THALES

Thales: 2012 annual results

Neuilly-sur-Seine, 28 February 2013 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met today and closed the financial statements for financial year 2012[1].

- **Order intake:** **€13.3 billion, up 1%** (-5% excluding DCNS impact[2])
- **Sales:** **€14.2 billion, up 9%** (+1.5% excluding DCNS impact[2])
- **EBIT[3]:** **€927 million, up 24%** (+13% excluding DCNS impact[2])
- **Adjusted net income, Group share[4]** **€585 million, up 13%**
- **Dividend per share[5]:** **€0.88, up 13%**

in millions of euros	2012	2012 excl. DCNS[2] impact	2011	*Total change*	*Change excl. DCNS[2] impact*	*Organic change[6]*
Order intake	**13,293**	**12,592**	**13,214**	**+1%**	**-5%**	-6%
Sales	**14,158**	**13,217**	**13,028**	**+9%**	**+1.5%**	0%
EBIT[3]	**927**	**848**	**749**	**+24%**	**+13%**	+15%
in % of revenues	***6.5%***	**6.4%**	***5.7%***			
Adjusted net income, Group share[4]	**585**	**585**	**517**	**+13%**		
per share[4] (€)	**2.93**	**2.93**	**2.63**	**+11%**		
Dividend per share	**0.88**	**0.88**	**0.78**	**+13%**		
Net cash	**1,528**	**909**	**192[7]**			

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

2 In this press release, "DCNS impact" means "impact of the 35% proportionate consolidation of DCNS vs. consolidation under the equity method at 35%".

3 After restructuring and before impact of purchase price allocation ("PPA"), cf. details in appendix. Including the impact of purchase price allocation ("PPA"), EBIT amounted to €816 million.

4 As from 2012, in order to enable a better monitoring and benchmark of its economic and operating performance, Thales prepares an adjusted net income, a non-GAAP measure, excluding non-operating and non-recurring items. Thales excludes from the adjusted net income the "disposal of assets, changes in scope of consolidation and other" (as disclosed in the consolidated financial statements), the "change in fair value derivative exchange instruments" (booked in other financial income (expense) in the consolidated financial statements), pensions schemes amendments, curtailments and settlements, the amortization of the actual losses and the impact of the minimum funding requirements in compliance with IFRIC14 (these elements are booked in "other components of pension charge" in the consolidated financial statements), net from corresponding tax impacts. cf. details in the appendix. Excluding these adjustments, the consolidated net income, Group share, amounted to €536 million.

5 Total amount proposed to the AGM on 24 May 2013, including the interim dividend of €0.25 paid in December 2012.

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

7 €906 million including DCNS impact.

Key figures by operating segment (*in millions of euros*)	**2012**	**2011**[1]	***Total change***	***Organic change***
Order intake				
Defence & Security	**6,806**	**7,150**	***-5%***	*-7%*
Aerospace & Transport	**5,712**	**5,953**	***-4%***	*-6%*
Others and divested businesses	74	111		
Total *excl. DCNS impact*	**12,592**	**13,214**	**-5%**	-6%
DCNS impact	**701**	**-**		
Total	**13,293**	**13,214**	**+1%**	-6%
Sales				
Defence & Security	**7,166**	**7,179**	**0%**	*-3%*
Aerospace & Transport	**5,953**	**5,682**	**+5%**	*+4%*
Others and divested businesses	98	167		
Total *excl. DCNS impact*	**13,217**	**13,028**	**+1%**	0%
DCNS impact	**941**	**-**		
Total	**14,158**	**13,028**	**+9%**	0%
EBIT[2]				
Defence & Security	**504**	**499**	**+1%**	-1%
in % of sales	*7.0%*	*7.0%*		
Aerospace & Transport	**392**	**286**	**+37%**	+42%
in % of sales	*6.6%*	*5.0%*		
Others and divested businesses	(48)	(36)		
Total *excl. DCNS impact*	**848**	**749**	**+13%**	+15%
in % of sales	*6,4%*	*5,7%*		
DCNS impact	**79**	**-**		
in % of sales	*8.4%*			
Total	**927**	**749**	**+24%**	+15%
in % of sales	*6,5%*	*5,7%*		

[1] Divested businesses in Navigation Solutions, IT services businesses in Switzerland, Austria, Argentina, Spain and France have been reclassified from the "Defence & Security" operating segment in "others and divested businesses" and civil fixed-wing aircraft simulation in the UK and Diehl Aircabin reclassified from the "Aerospace & Transport" operating segment in "others and divested businesses"
[2] After restructuring and before impact of purchase price allocation ("PPA"), cf. details in appendix.

