Terma A/S Annual Report 2010/11

Annual Report 2010/11

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Financial Highlights – Consolidated

DKK million	2010/11	2009/10	2008/09	2007/08	2006/07
Order intake	1,390	876	1,194	1,438	957
Order book, year-end [1]	1,603	1,629	1,866	1,730	1,331
Revenue	1,416	1,113	1,058	1,039	1,005
Operating profit	89	2	74	115	96
Financial items	(27)	(27)	(14)	(19)	(15)
Profit for the year	**46**	**(20)**	**42**	**84**	**53**
Non-current assets	769	711	596	506	455
Current assets	819	748	742	640	561
Assets, total	**1,588**	**1,459**	**1,339**	**1,146**	**1,016**
Capital stock	18	18	18	20	20
Equity	**385**	**330**	**375**	**441**	**366**
Provisions	122	93	100	89	69
Long-term liabilities other than provisions	467	246	207	188	144
Current liabilities other than provisions	614	791	658	429	437
Cash flows from operating activities	127	82	101	157	94
Cash flows from investing activities	(123)	(222)	(219)	(117)	(83)
Portion relating to investments in property, plant, and equipment	(57)	(85)	(70)	(28)	(33)
Cash flows from financing activities	222	19	(2)	20	(57)
Cash flows, total	**225**	**(120)**	**(120)**	**59**	**(47)**
Financial ratios					
Net profit ratio	6.3	0.2	7.0	11.1	9.5
Return on investments	6.0	0.1	6.1	11.6	10.9
Current ratio	133	95	113	149	128
Equity ratio	24.3	22.6	28.0	38.4	36.0
Return on equity	13.0	(5.6)	10.2	20.8	14.8
Average number of full-time employees	**1,205**	**1,261**	**1,183**	**1,020**	**965**

[1] The order book represents future revenue

Definitions:

Net profit ratio $= \frac{\text{Operating profit x 100}}{\text{Revenue}}$

Return on investments $= \frac{\text{Operating profit x 100}}{\text{Average operating assets}}$

Operating assets = Total assets less cash and cash equivalents, other interest-bearing assets (including stock), and equity interest in affiliated companies

Current ratio $= \frac{\text{Current assets x 100}}{\text{Current liabilities other than provisions}}$

Equity ratio $= \frac{\text{Equity at year-end x 100}}{\text{Total liabilities at year-end}}$

Profit/loss for analytical purposes = Profit for the year

Return on equity $= \frac{\text{Result for analytical purposes x 100}}{\text{Average equity, ex minority interests}}$

Highlights of the Year

March 2010	The Royal Danish Navy awards Terma a supplementary contract for software development relative to the air defense systems on board the three new Danish frigates.
May 2010	Terma wins its first contract with the Polish Defense. Terma will deliver and install self-protection equipment on 22 Polish Mi-17 and Mi-24 helicopters. Further, Terma will be responsible for the test and certification of the helicopters and the training of 250 individuals in the use and maintenance of the equipment. As the first non-Dutch company, Terma establishes an Electronic Warfare Support Facility at the Logistics Centre Woensdrecht at the Woensdrecht Air Base.
June 2010	L-3 Communications Corporation and Terma sign a contract for the development of an electronic warfare simulator for the Royal Danish Air Force.
July 2010	EADS Defence & Security and Terma renew their collaboration agreement. This continues the fruitful collaboration which includes protection of the German Tornado fighter aircraft and upgrade of the Danish F-16s with missile warning systems and 3-D Audio/Active Noise Reduction.
August 2010	The European Space Agency (ESA) assigns Terma as prime contractor on the ASIM project, the Atmosphere Space Interactions Monitor. Terma is contracted by General Dynamics for the production of gun pods for the Short Take-Off/Vertical Landing (STOVL) and Carrier Version (CV) variants of the F-35 Joint Strike Fighter.
September 2010	Lockheed Martin Corporation selects Terma's Programmable Interference Blanker Unit (PIBU) for the C-130J production line. Terma North America Inc. is to establish test and support facilities. Terma receives a contract from the U.S. Air Force for an upgrade of software for F-16 and A-10 self-protection systems.
October 2010	Terma is contracted by the Spanish IT and security company INDRA for delivery of Terma's new SCANTER 5000 radar system for coastal surveillance. The end user is the Spanish Guardia Civil.
November 2010	Northrop Grumman Corporation awards Terma a contract for manufacturing activities related to the AWACS aircraft (Airborne Warning And Control System).
December 2010	The Indian company Bharat Electronics Ltd. (BEL) and Terma sign a Memorandum of Agreement. BEL is among the most important suppliers to the Indian Defense, coast guard, and other government authorities.
January 2011	Terma wins a framework contract with the European Space Operations Centre (ESOC). ESOC is responsible for controlling all ESA satellites and space probes.
February 2011	Terma signs a Memorandum of Agreement with L-3 Space & Navigation which includes production and marketing of Terma's HE-5AS Star Tracker.

Management's Review 2010/11

The fiscal year 2010/11 has been characterized by a high level of activities in all Business Areas and by increased contributions from our international operations.

Based on the result of the year, Terma has a solid foundation for continued business development with planned and controlled growth.

Terma's product line is experiencing increased competition as a result of our customers' national budget cuts and increase in expenses related to participation in international conflicts and establishment of security measures locally as well as internationally.

For Terma, the change in market conditions has implied:

- Development of standard products which, due to their modular design, can be adapted to the customers' individual requirements.

- Expansion of Terma's international presence to facilitate increased sales, adaptation and development of local applications, and project implementation close to our customers.

- Enhanced efficiency within business processes, IT systems, and organizational structure in consideration of our customers' requirements for even higher quality, lower prices, and on-time delivery performance.

The revenue for the fiscal year was MDKK 1,416 with a profit before tax of MDKK 62 and a profit after tax of MDKK 46. The revenue constitutes a 27 % growth compared to the previous year. The fiscal year 2010/11 has been characterized by a high level of activities in all Business Areas and by increased contributions from our international operations.

Terma's organizational structure consists of four Business Areas with companies in Denmark, the U.S., The Netherlands, Germany, and Singapore. The four Business Areas are:

1. **Aerostructures:** Advanced structures for defense and non-defense aircraft and helicopters.

2. **Integrated Defense and Security Systems:** Communication, command, and control systems; airborne and naval self-protection systems; and control rooms and radio dispatch solutions for emergency preparedness units and for the protection of critical infrastructure.

3. **Radar Systems:** Radar systems for coastal, naval, and vessel traffic surveillance as well as perimeter and Green Border surveillance and surface movement surveillance in airports.

4. **Space:** Electronics, software, software validation, and services for space applications.

All Business Areas and international companies have identical business procedures and processes supported by a shared IT system. Business procedures and processes are optimized on a continuous basis via Lean activities and training of employees and managerial staff.

With the establishment of the Terma Academy, we have completed training of approximately 40 members of the managerial staff from across our Business Areas and companies, and new training programs will be executed in the coming years.

At the end of the fiscal year, total staff was 1,200 employees. Total staff is expected to remain essentially unchanged in the year to come.


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Based on the result of the year, Terma has a solid foundation for continued business development with planned and controlled growth.

The commitment and efforts of our employees during a year marked by market changes are outstanding, and the Board of Directors and the Executive Management are greatly appreciative.

Results for 2010/11

The year's intake of orders was MDKK 1,390 as compared to MDKK 876 in 2009/10. Revenue for the fiscal year was MDKK 1,416 as compared to MDKK 1,113 in 2009/10, constituting an organic growth of 27 %.

The profit before tax amounted to MDKK 62 as compared to MDKK -25 in 2009/10. In 2009/10, the profit before tax was adversely affected by significant amendments in the contract entered into in 2008 between the Danish Government and Terma for the supply of control rooms for the Danish emergency preparedness network SINE.

Exports constitute 90 % of the revenue for the fiscal year, while 10 % relate to sales in Denmark. Broken down by segments, the defense market constitutes 62 % of the revenue for the fiscal year, whereas 38 % relates to the non-defense market.

The revenue and profit before tax are considered satisfactory.

The Balance Sheet is marked by a high level of contract activities related to Poland and Asia, and the Balance Sheet totals have therefore increased compared to the previous fiscal year.

Investments within the Aerostructures Business Area in connection with Terma's participation in the F-35 Joint Strike Fighter program also affect the Balance Sheet.

This places demands on external financing, and – as expected – it resulted in a high level of interest-bearing debt and financial costs. Terma has the required credit lines available and the support of our financial partners to implement the planned investments.

Dividend

The Board of Directors proposes that no dividend payment is made for the 2010/11 fiscal year.

Activities within the Business Areas and Subsidiaries

The following presents a brief review of the individual Business Areas and our subsidiaries worldwide.

Aerostructures

The majority of the contract fulfillment activities are implemented at the manufacturing facilities at Grenaa, Denmark, and a supporting sales and design capacity is currently being established in Fort Worth, Texas, USA.

The Business Area participates in the development and production of the F-35 Joint Strike Fighter. Contracts for the initial production phases include a number of structures for the aircraft fuselage, parts for the horizontal tails, air-to-ground pylons, and gun pods – an advanced composite structure which contains the aircraft's machine gun. Over the coming years, the production volume will increase considerably as the development of the aircraft nears its completion. Beginning in 2017, we expect to deliver parts to support a production rate of one aircraft per workday.

At the end of the fiscal year, Terma has supplied design and development work, structures, and components at an aggregate value of more than MDKK 430 to the F-35 program.

