

Thales reports its 2021 full-year results

- Order intake¹: €19.9 billion, up 18% (+18% on an organic basis²)
- Sales: €16.2 billion, up 5.3% (+5.3% on an organic basis)
- EBIT³: €1,649 million, up 32.1% (+31.9% on an organic basis)
- Adjusted net income, Group share³: €1,361 million, up 45%
- Consolidated net income, Group share: €1,089 million, up 125%
- Free operating cash flow³: €2,515 million, 185% of adjusted net income, Group share
- Dividend⁴ of €2.56, up 45%
- 2022 objectives:
 - Book-to-bill⁵ above 1, supporting sales growth acceleration in 2023
 - Sales between €16.6 and €17.2 billion, corresponding to organic growth between +2% and +6%
 - EBIT margin between 10.8% and 11.1%
- 2019-2023 cash flow generation target revised upwards:
 - Conversion ratio of adjusted net income⁶ to free operating cash flow: 115%
 - Around €5.5 billion of free operating cash flow expected for 2021-2023

Thales's Board of Directors (Euronext Paris: HO) met on March 2, 2022 to review the 2021 financial statements⁷.

“Thales concluded 2021 with an excellent fourth quarter in terms of order intake and operating free cash flow. Commercially, the Group achieved the best year in its history. These successes with our clients, combined with the remarkable mobilization of our teams, have resulted in cash generation of well over 2 billion euros. Considering this performance in 2021 and the outlook for 2022 and 2023, we are revising our cash generation target strongly upwards: the Group should thus generate nearly 5.5 billion euros of free operating cash flow over the 2021-2023 period.

Organic growth returned above 5%. The EBIT margin was above 10%, benefiting in particular from a solid margin increase in Digital Identity & Security, which was more than 4 points higher than in 2018, the year prior to its integration into the Group.

¹ In accordance with standard IFRS5, the financial data for the operating segment “transport” for 2020 and 2021 have been classified under “discontinued operations” following entry into exclusive negotiations with Hitachi Rail with a view to disposing of this business.

² In this press release, “organic” means “at constant scope and exchange rates”. See note on methodology on page 14 and calculation on page 19.

³ Non-GAAP financial indicators, see definitions in the appendices, page 14.

⁴ Proposed to the Annual General Meeting on May 11, 2022.

⁵ Ratio of order intake to sales.

⁶ Previous target: around 95% on a reported basis.

⁷ At the date of this press release, the audit procedures for the financial statements have been completed and the statutory auditors' report was in the process of being issued.

Driven by the strength of the space business and the cost adaptation plan in aeronautics, the aerospace segment recorded an initial recovery in revenues and profitability. Nevertheless, with revenues nearly 20% lower than 2019 and an operating margin of 4.5%, it is still very much affected by the impact of the health crisis on air transport.

All Thales teams are committed to implementing our strategic roadmap. The disposal of the "Ground Transportation Systems" business is proceeding in line with the plan. We are continuing to increase our R&D investments to better prepare for the future. We are accelerating our sustainability initiatives, and confirm today all the objectives presented at the 5 October 2021 ESG event.

Thales's business model, driven by the growing need for security and trust in an increasingly interconnected world, has remarkable potential for sustainable and profitable growth, offering solid future prospects for its employees, customers and shareholders. "

Patrice Caine, Chairman and Chief Executive Officer

Key figures

In € millions except earnings and dividend per share (in €)	2021	2020	Total change	Organic change
Order intake	19,909	16,824	+18%	+18%
Order book at end of period	34,744	30,512	+14%	+12%
Sales	16,192	15,371	+5.3%	+5.3%
EBIT⁸	1,649	1,248	+32.1%	+31.9%
as a % of sales	10.2%	8.1%	+2.1 pts	+2.0 pts
Adjusted net income, Group share⁸	1,361	937	+45%	
Adjusted net income, Group share, per share⁸	6.39	4.40	+45%	
Consolidated net income, Group share	1,089	483	+125%	
Free operating cash flow⁸:	2,515	1,057	1,459	
Net cash (debt) at end of period⁸	-795	-2,549	1,754	
Dividend per share⁹	2.56	1.76	0.80	

In accordance with standard IFRS5, the financial data for the "transport" operating segment for 2020 and 2021 have been classified under "discontinued operations" following the entry into exclusive negotiations with Hitachi Rail with a view to disposing of this business.

⁸ Non-GAAP financial indicators, see definitions in the appendices, page 14.

⁹ Proposed to the Annual General Meeting on May 11, 2022.

Order intake for the 2021 financial year totaled **€19,909 million**, up 18% from 2020 (**up 18%** also on an “organic” basis, i.e., at constant scope and exchange rates). The Group benefited from a particularly strong commercial momentum in the fourth quarter of 2021, especially in the Avionics, Space and Digital Identity and Security (DIS) segments. At December 31, 2021, the consolidated **order book** stood at **€34.7 billion**, an all-time record.

Sales reached **€16,192 million**, up 5.3% from 2020 in total change as well as organic change, driven by the Defense & Security and Space businesses.

For 2021, the Group posted **EBIT⁸** of **€1,649 million** (10.2 % of sales), compared to €1,248 million (8.1% of sales) in 2020, up +32% in total change as well as organic change.