Order intake

New orders entered in the order book in 2012 amounted to **€13,293 million, up 1%** compared with the previous year (€12,592 million, representing a 5% decrease, excluding the DCNS impact). On an organic basis[1], order intake at 31 December was down 6% compared to 2011, which had benefited in the third quarter from the Mirage 2000 upgrade contract in India for over €1 billion (excluding this contract, order intake would be up 4%).

As expected, the **book-to-bill** ratio thus amounted to **0.95** for the year, excluding the DCNS impact (0.94 including the DCNS impact). At 31 December 2012, the consolidated order book came to €29,658 million, representing over two years of business (€25,010 million excluding the DCNS impact).

Several **orders over €100 million unit value** were notified during the year. In defence, main orders in 2012 included the Contact contract for the development of new-generation software-based radios in France, a new tranche of Bushmaster armoured vehicles in Australia, radar systems in the Netherlands, and significant upgrade and maintenance contracts won by DCNS for the French Navy. Orders in ground transportation were rail signalling contracts for main lines in Denmark and for urban rail in Singapore; in Avionics, in-flight entertainment systems for a major North American airline; and in Space, a telecommunications satellite contract for an Asian operator and new tranches of the European space exploration programme, Exomars.

In addition, **orders with a unit value of less than €10 million** were up compared with the previous year, and still account for more than half the total order intake in terms of value.

Order intake in the **Defence & Security segment** was **€6,806 million**. The **5% decrease** compared with 2011 was due to the registration in the third quarter of last year of the Mirage 2000 upgrade contract in India, which was worth over €1 billion (excluding this contract, order intake would be up 12%).

Order intake in Defence Mission Systems dropped as expected, despite a number of commercial successes in the naval business, particularly in the Middle East, and in the air domain with orders for combat systems and drones in the UK. Land Defence, meanwhile, registered an increase in orders, driven mainly by new tranches of Bushmaster and Hawkei vehicles in Australia, optronics export contracts, missile electronics contracts in France and India, and a weapon system contract in South Korea. At the same time, order intake for C4I Systems was up, driven by radio communications in France, the United States and export, and by protection systems. Lastly, Air Operations recorded significant growth in orders, with the radar systems contract for the Netherlands mentioned above and air defence contracts for both the UK and for export.

[1] The foreign exchange impact on orders was a positive €285 million, resulting from the appreciation of the pound sterling and US and Australian dollars against the euro.

Aerospace & Transport orders came to **€5,712 million, down 4%** compared with 2011. This is due particularly to the decline in Space orders.

Space activities won new orders for the European Exomars and Meteosat programmes, but there was a notable decline in Telecommunications despite successes for Eutelsat and an order from an Asian operator. Transportation Systems saw a reduction in orders compared with the previous year, mainly due to the booking of the multi-year Ecotaxe contract in France at the end of 2011, whereas signalling activities advanced strongly during the year, with several mainline rail contracts in Europe (Denmark, Norway and Poland) and for urban rail in Asia (Singapore, Hyderabad, Kuala Lumpur and Nanjing) and America (Manaus and Vancouver). Avionics posted flat orders overall for the year. Increased Airbus production rates and orders from regional (SSJ) and business aircraft manufacturers, as well as several in-flight entertainment contracts, offset the expected decline in military avionics orders (due to the Mirage 2000 upgrade contract in India booked in 2011).

DCNS accounted for **€701 million** of the Group's total order intake in 2012. The key orders registered in this period related to FREMM multi-mission frigates, upgrading and maintaining French submarines, and a maintenance contract for the Charles-de-Gaulle aircraft carrier.

Sales

Total sales amounted to **€14,158 million** at 31 December 2012, an increase of **9%,** due to the impact of the proportionate consolidation of DCNS at 35%. Excluding this impact, revenues totalled €13,217 million in 2012, up 1.5% (stable at constant exchange rates[1]).

Sales for the **Defence & Security** operating segment amounted to **€7,166 million** over full-year 2012. This was stable compared with the previous year thanks to a favourable exchange rate impact (-3% in organic terms). Air Operations registered a decline in sales due to reduced air traffic control activities. Sales for the Defence Mission Systems division were also slightly down, with the ending of several naval export contracts only partially offset by the increase from the Mirage 2000 upgrade contract in India and the Watchkeeper programme in the UK. C4I Systems activities posted virtually flat sales, with the increase in civil security business offsetting lower sales in tactical radios. Land Defence activities posted slightly higher sales, with notable progress in optronics in France and for export as well as armaments in Australia.

