France.

The Avionics segment also recorded a significant increase in orders throughout the year, driven by Airbus and by growth in support services and in-flight entertainment, particularly for airlines in emerging countries.

Order intake by geographic area of origin

Order intake ***(in millions of euros)***	**2011**	**2010**	*Reported change*	***Organic change***	Book-to-bill
Area A	**3,694**	**3,637**	*+2%*	***+2%***	*0.87*
Area B	**2,353**	**2,561**	*-8%*	***-8%***	*0.89*
France	**7,167**	**6,880**	*+4%*	***+4%***	*1.16*
Other & unallocated		*3*	*n/a*	***n/a***	*n/a*
Order intake	**13,214**	**13,081**	*+1%*	***+1%***	*1.01*

Orders from affiliates located in **Area A** totalled **€3,694m**, up **+2%** compared with 2010. Good performances were recorded in Australia (Bushmaster vehicles, armaments, naval support) and Canada (with several domestic and export successes in Transport). New orders remained stable in the United Kingdom as several urban transport contracts were booked, which mitigated the impact of budget pressures on military orders. In contrast, orders from the Netherlands dipped sharply after the major export naval contracts won in 2010.

Affiliates based in **Area B** registered lower orders, at **€2,353m**, down **-8%** compared to the previous year. Italy in particular, which benefited last year from major contracts in the Space segment (Galileo), and Spain, which won a number of domestic and export bids in rail signalling, posted the sharpest reductions. Order intake remained broadly stable in Germany, but rose significantly in Saudi Arabia, in both civil and defence activities.

Order intake of Group companies based in **France** rose **+4%** over the year. The increase in defence mission system business (upgrade of the Indian Mirage 2000 aircraft, sonar) and C4I systems, in particular, offset the decline in air operations. Order intake for companies active in avionics, tubes and imaging sub-systems, and critical information systems all increased. On the other hand, the space business, as projected, recorded a very strong decrease in new orders.

Revenues

Revenues amounted to **€13,028m** at 31 December 2011, a level almost unchanged from 2010 (€13,125m), taking into account a negative foreign exchange impact (-€52m) primarily reflecting the conversion into euros of the revenues from the subsidiaries located outside the euro zone. This negative exchange variation was due primarily to the depreciation of the American dollar (-€61m) and the pound sterling (-€30m) against the euro, partially offset by the increase in the Australian dollar (+€44m). Changes in the scope of consolidation[1] impacted revenues by +€21m.

Revenues by business sector

Revenues (in millions of euros)	**2011**	**2010**	*Reported change*	***Organic change***
Defence & Security	**7,253**	**7,515**	*-3%*	***-3%***
Aerospace & Transport	**5,682**	**5,539**	*+3%*	***+3%***
Other and unallocated	*93*	*71*	*n/a*	***n/a***
Revenues	**13,028**	**13,125**	*-1%*	***-0%***

Revenues of the **Defence & Security** sector dipped only moderately to **€7,253m** compared with €7,515m at 31 December 2010 **(-3%)**. Revenues generated by Defence Mission Systems decreased slightly, as lower activity on several export naval programmes was only partially offset by an increase in sonar activities. The reduction in C4I Systems revenues was sharper, particularly in radio-communications and security systems. The Land Defence activities, in contrast, posted stable revenues (armaments contracts for France and Australia), as did Air Operations (a slight increase in military systems making up for a less favourable trend in air traffic control).

In the **Aerospace & Transport** sector, revenues reached **€5,682m,** an increase of **+3%** over 2010. Revenues from Avionics rose sharply, driven by the increase in the Airbus business (cockpit and cabin equipment, support) and by the first deliveries for the regional aircraft certified during the year (ATR 600, SSJ). Revenues for tubes and imaging sub-systems were almost stable during the year. Revenues from Space improved, particularly in the observation segment (CSO, Meteosat), but also driven by the ramp-up of the Iridium NEXT project. In contrast, Transport Systems revenues were down versus 2010, mainly due to

1 In particular, the consolidation since 31 December 2010 of AAC (Advanced Acoustic Concepts, Inc) in the United States and the sale of IT services business in Switzerland, retroactive to 1 January 2011.

less revenue from main lines activities in Saudi Arabia and Europe, as well as from the London Underground.