At **€1,361 million**, the **adjusted net income, Group share⁸** was up 45%. This change, greater than that of EBIT, was primarily due to the decrease in tax rate in France, changes to the tax regulations in Italy and the United Kingdom, and a greater contribution from the Transport segment compared to 2020 (classified as “discontinued operations” under IFRS5).

The **consolidated net income, Group share**, stood at **€1,089 million**, up 125% from 2020. In addition to the increase in adjusted net income, this positive change was caused by the recognition in 2020 of an impairment loss on goodwill and intangible assets in the civil aeronautics business (In-Flight Entertainment) due to the health crisis.

The **free operating cash flow⁸** stood at **€2,515 million** compared to €1,057 million in 2020. It includes a contribution of €2,360 million from continuing operations and €156 million from discontinued operations. The cash conversion ratio of adjusted net income, Group share to free operating cash flow was 185% (113% in 2020). This exceptional performance was due simultaneously to strong order intake, continued progress of teams on the measures implemented since 2020 under the “Cash” initiative, as well as some positive phasing effects on cash inflows.

In this context, the Board of Directors decided to propose the payment of a **dividend** of **€2.56** per share, corresponding to a payout ratio of 40% of the adjusted net income, Group share, per share.

Order intake

<i>In € millions</i>	2021	2020	Total change	Organic change
Aerospace	5,631	3,822	+47%	+48%
Defense & Security	11,185	9,922	+13%	+12%
Digital Identity & Security	2,995	3,023	-1%	+1%
Total – operating segments	19,810	16,767	+18%	+18%
Other	98	57	+72%	+75%
Total	19,909	16,824	+18%	+18%
Of which mature markets ¹⁰	15,527	13,605	+14%	+14%
Of which emerging markets ¹⁰	4,381	3,219	+36%	+38%

Order intake for the 2021 financial year totaled **€19,909 million, up 18%** from 2020 (at constant scope and exchange rates¹¹). The ratio of order intake to sales (“book-to-bill”) was 1.23 compared to 1.09 in 2020. It even reached as much as 1.28 when excluding the Digital Identity & Security segment, for which the order intake is structurally very close to sales.

Thales received **21 large orders with a unit value of over €100 million**, representing a total of **€6,491 million**:

- 4 large orders booked in the first quarter of 2021:
 - 2 contracts related to supply of the Rafale to Greece and France
 - development of the new generation of the Franco-Italian medium-range air defense system SAMP/T NG
 - the entry into force of the contract to build Satria, a telecommunications satellite intended to reduce the digital divide in Indonesia
- 3 large orders booked in the second quarter of 2021:
 - 6 satellites of the second generation of Galileo
 - 2 secure telecommunications satellites for the Italian defense ministry (Sicral 3)
 - the modernization and support of 3 tactical control radars in Canada
- 2 large orders booked in the third quarter of 2021:
 - a new tranche for the Galileo ground segment and security center
 - a contract to support the French air defense system
- 12 large orders booked in the fourth quarter of 2021:
 - an additional contract with the European Space Agency (ESA) in conjunction with the development of the lunar module I-HAB
 - 2 satellites for SES, of which one new generation “Space Inspire” flexible satellite

¹⁰ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 18.

¹¹ Taking into account negligible exchange rate and scope effects.

- the construction of the telecommunications satellite HTS 113BT for Telkom Indonesia
- 2 contracts related to supply of the Rafale to Egypt and France
- a contract under the Balzac program to globalize support of the Mirage 2000 fleet in France
- the support contract (VASSCO) for the French Aerospace Operations Command and Control System (SCCOA) for a period of 10 years
- a new tranche of the CONTACT program for new-generation tactical communications for the French Army
- a contract to supply radars to a European country
- an additional tranche in the design of a new generation of sensors and systems for a large navy
- a contract related to the modernization of the British Army's tanks (Challenger 3 program)

At **€13,418 million**, order intake with **a unit value of less than €100 million** was up 13% from 2020, with a significant increase of 46% in orders with a unit value between €50 million and €100 million, particularly in defense businesses.

Geographically¹², order intake in emerging markets amounted to €4,381 million, up 38% at constant scope and exchange rates, driven by commercial successes in defense and space. At €15,527 million, order intake in mature markets remained high (+14% at constant scope and exchange rates), driven primarily by 13 large military contracts in 6 countries.

Order intake in the **Aerospace** segment totaled **€5,631 million** compared to €3,822 million in 2020 (+48% at constant scope and exchange rates). This performance was due to new commercial successes of Thales Alenia Space in the fields of earth observation, space exploration, and commercial telecommunications, particularly with the initial commercial success of "Space Inspire", the new generation of flexible digital satellites, with the leading global operator SES. Furthermore, civil aeronautics order intake (avionics and In-Flight Entertainment (IFE)) was up 18% from 2020. At December 31, 2021, the segment's order book stood at **€7.9 billion**, up 20%.

At **€11,185 million** compared to €9,922 million in 2020, order intake in the **Defense & Security** segment set a new record (+12% at constant scope and exchange rates). The book-to-bill ratio consequently exceeded 1.30, compared to 1.23 in 2020 and 1.20 in 2019. This increase was due to the booking of 13 contracts of more than €100 million, including two jumbo contracts, one for a value of nearly €1.5 billion, for the support over 10 years of the Aerospace Operations Command and Control System (SCCOA) in France, and the other linked to the supply of 30 Rafale jets to Egypt. The segment's order book consequently reached a new record at **€26.1 billion**, or more than 3 years' worth of sales, strengthening visibility for the years ahead.

