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Neuilly-sur-Seine, 14 May 2009

Thales: First quarter 2009 business review

- **Revenues: €2.3bn, stable on an organic basis[1] vs. Q1 2008**
- **Order intake: €2.2bn**
  - **Lower orders in Defence and Aerospace/Space compared with a very high order intake in Q1 2008**
  - **Good resilience of Security, achieving an organic growth of 2%**

Q1 key figures ***(in millions of euros)***	**Q1 2009**	**Q1 2008**	Total change	***Organic change***
Order intake	**2,248**	***2,947***	*-24%*	***-22 %***
Revenues	**2,303**	***2,308***	*-0%*	***+0%***

As usual for Thales, attention is drawn to the fact that quarterly variations in revenues and order intake cannot be extrapolated and may differ markedly from the trends over a longer period, as billing schedules are to a large extent contingent upon the achievement of specific technical milestones on each contract. This comment is even more relevant when examining quarterly figures in a single business or region.

Order intake

New orders booked in the first quarter of the year amounted to **€2,248m** compared with €2,947m in the first quarter of 2008, corresponding to an organic decrease of 22%. The book-to-bill ratio stood at 0.98 compared with 1.26 for the first quarter of 2008. The decrease is attributable to lower orders in the Aerospace/Space and Defence segments, which had booked two very large orders in the first quarter of 2008, namely the *Future Strategic Tanker Aircraft (FSTA)* contract in the United Kingdom (€326m) and the *Lorads III* air traffic control programme in Singapore (€153m). In these two segments, the only contract valued more than €100m booked in the first quarter of 2009 was the Eutelsat satellite contract (€109m[2]). By

[1] In this release, "organic" signifies "on a like-for-like basis and with constant exchange rates". Unless stated otherwise, all percentage changes in this report are organic changes.
[2] Thales share (67% of Thales Alenia Space)

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contrast, order intake by the Security segment increased, and included the company's largest order for the quarter, the *Ciudad Segura* urban security contract in Mexico City (€133m).

Q1 order intake ***(in millions of euros)***	**Q1 2009**	**Q1 2008**	*Total change*	***Organic change***	**Book-to-bill**
Aerospace/Space	**772**	**1,006**	*-23%*	***-26%***	**1.03**
Defence	**802**	**1,246**	*-36%*	***-33%***	**0.84**
Security	**662**	**670**	-1%	***+2%***	**1.13**
Other & divested businesses	*12*	*25*	*ns*	*ns*	
Consolidated order intake	**2,248**	**2,947**	***-24%***	***-22%***	**0.98**

In the **Aerospace/Space** segment, order intake amounted to €772m, 26% lower than the first quarter of 2008, when the *FSTA* contract was booked. Several military aerospace orders were received in the first quarter of 2009, however, in areas including electronic warfare (*CATS 150*) and support services (*Rafale*). Order intake by the civil aerospace businesses started to reflect the current crisis in air transport, with lower orders for support services, in-flight entertainment (IFE) systems, and avionics for regional and business aircraft (*Dash*, *Global Express*). Order intake by the space businesses remained virtually stable, pending confirmation of financing on several contracts.

Order intake by the **Defence** segment fell significantly (-33%) compared with the first quarter of 2008, which included the *Lorads III* air traffic control contract in Singapore and several other major orders. Air Systems were the most affected by these timing issues despite orders for *Sentinel* radars in the United States and an air operations contract in the Middle East. Order intake by Land & Joint Systems was also lower, but to a lesser extent with new orders including an export contract for border surveillance, communication networks for Angola and vehicle systems for Switzerland and Australia. Similarly, naval orders were only slightly lower than in Q1 2008 thanks to a mine counter-measure vessels modernisation contract in Singapore.

