THALES

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STRONG GROWTH IN ORDER INTAKE AND HIGHER REVENUES AT 30 SEPTEMBER 2008

EXCEPTIONAL CHARGE OF ABOUT €60M ON A400M PROGRAMME PLANNED IN SECOND HALF FIGURES

- **Revenues at 30 September: €8.3 billion, up 7%** on a like-for-like basis and with constant exchange rates
- **Order intake at 30 September: €9.0 billion, a sharp increase of 23%** on a like-for-like basis and with constant exchange rates, with several major contracts booked in Europe
- **Confirmed objective of a 6% organic[1] growth in revenues in 2008**
- **EBIT objective impacted by a provision of about €60m related to A400M programme**

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[1] In this press release, "organic" means "on like-for-like basis with constant exchange rates".

Revenues at 30 September

Consolidated revenues for the first nine months of 2008 stood at **€8,303m**, compared with €8,185m at 30 September 2007 (and €8,394m on a restated[1] basis), representing an organic increase of **7%**. **Exchange rate fluctuations** impacted revenues by -€380m, primarily as a result of the conversion into euros of the revenues of subsidiaries based outside the euro zone. The main fluctuations involved the weakening of the US dollar (-€158m) and of the pound sterling (-€176m) against the euro.

Revenues at 30 September *(in millions of euros)*	***9m 2007 published***	**9m 2007 *restated*[1]**	**9m 2008**	*Total change from restated figures*	*Organic change*
Aerospace & space	***2,271***	**2,480**	**2,629**	*+ 6%*	*+ 12%*
Defence	***3,460***	**3,460**	**3,565**	*+ 3%*	*+ 7%*
Security	***2,120***	**2,120**	**2,044**	*- 4%*	*- 1%*
Others and divested businesses	*334*	*334*	*65*	*ns*	*ns*
Consolidated revenues	***8,185***	**8,394**	**8,303**	***- 1%***	***+ 7%***

In **Aerospace & Space**, revenues were 12%[2] higher than in the same period of 2007. Sales by the Aerospace division rose by 8%. In civil markets, avionics sales for regional aircraft and revenues from Airbus increased, but in-flight entertainment (IFE) sales were down, in particular due to delays in the launch of the Boeing 787. In military markets, revenues from combat and electronic warfare systems (*Rafale, Watchkeeper* and *AEW Greece* programmes) were higher, in contrast with the slowdown in helicopter deliveries (*NH90* and *Tiger*) and delays on programmes (*A400M*). Space revenues were up 20% over the first nine months, with very strong growth in military revenues as a result of the start of the *Yahsat* programme for the United Arab Emirates.

[1] The restated figure for the first nine months of 2007 includes €208m in revenues generated in the first quarter of 2007 by the space businesses acquired from Alcatel-Lucent. In the published 2007 figures, these businesses were not consolidated until the second and third quarters, i.e., from 1 April. Other changes in the scope of consolidation, primarily the sale to DCNS of surface naval businesses in France, effective 31 March 2007; the sale of holdings in Protac and Bayern Chemie, deconsolidated from 1 July 2007; the sale of the holding in FACEO, deconsolidated from 1 October 2007; and the sale of the payment solution businesses to the U.S. Hypercom group at the start of 2008, resulted in a net reduction of €240m in consolidated revenues.

[2] Unless otherwise stated, all changes mentioned in this document are organic changes, i.e. on a like-for-like basis with constant exchange rates.

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In **Defence,** which includes the Land & Joint Systems, Naval and Air Systems divisions, revenues were up 7% on the first nine months of 2007, with sustained growth by the first two divisions offsetting a slight decrease in revenues by the third. Naval revenues grew by 10% as a result of a stronger performance by the naval services business and increased activity on the *FREMM* programme in Europe and the *ALFS* sonar programme for the US Navy. Land & Joint Systems revenues grew by more than 14%, with a strong performance by the optronics business. Sales by Air Systems fell slightly (-1%), with continued strength in civil air traffic control sales offsetting a reduction in military sales caused by billing schedules on defence programmes.

In **Security**, revenues fell slightly (-1%) despite the positive trend in rail signalling systems, critical information systems and special components. Sales of simulators and security systems were lower than in the first nine months of 2007 (which included high revenues on the *Rafale* contract in France and the *Etisalat* contract in Saudi Arabia), and transportation systems revenues were impacted, as expected, by lower revenues on current large fare collection programmes.