[1] The foreign exchange impact on sales was a positive €315 million, resulting from the appreciation of the pound sterling and US and Australian dollars against the euro.

In **Aerospace & Transport,** sales totalled **€5,953 million**, up **5%** compared with 2011 (4% in organic terms). Transportation Systems activities posted higher sales, in particular the ramping up of the Ecotaxe contract in France, which offset the completion of several contracts in the Middle East. Avionics sales were slightly higher, thanks mainly to the increased production rates at Airbus and to regional aircraft (ATR and SSJ), as well as growth in support and helicopter activities (with the first deliveries of avionics suites for the S76D helicopter). Sales from Space activities grew slightly, with the progressive ramp-up of the Iridium Next and O3b constellation programmes, Meteosat satellites and the Exomars programme.

DCNS made a **€941 million** contribution to Group consolidated sales in 2012, with the execution of programmes in France (Barracuda submarines, FREMM frigates, maintenance and services) and internationally (Brazil, India and Russia).

Results

At **€927 million, EBIT**[1] represented **6.5%** of sales (€848 million excluding DCNS impact, i.e. 6.4% of sales) compared with €749 million (5.7% of sales) in 2011. This improvement in EBIT[1] reflects better operating performance and cost control, and lower restructuring costs than in 2011. Moreover, the Group stepped up its efforts in self-funded R&D, which increased by 5% on an organic basis.

Although its sales declined organically, the **Defence & Security** segment posted flat EBIT[1] of **€504 million**, representing **7.0%** of sales, compared with €499 million in 2011 (7% of sales).

EBIT[1] for the **Aerospace & Transport** segment continued to grow, amounting to **€392 million** (**6.6%** of sales), compared with €286 million (5% of sales) in 2011, increasing organically by 42% compared to 2011.

DCNS continued to see improved performance and contributed €79 million (8.4% of sales) to Group EBIT[1].

After accounting for the purchase price allocation (PPA), the amount of which was €112 million, compared with €71 million the previous year following the increase of Thales's stake in DCNS to 35% at the end of 2011, reported EBIT was €816 million, compared with €678 million at 31 December 2011.

Adjusted net financial expense[2] represented a charge of **€41 million** (€52 million excluding the DCNS impact) compared with a charge of €64 million at the end of December 2011, the 2011 net debt penalized by the early refinancing of the July 2011 bond payment. Adjusted **other components of pension charges**[2] were higher, with a charge of **€68 million** compared with €47 million in 2011, mainly due to a higher interest cost and a lower expected return on plan assets in the UK.

Income from the equity-accounted companies[2] fell to **€24 million**, down from €62 million for the previous year, as the Group's stake in DCNS is now proportionately consolidated rather than using the equity method.

[1] After restructuring and before impact of Purchase Price Allocation (PPA).
[2] Cf. details in the appendix

Adjusted net income, Group share[1] was up **13%** at **€585 million** (compared with €517 million in 2011), despite the significant increase in the adjusted tax charge[1], at €243 million compared with €176 million in 2011. Reported consolidated net income, Group share, was €536 million in 2012, compared with €512 million in 2011.

Financial position at 31 December 2012

Free operating cash flow was markedly higher at **€669 million** (€753 million excluding the DCNS impact) compared with €379 million in the previous year, due to the combined effect of improved results and a favourable change in working capital requirements, thanks to the receipt of significant payments at the end of 2012.

Due to the disposal of activities in 2012 (civil fixed-wing aircraft simulation, IT services, Diehl Aircabin), net cash was up €623 million (up €717 million excluding the DCNS impact), whereas it was flat in 2011.

The Group ended the year with **positive net cash** of **€1,528 million** (€909 million excluding the DCNS impact), compared with €906 million (€192 million excluding the DCNS impact) at the end of the previous year. **Shareholders' equity**, Group share, improved to **€4,576 million**, up from €4,120 million at year-end 2011.

Recent events

Following incidents involving lithium ion batteries supplied by a Japanese company through a Thales subsidiary, the Federal Aviation Administration (FAA) decided on 17 January 2013 to suspend all Boeing 787 flights. In this framework, Thales participates to the technical investigations and cooperates with Boeing with a view to enable the flights to resume.