At **€2,995 million**, order intake in the **Digital Identity & Security** segment was structurally very close to sales as most business lines in this segment operate on short sales cycles. The order book is therefore not significant.

¹² See table on page 18.

Sales

<i>In € millions</i>	2021	2020	Total change	Organic change
Aerospace	4,463	4,217	+5.8%	+6.1%
Defense & Security	8,633	8,085	+6.8%	+5.7%
Digital Identity & Security	2,995	2,992	+0.1%	+2.0%
Total – operating segments	16,091	15,294	+5.2%	+5.1%
Other	101	77	+30.6%	+33.8%
Total	16,192	15,371	+5.3%	+5.3%
Of which mature markets ¹³	12,150	11,298	+7.5%	+7.1%
Of which emerging markets ¹³	4,042	4,073	-0.8%	+0.2%

Order intake for the 2021 financial year totaled **€16,192 million**, compared to €15,371 million in 2020, up 5.3% in total change and organic change (at constant scope and exchange rates¹⁴), driven particularly by Space and the Defense & Security segment.

Geographically¹⁵, this increase in sales was greater in mature markets (+7.1% organic), despite a still negative impact from civil aeronautical OE sales in France. Emerging markets were stable at +0.2% organic growth.

Sales in the **Aerospace** segment totaled **€4,463 million**, up 5.8% from 2020 (+6.1% at constant scope and exchange rates). This increase was driven by the momentum in space, up more than 15% from 2020. The segment remained impacted by a slightly negative growth in avionics, the 2020 basis of comparison reflecting one quarter before the Covid-19 crisis. After-sales activities in the civil aeronautics segment experienced an initial recovery and were up by around +7% over the full year 2021.

Sales in the **Defense & Security** segment totaled **€8,633 million**, up 6.8% from 2020 (+5.7% at constant scope and exchange rates). 8 out of the segment's 14 business lines posted a double digit growth, including in particular integrated systems for the protection of airspace, submarine systems, cyber-defense solutions, and networks and infrastructure systems. This return to growth attests to the solid momentum of the Group's solutions: at the end of December 2021, this segment had a record backlog of more than €26.1 billion.

At **€2,995 million**, sales in the **Digital Identity & Security** segment was up 2.0% at constant scope and exchange rates. This increase continued to reflect the negative impact of the health crisis on passport demand since the second quarter of 2020, despite a rebound from the third quarter, with organic growth of 5% in the second half of 2021. Furthermore, cybersecurity posted growth of more than 10%. Finally, sales of EMV payment cards and SIM cards also experienced positive organic growth of around 2.5%.

¹³ Mature markets: Europe, North America, Australia, New Zealand. Emerging markets: all other countries. See table on page 18.

¹⁴ The calculation of the organic change in sales is shown on page 19.

¹⁵ See table on page 18.

Results

EBIT	2021	2020	Total change	Organic change
<i>In € millions</i>				
Aerospace	202	-76	Nm	Nm
<i>as a % of sales</i>	4.5%	-1.8%	+6.3 pts	+6.2 pts
Defense & Security	1,111	1,039	+7.0%	+8.6%
<i>as a % of sales</i>	12.9%	12.9%	—	—
Digital Identity & Security	358	324	+10.3%	+6.2%
<i>as a % of sales</i>	11.9%	10.8%	+1.1 pt	+1.1 pt
Total – operating segments	1,671	1,287	+29.9%	+29.7%
<i>as a % of sales</i>	10.4%	8.4%	+2.0 pts	+1.9 pts
Other – excluding Naval Group	-91	-60		
Total – excluding Naval Group	1,580	1,227	+28.8%	+28.7%
<i>as a % of sales</i>	9.8%	8.0%	+1.8 pts	+1.8 pts
Naval Group (share at 35%)	69	22		
Total	1,649	1,248	+32.1%	+31.9%
<i>as a % of sales</i>	10.2%	8.1%	+2.1 pts	+2.0 pts

For 2021, the Group posted **EBIT¹⁶ of €1,649 million**, or 10.2% of sales, compared to €1,248 million (8.1% of sales) in 2020.

The **Aerospace** segment returned to a positive EBIT contribution at **€202 million (4.5%** of sales), compared to negative EBIT of -€76 million (-1.8% of sales) in 2020. The recovery of the EBIT margin was due to the positive impact on gross margin of the sharp increase in sales, to the significant decrease in costs linked to Covid-19 related operational disruptions, as well as lower restructuring expenses.

In the **Defense & Security** segment, EBIT stood at **€1,111 million**, compared to €1,039 million in 2020 (**+8.6%** at constant scope and exchange rates). As in 2020, the margin in this segment was **12.9%**. This solid EBIT margin, which was at the top of the target medium-term range (12 to 13%) despite a 50 basis point increase in the R&D expense ratio, confirmed the robustness of this segment, thanks to continued strong sales momentum, the positive impact of competitiveness initiatives, and the quality of project execution.