Consolidated revenues by destination at 30 September 2008

Revenues at 30 September *(in millions of euros)*	**9m 2007 restated**	**9m 2008**	*Total change from restated figures*	*Organic change*	**9m 2008 in %**
France	2,124	1,989	- 6%	-1%	24%
United Kingdom	1,141	1,156	+1%	+17%	14%
Other Europe	2,193	2,171	- 1%	+4%	26%
Total Europe	**5,458**	**5,316**	**- 3%**	**+4%**	**64%**
Asia-Pacific	1,125	1,172	+4%	+14%	14%
North America	916	807	- 12%	+5%	10%
Near and Middle East	574	683	+19%	+21%	8%
Rest of World	321	325	+1%	+6%	4%
Total outside Europe	**2,936**	**2,987**	**+2%**	**+12%**	**36%**
Consolidated revenues at 30 September	**8,394**	**8,303**	**- 1%**	**+7%**	**100%**

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Europe accounted for almost two-thirds of revenues in the first nine months of 2008, with strong growth in the United Kingdom in Aerospace & Space (*Watchkeeper*), Defence (optronics) and Security (*JNUP* and critical information systems). The significant increase in revenues from the Near and Middle East is mainly attributable to the Defence business (particularly Land & Joint Systems), but also to Aerospace & Space (*Yahsat*) and Security (Dubai metro). The growth in revenues in Asia-Pacific was mainly driven by Aerospace (IFE in China, Korea and Malaysia) and Naval (*FFG* and support contracts in Australia).

Order intake at 30 September

New order intake for the first nine months of 2008 stood at **€9,060m**, compared with €7,570m for the same period of 2007 (and €7,738m in restated figures) representing an increase of 23% on an organic basis. The book-to-bill ratio was 1.09, compared with 0.92 at 30 September 2007. This increase was driven both by orders worth less than €100m each, which rose by 5% on a like-for-like basis, and by six major contract awards totalling €1,490m: the *CVF* aircraft carrier contract in the United Kingdom (€592m), the *Levante Corridor* high-speed rail link in Spain (€154m) and a commercial satellite for Rascomstar (€101m[1]). These three major orders were booked in the third quarter, following major contracts awarded in the first half of 2008 for *FSTA* (UK), *Lorads III* (Singapore) and corvettes for the Moroccan Navy. At 30 September 2007, only one order in excess of €100m, a defence contract, had been received.

Order intake at 30 September *(in millions of euros)*	**9m 2007 published**	**9m 2007 restated**	**9m 2008**	*Total change from restated figures*	*Organic change*
Aerospace & Space	**2,127**	**2,295**	**2,706**	*+ 18%*	*+ 21%*
Defence	**3,191**	**3,191**	**4,120**	*+ 29%*	*+ 32%*
Security	**2,012**	**2,012**	**2,183**	*+ 8%*	*+ 10%*
Other and divested businesses	*240*	*240*	*51*	*ns*	*ns*
Consolidated order intake	**7,570**	**7,738**	**9,060**	***+17%***	***+ 23%***

[1] Thales share

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Order intake by **Aerospace & Space** in the first nine months of the year was 21% higher than at 30 September 2007. The significant increase in orders booked by the Aerospace division (+24%) is mainly attributable to military business (*FSTA* programme in the United Kingdom and *C130* in France), with growth in civil business driven by support services and avionics for regional aircraft. Space division orders increased by 17%, with strong growth in new civil orders from both commercial customers (*Rascomstar* and *Sinosat*) and institutional customers (*Alphasat* and *Galileo*) offsetting a decline in military satellite orders.

Defence orders increased sharply (+32%) compared to the first nine months of 2007, in particular with the award of the *CVF* contract, valued at €592m. Order intake by the Naval division rose by 141%, with a number of major contracts booked in addition to *CVF*: *FREMM* in Italy, *ALFS* in the United States and corvettes in Morocco. Land & Joint Systems orders increased by 6%, reflecting in particular the success of the *Bushmaster* vehicle in Australia and the continuing *ISAF* contract with NATO. Air Systems orders grew by 6%, with strong growth in air traffic management (*Lorads III* in Singapore) offsetting a decline in military orders despite the first successes of the new *GM400* radar.

New **Security** orders showed a marked improvement (+10%). Following the *FSTA* and *Manchester Metrolink* contracts in the first half of the year, the *Levante Corridor* high-speed rail link contract offsets the anticipated decline in new orders for ticketing and fare collection systems. Orders for critical information systems remained strong in France and the United Kingdom, while orders for information system security solutions were lower (following major contracts awarded in 2007, and with weaker demand from the banking sector). A marked increase in orders for special components was fuelled by sustained demand from the space and medical sectors.

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THIRD-QUARTER REVENUES 2008

Consolidated revenues

Third-quarter consolidated revenues stood at **€2,635m** compared with €2,602m for the same period of 2007, representing an overall increase of +1% and an increase of **+8%** on a like-for-like basis and with constant exchange rates.

Exchange rate fluctuations reduced revenues by €119m; variations in the **scope of consolidation** resulted in a net decrease in revenues of €43m.

Third-quarter revenues *(in millions of euros)*	**Q3 2007 published**	**Q3 2008**	*Change from published figures*	*Organic change*
Aerospace	**776**	**839**	**+8%**	***+13%***
Defence	**1,053**	**1,126**	**+7%**	***+12%***
Security	**703**	**647**	**-8%**	***-5%***
Other & divested businesses	*70*	*23*	*ns*	*ns*
Consolidated revenues	**2,602**	**2,635**	***+1%***	***+8%***

Note that, for Thales, quarterly variations in revenues or in order intake cannot be extrapolated and may markedly differ from the trends expected over a longer period such as the full year. This comment is even more relevant when examining quarterly trends in a single domain.