Proposed dividend

At the Annual General Meeting on 24 May 2013, the Board of Directors will recommend the distribution to shareholders of a **dividend** of **€0.88** per share, up 13%. If approved, the ex-dividend date will be 28 May 2013 and the payment date 31 May 2013. The dividend will be paid entirely in cash and will total €0.63 per share, after deducting the interim dividend of €0.25 per share already paid in December 2012.

[1] Cf. details in the appendix

Outlook for the current year[1]

Despite the continuing unfavourable economic environment in Europe, the Group is anticipating a slight upturn in orders in 2013, largely due to the expected performance in the emerging countries.

Sales should remain stable, with the growth in civil activities offsetting a less favourable situation in defence.

A continuing drive to improve performance should enable the Group to post a further increase in EBIT[2], which should increase by 5% to 8% compared to 2012.

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

Analysts / Investors contact:
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 any exceptional export contract
[2] After restructuring and before impact of purchase price allocation (PPA).

THALES

APPENDIX

> Impact of adjustment entries on income statement - 2012

in millions of euros	Consolidated income statement 2012	Adjustments				Adjusted income statement 2012
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	Disposal of assets, change in scope of consolidation and other	Change in fair value of derivative exchange instruments	Amortisation of actuarial gains and losses, pensions schemes amendments, curtailments and settlements, IFRIC14	
Sales	**14,158**					**14,158**
Cost of sales	(10,868)					(10,868)
R&D	(687)					(687)
Selling, general and administrative expenses	(1,558)					(1,558)
Restructuring costs	(118)					(118)
Amortisation of intangible assets acquired (PPA)	(112)	112				-
Income from operations/EBIT	**816**	**112**				**927**
Impairment of non-current operating assets	(15)					(15)
Disposal of assets, change in scope of consolidation and other	114		(114)			-
Income of operating activities	**915**	**112**	**(114)**			***913***
Cost of net financial debt	*(14)*					*(14)*
Other financial income (expense)	*(53)*			*26*		*(27)*
Net financial expense	(67)			*26*		(41)
Other components of pension charge	(142)				*75*	*(68)*
Income tax	(194)	(38)	*5*	*(9)*	*(7)*	*(243)*
Share in income (loss) of equity affiliates	24					*24*
Net income (loss)	**536**	**73**	***(109)***	***17***	***68***	***585***

Readers are reminded that only the consolidated financial statements are audited by the Group's statutory auditors. The consolidated financial statements include the adjusted income from operations set out in Note 4 "Segment Information". Adjusted financial data other than provided in Note 4 "Segment Information" of the consolidated financial statements, are subject to the verification procedures applicable to all of the information provided in this press release.

THALES

> Impact of adjustment entries on income statement - 2011

in millions of euros	Consolidated income statement 2011	Adjustments				Adjusted income statement 2011
		Amortisation of intangible assets recognised at fair value on business combination (PPA)	Disposal of assets, change in scope of consolidation and other	Change in fair value of derivative exchange instruments	Amortisation of actuarial gains and losses, pensions schemes amendments, curtailments and settlements, IFRIC14	
Sales	**13,028**					**13,028**
Cost of sales	(10,067)					(10,067)
R&D	(619)					(619)
Selling, general and administrative expenses	(1,432)					(1,432)
Restructuring costs	(161)					(161)
Amortisation of intangible assets acquired (PPA)	(71)	71				–
Income from operations/EBIT	**678**	**71**				**749**
Impairment of non-current operating assets	(7)					*(7)*
Gain (loss) on disposal of assets and other	55		*(55)*			–
Income of operating activities	**726**	**71**	***(55)***			***742***
Cost of net financial debt	(48)					(48)
Other financial income (expense)	(10)			*(6)*		(16)
Net financial expense	(58)			*(6)*		(64)
Other components of pension charge	(63)				*16*	*(47)*
Income tax	(147)	(24)	*(2)*	*2*	*(5)*	*(176)*
Share in income (loss) of equity affiliates	53	8				*62*
Net income (loss)	**512**	**55**	***(56)***	***(4)***	***11***	***517***