In coordination with the development of the F-35 program, Terma continues to invest in employees, processes, and manufacturing facilities at Grenaa. The extensive product program places comprehensive demands on the parties involved with regard to optimization of processes and manufacturing technologies and the ability to deliver on time. Similarly, it places heavy demands on meeting the affordability requirements now and in future. As a result, we continue to retain focus on the harmonization and optimization of the internal organization and processes and relative to our collaboration partners and subcontractors. The results of these measures are expected to be very beneficial, not only in relation to the actual F-35 program, but in relation to future projects and programs in general.

In the spring of 2010, a majority in the Danish Parliament decided to postpone the down-selection of a new fighter aircraft for the Royal Danish Air Force. In concert, it was decided that down-selection will take place within the Defense Agreement period, i.e. before the end of 2014. Denmark continues to participate as a key partner in the F-35 Joint Strike Fighter program, and the decision on postponement of down-selection does not affect this fact. Terma has therefore been able to continue its investments in the program as well as the collaboration with main contractor Lockheed Martin Corporation and their partners.

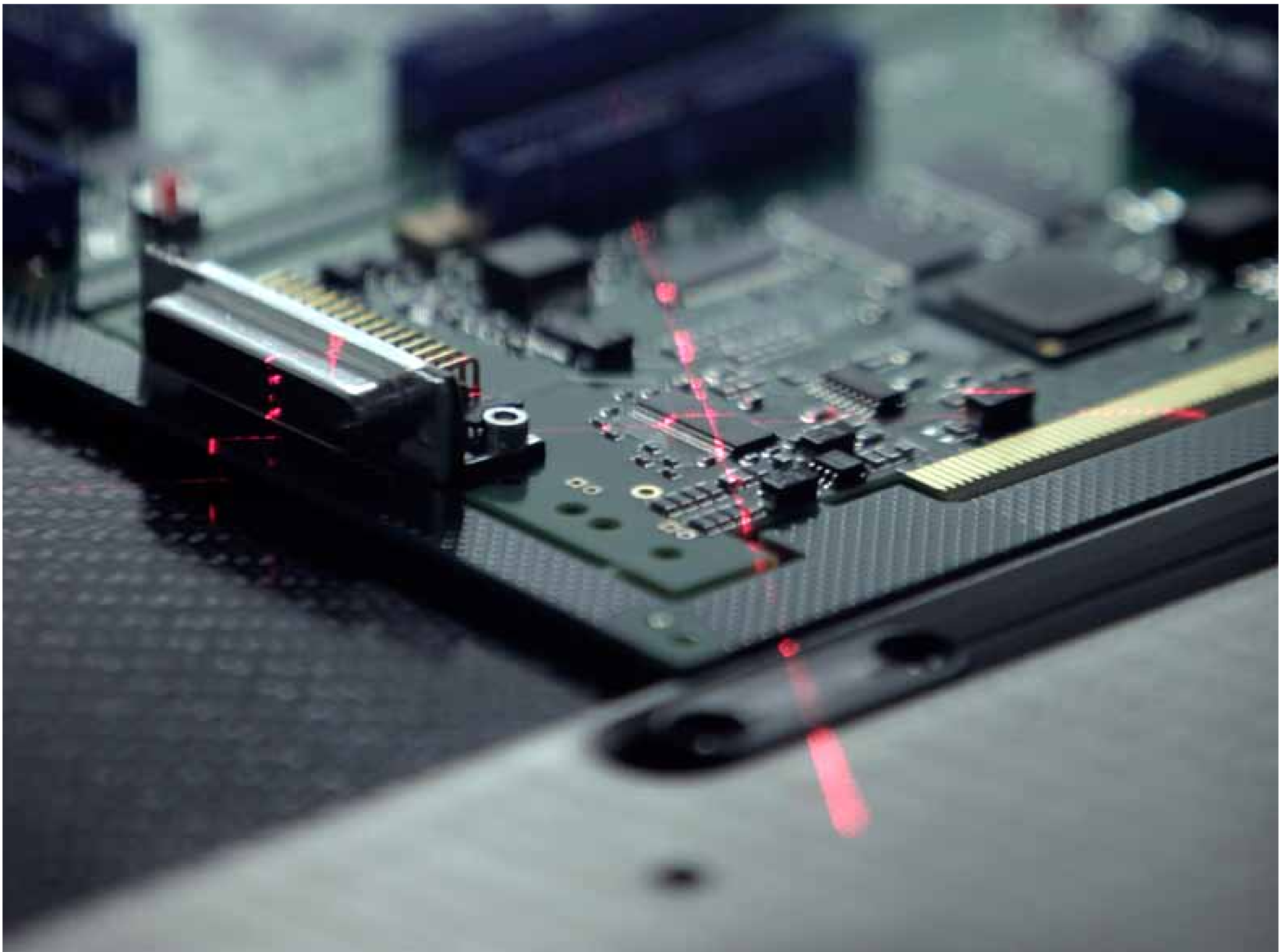
Further, Terma continues its collaboration with the two additional fighter aircraft competing candidates: The Boeing Company (F-18 Super Hornet) and Saab AB (Gripen Next Generation).

Integrated Defense and Security Systems

A significant event for the Business Area was Terma's contract with the Polish Defense for the supply of self-protection equipment for 22 Mi-17 and Mi-24 helicopters. Further, Terma is contracted to manage the test, approval, and certification of the helicopters and the training of 250 employees within the Polish Defense.

In 2010, Saab AB placed an order for an update of the reconnaissance pods for the Swedish fighter Gripen.

For the Canadian Air Force C-147 Chinook helicopters, Terma has initiated delivery of self-protection equipment in collaboration with The Boeing Company.



For the Austrian Defense, Terma has implemented and delivered an extensive upgrade of their command, control, and information system. The project has included new hardware and software with a new functionality and new interfaces which will enhance the application of the system.

In collaboration with Singapore Technologies Marine, Terma will supply a command and control system and a SCANTER 4100 surveillance radar to the Royal Thai Navy's future Landing Platform Dock. The ship will implement coast guard missions, but is also expected to take part in humanitarian disaster relief assignments.

Over the years, a product family of command and control systems for naval vessels has been established. Among the new products is C-Raid™ which is a network-based tactical command and control system designed to provide the users with real-time situational awareness within an area of operation. The users are typically crews in small, high-speed military boats used in operations against pirates, smugglers, and terrorists.

From Northrop Grumman Corporation, Terma has received a contract for production tasks related to the AWACS aircraft (Airborne Warning And Control System). Over the last 15 years, Terma has supplied more than 6,500 electronic units and wiring harnesses for this specialized aircraft.

With the establishment of the Homeland Security Systems Business Unit, Terma has an organizational unit with expertise in the delivery of security solutions for police and fire-fighting services, emergency preparedness agencies, and other similar non-defense authorities. Over the last three decades, Terma has built up an extensive expertise and experience as a supplier of security-critical communication, command, and control systems for defense applications. Combined with Terma's expertise with radar systems, we offer solutions for border control and protection of critical infrastructure; e.g. airports, ports, oil plants, and traffic junctions.

In Denmark, Terma supplies radio dispatch solutions to the national police districts and three of Denmark's five regions handling ambulance services. Further, Terma participates in a consortium which will deliver the mobile units for the prehospital area; i.e. the mobile application which is installed in ambulances to ensure the connection to the nation-wide digital TETRA-based radio system SINE.

Radar Systems

Radar Systems develops advanced radar systems for the surveillance of coastal lines, naval surface and air surveillance, airborne environmental surveillance, protection of critical infrastructure, vessel traffic management, and airport surface movement control and guidance.

The Business Area secured significant contracts for delivery of radar systems to Asia and the GCC area (Gulf Cooperation Council).

A contract for radar systems for the new Danish frigates of the IVER HUITFELDT class resulted in a breakthrough for the newly developed solid state radar systems; SCANTER 5000 and SCANTER 6000. Radar Systems has now received contracts for all planned areas of application, i.e. vessel traffic services, coastal surveillance, and surface movement surveillance in international airports.

At the beginning of 2011, Radar Systems introduced the SCANTER 4002 for air and surface surveillance in the proximity of major wind farms. Many new wind turbine projects are cancelled at the project stage as major wind farms generate interference ("clutter") on the authorities' radar images. With the SCANTER 4002, the authorities remain in control of the air traffic and maintain surveillance of the airspace.

Space

In 2010, Terma confirmed its technological leadership within the space arena as the Business Area was selected by the European Space Agency (ESA) to be prime contractor on the Atmosphere Space Interactions Monitor (ASIM) observatory. In 2014, ASIM will be mounted on the exterior of the International Space Station with the aim of studying natural phenomena and collecting data which will increase our knowledge about the impact of these phenomena on the atmosphere and climate changes on Earth. The project is the largest Danish commitment in space since Terma's success with the Ørsted satellite.

For BepiColombo, ESA's future mission to Mercury with planned launch in 2014, Terma will develop a power system for the transfer module; a demanding and challenging task. Further, Terma has secured contracts relative to systems check-out, and we will deliver the mission control system which is based on the SCOS 2000 software platform. The contracts are fulfilled by Terma Space's departments in The Netherlands, Germany, and Denmark.

In the U.S. space market, Terma has selected a market strategy based on close strategic relations within the star tracker market. At the beginning of 2011, Terma signed a strategic agreement with L-3 Communications Space & Navigation for the production and marketing of Terma's HE-5AS Star Tracker. This agreement and other similar agreements support expectations of growth opportunities for Terma Space in the U.S.

Terma North America

The U.S subsidiary Terma North America Inc., headquartered in Washington D.C., continues to develop and generate growth rates according to plans.

In Warner Robins, Georgia, Terma North America Inc. – as part of the Integrated Defense and Security Systems Business Area – develops and delivers aircraft self-protection systems to the U.S. Air Force, the U.S. Air National Guard, and to Lockheed Martin Corporation and The Boeing Company.

