THALES

Thales: 2009 first-half results

- **Revenues: €5,744m,** an increase of **+2%** on an organic[1] basis.
- **Order intake: €5,860m (-2%[1])**, with several major contracts booked.
- **EBIT[2]: €68m,** with good results in Defence, but overall performance affected by programme difficulties and the impact of the economic environment on Aerospace and Security.
- **Net income, Group share[2]: €12m**
- **A solid financial situation, with a significant improvement in free operating cash flow.**

Neuilly-sur-Seine, 27 July 2009 – The Board of Directors of Thales (NYSE Euronext Paris: HO) met on 24 July 2009 to review the results for the first half of 2009. The Group's Chairman and Chief Executive Officer, Luc Vigneron, said: *"The first months of 2009 were marked by difficulties with various programmes, and by the difficult global financial and economic context. These factors affected several of our businesses. We are increasingly watchful in the way we conduct our operations and assess risk. We intend to resolutely implement action plans to improve our operational performance so that Thales continues to develop for the benefit of its customers, employees and shareholders."*

H1 key figures (in millions of euros)	**H1 2009**	**H1 2008**	***Organic change***
Order intake	**5,860**	***6,051***	***-2%***
Order book at 30 June	**23,821**	***22,938*** [3]	***+1%***
Revenues	**5,744**	***5,668***	***+2%***
EBIT[2]	**68**	***375***	***-82%***
as % of revenues	**1.2%**	***6.6%***	
Net income, Group share[2]	**12**	***289***	
Net debt at 30 June	**886**	***912***	

[1] In this press release, "organic" means "on a like-for-like basis with constant exchange rates". **Unless otherwise stated, all changes mentioned in this document are organic changes**.

[2] Before purchase price allocation (PPA), which had a total negative impact of €49m on EBIT, and €37m on net income (presented in detail in appendix). After this PPA impact, consolidated net income, Group share stood at €-25m at 30 June 2009 compared with €244m at 30 June 2008.

[3] At 31 December 2008.

NEWS

DIRECTION DE LA COMMUNICATION I CORPORATE COMMUNICATIONS

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

Order intake

New orders booked in the first half of the year amounted to **€5,860m**, a slight decrease of 2% on an organic basis compared with the same period in 2008, when order intake was particularly brisk. The book-to-bill ratio stood at 1.02, the fourth consecutive half-year period that the Group has been able to reach a book-to-bill ratio greater than one.

The order intake figure includes several major orders worth a total of €1,209m, including the replication orders of the *ACCS LOC1* contract with NATO, the *Sentinel* programme for the European Space Agency, the *North-South Railway* contract in Saudi Arabia, the Mexico City urban security programme, and *South Yorkshire Digital Region* in the UK. However, the decrease in orders worth less than €100m illustrates the impact of the economic crisis on some non-government customers.

H1 order intake (in millions of euros)	**H1 2009**	**H1 2008**	***Organic change***	**Book-to-bill**
Aerospace/Space	**1,820**	**2,003**	***-11%***	**0.96**
Defence	**2,296**	**2,580**	***-9%***	**0.92**
Security	**1,722**	**1,416**	***24%***	**1.30**
Other & divested businesses	*22*	*52*		
Consolidated order intake	**5,860**	**6,051**	***-2%***	**1.02**

> Aerospace/Space

In the **Aerospace/Space** segment, order intake amounted to €1,820m, down by 11%.

– Order intake by the **aerospace** businesses fell to €916m, 33% lower than the figure for the first half of 2008, which included the order for the UK's Future Strategic Tanker Aircraft (FSTA) programme. Order intake by the civil aerospace businesses continued to reflect the ongoing crisis in air transport, with lower orders for support services, in-flight entertainment (IFE) systems, and avionics for regional and business aircraft (*Dash, CRJ, Global Express*). Despite a number of successes, particularly in electronic warfare (*CATS 150*) and support services (*Rafale*, *ATL2* upgrade), new military aerospace orders show a significant decline compared with the first half of 2008, when the FSTA contract was booked.

– In contrast, order intake by the **space** businesses increased sharply (by 30%) to €905m, with the booking of several major orders for observation satellites (*Sentinel 3* with the European Space Agency) and telecommunications satellites (*Eutelsat W3B, Globalstar*) as well as for modules for the international space station (*Cygnus*).

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

> Defence

Order intake by the **Defence** segment fell by 9% to €2,296m, compared with €2,580m in the first half of 2008, which included the *Lorads III* air traffic control contract in Singapore as well as several naval orders (Moroccan corvettes, *FREMM* frigates for Italy). Naval orders were therefore lower than in the first half of 2008, despite a major mine counter-measure vessels modernisation contract in Singapore. Order intake by Air Systems was also lower, with the replication orders of the *ACCS LOC1* contract for NATO and the *GM400* radar contract for Finland failing to offset the decrease in orders for weapon systems and missile electronics, and lower order intake by the air traffic control systems business, which had booked the *Lorads III* contract in the first half of 2008. Order intake by Land & Joint Systems, however, increased significantly, with new orders for tactical communications in Africa and the Middle East, an export contract for border surveillance, and vehicle systems for Switzerland and Australia.