Despite the economic downturn, **Security** orders grew organically by 2% to €662m and included several major rail transport (*Barcelona-Figueras* high-speed line in Spain) and security systems programmes (*Ciudad Segura* in Mexico City). Critical information systems and the components & subsystems business booked lower orders, mainly because of the economic slowdown. Simulation orders were lower than in Q1 2008, when the FSTA contract was booked, and the simulation business was directly affected by the problems in the air transport sector. The book-to-bill ratio for the Security segment remained significantly higher than 1 (1.13). This good overall performance looks set to continue, with the announcement of two

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major contracts in the last few weeks, which are not included in the quarterly figures: the *North South Railway* contract in Saudi Arabia (rail signalling) and the *South Yorkshire Digital Region* contract in the United Kingdom (security systems).

At 31 March 2009, the consolidated order book stood at €23,257m, stable in organic terms compared with 31 December 2008, and still represents about 22 months of revenues.

Revenues

Consolidated revenues amounted to **€2,303m** at 31 March 2009, compared with €2,308m at 31 March 2008, which is practically stable in organic terms. **Exchange rate fluctuations** reduced revenues by €56m, almost entirely as a result of the conversion into euros of sales by subsidiaries based outside the euro zone (the stronger dollar did not fully offset persistent weakness in sterling and the Australian dollar). Net changes in the scope of consolidation[1] added €44m in revenues.

Q1 revenues ***(in millions of euros)***	**Q1 2009**	**Q1 2008**	*Total change restated*	***Organic change***
Aerospace/Space	**746**	***720***	*+4%*	***-1%***
Defence	**957**	***998***	*-4%*	***-2%***
Security	**584**	***561***	*+4%*	***+6%***
Other & divested businesses	*16*	*29*	*ns*	*ns*
Consolidated revenues	**2,303**	**2,308**	***-0%***	***+0%***

The **Aerospace/Space** segment recorded revenues of €746m, virtually unchanged from Q1 2008 in organic terms. Aerospace sales showed slight organic growth (+2%), both in civil markets (avionics for Airbus and regional jets) and defence (*Rafale, Meltem*), although revenues from support services for commercial aerospace were lower, and that trend could continue or even worsen in the coming months. Lower sales by the space businesses (-6%), largely the result of particular circumstances, nevertheless reflect uncertainty in the market and point to delays in securing financing for new constellations of satellites.

In the **Defence** segment, revenues, at €957m, fell slightly in organic terms (-2%) compared with the same period of 2008. Land & Joint Systems recorded the sharpest decrease, with less activity in tactical communications in France and the United States. Naval sales were only very slightly lower, with revenues

[1] Primarily the sale of IT services activities in Germany in January 2009 and the consolidation of nCipher and Diehl Aircabin since 1 January 2009.

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from the *CVF* aircraft carrier programme coming on stream in the United Kingdom. Air Systems sales were higher, with surface radars (the *Normandie* radar programme in France and *Cobra* radars for the United Arab Emirates) and navaids offsetting lower sales of missile electronics and services.

With revenues of €584m, the **Security** segment recorded strong growth (+6%) compared with the first quarter of 2008. This positive trend reflects a number of factors including continued growth in rail signalling, the resumption of billings on ticketing programmes and good performance by the information systems security business. Critical information systems sales remained stable, with a high level of activity in France offsetting lower revenues in the United Kingdom and Spain. Sales of components & subsystems were lower.

Consolidated revenues by destination at 31 March 2009

Q1 revenues ***(in millions of euros)***	**Q1 2009**	**Q1 2008**	*Total change*	***Organic change***	**Q1 2009 in %**
France	567	536	+6%	+5%	25%
United Kingdom	271	334	-19%	-8%	12%
Other Europe	648	602	+8%	+4%	28%
Total Europe	**1,487**	**1,471**	**+1%**	**+2%**	**65%**
Asia Pacific	296	314	-6%	-0%	13%
North America	241	247	-2%	-10%	10%
Near & Middle East	169	194	-13%	-13%	7%
Rest of world	111	81	+36%	+36%	5%
Total outside Europe	**817**	**837**	**-2%**	**-3%**	**35%**
Consolidated revenues at 31 March	**2,303**	**2,308**	**-0%**	**+0%**	**100%**

Europe accounted for close to two-thirds of first-quarter revenues in 2009, with strong growth in France but less activity in the United Kingdom, where the increase in naval business did not offset lower land systems sales. The decrease in the United States is attributable in particular to lower orders of tactical communication systems. Revenues from the Rest of world area grew strongly, with billings on several contracts in Africa (communications, air traffic control, etc.).