As part of the Aerostructures Business Area, a highly specialized workforce has been established for the F-35 program in Fort Worth, Texas.

The activities of Radar Systems are located at Norfolk, Virginia, where Terma supplies technical support to the U.S. Coast Guard, the U.S. Navy, the Federal Aviation Administration, and the Department of Homeland Security.

The installation of the new SCANTER 6002 radar for the U.S. Navy marks an important milestone in our collaboration with the U.S. Navy.

Terma Netherlands

In 2010, Terma B.V. opened a maintenance and support center for electronic self-protection equipment at the Royal Netherlands Air Force base in Woensdrecht. The Logistics Centre Woensdrecht has expanded considerably as several companies have established facilities close to the center, including important Terma collaboration partners.

To the European Space Research and Technology Centre (ESTEC) in Noordwijk, The Netherlands, Terma B.V. provides spacecraft test, simulation, and in-orbit management systems. The assignments are implemented by Terma's staff of specialists who work at the Terma office in Leiden and at ESTEC.

Terma Germany

The activities of Terma GmbH at Darmstadt near Frankfurt are primarily related to the European Space Operations Centre (ESOC), the European Space Agency's control and operations center for all ESA satellites in space.

Terma performs specialized mission control systems tasks, management of satellites (flight dynamics), and operation of space simulators. In early 2011, Terma entered into a new framework contract with ESOC. It involves new key disciplines and areas such as ground stations, navigation, and management of space debris, which poses a growing problem for space travel.

Terma Asia

As part of the expansion of our local presence, the subsidiary in Singapore has expanded its activities to include both Radar Systems and Integrated Defense and Security Systems.

India is an expanding growth market in which Terma has many ongoing activities. As part of our targeted efforts in the Indian market, Terma signed a long-term Memorandum of Agreement with the government-owned Indian defense company Bharat Electronics Ltd. This was done in connection with the Danish Minister for Foreign Affairs Lene Espersen's visit to India in December 2010.

Outlook for the 2011/12 Fiscal Year

The order intake and revenue are expected to equal the levels of the fiscal year 2010/11. Earnings before tax are expected to improve by 10-15 % compared to the 2010/11 fiscal year.

An order book totaling MDKK 1,603 at the beginning of 2011/12 and a revenue secured level of approximately 70 % of the budgeted revenue constitute a solid foundation for the 2011/12 budget attainment and provide a sound planning horizon relative to the activities for the year. This also applies to activities which aim at securing long-term growth. These plans include:

- Continued investments in the manufacturing facilities at Grenaa with the aim of establishing a high-volume composites manufacturing capability.

- Continued expansion of our global presence, including the U.S., Singapore, and India.

- Deployment of Lean in the manufacturing areas and implementation of other internal process improvement activities.

No significant credit risks exist relative to individual customers. Terma remains in close contact with its sub-suppliers and seeks to secure second-source suppliers of critical components.

Corporate Social Responsibility

Terma wishes to contribute to society in a social and responsible manner. Thus, our activities within Corporate Social Responsibility (CSR) take place in close interaction with our customers, employees, collaboration partners, the local community, and the world around us.

In Europe, Terma is a member of a committee on business ethics within the AeroSpace & Defence Industries Association of Europe (ASD). Our participation focuses on increasing the industry's objective of countering corruption via a joint European harmonization and simplification of ethical guidelines, standards, and principles.

Relative to Terma's responsibility to the local community in Denmark, we have initiated a collaboration with the job centers in the Southern and Northern Djursland districts, respectively. Thereby, we aim to increase the rate of employment in the area and ensure access to the competencies required for Terma's high-tech production of aerostructures. In collaboration with the job centers, we have initiated training programs for unemployed job seekers, and Terma expects to hire a number of the candidates as production employees.

As part of our expansion of the CSR activities during the coming year, Terma will focus on six Performance Standards of the International Finance Corporation within the World Bank, aiming to monitor the conformance of our export projects with these standards and to secure that our suppliers conform to these standards relative to child labor and forced labor, etc.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Aerostructures

Ole Graversen
Senior Vice President

The Aerostructures Business Area specializes in the design and manufacture of advanced structural assemblies for defense and non-defense markets. It includes a broad range of products for the F-35 Joint Strike Fighter, the F-16 fighter aircraft, the Gulfstream business jet, as well as pods and pylons for various fixed and rotary wing aircraft.

One key area is advanced composites, and the F-35 Joint Strike Fighter is a top priority program. Terma has been involved in the program since 2004 and has secured contracts for seven different elements of this important program. The program is now in the Low Rate Initial Production phase, and Terma is preparing for high-rate production. This includes significant investments to upgrade manufacturing capabilities and infrastructure to meet the demanding and sophisticated technology and delivery requirements. The investment program will continue in the coming years to ensure the full capability to deliver aerostructure assemblies to support a production rate of one aircraft a day within a few years.

Alternate Mission Equipment is another key area for which Terma designs and delivers a series of products and customized solutions. Such solutions are often delivered to fast-reaction programs. Solutions may include pods for electronic warfare and aircraft survivability equipment, reconnaissance pods, data acquisition pods for flight testing, fuel pylons, and enhanced weapons pylons. Solutions have been delivered for fighter aircraft including the F-16, F-35, Harrier, Tornado, and Gripen, C-130 transport aircraft, and Apache helicopters.

The Aerostructures Business Area continues to develop crucial capabilities for the design and manufacture of high-quality, complex, and price-competitive aerostructures and strives to deliver high-quality products for our long-standing customer base as well as for new customers.

At our facilities in Grenaa, Denmark and Fort Worth, Texas, USA, Terma Aerostructures focuses on business development, program management, design, engineering, and technical support performed by highly skilled engineers with aerospace experience. Terma Aerostructures strives to remain a preferred partner for the development and manufacture of advanced technical structures for the aerospace industry. Our vision is realized through continued improvements in products and processes, and we are constantly committed to delivering the promise.

Integrated Defense and Security Systems

Steen M. Lynenskjold
Senior Vice President

The Integrated Defense and Security Systems Business Area globally supplies network and tactical systems, airborne and naval self-protection systems, and electronics manufacturing services for mission-critical defense and security applications. Recently, Terma expanded our offerings within electronics by establishing a new Business Unit, Homeland Security Systems, targeted directly at public safety markets.

The Business Area consists of five Business Units and operates out of Denmark (Herlev and Lystrup), The Netherlands (Leiden and Woensdrecht), the U.S. (Warner Robins and Washington D.C.), and Singapore.

Homeland Security Systems

Homeland Security Systems provides solutions for a safe and secure society where protection against terrorist attacks and efficient collaboration during natural disasters and major incidents are paramount.

Homeland Security Systems provides turnkey radio dispatch and critical infrastructure protection solutions. The T.react Radio Dispatch provides seamless voice and data communications in a modern digitalized TETRA and mobile IP environment. T.react Critical Infrastructure Protection combines radar surveillance with advanced command, control, and communication (C3) systems capable of performing automated surveillance based on computer-aided analyses and decision-support tools.

Joint and Land Systems

The Joint and Land Systems solutions fuse Intelligence, Surveillance, and Reconnaissance (ISR) data from available ISR sources and distribute them on a joint network to users both in the battlefield and at headquarters level. The ground solutions range from simple tactical combat systems to advanced integrated air and ballistic missile defense systems and are targeted at ground troops which are dismounted, in armored vehicles, or in camps. The systems provide excellent situational awareness. A key feature of the solutions is to ensure secure and efficient data connectivity across different radio and communication technologies, an element crucial to any operation.

Naval Systems

The Naval Systems C-Series products are the prime combat system solutions for offshore patrol vessels (OPVs), the highly efficient patrol vessels and interceptors. C-Series is made for the vital naval and coast guard missions such as exclusive economic zone (EEZ) patrolling, counter piracy/terrorism, search & rescue operations, and peacekeeping missions.

The latest C-Series product, C-Raid, will be launched shortly, providing compact C2 technology to small vessels, based on a very successful prototype program where C-Raid has been demonstrated to and tested by customers globally.

Naval Systems is a strong international supplier. The C-Series solution is in use in navies and coast guards in the U.S., the UK, The Netherlands, Australia, Thailand, Indonesia, Romania, Norway, and Denmark, where the Royal Danish Navy, beginning next year, will start using the most capable C-Flex solution on board their anti-air-warfare frigates.

Airborne Systems

Airborne Systems is a global provider of advanced electronic warfare (EW) self-protection solutions for all types of military aircraft. The recognized Electronic Warfare Management System, EWMS-ALQ-213, is able to integrate any combination of EW sub-systems into a coherent complete systems solution, on any type of aircraft.

The system includes high-level functions such as sensor fusion, embedded training, and electronic countermeasures adaptive processing. The Advanced Threat Display and 3-Dimensional Audio Warning Systems provide maximum situational awareness. An Active Noise Reduction and Electrical Noise System are incorporated to reduce pilot stress and fatigue.

EW sub-systems are typically installed in pods, pylons, or other external fixtures in order to avoid interfering with the aircraft structure and to allow systems to be used across the fleet, thereby significantly reducing the overall cost. Today, more than 2,000 fighters, helicopters, and transport aircraft worldwide are equipped with Terma's EW self-protection systems.

Electronics Manufacturing Services

The Electronics Manufacturing Services Business Unit specializes in the manufacturing of high quality, complex electronics and harnesses in low to medium volume for the defense and non-defense markets. For decades, the involvement in international military programs has contributed to raising the expertise within the fields of electronics manufacturing, program management, quality assurance, test engineering, environmental stress screening, and configuration management.