Revenues by geographic area of origin

Revenues ***(in millions of euros)***	**2011**	**2010**	*Reported change*	***Organic change***
Area A	**4,230**	**4,370**	*-3%*	***-3%***
Area B	**2,633**	**2,764**	*-5%*	***-4%***
France	**6,163**	**5,987**	*+3%*	***+3%***
Other and unallocated	*2*	*4*	*n/a*	***n/a***
Revenues	**13,028**	**13,125**	*-1%*	***-0%***

Revenues recorded by the group companies based in **Area A** amounted to **€4,230m**, **-3% less** than in the previous year. The decline was particularly sharp in the Netherlands, with a decrease in revenues from naval contracts, and in the United States, which recorded lower revenues in defence. This reduction was partially offset by higher revenues in Australia, mainly due to armaments contracts for the Australian army and for air traffic control in Asia. Revenues for the Canadian entities remained stable, as did revenues for the UK entities, where higher revenues in defence made up for a contraction in rail transport.

Affiliates based in **Area B** posted revenues of **€2,633m**, a decline of **-4%** in organic terms from the previous year (-5% in reported data). Revenues rose in Italy, driven by space contracts, while transport revenues fell. The Group's German companies posted higher revenues, mainly in avionics and air traffic control. Conversely, group companies in Switzerland and Saudi Arabia recorded lower revenues than in 2010, particularly in transport and civil security.

The companies based in **France** recorded **+3%** growth in revenues, which rose to **€6,163m**. This improvement primarily reflects the performance of Avionics, driven by an increase in sales to Airbus and a marked upturn in support activities. Revenues also improved in the space, sonar (FREMM, Barracuda), tubes and armaments segments. In contrast, air defence, air traffic control and military communications recorded a reduction in revenues.

Results

EBIT[1] improved strongly and totalled **€749m,** or **5.7%** of revenues (vs. a loss of -€92m in 2010). This improvement in EBIT[1] reflects the positive impact of the Probasis performance plan, led by improved project execution.

During the year, the Group signed several amendments on complex projects that were the source of substantial charges recorded in 2009 and 2010. Thus, on the Meltem marine patrol programme in Turkey, the amendment signed with the client rebased the entire contract on the technical and schedule level. Thales and Airbus also signed an agreement concerning the technical, operational and commercial aspects of the flight management system (FMS) project for the A400M, which redefines the functional content, the schedule, and the related contractual and financial conditions, reinforcing the bases for long-term cooperation with Airbus. This agreement, the terms and conditions of which are confidential, is positive for Thales.

All these elements, as well as the more general reduction in the non-quality costs following the measures undertaken as part of the Probasis plan, generated a marked improvement in the gross margin, which reached 22.7% in 2011, up from 16% in 2010.

Self-financed R&D costs amounted to €619m (versus €612m in 2010), including a capitalised amount of €10m (versus €43m in 2010). In addition, the amount of the research tax credit declined by €33m from last year, primarily as a result of the reform that became effective in 2011 in France.

Finally, **restructuring costs** increased substantially to €161m, representing 1.2% of revenues, compared with €130m (1% of revenues) in 2010.

After taking into account the impact of purchase price allocation (PPA), the amount of which was €71m, compared with €82m in 2010, reported EBIT (after restructuring) was €678m, compared with -€173m in 2010.

[1] *After restructuring and before impact of purchase price allocation (PPA).*

EBIT[1] by business sector

EBIT[1] (in millions of euros)	2011	2010	*Reported change*	***Organic change***
Defence & Security	**504**	**152**	*x3.3*	***x3.2***
as % of revenues	***6.9%***	***2.0%***		
Aerospace & Transport	**294**	**(221)**	*ns*	***ns***
as % of revenues	***5.2%***	***-4.0%***		
Other and unallocated	*(49)*	*(23)*		
EBIT[1]	**749**	**(92)**	*ns*	***ns***
in % of revenues	**5.7%**	**-0.7%**		

The **Defence & Security** sector significantly improved its EBIT[1], which amounted to **€504m** and represented **6.9%** of revenues, despite higher restructuring costs (€97m versus €71m). This strong improvement can be seen in all divisions making up this sector. C4I Systems recorded strong growth in their results, thanks to improved project execution and a reduction in general and sales expenses, which offset an unfavourable volume effect. Results for Defence Mission Systems also improved, based on the savings generated by the Probasis plan and the absence of negative variances on the Meltem contract, which had severely weighed on results in 2010. The growth in results from the Land Defence activities was driven primarily by the increase in the armaments business and lower development costs. Finally, and despite the development costs remaining high because of the renewal of the radar product range, results from Air Operations also improved, thanks to better results from the air traffic control business, the profitability of which had been affected by the difficulties of the Lorads III project in 2010.