At **€358 million (11.9%** of sales), EBIT in the **Digital Identity & Security** segment continued to progress in line with the plan (towards the target medium-term range of 12.5 to 13.5%). The segment benefited from the improvement in the commercial margin of all of its businesses, from cost synergies in line with expectations, and from the leverage on the significant increase in sales in cybersecurity over the year.

¹⁶ Non-GAAP financial indicator, see definition in the appendices, page 14 and calculation, pages 16 and 17.

Excluding Naval Group, **unallocated EBIT** amounted to **-€91 million** compared with -€60 million in 2020. The increase in this category reflects the reallocation of certain costs following the classification of Transport as discontinued operation.

At **€69 million** in 2021 compared to €22 million in 2020 (affected by the impact of the health crisis), **Naval Group's** contribution to Group EBIT exceeded the 2019 contribution (€65 million).

Net financial interest remained stable at **-€57 million** compared to -€55 million in 2020. **Other adjusted financial income**¹⁷ (**-€21 million** in 2021 compared to -€29 million in 2020) benefited from a more favorable foreign exchange income. The change in the **adjusted financial expense on pensions and long-term employee benefits**¹⁷ (**-€30 million** compared with -€37 million in 2020) was due to the decline of the discount rate over 2020.

As a result, **adjusted net income, Group share**¹⁷ was **€1,361 million**, compared to €937 million in 2020, after an adjusted income tax charge¹⁷ of -€244 million compared to -€232 million in 2020. At 17.3% in 2021 compared to 22.0% in 2020, the effective tax rate benefited from the decrease in the tax rate in France and from changes to the tax regulations in Italy and the United Kingdom, which generated a one-off tax income of €46 million. Corrected for these items, the effective tax rate was 20.6%.

The **adjusted net income, Group share, per share**¹⁷ came to €6.39, up **45 %** from 2020 (€4.40).

The **consolidated net income, Group share**, stood at **€1,089 million**, up **125%** from 2020. In addition to the increase in adjusted net income, this positive change was caused by the recognition, in 2020, of an impairment loss on goodwill and intangible assets in the civil aeronautics business (In-Flight Entertainment) due to the health crisis.

¹⁷ Non-GAAP financial indicator, see definition in the appendices, page 14 and calculation, pages 16 and 17.

Financial position at December 31, 2021

<i>In € millions</i>	2021	2020	Change
Operating cash flow before interest and tax	2,344	2,037	+307
+ Change in working capital and provisions for contingencies	776	(487)	+1,263
+ Payment of pension contributions, excluding contributions related to the reduction of the UK pension deficit	(112)	(154)	+43
+ Net financial interest received (paid)	(58)	(49)	(10)
+ Income tax paid	(145)	(97)	(48)
+ Net operating investments	(446)	(371)	(75)
Free operating cash flow, continuing operations	2,359	879	+1,480
+ Free operating cash flow, discontinued operations	156	178	(22)
Free operating cash flow	2,515	1,057	+1,459
+ Net balance of disposals (acquisitions) of subsidiaries and affiliates	(53)	0	(53)
+ Contributions related to the reduction of the UK pension deficit	(99)	(95)	(4)
+ Dividends paid	(417)	(85)	(332)
+ New lease liabilities (IFRS 16)	(137)	(154)	17
+ Exchange rates and other	(24)	49	(73)
+ Items related to discontinued operations	32	(10)	(22)
Change in net cash (debt)	1,754	761	+993
Net cash (debt) at start of period	(2,549)	(3,311)	+761
+ Change in net cash (debt)	+1,754	+761	+993
Net cash (debt) at end of period	(795)	(2,549)	+1,754

Free operating cash flow¹⁸ amounted to **€2,515 million** compared to €1,057 million in 2020. The cash conversion ratio of adjusted net income, Group share to free operating cash flow was 185% (113% in 2020). This exceptional performance was due simultaneously to strong order intake, continued progress of teams on the measures implemented since 2020 under the "Cash" initiative, as well as the positive phasing effects of cash inflow.

At December 31, 2021, **net debt** amounted to **€795 million** compared to €2,549 million at December 31, 2020, after taking into account new lease liabilities totaling €137 million (€154 million in 2020) and after the payment of €417 million in dividends (€85 million in 2020).

Shareholders' equity, Group share totaled **€6,480 million**, compared to €5,142 million at December 31, 2020, with the gain on net pension obligations from continuing operations (+€626 million) being combined with the consolidated net income, Group share (€1,089 million).

¹⁸ Non-GAAP financial indicator, see definition in the appendices, page 14.

Non-financial performance

	Target	2021	2020
Reduction of operational CO ₂ emissions	2023: -35% compared to 2018	-36%	-35%
New developments incorporating eco-design	2023: 100%	82%	44%
Management committees with at least 3 women	2023: 75%	71%	68%
Percentage of women at the highest levels of responsibility	2023: 20%	18.9%	18.0%
Percentage of exposed employees trained every 2 years on anti-corruption	2021: 100%	100%	N/A
Reduction in frequency of accidents at work	2023: -30% compared to 2018	-34%	-25%

In October 2021, Thales organized its first investor day dedicated to environmental, social and governance issues. This event enabled management to present the Group's priority actions in these areas and to discuss the major role of Thales solutions in contributing to a safer, greener and more inclusive world.