Terma supplies advanced power electronics in support of the new Northrop Grumman APG-81 active electronically scanned array (AESA) radar used on the F-35 Lightning II fighter. Furthermore, Terma has initiated the manufacture of electronics for the Saudi Arabian AWACS aircraft fleet as part of the Radar System Improvement Program (RSIP).

Radar Systems

Morten Winterberg
Senior Vice President

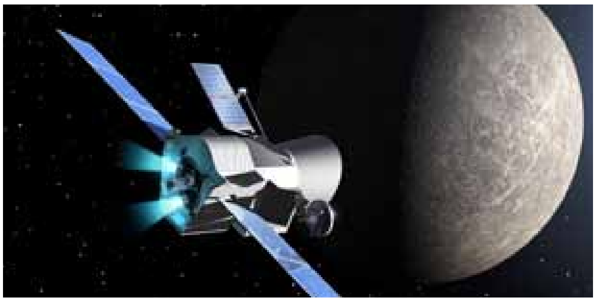
The Radar Systems Business Area designs and delivers advanced radar systems for a range of demanding surveillance and traffic control applications, including coastal, naval surface and air, and airborne environmental surveillance, critical infrastructure protection, vessel traffic management, and airport surface movement control and guidance. The market outlook is positive as the emphasis on border security, area security, and traffic safety and efficiency is continuing.

The SCANTER radar systems are renowned for their unique capability to detect small and minute targets at long distances and under all weather conditions, making these radars the preferred choice for mission-critical border security and traffic safety applications. The SCANTER radar product portfolio comprises SCANTER 5000, SCANTER 6000, SCANTER Ground Surveillance Radar (GSR), SCANTER 2001i, SCANTER 2001i Compact, SCANTER 4002, SCANTER 4102, as well as a wide range of high performance antennas.

2010/11 was very successful for the Radar Systems Business Area with strong financial performance and an all-time high order intake. Within the markets of vessel traffic service and coastal surveillance, several large projects were captured and initial phases were delivered for end customers in Asia and the Middle East. The airport surface movement business remained strong and stable with receipt of several orders for airports in China and Europe.

Terma received firm orders for the unique, high technology solid state radars, SCANTER 5000 and SCANTER 6000, for all intended applications, including coastal surveillance, vessel traffic service, airport surface movement, and naval surveillance. The first units were delivered during the fiscal year and will enter into service early in the 2011/12 fiscal year.

The SCANTER 4000/4100 product line was upgraded to SCANTER 4002/4102, including introduction of improved processing. New features include full inter-turbine visibility in areas with major wind farms. As most air surveillance radars fail to provide full coverage over and around wind farms, applications for construction of wind farms are increasingly being rejected by authorities worldwide, and this creates an increased need to maintain primary radar coverage in certain areas. Terma's unique inter-turbine visibility featured products enter this market at a time when the green energy trend is stronger than ever.



Space

Carsten Jørgensen
Senior Vice President

The knowledge and technology of Danish space research and Danish companies within this market are world-class. In recent years, an increasing commercial, scientific, and educational interest has manifested itself. New opportunities have been created for re-energizing the Danish business and scientific activities within the space industry.

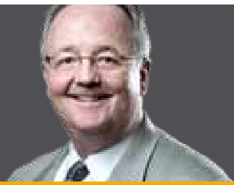
The Space Business Area contributes with mission-customized software and hardware products as well as services to support a number of in-orbit pioneering European scientific and earth observation missions, such as Rosetta, Mars Express, Venus Express, Herschel, Planck, and CryoSat-2.

Building on this background, Terma has secured significant contracts for Galileo, the future European satellite navigation system. This major new program is expected to be operational in 2015. This includes the full portfolio of Terma Space products and services including power supplies, check-out and test systems, and mission control and simulation systems. Terma will develop and deliver the power supplies for the first four Galileo satellites with a good opportunity to secure orders for sub-systems for the additional satellites when these are procured in subsequent years.

Currently, Terma is contracted for the development and delivery of software and hardware systems for numerous ongoing and future European, Canadian, and U.S. satellite missions. Examples of these are BepiColombo with an expected launch in 2014, Galileo with expected launch in 2011, Lisa Path Finder with expected launch in 2013, GAIA with expected launch in 2013, the U.S. JMAPS mission, and the Canadian Sapphire mission.

Furthermore, Terma recently entered into a Phase C and D contract with ESA for the man-space ASIM mission. Terma is currently responsible for the international scientific and industrial team developing a structure containing cameras and photometers to be placed outside the International Space Station. The purpose of the mission is to contribute to the study and understanding of how thunderstorms affect the atmosphere and the climate.

Terma North America Inc.



Steve Gress Jr
Acting President & CEO

Terma North America Inc., the U.S. subsidiary, is well established as the interface to U.S. customers for all Terma Business Areas.

Terma North America Inc. (TNA) facilitates the growth of Terma business in the U.S. through a local presence near customers and partners. With the headquarters near Washington D.C., TNA leads the interface with senior leaders in the Department of Defense, the Department of State, the Danish Embassy, the Federal Aviation Administration (FAA), the Department of Homeland Security, as well as prime contractors. A major operations facility is located in Warner Robins, Georgia, and maintains business with the U.S. Air Force providing electronic warfare systems, including maintenance, procurement, and foreign military sales. Other TNA facilities are located in Fort Worth, Texas, in close proximity to Lockheed Martin Corporation, and in Portsmouth, Virginia, near the U.S. Coast Guard headquarters. A facility in Huntsville, Alabama, to support opportunities with the Missile Defense Agency is planned.

All Business Areas have experienced significant success in the past year, resulting in an increased business base, employee additions, and increased revenue.

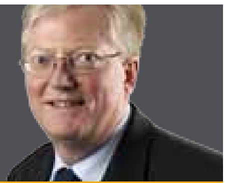
The Airborne Systems Business Unit in Warner Robins, Georgia, successfully expanded its traditional customer base by initiating Cooperative Research and Development Agreements with the U.S. Army and the U.S. Navy. Relations with The Boeing Company and Lockheed Martin Corporation were strengthened to secure follow-on business in current programs.

The Aerostructures Business Area is strongly represented in the Fort Worth, Texas facility with a staff of highly trained professionals. This office provides direct interface with Lockheed business leaders in the F-35 and F-16 programs.

Radar Systems continued servicing U.S.-based customers, including the U.S. Coast Guard, U.S. Navy, the FAA, and Department of Homeland Security. Completion of the SCANTER 6002 radar system installation on an experimental U.S. Navy ship was a significant milestone.

The Terma and Lockheed Martin Corporation continuing co-development of a command and control product for missile defense has strengthened the TNA role in providing additional applications and engineering services.

Terma B.V.



Richard Jones
Senior Vice President

Terma B.V., the Dutch subsidiary of Terma A/S, focuses on three primary market areas: space, aircraft survivability equipment, and homeland security systems. The past year has seen solid success in expanding the role of Terma B.V. in supporting a range of electronic warfare products and establishing a presence in the homeland security systems arena.

Space activities include in-house turnkey system integration and development specializing in spacecraft test, simulation, and in-orbit management systems together with the provision of highly specialized consultants to ESA's European Space Research and Technology Centre in Noordwijk, The Netherlands.

Electronic warfare (EW) products delivered by Integrated Defense and Security Systems to the Royal Netherlands Air Force (RNLAF) require technical support, repairs, modifications, and upgrades. In May 2010, Terma B.V. opened a local support facility on the Woensdrecht Air Base and is processing repairs to RNLAF electronic warfare systems on a regular basis. It is the intention to expand the capabilities to include lifecycle support to other EW-related systems operated by the RNLAF and similar protection systems deployed by other European Participating Air Forces and NATO air forces. Together with Dutch partners, Terma is offering a comprehensive package of services in the field of electronic warfare.

We have been able to raise significant awareness and interest within national and regional civil authorities in Terma's strong product family of mission-critical C4i systems that are based on the T-Core technology platform. There is potential to exploit these systems within existing emergency control room systems by, for example, integrating the T.react Radio Dispatch system into the core call management system.

The Terma products provide a robust, military-based strength to address application integration, thereby offering a step-by-step road map to bring together the diverse control room elements in a securely networked environment. The ability to operate these resources in a net-centric manner is an increasingly strong requirement.

Terma Singapore Pte. Ltd.

Jesper Tolstrup
Vice President

Terma Singapore Pte. Ltd., the Asian subsidiary of Terma A/S, focuses on two primary market areas: Radar Systems (ground-based and naval radar systems) and Integrated Defense and Security Systems (Naval Systems and Airborne Systems).

Terma Singapore Pte. Ltd. was established as a regional Radar Systems office in 2007. Effective 1 March 2011, it became an International Group Location supporting the business in a broader sense. Terma Singapore facilitates the growth of Terma's business in the Asia Pacific region through a local presence close to important customers and partners.

The year 2010/11 has shown significant growth throughout the region. The Radar Systems applications include coastal surveillance, naval air and surface surveillance, airport ground movement surveillance, and vessel traffic services (VTS), implemented in close collaboration with local and internationally recognized system integrators. The product portfolio consists of a proven and flexible selection of systems components to tailor the sensor solution to specific requirements, including the latest solid state technology.

In Terma's Integrated Defense and Security Systems Business Area, Terma Singapore is positioning Terma with end users and shipyards as the independent combat management systems integrator. The region is expected to become a significant growth market for new-built ships for navies and coast guards as well as modernization programs.

In the field of airborne self-protection, Terma markets its state-of-the-art electronic warfare management suite. Terma Singapore supports this business in collaboration with the Airborne Systems Business Unit and Terma North America Inc. in the U.S.