EBIT[1] for the **Aerospace & Transport** sector amounted to **€294m** (**5.2%** of revenues), compared with a loss of -€221m in 2010. This favourable change was essentially driven by the improvement in results of the Avionics business. This activity benefited both from the very sharp reduction in negative variances, which had impacted the 2010 results (A400M, developments), the positive impact of higher volumes in civil aviation, and the positive effect of the agreement signed with Airbus for the A400M project. Despite lower revenues, the Transportation Systems business also posted a significant increase in results because of lower variances on projects (ticketing). Finally, the Space activities recorded almost stable results.

---

1 After restructuring and before impact of purchase price allocation (PPA).

THALES

EBIT[1] by area of origin

EBIT [1] (in millions of euros)	2011	2010	*Reported change*	***Organic change***
Area A	**215**	**92**	*x2.3*	***x2.3***
in % of revenues	**5.1%**	**2.1%**		
Area B	**115**	**111**	*+4%*	***+2%***
in % of revenues	**4.3%**	**4.0%**		
France	**457**	**(291)**	*ns*	***ns***
in % of revenues	**7.4%**	**-4.9%**		
Other and unallocated	*(38)*	*(4)*		
EBIT[1]	**749**	**(92)**	*ns*	***ns***
in % of revenues	**5.7%**	**-0.7%**		

Despite a generally negative volume effect, the Group companies based in **Area A** improved their EBIT to **€215m** (**5.1%** of revenues), primarily because of the positive change in results from Australia and the United Kingdom. In Australia, the increase in revenues and the absence of new negative variances on the Lorads III contract had a beneficial impact on results. The change in results in the United Kingdom primarily reflects a more favourable contract mix and a decrease in general expenses. In contrast, the Netherlands recorded a deterioration in results related to lower revenues.

EBIT[1] for the affiliates in **Area B** rose +4% (+2% organic) over 2010 to total **€115m,** or **4.3%** of revenues. This change is the result of the net increase in results in Germany (driven by avionics and air traffic management) and, to a lesser extent, in Spain, which offset the deterioration in performance in Italy because of a less favourable situation in Space.

EBIT[1] for the affiliates based in **France** improved substantially to **€457m** (**7.4%** of revenues), compared with -€291m in 2010. Despite restructuring costs that almost doubled compared with 2010 (€95m versus €56m), France benefited from the strong improvement in results for Thales Avionics (reduction in variances on contracts, higher volumes, A400M agreement) and the companies whose accounts had been affected in 2010 by the large charges on the Meltem, ticketing and security contracts.

[1] *After restructuring and before impact of purchase price allocation (PPA).*

***

Operating income[1] amounted to €797m (compared with -€124m in 2010) and included income of €37m for the revaluation of the interests previously held in DCNS (from 25% to 35%)[2] as well as an income of €10m related to the sale of the 35% stake held in Navigation Solutions LLC in the United States.

The net financial expense, at -€58m, declined substantially from the 2010 amount (-€73m), primarily because of the improved foreign exchange results in a market environment that remained volatile. The **other components of the pension expense** declined to **-€63m** compared with -€105m the previous year. **Income from the equity-accounted companies**[1] remained stable at **€62m** versus €63m in 2010, as the improved results of DCNS offset the sales of stakes in Camelot and Indra Espacio in 2010.

Financial year 2011 closed with a **net profit, Group share**[1] of **€566m** (compared with a net loss of -€45m in 2010), after a tax expense[1] of €172m compared with a tax income of €193m in 2010.

Financial position at 31 December 2011

With the improved results, "**free operating cash flow**"[3] rose 40% to total **€379m** compared with €271m over the previous year. Including the investment made in late 2011 to increase the stake in DCNS to 35% for €265m, **net cash flow** amounted to **€1m** versus €282m in 2010.

Overall, the Group closed the year with a positive **net cash** position of €192m[4], a level unchanged from the previous year (€191m) and **shareholders' equity, Group share** totalled €**4,120m** versus €3,672m at year end 2010.

---

1 Before the impact of purchase price allocation (PPA).

2 Pursuant to IFRS 3R.

3 Operating cash flow + change in working capital requirement and reserves for contingencies – payments of pension benefits (excluding payments for the reduction of deficits in the UK) – taxes paid – net operating investments: cf. details in the appendix

4 Amount adjusted in order to exclude the positive impact of the proportionate consolidation of DCNS at 35% at 31 December 2011. Taking this impact into account, net cash amounted to €906m at the end of 2011.

45, rue de Villiers – 92526 Neuilly-sur-Seine Cedex – France – www.thalesgroup.com

Proposed dividend

The Board of Directors has decided to recommend to the shareholders at the Annual Meeting on 15 May 2012 the distribution of a **dividend** of **€0.78** per share. If approved, the ex-dividend date will be 28 May 2012. The dividend will be entirely paid in cash and will total €0.53, taking account of the interim dividend of €0.25 per share already paid in December 2011.