Thales's action plan focuses on 4 main priorities:

- The fight against global warming
- Strengthening diversity
- The permanent implementation of the best standards in terms of ethics and compliance
- Strengthening the health and safety at work of all employees

Quantitative targets have been set for each of these priorities, and progress on these metrics has been integrated into the compensation structure of all employees eligible for variable compensation (i.e., over 60% of the workforce).

With regard to the fight against global warming, **operational CO₂ emissions**¹⁹ in financial year 2021 were **down 36%** compared to 2018 (-35% in 2020) thanks to efforts to optimize the energy efficiency of buildings and equipment as well as an increase in the purchase of energy from renewable sources. This reduction, which exceeds the target set for 2023, takes into account, in both 2020 and 2021, the impact of the health crisis on business travel. It was in line with the Group's low-carbon trajectory, which aims for a 50% reduction in operational emissions by 2030, and "net zero" by 2040.

The Group has continued to deploy best practices in eco-design. The **percentage of new eco-designed developments** rose sharply to **82%** in 2021, compared with 44% in 2020, in line with the target of 100% by 2023.

At the same time, Thales has strengthened its **engagement with its most emissive suppliers**. The **SBTi certification** file is being prepared and will be formally submitted in the first half of 2022.

¹⁹ Scope 1, scope 2 and scope 3 business travel.

With regard to strengthening diversity, at the end of 2021, 71% of the **Group's management committees**²⁰ included **at least 3 women**, compared with 68% at the end of 2020 and 49% at the end of 2018. The highest levels of responsibility²¹ had 18.9% women at this date, compared to 18.0% at the end of 2020 and 16.5% at the end of 2018. These 2 metrics were therefore progressing in line with the 2023 objectives.

In the area of ethics and compliance, the Group is focusing on team training and certification. Thus, in 2021, **100%** of the **exposed employees** targeted by the training campaign were trained in the **fight against corruption**, i.e., nearly 6,800 employees. In March 2021, Thales received ISO 37001 "Anti-corruption management systems" certification for a scope including Thales SA and the companies it controls in France, as well as certain international subsidiaries. In 2022, this approach will be extended to other major countries in its international footprint.

Finally, at **-34%** compared to 2018 (-25% in 2020), the reduction in the **frequency of accidents at work**²² already exceeded the target set for 2023. In addition to the action plans implemented, this strong performance incorporated the positive impact of the high level of work-from-home induced by the health crisis.

Details of all action plans and associated metrics can be found in the non-financial performance statement that will be included in the 2021 Universal Registration Document scheduled for publication at the end of March 2022.

Proposed dividend and share buyback program

The Board of Directors decided to propose to the shareholders, who will convene at the Annual General Meeting on May 11, 2022, payment of a **dividend** of **€2.56** per share. This level corresponds to a payout ratio of 40% of the adjusted net income, Group share, per share.

If approved, the ex-dividend date will be May 17, 2022, and the payment date will be May 19, 2022. This dividend will be paid fully in cash and will amount to €1.96 per share, after deducting the interim dividend of €0.60 per share paid in December 2021.

Considering the outlook for growth and cash generation, as well as the Group's rapid net debt reduction, the Board of Directors furthermore decided to implement a **share buyback program** concerning **a maximum of 3.5% of capital** (approximately 7.5 million shares)²³. This program will begin on April 1, 2022 and end no later than March 31, 2024. The shares acquired under this program will be canceled. To this end, Thales will sign a share purchase contract with an investment services provider. The Group may at any time suspend or interrupt the implementation of this program, notably due to market circumstances.

In this context, Dassault Aviation has informed Thales of its intent to stay below the threshold of 30% of voting rights, and that, in consequence, it will carry out the necessary conversions from registered to bearer shares.

²⁰ 45 committees concerned

²¹ Grades NR10 to 12, i.e., 13% of the Group's total workforce. Percentage of women in the total workforce: 27%.

²² Frequency rate of accidents at work with consecutive days off (tf1).

²³ This program is implemented on the basis of the authorization granted by the general meeting of May 6, 2021. It will continue on the basis of the resolution submitted to the general meeting of May 11, 2022, subject to its adoption. The description of the share buyback program is available in the appendices to this press release (page 21)

Outlook

Although the improvement in the public health situation is supporting the gradual recovery of air transport, the global environment at the beginning of 2022 remains highly uncertain in the short term, particularly with regards to supply chain tensions and the level of inflationary pressures on goods.

Moreover, the geopolitical situation has deteriorated significantly following Russia's invasion of Ukraine. The impact of this crisis on 2022 sales to these two countries is estimated at around €100 million. The other possible impacts, in particular on Thales Alenia Space's supply chain, are currently being assessed.

In this context, Thales will continue to implement all the levers of its Ambition 10 strategic plan, designed to support profitable and sustainable growth.

The Group will also benefit from the visibility provided by its order book of over €34.7 billion, from positive trends in most of its markets, and from the acceleration of its growth initiatives.

Assuming there are no new major disruptions in the global economy, public health and global supply chains, and based on the current assessment of the effects of the Ukrainian crisis, particularly the economic sanctions taken against Russia, Thales has set the following targets for 2022:

- As in 2020 and 2021, a **book-to-bill ratio above 1**;
- **Sales** in the range of **€16.6 billion to €17.2 billion**²⁴, corresponding to organic growth between +2% and +6% compared to 2021;
- An **EBIT margin** between **10.8%** and **11.1%**, up 60 to 90 basis points from 2021.