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Recent events

Thales Alenia Space

The Thales Alenia Space facility at L'Aquila in Italy was very severely affected by the earthquake of 6 April 2009 and subsequent aftershocks. Most of the products in the manufacturing process were recovered and Thales Alenia Space is taking all possible measures to limit the impact on ongoing contracts.

In addition, the re-examination by both parties of the final purchasing price of Thales Alenia Space in accordance with the contractual arrangements led to record a price complement of €130m payable to Alcatel-Lucent, reflecting the soundness of fundamentals and long-term perspectives of Thales Alenia Space, as well as the progress shown by this activity in spite of the present uncertainties in the global economic environment.

Dassault Aviation

The interests in Thales held by Alcatel-Lucent and GIMD are in the process of being acquired by Dassault Aviation. Alcatel-Lucent and Dassault Aviation have announced that the operation is expected to close in the second quarter of 2009. Conditions related to various national regulatory clearances have been met.

Bond issue

Thales issued a €600m four-year fixed-rate bond in March 2009. The issue is part of the company’s liquidity management policy and increases Thales’s financial flexibility, by both enabling the refinancing of the bond issue maturing in December 2009 and extending the average maturity of the financing resources. The success of this issue with investors confirms the confidence of the market in the creditworthiness of the Group. Long term debt of Thales is rated A– by Standard & Poor's and A1 by Moody's, outlook stable.

Financial position and objectives for 2009

Notwithstanding cyclical variations in the company’s activity, which limit the significance of figures referring to a single quarter, the trend in the first three months of the year reflects the underlying strength of Thales’s government and institutional business in defence systems and, more generally, public infrastructure.

However, the deteriorating economic environment is starting to impact certain businesses, notably those related to space (as certain commercial operators may face difficulties to raise financing), industry (special components, IT services) or commercial aerospace (services, avionics for regional aircraft and business

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jets, simulators). First-half figures of avionics activities are also likely to be hit by cost overruns of limited individual amounts on some developments, which are expected to be made good at Group level by the end of the year.

In this environment, Thales intends to resolutely pursue its *Optimum 2011* cost reduction plan, with improvements in programme management as a priority, and to adjust investments in R&D and marketing and sales in line with the development of its markets.

For the 2009 financial year, the company has set an objective of between 3% and 5% in organic revenue growth and an EBIT margin (after restructuring costs) equivalent to or higher than in 2008, bearing in mind the usual seasonality of the Group's activities where the second half of the year typically accounts for the majority of its order intake, revenues and profits.

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APPENDIX

Order intake by destination

Q1 order intake ***(in millions of euros)***	**Q1 2009**	**Q1 2008**	*Total change*	*Organic change*	**Q1 2009 in %**
France	500	582	-14%	-14%	22%
United Kingdom	135	621	-78%	-75%	6%
Other Europe	732	655	11%	8%	33%
Total Europe	**1,367**	**1,857**	**-26%**	**-25%**	**61%**
North America	154	311	-50%	-55%	7%
Asia Pacific	270	529	-49%	-45%	12%
Near & Middle East	149	168	-11%	-13%	7%
Rest of world	280	50	455%	466%	13%
Total outside Europe	**854**	**1,059**	**-19%**	**-19%**	**39%**
Others	28	31	ns	ns	ns
Order intake	**2,248**	**2,947**	**-24%**	**-22%**	**100 %**

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