Views for 2012[1]

The budgetary situation of the Group's main customers leads Thales to expect a decrease in defence orders in 2012 (excluding any exceptional export contract), which is likely to be only partially offset by the increase in commercial orders, primarily in aeronautics and ground transport. Under these conditions, the Group is assuming a book-to-bill[2] ratio for this year slightly below 1, also because of revenues which should be higher, in line with the execution of the order book.

On the basis of the improved results recorded in 2011 and the continued roll-out of the Probasis performance plan, the Group is confirming a target EBIT margin[3] of 6% in 2012.

Press:
Alexandre Perra
Tel: +33 (0)1 57 77 86 26
pressroom@thalesgroup.com

Investor Relations:
Jean-Claude Climeau / Romain Chérin
Tel: +33 (0)1 57 77 89 02
ir@thalesgroup.com

For more information: http://www.thalesgroup.com

1 *Excluding impact of the consolidation of DCNS under the proportionate method at 35%.*
2 *Ratio of order intake/revenues.*
3 *Before the impact of purchase price allocation (PPA).*

APPENDIX

> Segment definitions

Business sectors (IFRS 8 operating segments)

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

Geographic 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 – 2011

(in millions of euros)	2011	2010	*Organic change*	2011 in %
France	3,470	3,083	*+13%*	*26%*
United Kingdom	1,094	1,301	*-15%*	*9%*
Rest of Europe	**3,074**	**3,462**	*-11%*	*23%*
Europe	**7,638**	**7,846**	**-2%**	**58%**
North America	**1,204**	**2,226**	**-46%**	**9%**
Asia-Pacific	2,884	1,478	*+92%*	*22%*
Middle East	857	870	*+1%*	*6%*
Rest of the World	631	661	*-3%*	*5%*
Emerging countries	**4,372**	**3,009**	**+45%**	**33%**
Total order intake	**13,214**	**13,081**	***+1%***	***100%***

Revenues by destination - 2011

(in millions of euros)	2011	2010	*Organic change*	2011 in %
France	3,407	2,931	*+16%*	26%
United Kingdom	1,492	1,500	*+1%*	11%
Rest of Europe	3,457	3,419	*+1%*	27%
Europe	**8,356**	**7,850**	**+7%**	**64%**
North America	**1,269**	**1,315**	**-3%**	**10%**
Asia-Pacific	1,849	1,888	*-4%*	14%
Middle East	947	1,257	*-24%*	7%
Rest of the World	607	815	*-25%*	5%
Emerging countries	**3,403**	**3,960**	**-14%**	**26%**
Total revenues	**13,028**	**13,125**	***-0%***	**100%**

> Order book by destination excluding DCNS impact – 31 December 2011

(in millions of euros)	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011 in %
France	7,121	6,815	28%
United Kingdom	3,813	4,053	15%
Rest of Europe	5,818	6,214	22%
Europe	**16,752**	**17,082**	**65%**
North America	**2,274**	**2,300**	**9%**
Asia-Pacific	4,053	2,986	16%
Middle East	1,651	1,755	6%
Rest of the World	1,111	1,295	4%
Emerging countries	**6,815**	**6,036**	**26%**
Total order book *(excluding DCNS impact)*	**25,841**	**25,418**	**100%**

> Net Cash Flow – 2011

(in millions of euros)	2011	2010
Operating cash flow	**1,242**	**389**
Change in working capital requirements and in reserves for contingencies	(390)	471
Payment of contributions / pension benefits	(104)	(106)
Financial interest paid	(53)	(67)
Income tax paid	(60)	(107)
Net operating cash flow	**635**	**580**
Net operating investments	(256)	(309)
o/w capitalized R&D	*(10)*	*(43)*
Free operating cash flow	**379**	**271**
Net (acquisitions)/disposals	(289)	87
Deficit payments on pensions in the UK	(59)	(57)
Dividends	(64)	(98)
FX and others	34	79
Net cash flow	**1**	**282**

> Impact of purchase price allocation (PPA)

(in millions of euros)	2011 excl. PPA	PPA impact	2011 reported
Cost of sales	(10,067)		(10,067)
Amortisation of intangible assets acquired		(71)	(71)
EBIT	**749**	**(71)**	**678**

Income tax	(171)	24	(147)
Income from equity-accounted companies	62	(8)	53
Net income, Group share	**566**	**(55)**	**512**