Finally, the high level of cash generation in 2021 and the outlook for 2022 and 2023 has led the Group to increase its cash flow generation target for 2019-2023: **the cash conversion ratio**²⁵ should reach around 115% on a reported basis²⁶. This target corresponds to free operating cash flow generation of around **€5.5 billion** for the 3-year period 2021-2023.

This press release contains certain forward-looking statements. Although Thales believes that its expectations are based on reasonable assumptions, actual results may differ significantly from the forward-looking statements due to various risks and uncertainties, as described in the Company's Universal Registration Document, which has been filed with the French financial markets authority (Autorité des marchés financiers – AMF).

²⁴ Based on the scope and exchange rates of February 2022.

²⁵ Free operating cash flow divided by adjusted net income, Group share.

²⁶ Previous target, set in March 2021: cash conversion ratio of around 95% on a reported basis over the 2019-2023 period.

About Thales

Thales (Euronext Paris: HO) is a global leader in advanced technologies, investing in digital and “deep tech” innovations – connectivity, big data, artificial intelligence, cybersecurity and quantum technologies – to build a confident future crucial for the development of our societies. The Group provides its customers – businesses, organizations and governments – in the defense, aeronautics, space, transport, and digital identity and security domains with solutions, services and products that help them fulfil their critical role, consideration for the individual being the driving force behind all decisions.

Thales has 81,000 employees in 68 countries. In 2021, the Group generated sales of €16.2 billion.

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Appendices

Note on methodology

In this press release, the amounts expressed in millions of euros are rounded off to the nearest million. As a result, sums of **rounded-off figures** may show minor differences from reported totals. All ratios and changes are calculated using the underlying figures.

Organic change measures the movement in monetary indicators excluding the effects of changes in exchange rates and scope of the Group. It is obtained by calculating the difference between the indicator for the previous year discounted at the exchange rates applicable for the current year for entities whose reporting currency is not the euro, less the contribution of entities divested during the current year, and the value of the indicator for the current year, less the contribution of entities acquired during the current year. The calculation of organic change in sales is detailed on page 19.

Definitions of non-GAAP financial indicators

In order to facilitate monitoring and comparison of its financial and operating performance, the Group presents three key non-GAAP indicators that exclude non-operating and/or non-recurring items. They are determined as follows:

- **EBIT**, an adjusted operating indicator, corresponds to income from operations, plus the share in the net income of equity-accounted companies, before the impact of entries recorded as part of business combinations (amortization of assets valued when determining the purchase price allocation, other expenses directly related to acquisitions). In application of IFRS5, it does not include the contribution to EBIT from discontinued operations.
- **Adjusted net income** corresponds to net income, excluding the following items and net of the corresponding tax effects:
 - amortization of assets valued when determining the purchase price allocation (business combinations);
 - expenses recognized in income from operations or in finance costs that are directly related to business combinations;
 - gains and losses on disposals of assets, changes in scope of consolidation and other;
 - impairment losses on non-current assets;
 - changes in the fair value of foreign exchange instruments (recognized under "Other financial income and expenses" in the consolidated financial statements);
 - actuarial gains (losses) on long-term benefits (recognized under "Finance costs on pensions and other long-term employee benefits" in the consolidated financial statements).

In accordance with IFRS5, this indicator includes net income from discontinued operations, after deduction of the corresponding adjustment items.

- **Free operating cash flow** corresponds to the net cash flow from operations before contributions to reduce the pension deficit in the United Kingdom, and after deducting net operating investments.

To facilitate comparison with adjusted net income, free cash flow from operations is obtained by summing free cash flow from continuing operations and free cash flow from discontinued operations.

Defining EBIT and adjusted net income involves defining other indicators in the **adjusted income statement**: adjusted cost of sales, adjusted gross margin (corresponding to the difference between sales and the adjusted cost of sales), adjusted indirect costs, other adjusted financial income, adjusted financial income on pensions and long-term employee benefits, adjusted income tax, adjusted net income, Group share, per share, calculated as described on pages 16 and 17.

Net cash (debt) corresponds to the difference between the sum of the "cash and cash equivalents" and "current financial assets" items and short- and long-term borrowings, after deduction of interest rate derivatives. Since January 1, 2019, it includes lease liabilities recorded on the balance sheet pursuant to standard IFRS 16. Its calculation appears in Note 6.3 to the consolidated financial statements.

Please note that only the consolidated financial statements as of December 31, 2021 are audited by the statutory auditors, including EBIT, the calculation of which is outlined in Note 2 "Segment information", net cash (debt), the definition and calculation of which appear in Note 6.2 "Net cash (borrowings)", free operating cash flow from continuing operations, the definition and calculation of which are specified in note 6.3 "Changes in net cash", and free operating cash flow from discontinued operations, the calculation of which is set out in note 1.4 "Classification of the Transport business as discontinued operations". Adjusted financial information other than that provided in these notes is subject to the verification procedures applicable to all information included in this press release.

The impact of these adjustment entries on the income statements at December 31, 2021, and at December 31, 2020, is detailed in the tables on pages 16 and 17. The calculation of free operating cash flow is detailed on page 9.