> Security

Security orders grew sharply during the first half of 2009, standing at €1,722m at 30 June (an increase of 24% on an organic basis compared with 30 June 2008), thanks in particular to the booking of several high-value contracts in rail transport (the *North-South Railway* and the *Mecca Metro* in Saudi Arabia) and security systems (Mexico City urban security programme, *South Yorkshire Digital Region* in the UK). Order intake showed a sharp downturn, however, in businesses whose customers are directly affected by the economic environment, such as industry and services (critical information systems, special components) and civil aircraft simulators.

At 30 June 2009, the consolidated order book stood at €23,821m, representing approximately 23 months of revenues.

Revenues

Consolidated revenues amounted to €5,744m at 30 June 2009, compared with €5,668m at 30 June 2008, an increase of 2% on an organic basis. **Exchange rate fluctuations** reduced revenues by €92m, almost entirely as a result of the conversion into euros of sales by subsidiaries based outside the euro zone. The reduction in revenues was mainly associated with the fall in the value of sterling (-€106m) and the

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

Australian dollar (-€35m) against the euro, despite the steadier performance of the US dollar. Net changes in the scope of consolidation[1] added €75m in revenues.

H1 revenues (in millions of euros)	**H1 2009**	**H1 2008**	***Organic change***
Aerospace/Space	**1,887**	**1,791**	***1%***
Defence	**2,496**	**2,462**	***4%***
Security	**1,327**	**1,353**	***-1%***
Other & divested businesses	*34*	*62*	
Consolidated revenues	**5,744**	**5,668**	***2%***

> Aerospace/Space

The **Aerospace/Space** segment recorded revenues of €1,887m, a 1% increase compared with the first half of 2008. **Aerospace** sales grew slightly (+2%) in both civil markets (avionics for Airbus and regional jets) and defence markets (support services, Rafale), despite the continuing fall in revenues from support services for commercial aerospace – a trend that is expected to continue in the coming months – and the decrease in IFE revenues caused by the lower investment capacity of airlines as well as delays on the Boeing B787 programme. The very slight increase in sales by the **space** businesses (1%) reflects the impact on billings of the earthquake at L'Aquila in Italy in early April, which damaged Thales Alenia Space's facilities, and delays in securing financing for certain new constellations of satellites.

> Defence

In the **Defence** segment, revenues amounted to €2,496m, a 4% increase compared with the same period in 2008. Growth in naval revenues is mainly due to increased activity on the *CVF* aircraft carrier programme in the UK, and contracts to equip patrol boats for Denmark and *FREMM* frigates for France, Italy and Morocco. Air Systems sales were also higher, particularly in air traffic control systems, following the major orders placed the previous year. Land & Joint Systems recorded a more moderate increase in revenues, with growth in optronics and networks offset by lower sales in tactical communications, notably in the US.

> Security

With revenues of €1,327m (compared with €1,353m in the first half of 2008) the **Security** segment recorded a slight decrease in revenues (-1%). Despite continued growth in rail signalling, particularly in Spain, the global economic crisis affected sales across the rest of the segment, with a sharp decrease in 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.

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

from security systems, critical information systems and special components (for industrial and medical applications).

Results

The **EBIT**[1] stood at **€68m** and represented **1.2%** of revenues, compared with 6.6% for the first half of 2008, with the Defence segment performing strongly but failing to offset difficulties in the Aerospace/Space and Security segments.

H1 EBIT (in millions of euros)	**H1 2009**	**H1 2008**	***Organic change***
Aerospace/Space	**-133**	**96**	***ns***
Defence	**241**	**240**	***4%***
Security	**-23**	**51**	***ns***
Other & divested businesses	*-18*	*-11*	*ns*
EBIT	**68**	**375**	***-82%***

> *Aerospace/Space*

The **Aerospace/Space** segment recorded an EBIT[1] of €-133m, compared with a positive figure of €96m for the first half of 2008.

– A combination of several unfavourable factors impacted the EBIT[1] of the **aerospace** businesses, which amounted to €-150m (compared with a positive figure of €72m for the first half of 2008):

- further deterioration in the civil aerospace market, with a reduction in airline business and further delays on the B787 programme
- cost overruns on several civil avionics software developments, all of which were booked as expenses in the first half of the year
- an increase in estimated costs at completion for a naval electronic warfare programme
- higher estimated development costs for the A400M flight management system, leading to a further provision of €102m booked in the first half of 2009 to account for the greater complexity of the technical solution finally adopted and contingencies related to delays and general uncertainties on the A400M programme. Thales remains fully focused on the success of this programme, while at the same time actively taking steps to claim significant compensation.