Accounting Policies

The Annual Report of Terma A/S for 2010/11 has been prepared in accordance with the provisions applying to class C enterprises (large) under the Danish Financial Statements Act. The Consolidated Financial Statements of Terma A/S are consolidated in the Consolidated Financial Statements of the ultimate Parent Company, the Thomas B. Thrige Foundation, Copenhagen.

Accounting policies applied in the preparation of the Annual Report are consistent with those of last year.

Consolidated Financial Statements

The Consolidated Financial Statements comprise the Parent Company, Terma A/S, and subsidiaries in which Terma A/S directly or indirectly holds more than 50 percent of the voting rights or which it, in some other way, controls.

The Consolidated Financial Statements are prepared as a consolidation of the audited financial statements of the Parent Company and subsidiaries, which have all been prepared according to the Group's accounting policies.

On consolidation, intra-group income and costs, stockholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated.

Equity interests in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date.

Enterprises acquired or formed during the year are recognized in the Consolidated Financial Statements from the date of acquisition. Enterprises disposed of are recognized in the Consolidated Statement of Income until the date of disposal.

The comparatives are not adjusted for acquisitions or disposals.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provisions are made for costs related to adopted and announced plans to restructure the acquired enterprise. The tax effect of the revaluation is taken into account.

Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognized as intangibles and amortized on a systematic basis in the Statement of Income based on an individual assessment of the useful life of the asset, however, not exceeding 20 years. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognized in the Balance Sheet as prepayments and deferred charges and recognized in the Statement of Income as the adverse development is realized. Negative goodwill, not related to any anticipated adverse development, is recognized in the Balance Sheet at an amount corresponding to the fair value of non-monetary assets. The amount is subsequently recognized in the Statement of Income over the average useful lives of the non-monetary assets.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the acquisition.

Gains or losses on disposal of subsidiaries are stated as the difference between the sales amount or disposal amount and the carrying value of net assets at the date of disposal, including non-amortized goodwill and anticipated disposal costs.

Foreign Currency Translation

Transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the Statement of Income as financial income or financial costs.

Receivables, payables, and other monetary items denominated in foreign currencies, which are not settled on the Balance Sheet date, are translated at the exchange rates at the Balance Sheet date. The difference between the exchange rates at the Balance Sheet date and at the date at which the receivable or payable arose or was recognized in the latest financial statements is recognized in the Statement of Income as financial income or financial costs.

Upon recognition of subsidiaries that are foreign entities, the statements of income are translated at an average rate of exchange for the month, and the Balance Sheet items are translated at the exchange rates at the Balance Sheet date. Currency translation differences arising upon translation of foreign subsidiaries' equity at the beginning of the year to the exchange rates at the Balance Sheet date and upon translation of statements of income from the average rates of exchange to the exchange rates at the Balance Sheet date are recognized directly in the equity.

Translation adjustment of balances with foreign entities which are considered part of the aggregate investment in the subsidiary is recognized directly in the equity. Correspondingly, foreign exchange gains or losses on loans and derivative financial instruments regarded as currency hedging of foreign subsidiaries are recognized directly in the equity.

Upon recognition of foreign subsidiaries that are integrated entities, monetary items are translated at the exchange rate at the Balance Sheet date. Non-monetary items are translated at the exchange rate at the date of acquisition or the time of the subsequent revalutation or impairment of the asset. The items in the Statement of Income are translated at the exchange rate at the date of transaction. However, items derived from non-monetary items are translated at the historical conversion rate of the non-monetary item.

Derivative Financial Instruments

Derivative financial instruments are initially recognized in the Balance Sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the Statement of Income together with changes in the value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognized directly in other receivables or other payables and in the equity. If the future transaction results in the recognition of assets or liabilities, amounts which were previously recognized in the equity are transferred at the cost of the asset or liability, respectively. If the future transaction results in income or costs, amounts which are recognized in the equity are transferred to the Statement of Income during the period in which the hedge affects the Statement of Income.

Changes in the fair value of derivate financial instruments not qualifying for recognition as a hedging instrument are recognized in the Statement of Income on a continuing basis.

Changes in the fair value of derivative financial instruments used for the hedging of net investments in foreign entities are recognized directly in the equity.

Statement of Income

Revenue
Revenue comprises the deliveries for the year and the value of construction contracts in process with significant customization.

Revenue from contract work in process with an insignificant degree of customization is recognized in the Statement of Income if delivery and the passing of risk to the customer have taken place. Any discounts allowed are recognized in the revenue.

Construction contracts with significant customization are recognized in the revenue when reaching the stage of completion. Accordingly, revenue corresponds to the sales price of work performed during the year (percentage of completion method).

Production Costs
Production costs comprise costs, including depreciation, amortization, and salaries, incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, depreciation of production plant, and other production costs.

Production costs also comprise research and development costs, which do not qualify for capitalization, and amortization and impairment of capitalized development costs.

Production costs also comprise provisions for losses on construction contracts.

Distribution Costs
Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognized as distribution costs. Also, costs relating to sales staff, advertising, exhibitions, and depreciation are recognized as distribution costs.

Administrative Costs
Administrative costs comprise costs incurred during the year for the Executive Management and Administration, including costs related to administrative staff, office premises and office costs, and depreciation.

Other Operating Income and Costs
Other operating income and costs comprise items secondary to the principal activities of the Group, including gains and losses on disposal of intangibles and property, plant, and equipment.

Profit in Subsidiaries
The proportionate share of the individual subsidiaries' profit after tax is recognized in the Statement of Income for the Parent Company following elimination of intercompany gains/losses.

Financial Income and Costs
Financial income and costs comprise interests, gains and losses on payables and transactions denominated in foreign currencies, amortization of financial assets and liabilities as well as additions and reimbursements under the tax prepayment scheme, etc.

Tax on Profit for the Year
The Parent Company is subject to the compulsory Danish joint taxation method for the Thrige Holding Group's Danish subsidiaries. Subsidiaries are part of the joint taxation from the time of the consolidation in the Group's financial statements and until the time when they are left out of the consolidation.

Thrige Holding A/S is the administrative company for the joint taxation, and as a consequence, it settles all tax payments with the authorities.

The current Danish corporate income tax is allocated by payment of the joint taxation contribution between the jointly taxed companies relative to the taxable income. In this respect, companies with tax loss receive joint taxation contributions from companies which have used this loss to reduce their own tax profit.

The tax for the year, which consists of the current corporate tax for the year, the joint taxation contribution, and change in deferred tax – as a consequence of the reduction in the tax rate – is recognized in the Statement of Income with the portion relating to the profit for the year, and directly in the equity with the portion relating to items directly in the equity.

Balance Sheet

Intangibles

Development Projects in Process
Development projects in process comprise costs, salaries, and amortization directly or indirectly attributable to the development activities of the enterprise.

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources, and potential future market or development opportunities in the Group can be established, and where it is intended to produce, market, or use the project, are recognized as intangibles, provided that the cost can be measured reliably, and that there is sufficient assurance that future earnings can cover production costs, sales and administrative costs, and development projects in process. Other development projects in process are recognized in the Statement of Income when incurred.

Capitalized development projects in process are recognized at cost less accumulated amortization/impairments or recoverable amount, if this is lower.

Following the completion of the development work, capitalized development projects in process are amortized concurrently with the sale of the developed products, alternatively on a straight-line basis over the estimated useful life.

Gains and losses on sale of development projects are calculated as the difference between the sales price less selling costs and the carrying value at the time of sale. Gains and losses are recognized in the Statement of Income under other operating income and other operating costs, respectively.

Property, Plant, and Equipment

Land and buildings, plant and machinery, and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, subcontractors, and wages and salaries.

The cost of a total asset is divided into separate elements which are depreciated separately if the useful life of the individual elements varies.

The cost of leases is stated at the lower value of fair value and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as discount rate.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	10-50 years
Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	3-7 years

Major production plants used for the production of aircraft components are depreciated based on the units of production method of depreciation, typically over 10 years. The annual depreciation corresponds to the actual units produced during the year. An annual reassessment is made of the expected aggregate units of production.

Depreciation is recognized in the Statement of Income as production costs, distribution costs, and administrative costs, respectively.

Gains and losses on the disposal of property, plant, and equipment are determined as the difference between the sales price less disposal costs and the carrying value at the date of disposal. The gains or losses are recognized in the Statement of Income as other operating income or other operating costs, respectively.

Equity Interests in Subsidiaries
Equity interests in subsidiaries are measured according to the equity method.

Equity interests in subsidiaries are measured in the Balance Sheet at the proportionate share of the subsidiaries' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealized intra-group profits and losses, and plus or minus the remaining value of positive goodwill or negative goodwill, respectively.

Equity interests in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such subsidiaries are written down if the amount is uncollectible. If the Parent

Company has a legal or constructive obligation to cover a negative net asset value which exceeds the amount owed in a subsidiary, the remaining amount is recognized under provisions.

Net revaluation of equity interests in subsidiaries is shown as a reserve for net revaluation according to the equity method under equity to the extent that the carrying value exceeds the cost. Subsidiary dividends that are expected to be adopted prior to the approval of the Parent Company Annual Report are not entered into the reserve for net revaluation.

On acquisition of subsidiaries, the purchase method is applied, cf. Consolidated Financial Statements above.

Impairment of Assets

The carrying value of intangibles and property, plant, and equipment as well as equity interests in subsidiaries are assessed annually for indications of impairment in addition to amortization and depreciation.

If indications of impairments exist, impairment tests are conducted relative to the individual asset or groups of assets, respectively. Assets are written down to the recoverable amount if this is lower than the carrying value.

The recoverable amount of an asset is the higher of the asset's value in use and its selling price. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or groups of assets and the expected net cash flows from the sale of the asset or groups of assets at the end of the useful life.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realizable value is lower than the cost, inventories are written down to this lower value. Cost comprises purchase price plus delivery costs.