> Order intake by destination, excluding DCNS impact – 2012

in millions of euros	**2012**	**2011**	***Organic change***	**2012 in %**
France	3,028	3,551	-15%	24%
United Kingdom	1,043	1,207	-19%	8%
Other European countries	3,376	3,082	+11%	27%
Europe	**7,447**	**7,840**	**-5%**	**59%**
North America	**1,360**	**1,167**	**+12%**	**11%**
Australia	**915**	**635**	**+33%**	**7%**
Asia	1,408	2,266(*)	*-39%*	*11%*
Middle East	1,022	857	+15%	*8%*
Rest of the World	440	448	-1%	*4%*
Emerging countries	**2,870**	**3,571(*)**	**-21%**	**23%**
Consolidated orders	**12,592**	**13,214**	**-6%**	**100%**

(*) including the Indian Mirage 2000 upgrade contract for over €1 billion

> Sales by destination, excluding DCNS impact – 2012

in millions of euros	**2012**	**2011**	***Organic change***	**2012 in %**
France	3,564	3,407	+5%	27%
United Kingdom	1,569	1,492	-1%	12%
Other European countries	3,449	3,457	+1%	26%
Europe	**8,582**	**8,356**	**+2%**	**65%**
North America	**1,400**	**1,269**	**+7%**	**10%**
Australia	**698**	**643**	**+1%**	**5%**
Asia	1,263	1,206	+1%	10%
Middle East	749	947	-22%	6%
Rest of the World	525	607	-13%	4%
Emerging countries	**2,537**	**2,760**	**-10%**	**20%**
Total sales	**13,217**	**13,028**	**0%**	**100%**

THALES

> Order book by destination, excluding DCNS impact – 31 December 2012

in millions of euros	31 Dec 2012	31 Dec 2011	31 Dec. 2012 in %
France	6,643	7,189	27%
United Kingdom	3,374	3,813	13%
Other European countries	5,532	5,762	22%
Europe	**15,549**	**16,764**	**62%**
North America	**2,227**	**2,274**	**9%**
Australia	**1,067**	**855**	**4%**
Asia	3,255	3,191	*13%*
Middle East	1,896	1,649	*8%*
Rest of the World	1,015	1,109	*4%*
Emerging countries	**6,166**	**5,948**	**25%**
Total order book (excluding DCNS impact)	**25,010**	**25,842**	**100%**

> Order intake and revenues – Q4 2012

(in millions of euros)	Q4 2012	Q4 2011	*Total change*	*Organic change*
Order intake				
Defence & Security	**2,554**	**2,412**	***+6%***	+5%
Aerospace & Transport	**1,477**	**2,319**	***-36%***	-37%
Others and divested businesses	14	28		-
Order book *excl. DCNS impact*	**4,045**	**4,759**	**-15%**	-15%
DCNS impact	**208**	**-**		
Total	**4,253**	**4,759**	**-11%**	-15%
Sales				
Defence & Security	**2,483**	**2,497**	**-1%**	-2%
Aerospace & Transport	**2,042**	**1,864**	**+10%**	+11%
Others and divested businesses	30	54		
Order book *excl. DCNS impact*	**4,555**	**4,415**	**+3%**	+3%
DCNS impact	**303**	**-**		
Total	**4,858**	**4,415**	**+10%**	+3%

THALES

> Order book by business segment – 2012

in millions of euros	31 Dec. 2012	31 Dec. 2011	*Reported change*	*Organic change*
Defence & Security	**14,063**	14,375	***-2%***	*-3%*
Aerospace & Transport	**10,888**	11,372	***-4%***	*-3%*
Other and divested businesses	***59***	*95*	*n/s*	*n/s*
Order book excl. DCNS impact	**25,010**	**25,842**	***-3%***	***-3%***
DCNS impact	**4,648**	4,854	*-4%*	*-4%*
Total	**29,658**	**30,696**	***-3%***	***-3%***

> Cash flow

in millions of euros	2012	2011[1]
Operating cash flow	**1,346**	**1,242**
Change in working capital requirements and in reserves for contingencies	13	(390)
Payment of contributions / pension benefits	(113)	(104)
Financial interest paid	(37)	(53)
Income tax paid	(125)	(60)
Net operating cash flow	**1,084**	**635**
Net operating investments	(415)	(256)
o/w capitalised R&D	*(12)*	*(10)*
Free operating cash flow	**669**	**379**
Net (acquisitions)/disposals	156	(289)
Deficit payments on pensions in the UK	(64)	(59)
Dividends	(155)	(64)
FX and others	17	34
Change in net cash	**623**	**1**

[1] Excluding DCNS impact