[1] Before purchase price allocation (PPA)

NEWS

DIRECTION DE LA COMMUNICATION I CORPORATE COMMUNICATIONS

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

- a marked increase in restructuring costs (€19m vs. €6m).

In addition, visibility of the civil aerospace market in 2010 and 2011 remains very poor at this stage. Depending on information provided by the major aircraft manufacturers by the end of this year, the value of certain capitalised R&D costs may be adjusted, as part of the systematic review of the value of assets registered on the balance sheet.

– The **space** businesses recorded an EBIT[1] of €17m, an organic increase of 17% over the first half of 2008, but the earthquake that damaged the L'Aquila facility on 6 April 2009 had a negative impact on performance. Although most of the products in the manufacturing process were recovered and production was relocated to other Group sites, the event has delayed billing on several programmes. In addition, despite strong demand for satellite capacity, some civil customers have had difficulties in securing financing and this has delayed some projects.

> Defence

The **Defence** businesses again performed very satisfactorily, with an EBIT[1] amounting to **€241m**, representing **9.7%** of revenues, the same level as in the first six months of 2008. Continued good performance by the three divisions in this segment is attributable to further growth in defence revenues, smooth programme delivery and effective control of indirect costs.

> Security

The **Security** businesses recorded an EBIT[1] of **€–23m** compared with a positive figure of €51m for the same period of 2008. The performance of this segment was significantly impacted by the economic crisis, with a sharp decrease in revenues (except for rail activities) weighing on profitability. In addition, several programmes experienced difficulties, particularly in ticketing, where despite continued corrective measures, the company booked further provisions, and in simulation, where the development of the new product range generated cost overruns.

Net financial expense amounted to **€–60m**, up from the levels at 30 June 2008, as a result of a higher cost of hedging strategies in persistently volatile foreign exchange markets and expenses related to the bonds issued early in the year to secure the company's liquidity in a particularly uncertain context. The **other components of pension charges** amounted to **€-59m**, compared with €-5m for the first half of 2008, as a result of a significant reduction in investment income forecasts and a non-recurring expense of €17m in the United Kingdom, primarily linked to curtailments and settlements of certain pension schemes. At 30 June 2008 this figure still included part of the exceptional positive impact of the pension scheme renegotiations

[1] Before purchase price allocation (PPA)

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

concluded in early 2008. **Income of equity affiliates**[1] amounted to **€29m** compared with €30m for the first half of 2008.

Net income, Group share[1] for the first half of 2009 stood at **€12m** (compared with €289m for the first half of 2008), after tax income of €33m[1], compared with a tax expense of €91m in the first half of 2008.

Financial situation at 30 June 2009

Free operating cash flow[2] for the first half of the year stood at **€-20m**, a very significant improvement over the first half of 2008 (€-365m). At 30 June 2009, **net debt** remained stable at **€886m**, compared with €912m at 30 June 2008, and **shareholders' equity (excluding minority interests)** amounted to **€3,895m** compared with €3,849m at 30 June 2008. Thales has access to confirmed, undrawn bank credit lines for an amount of €1,500m maturing at end-2011 with no prepayment provisions linked to ratings or financial covenants. Standard & Poors and Moody's also recently confirmed Thales's long-term rating of A- /A1.

Recent events

> Acquisition of CMT Medical Technologies

In February 2009, Thales successfully concluded a takeover bid for CMT Medical Technologies, a medical imaging specialist, acquiring 95% of the company's capital. This company will be consolidated from 1 July 2009.

> Dassault Aviation

The Thales Board of Directors met on 19 May 2009 prior to the annual general meeting of shareholders. With a view to the implementation of the transaction announced in December 2008, whereby Dassault Aviation would acquire Alcatel-Lucent's stake in the capital of Thales and become the Industrial Partner to the Public Sector under the terms of the shareholders' agreement, the Board of Directors brought an end to the mandate of Denis Ranque as Chairman and Chief Executive Officer of Thales. The composition of the Board of Directors was then changed and the new board appointed Luc Vigneron as Chairman and Chief Executive Officer.

Dassault Aviation acquired the Thales shares held by Alcatel-Lucent and GIMD on 19 and 20 May 2009, respectively. Dassault Aviation now holds 26% of the capital of Thales. Dassault Aviation is a signatory to

[1] Before purchase price allocation (PPA)
[2] Operating cash flow plus changes in working capital requirement (WCR) and reserves for contingencies less payment of pension benefits (excluding deficit payments on pensions in the UK) less tax less net operating investments: see details in annex

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 -
www.thalesgroup.com

the shareholders' agreement alongside the French State as detailed in the releases issued by the Autorité des Marchés Financiers on 27 November 2008 and 29 May 2009.