Finished goods and work in process are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries, and indirect production costs. Indirect production costs comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings, and equipment as well as factory administration and management. Borrowing costs are not included in the cost.

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale, and is determined taking into account marketability, obsolescence, and development in expected sales price.

Receivables

Receivables are measured at amortized cost. Write-down is made to meet expected losses.

Construction Contracts
Construction contracts are measured at the sales price of the work performed. The sales price is measured on the basis of the stage of completion at the Balance Sheet date and total expected income from the individual contract work. When the sales price of a contract cannot be measured reliably, the sales price is measured at the costs incurred or at net realizable value, if this is lower.

The individual construction contract is recognized in the Balance Sheet under either receivables or liabilities, depending on the net amount of the sales price less prepayments. Net assets are constituted by the sum of the construction contracts where the sales price of the work performed exceeds the amount which has been invoiced on account. Net liabilities are constituted by the sum of the construction contracts where the amount which has been invoiced on account exceeds the sales price.

Sales costs and costs incurred in securing contracts are recognized in the Statement of Income when incurred.

Prepayments and Deferred Charges
Prepayments and deferred charges, recognized under current assets, comprise costs incurred concerning subsequent fiscal years.

Equity – Dividends
Dividends are recognized as a liability at the date when they are adopted at the annual general meeting (time of announcement). The expected dividend payment for the year is disclosed as a separate item under equity.

Current Tax and Deferred Tax
According to the joint taxation method, as the administrative company, Thrige Holding A/S assumes the liability to the tax authorities for the corporate tax of the Danish subsidiaries, concurrently with the subsidiaries paying their joint tax contribution.

Current tax payable and receivable is recognized in the Balance Sheet as tax calculated on the taxable income for the year, adjusted for tax on the taxable income of previous years, and for tax paid on account.

Payable and receivable joint tax contributions are recognized in the Balance Sheet under balances for the Parent Company.

Deferred tax is measured under the Balance Sheet liability method on all temporary differences between the carrying value and the tax base of assets and liabilities. However, deferred tax is not recognized on temporary differences relative to amortization of goodwill disallowed for tax purposes and other items where temporary differences –

excluding acquisitions – have arisen on the date of acquisition, without affecting the net income or taxable income. Under the circumstances where calculation of the tax base can be made according to alternative taxation rules, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carryforward, are recognized under current assets at the expected value of their utilization, either as elimination in tax on future earnings or offsetting against deferred tax liabilities within the same legal tax entity and jurisdiction.

A readjustment of deferred tax relative to performed eliminations of unrealized, intra-group profit and loss will be carried out.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the Balance Sheet date.

Other Provisions
Provisions comprise anticipated costs related to warranty commitments, losses related to construction contracts in process, restructuring provisions, etc. Provisions are recognized when, as a result of past events, the Group has a legal or a constructive obligation, and it is probable that settlement of the obligation will result in an outflow of Group financial resources.

Warranty commitments include obligations to implement repair work within the warranty period. Provisions for warranty commitments are measured at net realizable value and recognized on the basis of experience with warranty work. Provisions with an expected maturity of more than one year at the Balance Sheet date are discounted at the average market rate of interest.

Restructuring provisions in acquired enterprises which are adopted and announced no later than at the date of acquisition are included in the determination of the acquisition price and thereby in goodwill or Group goodwill.

If it is propable that the total costs related to a construction contract will exceed the total income, the expected total loss of the construction contract is recognized as a provision.

Financial Liabilities

Amounts owed to mortgage banks and credit institutions are recognized at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the Statement of Income over the term of the loan.

Financial liabilities also include the capitalized residual lease commitment.

Other liabilities are measured at amortized cost.

Cash Flow Statement

The Cash Flow Statement shows the Group's cash flows from operating, investing, and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

Cash Flows from Operating Activities
Cash flows from operating activities are calculated as the Group's share of the profit adjusted for non-cash operating items, changes in working capital, and corporate tax payable and receivable/joint taxation contribution.

Cash Flows from Investing Activities
Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities, and acquisitions and disposals of intangibles, property, plant, and equipment, and investments.

Cash Flows from Financing Activities
Cash flows from financing activities comprise payments to and from the Group's stockholders and related costs as well as raising of loans and repayment of interest-bearing debt.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash reduced by current bank borrowings and short-term, marketable securities which are subject to an insignificant risk of changes in value.

Segment Information

Group revenue has been allocated according to business segments and geographical markets.

Financial Ratios

The financial ratios are calculated in accordance with "Recommendations and financial ratios 2010" of the Danish Society of Financial Analysts. Definitions of the financial ratios appear in Financial Highlights – Consolidated.

Jens Maaløe
President & CEO

Birthe H. Rask
Executive Vice President
& CFO

Morten Halskov
Executive Vice President,
Corporate Services

Executive Management

Executive Management's Statement

The Board of Directors and the Executive Management have today discussed and adopted the Annual Report of Terma A/S for the 2010/11 fiscal year.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated and Parent Company Financial Statements give a fair presentation of the Group's and Parent Company's assets, liabilities, and financial position at 28 February 2011, as well as of the results of the Group's and the Parent Company's activities and the Group's cash flows for the 2010/11 fiscal year.

Further, we consider the Management's Review to present a fair disclosure of the development in the Group's and Parent Company's activities and finances, the result for the year, and the Group's and Parent Company's financial position.

We recommend that the Annual Report be approved at the annual general meeting.

Herlev, 25 May 2011

Board of Directors:

Paul-Werner Friis Johnsen

Henrik Stenbjerre

Bo Laursen

Svend-Aage Nielsen, Chairman

Flemming H. Tomdrup, Deputy Chairman

Anders Eldrup

Independent Auditor's Report

For Terma A/S Stockholders

We have audited the Consolidated and Parent Company Financial Statements of Terma A/S for the 1 March 2010-28 February 2011 fiscal year, pages 18-22 and 25-35. The Consolidated and Parent Company Financial Statements include Accounting Policies, Statement of Income, Balance Sheet, disclosures in the Notes of the Group as well as the Parent Company, and the Group's Cash Flow Statement. The Consolidated and Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In connection with the audit, we have read the Management's Review which is prepared in accordance with the Danish Financial Statements Act, and we have provided our opinion.

Executive Management's Responsibility

The Executive Management is responsible for the preparation and presentation of Consolidated and Parent Company Financial Statements that give a fair presentation in accordance with the Danish Financial Statements Act. This responsibility includes preparation, implementation, and maintenance of internal controls, which are relevant for the preparation and presentation of Consolidated and Parent Company Financial Statements, which give a fair presentation free from material errors, irrespective of such errors being due to fraud or misstatements, in addition to selection and adoption of appropriate accounting policies and provision of accounting estimates, deemed fair in the circumstances. Further, the Executive Management is responsible for the preparation and presentation of a Management's Review which contains a fair presentation in accordance with the Danish Financial Statements Act.

Auditor's Responsibility and Audit Performed

It is our responsibility to provide an opinion on the Consolidated and Parent Company Financial Statements based on the audit performed. We have conducted our audit in accordance with the Danish auditing standards. These standards require that we live up to ethical requirements and plan and perform the audit with a view to achieving a high degree of certainty that the Consolidated and Parent Company Financial Statements are free from material misstatements.

Auditing includes actions to achieve audit evidence for the amounts and information disclosed in the Consolidated and Parent Company Financial Statements. The selected actions depend on the auditor's assessment, to include assessment of risk of material misstatements in the Consolidated and Parent Company Financial Statements, irrespective of such errors being due to fraud or misstatements. In the risk assessment, the auditor considers internal controls relevant to the Company's preparation and presentation of Consolidated and Parent Company Financial Statements, which give a fair presentation with a view to auditing actions appropriate in the circumstances, however, not to express an opinion on the effectiveness of the Company's internal controls. Furthermore, auditing includes an opinion as to the Management's adopted accounting policies being appropriate and its accounting estimates fair, and an evaluation of the overall Consolidated and Parent Company Financial Statements presentation.

In our opinion, the audit evidence obtained is sufficient and qualified as a basis for our opinion.

Our audit does not give rise to qualifications.

Opinion

In our opinion, the Consolidated and Parent Company Financial Statements give a fair presentation of the Group's and the Parent Company's assets, liabilities, and financial position at 28 February 2011, as well as of the results of the Group's and Parent Company's activities and the Group's cash flows for the 1 March 2010-28 February 2011 fiscal year, in accordance with the Danish Financial Statements Act.

Opinion on the Management's Review

We have read the Management's Review in accordance with the Danish Financial Statements Act. We have not taken any further actions in addition to the audit of the Consolidated and Parent Company Financial Statements. In our opinion, the information disclosed in the Management's Review is in accordance with the Consolidated and Parent Company Financial Statements.