Adjusted income statement, EBIT and adjusted net income – 2021

In € millions except earnings per share (in €)	Consolidated income statement 2021	Adjustments						Adjusted income statement 2021
		(1)	(2)	(3)	(4)	5	(6)	
Sales	16,192	—	—	—	—	—	—	16,192
Cost of sales	(12,159)	372	—	—	—	—	—	(11,787)
Research and development expenses	(1,027)	—	—	—	—	—	—	(1,027)
Marketing and selling expenses	(1,226)	—	—	—	—	—	—	(1,226)
General and administrative expenses	(545)	—	—	—	—	—	—	(545)
Restructuring costs	(92)	1	—	—	—	—	—	(91)
Income from operations	1,144	373	—	—	—	—	—	1,517
Share in net income of equity affiliates	104	28	—	—	—	—	—	132
Income from operations, including net income of equity affiliates	1,247							N/A
EBIT	N/A	402	—	—	—	—	—	1,649
Gains and losses on disposals of assets, changes in scope and other	49	—	(49)	—	—	—	—	—
Impairment of non-current assets	—	—	—	—	—	—	—	—
Net financial interest	(57)	—	—	—	—	—	—	(57)
Other financial income and expenses	(53)	—	—	32	—	—	—	(21)
Finance costs on pensions and other long- term employee benefits	(22)	—	—	—	(8)	—	—	(30)
Income tax	(148)	(102)	12	(8)	2	—	—	(244)
Effective income tax rate*	13.9%							17.3%
Net income from continuing operations	1,017	300	(37)	23	(6)	—	—	1,297
Net income from discontinued operations	118	—	(1)	7	—	19	(11)	117
Net income	1,134	300	(38)	16	(6)	19	(11)	1414
Non-controlling interests	(46)	(8)	—	—	—	—	—	(53)
Net income, Group share	1,089	293	(38)	16	(6)	19	(11)	1,361
Average number of shares (thousands)	212,852							212,852
Net income, Group share, per share (in €)	5.12							6.39

(*) Income tax divided by net income before income tax and before share in net income of equity affiliates

Adjustments (see definitions on pages 14 and 15):

- (1) Impact of business combinations: amortization of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions
- (2) Income from disposals of assets, changes in scope and other, and impairment losses on non-current assets
- (3) Change in fair value of foreign exchange derivatives
- (4) Actuarial differences on long-term employee benefits
- (5) Expenses directly linked to the disposal of transport
- (6) Income directly linked to the disposal of transport (discontinuation of amortization)

Adjusted income statement, EBIT and adjusted net income – 2020

<i>In € millions except earnings per share (in €)</i>	Consolidated income statement 2020	Adjustments				Adjusted income statement 2020
		(1)	(2)	(3)	(4)	
Sales	15,371	—	—	—	—	15,371
Cost of sales	(11,791)	436	—	—	—	(11,355)
Research and development expenses	(943)	—	—	—	—	(943)
Marketing and selling expenses	(1,211)	1	—	—	—	(1,210)
General and administrative expenses	(527)	—	—	—	—	(527)
Restructuring costs	(165)	5	—	—	—	(160)
Income from operations	734	442	—	—	—	1,176
Share in net income of equity affiliates	45	27	—			72
Income from operations, including net income of equity affiliates	779					N/A
EBIT	N/A	469	—	—	—	1,248
Gains and losses on disposals of assets, changes in scope and other	44	—	44	—	—	—
Impairment of non-current assets	(135)	—	135	—	—	—
Net financial interest	(55)	—	—	—	—	(55)
Other financial income and expenses	(77)	—	—	49	—	(29)
Finance costs on pensions and other long-term employee benefits	(42)	—	—	—	4	(37)
Income tax	(65)	(124)	(27)	(15)	(1)	(232)
Effective income tax rate*	13.7%					22.0%
Net income from continuing operations	450	345	65	33	3	895
Net income from discontinued operations	42	14	2	(1)	—	57
Net income	492	359	66	32	3	953
Non-controlling interests	(9)	(8)	—	—	—	16
Net income, Group share	483	352	66	32	3	937
Average number of shares (thousands)	212,704					212,704
Net income, Group share, per share (in €)	2.27					4.40

(*) Income tax divided by net income before income tax and before share in net income of equity affiliates

Adjustments (see definitions on pages 14 and 15):

- (1) Impact of business combinations: amortization of assets valued as part of the purchase price allocation, other expenses directly related to acquisitions
- (2) Income from disposal of assets, changes in scope and other, and impairment losses on non-current assets
- (3) Change in fair value of foreign exchange derivatives
- (4) Actuarial differences on long-term employee benefits

Order intake by destination – 2021

	2021	2020	Total change	Organic change	2021 weighting
<i>In € millions</i>					
France	6,455	4,487	+44%	+44%	32%
United Kingdom	955	1,162	-18%	-20%	5%
Rest of Europe	5,300	5,257	+1%	+1%	27%
Subtotal Europe	12,711	10,905	+17%	+16%	64%
United States and Canada	2,230	1,930	+16%	+18%	11%
Australia and New Zealand	586	770	-24%	-27%	3%
Total mature markets	15,527	13,605	+14%	+14%	78%
Asia	1,829	1,497	+22%	+24%	9%
Near and Middle East	856	999	-14%	-13%	4%
Rest of the world	1,696	723	+135%	+137%	9%
Total emerging markets	4,381	3,219	+36%	+38%	22%
Total all markets	19,909	16,824	+18%	+18%	100%