Views for the year

In view of the very poor shape of the global economic environment, but also the resilience of the company's government and institutional businesses, both in defence and public infrastructure, Thales still works on the assumption of an organic revenue growth and an order book at year's end close to about two years of revenues. Excluding the impact of restructuring costs, the Group also expects to record an EBIT margin in line with the corresponding periods of recent years.

Finally, Thales intends to step up ongoing efforts to reduce costs and improve programme management, adjusting these measures in line with developments in the economic context and the results of the strategic reviews that will be conducted in the coming months.

Press contacts:

Sylvie Dumaine

Thales, Corporate Communications

Tel. : +33 (0)1 57 77 86 26

press.office@thalesgroup.com

Investor relations contacts

Jean-Claude Climeau / Eric Chadeyras

Thales, Investor Relations

Tel. : +33 (0)1 57 77 89 02

ir@thalesgroup.com

THALES

APPENDIX

Impact of purchase price allocation (PPA)

in millions of euros	**H1 2009** excl. PPA	**Impact of PPA***	**H1 2009** published
Cost of sales	-4,685	-7	-4,692
Amortisation of intangible assets acquired	-	-42	-42
EBIT	**68**	-49	**19**
Income tax	33	+17	50
Equity in income of unconsolidated affiliates	29	-4	25
Net income, Group share	**12**	-37	**-25**

* PPA: purchase price allocation

Net cash flow

in millions of euros	**H1 2009**	**H1 2008**
Operating cash flow	**197**	**479**
Change in WCR and contingency reserves	42	-509
Payment of pension benefits	-35	-30
Income tax paid	-46	-47
Net operating cash flow	**158**	**-107**
Net operating investments	-178	-258
o/w capitalised R&D	*-48*	*-64*
Free operating cash flow	**-20**	**-365**
Net (acquisitions)/disposals	-149	76
Scheme settlements and deficit payments on pensions in the UK	-28	-73
Dividends	-205	-195
Net cash flow	**-402**	**-558**

NEWS

DIRECTION DE LA COMMUNICATION I CORPORATE COMMUNICATIONS

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

Order intake by destination

in millions of euros	H1 2009	H1 2008	*Organic change*	H1 2009 (%)
France	1,154	1,243	-8%	20%
United Kingdom	555	1,000	-38%	9%
Other European countries	1,754	1,469	+18%	29%
Total Europe	**3,463**	**3,712**	**-5%**	**58%**
North America	566	595	-12%	10%
Asia-Pacific	678	991	-29%	12%
Near and Middle East	618	349	+73%	11%
Rest of world	535	404	+34%	9%
Total outside Europe	**2,397**	**2,339**	**+1%**	**42%**
Total order intake	**5,860**	**6,051**	**-2%**	**100%**

Order book by destination

in millions of euros	30/06/2009	31/12/2008	*Organic change*
France	5,648	5,795	-3%
United Kingdom	4,177	3,841	-2%
Other European countries	5,946	5,607	+4%
Total Europe	**15,771**	**15,243**	**-0.5%**
North America	1,302	1,243	+4%
Asia-Pacific	2,954	2,863	-2%
Near and Middle East	2,207	2,125	+3%
Rest of world	1,587	1,464	+8%
Total outside Europe	**8,050**	**7,695**	**+2%**
Total order book	**23,821**	**22,938**	**+1%**

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com

Order book by segment

in millions of euros	30/06/2009	31/12/2008	*Organic change*
Aerospace/Space	**7,244**	**7,020**	***-1%***
Defence	**10,968**	***10,880***	***-2%***
Security	**5,571**	***4,983***	***+8%***
Others and divested businesses	*38*	*55*	
Total	**23,821**	**22,938**	***+1%***

Consolidated revenues by destination at 30 June 2009

H1 Revenues ***(in millions of euros)***	**H1 2009**	**H1 2008**	***Organic change***	**H1 2009 (%)**
France	1,399	1,425	-3%	24%
United Kingdom	661	791	-7%	11%
Other European countries	1,556	1,447	+5%	27%
Total Europe	**3,616**	**3,663**	**-0%**	**63%**
North America	546	528	-4%	10%
Asia-Pacific	734	780	-1%	13%
Near and Middle East	532	475	+12%	9%
Rest of world	316	222	+41%	6%
Total outside Europe	**2,128**	**2,005**	**+6%**	**37%**
Consolidated revenues at 30 June	**5,744**	**5,668**	**+2%**	**100%**

45, rue de Villiers, 92526 Neuilly sur Seine Cedex - France - Tel.: +33 (0) 1 57 77 86 26 - Fax: +33 (0) 1 57 77 87 44 - www.thalesgroup.com