Herlev, 25 May 2011

KPMG
Statsautoriseret Revisionspartnerselskab

Flemming Brokhattingen
State-Authorized Public Accountant

Jes Lauritzen
State-Authorized Public Accountant

Note	DKK thousand	Consolidated 2010/11	Consolidated 2009/10	Parent Company 2010/11	Parent Company 2009/10
1, 2	**Revenue**	1,416,476	1,113,497	1,281,514	995,364
3	Production costs	(1,136,051)	(937,531)	(1,046,711)	(844,191)
	Gross profit	280,425	175,966	234,803	151,173
3	Distribution costs	(111,329)	(101,888)	(99,073)	(94,654)
3, 4	Administrative costs	(78,032)	(72,217)	(56,801)	(57,183)
	Ordinary operating profit	91,064	1,861	78,929	(664)
	Other operating income	170	167	170	167
	Other operating costs	(1,803)	(103)	(3)	(103)
	Operating profit	89,431	1,925	79,096	(600)
	Profit in subsidiaries after tax	-	-	8,198	1,612
5	Financial income	1,631	528	3,592	1,801
5	Financial costs	(28,835)	(27,243)	(30,318)	(29,899)
	Profit from ordinary activities before tax	62,227	(24,790)	60,568	(27,086)
6	Tax on profit from ordinary activities	(15,787)	4,984	(14,128)	7,280
	Profit for the year	46,440	(19,806)	46,440	(19,806)
	Proposed profit distribution				
	Proposed dividends	0	0	0	0
	Reserve for net revaluation according to the equity method	-	-	8,291	1,594
	Profit for the year carried forward	46,440	(19,806)	38,149	(21,400)
		46,440	(19,806)	46,440	(19,806)

Notes: Pages 29 and 30

Balance Sheet

Assets
28 February

Note	DKK thousand	Consolidated 2011	Consolidated 2010	Parent Company 2011	Parent Company 2010
	Assets				
	Non-current assets				
	Intangibles				
	Completed development projects	151,698	100,712	153,915	100,712
	Development projects in process	244,616	262,150	246,069	264,247
7		396,314	362,862	399,984	364,959
	Property, plant, and equipment				
	Land and buildings	230,993	225,165	230,993	225,165
	Plant and machinery	102,931	44,664	100,618	43,707
	Fixtures and fittings, tools and equipment	12,446	17,466	9,380	14,044
	Payment on account and property, plant, and equipment under construction	26,227	60,710	26,227	60,710
8		372,597	348,005	367,218	343,626
	Investments				
9	Equity interests in subsidiaries	-	-	68,740	64,262
		-	-	68,740	64,262
	Non-current assets, total	768,911	710,867	835,942	772,847
	Current assets				
	Inventories				
	Raw materials and consumables	91,071	85,160	91,071	85,160
	Work in process	253,642	296,918	242,194	280,128
	On-account payments from customers	(26,731)	(24,420)	(26,726)	(24,290)
	Prepayments to suppliers	1,623	6,255	1,623	6,255
		319,605	363,913	308,162	347,253
	Receivables				
	Trade accounts receivable	310,878	312,499	282,826	272,718
10	Construction contracts	68,334	46,908	63,501	46,908
	Amounts owed by subsidiaries	-	-	14,690	28,248
14	Corporate tax receivable	2,189	587	0	0
	Other receivables	19,930	8,664	16,813	6,657
12	Deferred tax asset	5,631	5,706	0	0
	Prepayments and deferred charges	16,063	5,949	16,063	5,949
		423,025	380,313	393,893	360,480
16	**Cash and cash equivalents**	76,175	3,852	68,008	53
	Current assets, total	818,805	748,078	770,063	707,786
	Assets, total	1,587,716	1,458,945	1,606,005	1,480,633

Notes: Pages 30, 31, 32, 34, and 35

Equity and Liabilities
28 February

Note	DKK thousand	Consolidated 2011	Consolidated 2010	Parent Company 2011	Parent Company 2010
	Equity and liabilities				
	Equity				
	Capital stock	18,000	18,000	18,000	18,000
	Net revaluation according to the equity method	-	-	7,097	2,619
	Profit carried forward	367,235	311,513	360,138	308,894
	Proposed dividends	0	0	0	0
11	**Equity, total**	385,235	329,513	385,235	329,513
	Provisions				
	Warranty commitments	9,605	3,761	9,605	3,761
	Provisions made within construction contracts	3,700	0	3,309	0
12	Deferred tax	106,272	89,015	106,277	88,958
	Other provisions	2,300	0	500	0
	Provisions, total	121,877	92,776	119,691	92,719
	Liabilities other than provisions				
	Long-term liabilities other than provisions				
	Employee bonds	18,251	18,251	18,251	18,251
	Credit institutions	225,000	0	225,000	0
	Mortgage banks	223,174	227,699	223,174	227,699
13		466,425	245,950	466,425	245,950
	Current liabilities other than provisions				
	Current portion of long-term liabilities	1,926	658	1,926	658
	Credit institutions	75,973	292,837	75,973	292,837
10	Construction contracts	145,053	0	142,969	0
	Prepayments from customers	91,657	150,428	77,926	147,170
	Trade accounts payable	78,374	51,932	74,241	50,471
	Amounts owed to Parent Company	461	77	461	77
	Amounts owed to subsidiaries	-	-	60,543	54,834
14	Corporate tax payable	1,012	442	0	0
	Other payables	219,723	294,332	200,615	266,404
		614,179	790,706	634,654	812,451
	Liabilities other than provisions, total	1,080,604	1,036,656	1,101,079	1,058,401
	Equity and liabilities, total	1,587,716	1,458,945	1,606,005	1,480,633
15	**Unusual circumstances**				
16	**Contingent liabilities and security**				
17	**Related parties**				

Notes: Pages 32, 33, 34, and 35

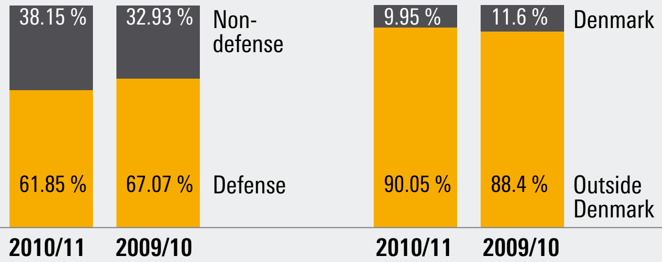
Cash Flow Statement

1 March-28 February

DKK thousand	Consolidated 2010/11	2009/10
Profit from ordinary activities before tax	62,227	(24,790)
Adjustments:		
Depreciation, etc.	41,250	36,490
Reversed provisions	11,844	1,031
Amortization of development licenses previously transferred to contract work in process	32,038	71,453
Financial items	27,204	26,715
	112,336	135,689
Changes in working capital:		
Inventories	36,113	(148,011)
Receivables including construction contracts	(32,062)	121,918
Construction contracts and prepayments from customers	22,193	(3,002)
Trade accounts payable and other payables	(44,655)	28,955
	(18,411)	(140)
Cash flows generated from operations (operating activities) before financial items	156,152	110,759
Financial items	(27,204)	(26,715)
Cash flows from operations (ordinary activities)	128,948	84,044
Corporate tax paid	(2,396)	(1,898)
Cash flows from operating activities	126,552	82,146
Capitalized development costs	(65,781)	(136,376)
Acquisition of property, land, and equipment	(57,416)	(85,200)
Disposal of property, land, and equipment	0	7
Cash flows for investing activities	(123,197)	(221,569)
Changes in long-term liabilities	221,743	39,431
Dividends paid	0	(20,000)
Cash flows from financing activities	221,743	19,431
Changes in cash and cash equivalents	225,098	(119,992)
Cash and cash equivalents and credit institutions at 1 March	(288,985)	(168,993)
Cash and cash equivalents and credit institutions at 28 February	(63,887)	(288,985)

The Cash Flow Statement cannot be directly derived from the Balance Sheet and the Statement of Income.

1. Segment information - Revenue



2. Revenue

	Consolidated		Parent Company	
DKK thousand	2010/11	2009/10	2010/11	2009/10
Goods and services	945,971	823,693	844,182	705,560
Construction contracts	470,505	289,804	437,332	289,804
	1,416,476	1,113,497	1,281,514	995,364

3. Costs

Parent Company Board of Directors emoluments and remuneration of the Executive Management	4,095	4,002	4,095	4,002
Wages and salaries	578,001	607,297	497,045	533,124
Pensions and other social security costs	52,333	48,147	40,773	37,886
Other staff costs	4,087	4,485	3,660	4,157
	638,516	663,931	545,573	579,169
Average number of full-time employees	1,205	1,261	1,051	1,119

4. Fees paid to auditors

Total fees to KPMG can be specified as follows:				
Statutory audit	812	817	800	809
Consultancy fees: other assurance engagements	60	82	60	82
Consultancy fees: tax and VAT	696	442	587	315
Other non-audit services	390	553	164	320
	1,958	1,894	1,611	1,526
Total fees to other auditors can be specified as follows:				
Audit	378	413	0	0
Consultancy fees: tax and VAT	232	148	39	11
Other non-audit services	519	352	0	0
	1,129	913	39	11

5. Financial income and costs

Included in financial income and costs are:				
Interest income from subsidiaries	-	-	1,983	1,490
Interest costs to subsidiaries	-	-	2,341	2,849

6. Tax on the profit for the year

DKK thousand	Consolidated 2010/11	Consolidated 2009/10	Parent Company 2010/11	Parent Company 2009/10
Joint taxation contribution/current tax	1,737	1,672	(6)	(374)
Deferred tax	17,235	(8,024)	17,319	(8,274)
Tax on the profit for the year, total	18,972	(6,352)	17,313	(8,648)
Specified as follows:				
Tax on profit from ordinary activities	15,787	(4,984)	14,128	(7,280)
Tax on changes in equity	3,185	(1,368)	3,185	(1,368)
	18,972	(6,352)	17,313	(8,648)

7. Intangibles

Consolidated

DKK thousand	Completed development projects	Development projects in process	Total
Cost at 1 March 2010	370,984	262,150	633,134
Additions	1,410	64,371	65,781
Transfer	81,905	(81,905)	0
Disposals	0	0	0
Cost at 28 February 2011	454,299	244,616	698,915
Amortizations and impairments at 1 March 2010	270,272	0	270,272
Amortizations	1,700	0	1,700
Impairments	6,786	0	6,786
Disposals	0	0	0
Transferred to contract work in process	23,843	0	23,843
Amortizations and impairments at 28 February 2011	302,601	0	302,601
Carrying value at 28 February 2011	151,698	244,616	396,314