Aerospace & Space: Third-quarter revenues were 13% higher in 2008 than in 2007. Sales by the Aerospace division increased by 14%, primarily due to higher revenues on the *AEW* programme in Greece and the *Watchkeeper* programme in the United Kingdom. Space revenues rose by 12% over the same period, driven by telecommunication satellites for both civil and military customers.

Defence: Third-quarter revenues were 12% higher in 2008 than in 2007, with growth in all businesses. Naval revenues increased significantly (+29%), particularly for services (support in Australia) and sonars (*FREMM* and *ALFS*). The Land & Joint Systems division also achieved solid revenue growth (+12%), driven by optronics programmes in the United Kingdom and the Middle East. Air Systems sales were relatively stable (+3%).

Security: Third-quarter revenues were 5% lower than in 2007, with a strong performance by rail signalling, critical information systems and special components only partially offsetting lower simulation revenues (particularly in the civil sector) and the anticipated reduction in transportation systems.

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Third-quarter order intake

New orders booked in the third quarter of 2008 reached **€3,009m**, compared with €2,239m in the third quarter of 2007, corresponding to an increase of 34% (**+41%** on a like-for-like basis and with constant exchange rates). These figures include three significant new orders totalling €847m: the *CVF* aircraft carriers for the UK Royal Navy (€592m), the *Levante Corridor* high-speed rail link in Spain (€154m) and a commercial satellite for *Rascomstar* (€101m).

Third-quarter order intake *(in millions of euros)*	**Q3 2007 published**	**Q3 2008**	*Change from published figures*	*Organic change*
Aerospace	**674**	**703**	**+4%**	**+6%**
Defence	**968**	**1,558**	**+61%**	**+65%**
Security	**529**	**729**	**+38%**	**+41%**
Other & divested businesses	*68*	*19*	*ns*	*ns*
Consolidated order intake	**2,239**	**3,009**	***+34%***	***+41%***

Aerospace & Space (+6%): Order intake by the Aerospace division was 17% higher than in the third quarter of 2007, with a number of new military support contracts (*Rafale, Tiger, Mirage 2000-9*) but relatively flat orders for in-flight entertainment systems. The Space businesses recorded a 7% decrease in orders, after strong growth in the first half of the year.

Defence: Order intake rose sharply in the third quarter (+65%) due to the impact of the *CVF* award in the United Kingdom, which resulted in a more than fivefold increase in the value of orders booked by the Naval division. The Land & Joint Systems division also reported strong third-quarter growth (+17%), driven primarily by orders for *Bushmaster* vehicles. Orders booked by the Air Systems division fell sharply, however, particularly in the military sector.

Security: The sharp rise in new orders (+41%) is primarily attributable to the *Levante Corridor* high-speed rail contract in Spain (€154m). The order for the Critical Workers Identity Card *(CWIC)* contract, part of the United Kingdom's National Identity Scheme *(NIS)* programme, was also booked in the third quarter of 2008.

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RECENT DEVELOPMENTS AND FULL-YEAR OUTLOOK

In a particularly uncertain and chaotic economic and financial environment, where certain new aircraft programmes are delayed and the first signs of a slowdown in the market for aerospace spares can be observed, Thales continues to enjoy a positive business trend, as evidenced by the growth in orders and revenues as at 30 September. **The objective of a 6% organic growth of revenues for the full year can therefore be confirmed**.

The objective of an EBIT margin of 7.25% of revenues for the full year also remains achievable, but before taking into account a provision for loss at completion of about €60m, which should be booked in the second half of 2008 **in relation to the A400M programme** and would impact the Group's operating margin accordingly. Indeed, as a result of the recent announcements of further delays in the overall development of the programme and repeated postponements of the first flight of the aircraft, Thales believes that it is necessary to significantly revise the estimated costs for the future versions of the Flight Management System (FMS) which is under its management. This system interacts with all other essential systems of the aircraft and therefore requires a stronger mobilisation of development teams over a much longer timescale than originally envisaged. While reserving its rights on the causes and consequences of these delays, Thales reaffirms its confidence in the success of this programme, which will require the continuation of thorough discussions with Airbus, as well as the firm commitment of all parties involved in industry and at end-user level. Thales finally stresses that the base version of the flight management system, which is necessary for the first flight of the A400M, has been successfully delivered and accepted last spring.

Moreover, while acknowledging that the recent strengthening of the dollar versus the euro is positive, Thales will resolutely continue the **implementation of the second stage of its Optimum plan**, which in particular sets as a priority the optimisation of the industrial organisation and programme management, the development of sourcing in low cost countries and the reduction of G&A costs. This plan should generate **€200m of savings** on a full year basis.

Finally, in the current situation where access to financing becomes more restrictive, Thales stresses that the **financial structure of the Group is sound**. No significant repayment of outstanding financing is scheduled before December 2009 and Thales has confirmed, undrawn bank credit lines for an amount of €1,500m maturing end 2011 and which documentation does not provide for any prepayment obligation linked to rating or financial covenants.

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