Sales by destination – 2021

	2021	2020	Total change	Organic change	2021 weighting
<i>In € millions</i>					
France	4,545	4,168	+9.0%	+9.1%	28%
United Kingdom	940	968	-2.9%	-6.0%	6%
Rest of Europe	3,719	3,331	+11.6%	+11.4%	23%
Subtotal Europe	9,204	8,467	+8.7%	+8.2%	57%
United States and Canada	1,952	1,887	+3.4%	+5.2%	12%
Australia and New Zealand	994	944	+5.3%	+0.6%	6%
Total mature markets	12,150	11,298	+7.5%	+7.1%	75%
Asia	2,057	2,079	-1.1%	-0.1%	13%
Near and Middle East	1,084	1,039	+4.3%	+5.0%	7%
Rest of the world	901	954	-5.6%	-4.4%	5%
Total emerging markets	4,042	4,073	-0.8%	+0.2%	25%
Total all markets	16,192	15,371	+5.3%	+5.3%	100%

Order intake and sales – Q4 2021

Order intake	Q4 2021	Q4 2020	Total change	Organic change
<i>In € millions</i>				
Aerospace	1,954	1,554	+26%	+25%
Defense & Security	6,359	6,069	+5%	+4%
Digital Identity & Security	889	796	+12%	+10%
Total – operating segments	9,203	8,419	+9%	+9%
Other	49	30		
Total	9,252	8,449	+10%	+9%

Sales	Q4 2021	Q4 2020	Total change	Organic change
<i>In € millions</i>				
Aerospace	1,355	1,319	+2.7%	+1.7%
Defense & Security	2,685	2,616	+2.6%	+1.2%
Digital Identity & Security	889	791	+12.4%	+10.8%
Total – operating segments	4,929	4,727	+4.3%	+3.0%
Other	40	32		
Total	4,970	4,758	+4.4%	+3.1%

Organic change in sales by quarter

	Sales 2020	Exchange rate effect	Impact of disposals	Sales 2021	Impact of acquisitions	Total change	Organic change
<i>In € millions</i>							
1st quarter	3,552	-49	0	3,573	0	+0.6%	+2.0%
2nd quarter	3,482	-26	0	4,094	0	+17.6%	+18.5%
1st half	7,034	-76	0	7,667	0	+9.0%	+10.2%
3rd quarter	3,578	+26	0	3,555	0	-0.7%	-1.4%
4th quarter	4,758	+59	0	4,970	1	+4.4%	+3.1%
Full year	15,371	+10	0	16,192	1	+5.3%	+5.3%

Main scope effects:

- Disposals: none
- Acquisitions: none

Performance of Transport business

<i>In € millions</i>	2021	2020	Total change	Organic change
Order intake	1,947	1,652	+18%	+17%
Sales	1,665	1,618	+3%	+2%
EBIT (*)	161	104	+55%	+55%
as a % of sales	9.6%	6.4%	+3.2 pts	+3.3 pts

(*) Following the classification of Transport as a discontinued operation, certain costs have been reallocated to the operating segment "Other, Eliminations, Unallocated". Adjusted for these items, the EBIT margin of Transport would have reached 7.5% in 2021.

<i>In € millions</i>	Q4 2021	Q4 2020	Total change	Organic change
Order intake	985	846	+16%	+15%
Sales	545	516	+6%	+4%

Description of the share buyback program adopted by the General Meeting of Shareholders of May 6, 2021

Pursuant to articles 241-1 and 241-2 of the *Règlement Général de l'Autorité des marchés financiers* (AMF), the purpose of this description is to present the objectives and terms of the share buyback program authorized by the May 6, 2021 Annual General Meeting of shareholders.

- **Maximum proportion of capital subject to repurchase:** 10% of share capital, on the buyback date
- **Maximum number of shares that may be purchased** (given the number of shares making up the share capital as at 31 December 2021): 21,341,130²⁷
- **Maximum amount of the program:** €2,918,638,100
- **Maximum unit purchase price:** €140
- **Objectives of the program:** the objectives of the share buyback program approved by the General Meeting of May 6, 2021 are as follows:
 - To sell or allot shares to Group employees under the conditions and in the manner stipulated by law, particularly when share purchase options are exercised or existing free shares are allotted, or when shares are sold and/or supplemented under an employee shareholding scheme transaction on existing shares;
 - to retain shares for later use in connection with acquisitions, mergers, demergers or contributions;
 - to ensure trading in the shares through a liquidity contract prepared in accordance with the accepted market practice established by the AMF decision no. 2018-01 of July 2, 2018;
 - to cancel shares in accordance with an Annual General Meeting resolution in force;
 - and more generally, with a view to carrying out any operation in accordance with the regulations in force.
- **Duration of the program:** 18 months from the Annual General Meeting of 6 May 2021, i.e. no later than 4 November 2022;

²⁷ Given the treasury holding of 493,715 shares, Thales could acquire 20,847,415 of its own shares.