Parent Company

Cost at 1 March 2010	370,984	264,247	635,231
Additions	1,410	65,944	67,354
Transfer	84,122	(84,122)	0
Disposals	0	0	0
Cost at 28 February 2011	456,516	246,069	702,585
Amortizations and impairments at 1 March 2010	270,272	0	270,272
Amortizations	1,700	0	1,700
Impairments	6,786	0	6,786
Disposals	0	0	0
Transferred to contract work in process	23,843	0	23,843
Amortizations and impairments at 28 February 2011	302,601	0	302,601
Carrying value at 28 February 2011	153,915	246,069	399,984

8. Property, plant, and equipment

DKK thousand	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Payment on account and property, plant, and equipment under construction	Total
					Consolidated
Cost at 1 March 2010	367,605	190,638	99,267	60,710	718,220
Foreign currency translation adjustments	0	(78)	(77)	0	(155)
Additions	12,967	74,868	4,064	18,366	110,265
Disposals	0	(7,500)	(5,258)	(52,849)	(65,607)
Cost at 28 February 2011	380,572	257,928	97,996	26,227	762,723
Depreciation and impairments at 1 March 2010	142,440	145,974	81,801	0	370,215
Foreign currency translation adjustments	0	(61)	(35)	0	(96)
Depreciation and impairments	7,139	16,581	9,041	0	32,761
Disposals	0	(7,497)	(5,257)	0	(12,754)
Depreciation and impairments at 28 February 2011	149,579	154,997	85,550	0	390,126
Carrying value at 28 February 2011	230,993	102,931	12,446	26,227	372,597
Depreciated over	10-50 years	5-10 years	3-7 years		

DKK thousand	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Payment on account and property, plant, and equipment under construction	Total
					Parent Company
Cost at 1 March 2010	289,306	186,150	89,177	60,710	625,343
Additions	12,967	72,497	2,150	18,366	105,980
Disposals	0	(7,500)	(5,258)	(52,849)	(65,607)
Cost at 28 February 2011	302,273	251,147	86,069	26,227	665,716
Depreciation and impairments at 1 March 2010	64,141	142,443	75,133	0	281,717
Depreciation and impairments	7,139	15,583	6,813	0	29,535
Disposals	0	(7,497)	(5,257)	0	(12,754)
Depreciation and impairments at 28 February 2011	71,280	150,529	76,689	0	298,498
Carrying value at 28 February 2011	230,993	100,618	9,380	26,227	367,218
Depreciated over	10-50 years	5-10 years	3-7 years		

9. Equity interests in subsidiaries

DKK thousand	
Cost at 1 March 2010	51,699
Disposals during the year	0
Additions during the year	0
Cost at 28 February 2011	51,699
Net revaluations at 1 March 2010	12,563
Translation adjustment at the beginning of the year	(181)
Dividends paid	(3,539)
Profit for the year	8,198
Net revaluations at 28 February 2011	17,041
Carrying value at 28 February 2011	68,740

Name	**Registered office**	**Ownership**	**Capital stock**
Terma Ejendomme Skive A/S	Aarhus, Denmark	100 %	DKK 1,150 thousand
Terma GmbH	Darmstadt, Germany	100 %	EUR 51 thousand
Terma B.V.	Leiden, The Netherlands	100 %	EUR 750 thousand
Terma S.r.l. in liquidation	Besozzo, Italy	100 %	EUR 10 thousand
Terma North America Inc.	Delaware, USA	100 %	USD 150 thousand
Terma Singapore Pte. Ltd.	Singapore, Singapore	100 %	SGD 100 thousand

10. Construction contracts

	Consolidated		Parent Company	
DKK thousand	**2011**	**2010**	**2011**	**2010**
Sales price of construction contracts	916,565	890,984	828,632	890,984
Invoiced on account	(993,284)	(844,076)	(908,100)	(844,076)
	(76,719)	46,908	(79,468)	46,908
Recognized as follows:				
Construction contracts (assets)	68,334	46,908	63,501	46,908
Construction contracts (liabilities)	(145,053)	0	(142,969)	0
	(76,719)	46,908	(79,468)	46,908

11. Equity

DKK thousand	2010/11	Consolidated 2009/10
Equity at 1 March 2010	329,513	374,591
Dividends paid	0	(20,000)
Profit for the year carried forward	46,440	(19,806)
Proposed dividends	0	0
Translation adjustment relating to foreign entity	(274)	(1,163)
Changes in value of hedging instruments, etc. (after tax)	9,556	(4,109)
Equity at 28 February 2011	385,235	329,513

Consolidated

DKK thousand	Capital stock	Net revaluation according to the equity method	Profit carried forward	Proposed dividends	Total
Equity at 1 March 2010	18,000	-	311,513	0	329,513
Dividends paid	-	-	-	0	0
Profit for the year carried forward	-	-	46,440	0	46,440
Translation adjustment relating to foreign entity	-	-	(274)	-	(274)
Changes in value of hedging instruments, etc. (after tax)	-	-	9,556	-	9,556
Equity at 28 February 2011	18,000	-	367,235	0	385,235

Parent Company

Equity at 1 March 2010	18,000	2,619	308,894	0	329,513
Dividends paid	-	-	-	0	0
Dividends received from subsidiaries	-	(3,539)	3,539	-	0
Profit for the year carried forward	-	8,291	38,149	0	46,440
Translation adjustment relating to foreign entity	-	(274)	-	-	(274)
Changes in value of hedging instruments, etc. (after tax)	-	-	9,556	-	9,556
Equity at 28 February 2011	18,000	7,097	360,138	0	385,235

Capital stock consists of:
1 stock at MDKK 18
The capital stock has been reduced by MDKK 2 in connection with annulment of own stock during the fiscal year 2008/09.
The capital stock has remained unchanged during the preceding four years.

12. Deferred tax

DKK thousand	Consolidated 2010/11	Consolidated 2009/10	Parent Company 2010/11	Parent Company 2009/10
Deferred tax at 1 March	83,309	90,886	88,958	97,232
Foreign currency translation adjustments	97	447	0	0
Adjustment for the year	17,235	(8,024)	17,319	(8,274)
Deferred tax at 28 February	100,641	83,309	106,277	88,958
Recognized as follows:				
Deferred tax asset	(5,631)	(5,706)	0	0
Deferred tax	106,272	89,015	106,277	88,958
	100,641	83,309	106,277	88,958
Deferred tax relates to:				
Intangibles	99,935	90,582	99,935	90,582
Property, plant, and equipment	12,067	8,866	12,111	8,611
Current assets	17,997	(1,647)	17,552	(1,704)
Provisions	(575)	0	(125)	0
Liabilities other than provisions	(4,586)	(3,706)	(2,863)	(2,422)
Tax loss carryforward	(24,197)	(10,786)	(20,333)	(6,109)
	100,641	83,309	106,277	88,958

13. Long-term liabilities other than provisions

			Consolidated
DKK thousand	Long-term liabilities	Current share of long-term liabilities	Loans outstanding after 5 years
Employee bonds	18,251	0	0
Mortgage banks	225,000	0	0
Credit institutions	223,174	1,926	207,792
	466,425	1,926	207,792
			Parent Company
Employee bonds	18,251	0	0
Mortgage banks	225,000	0	0
Credit institutions	223,174	1,926	207,792
	466,425	1,926	207,792

14. Corporate tax payable

DKK thousand	Consolidated 2010/11	Consolidated 2009/10	Parent Company 2010/11	Parent Company 2009/10
Corporate tax payable at 1 March	(145)	81	0	(316)
Tax for the year/joint taxation contribution	1,737	1,672	(6)	(374)
Corporate tax paid during the year	(2,395)	(1,997)	(28)	523
Transferred to intra-group balances	(374)	99	34	167
Corporate tax payable at 28 February	(1,177)	(145)	0	0
Recognized as follows:				
Corporate tax receivable	(2,189)	(587)	0	0
Corporate tax payable	1,012	442	0	0
	(1,177)	(145)	0	0

15. Unusual circumstances

As described in the Management's Review, last year's profit before tax was affected significantly by the recognition of expected amended preconditions in the contract entered into between the Danish Government and Terma in 2008 for the supply of control rooms for the Danish emergency preparedness network SINE.

16. Contingent liabilities and security

DKK thousand	Consolidated 2011	Consolidated 2010	Parent Company 2011	Parent Company 2010
Contingent liabilities				
Lease liabilities (operating leases) falling due within five years	12,094	14,463	5,307	6,471
Lease guarantee in the period until 31 March 2014. Annually MDKK 4.2	11,100	17,100	11,100	17,100
The Group's Danish companies are jointly liable for joint registration of VAT				
Security				
The following assets have been provided as security for mortgage banks:				
Carrying value of land and buildings	230,993	225,165	230,993	225,165
Terma A/S – acting as the Parent Company – has issued a letter of intent to third parties in connection with the establishment of credit facilities for its subsidiaries at a total amount of DKK 24,316 thousand				
Included in cash and cash equivalents are deposit accounts which are released upon delivery to customers.	64,089	0	64,089	0

17. Related parties

Terma A/S is a wholly owned subsidiary of Thrige Holding A/S, which is wholly owned by the Thomas B. Thrige Foundation.

Terma A/S' related parties exercising significant influence comprise the Board of Directors, the Executive Management, managerial staff, and their family members. Further, related parties comprise companies in which the above-mentioned persons have substantial interests.

Apart from the intra-group transactions which have been eliminated in the consolidated financial statements and the usual remuneration and emoluments, no transactions have been concluded relative to the Board of Directors, Executive Managers, managerial staff, major stockholders, or other related parties.

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