

2008 FIRST HALF-RESULTS CONFIRM STRENGTH OF COMPANY

BUSINESS MOMENTUM SUSTAINED, RESULTS HOLD FIRM FULL-YEAR OBJECTIVES CONFIRMED

- Organic growth in **revenues** growth of +6.3% (on a like-for-like basis and with constant exchange rates);
- Sharp organic increase in **order intake** (+16%), with the award of several major contracts;
- Organic growth of **EBIT** by 10%, thanks to the very good performance of the Defence segment and despite the impact of difficulties on some complex ticketing contracts in the Security segment;
- Full impact of the "Optimum" plan launched in 2005 and **continuation of competitiveness efforts**, particularly to withstand a very unfavourable currency environment;
- **Confirmed full-year objectives** of a 6% organic growth in revenues and an EBIT margin of at least 7.25% of revenues.

Key figures*

in millions of euros	H1 2007	H1 2008	change	
			total	organic
Order intake	5,331	6,051	+13%	+16%
Order book at 30 June	20,516	22,615	+0.4%	+6%
Revenues	5,584	5,668	+2%	+6%
Income from operations (before restructuring costs)	415	386	-7%	+8%
Income from operations after restructuring costs (EBIT)	399	375	-6%	+10%
as % of revenues	7.1%	6.6%		
Net income, Group share	559	289	-48%	
Net debt at 30 June	1,204	912	-24%	

- **Net income, Group share***, of 289 million euros, includes capital gains of €57m. Net income as at 30 June 2007 included a €318m exceptional capital gain related to the DCNS transaction.

(* before purchase price allocation ("PPA"), which had a total negative impact of €(45)m on net income presented in detail in appendix. After this PPA impact, consolidated net income, Group share stood at €244m at 30 June 2008 compared with €504m at 30 June 2007.

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THALES

Changes in the scope of consolidation

The 2008 financial year is the first to reflect the full impact of the major strategic operations conducted with Alcatel-Lucent in 2007: only the Transport and Security businesses acquired from the telecommunications group were consolidated from 1 January 2007, with the space businesses joining the scope of consolidation from 1 April 2007.

Other changes in the scope of consolidation of the Thales Group include the sale to DCNS of Thales's surface naval businesses (deconsolidated as from 31 March 2007), the sale of Thales's interests in Protac and Bayern Chemie (propulsion business), deconsolidated as from 1 July 2007, and in FACEO, deconsolidated as from 1 October 2007, and the sale of the payment solutions business to the American group Hypercom at the beginning of 2008.

NB. For easier comparison of first-half results for 2008 and 2007, 2007 first-half results are presented below on a restated basis, including the results of the Space business from 1 January 2007 (Space was only consolidated from 1 April in the 2007 published figures).

Revenues

Consolidated revenues stood at **€5,668m**, compared with €5,584m at 30 June 2007 or €5,791m on a restated basis, representing an overall reduction of **-2%** from the restated figure and a **+6.3% increase** on a like-for-like basis and with constant exchange rates.

First-half revenues (in millions of euros)	2007 published	2007 restated	2008	Total change from restated figures	Organic change
Aerospace & Space	1,496	1,703	1,791	+ 5 %	+ 12 %
Defence	2,407	2,407	2,439	+ 1 %	+ 5 %
Security	1,418	1,418	1,397	- 1 %	+ 1 %
<i>Other and divested businesses</i>	263	263	41	ns	ns
Consolidated revenues	5,584	5,791	5,668	- 2 %	+ 6.3 %

Changes in the **scope of consolidation**: the restated figure for 2007 first-half revenues includes €207m 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 quarter, i.e., from 1 April. Other changes in the scope of consolidation, primarily the sale of businesses and interests as indicated above, led to a net deconsolidation of €197m in revenues.

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THALES

Exchange rate fluctuations impacted revenues by –€261m, primarily as a result of the conversion into euros of the revenues of subsidiaries based outside the euro zone. The main fluctuations involved the fall of the US dollar and of the pound sterling against the euro.

In **Aerospace & Space**, where revenues increased by 12% overall on a like-for-like basis and with constant exchange rates, the space business recorded particularly sharp growth in revenues (+25%) across all market segments: telecommunication satellites (Yahsat, Globalstar), observation satellites (Sentinel) and navigation systems (Galileo). Sales by the Aerospace division rose by 5% at constant exchange rates, with a 6% increase in revenues from military customers largely driven by strong growth in billings for defence electronics on France's Rafale programme and the Mirage F1 upgrade programme for Morocco. In non-defence markets, revenues rose by 4%, particularly as a result of brisk activity in the regional aircraft segment with Bombardier and Sukhoi, and good deliveries to Airbus, in line with expectations. By contrast, sales of in-flight entertainment (IFE) systems decreased, reflecting the first effects of delays on the B787 programme and, to a lesser extent, on the A380 programme.

In **Defence**, revenues were 5% higher than in the first half of 2007 on a comparable basis. Land & Joint Systems sales rose by close to 9%, mainly for optronics and land systems and particularly in the United Kingdom, while Naval division revenues increased by 8%, largely as a result of billings on the Franco-Italian FREMM and Australian FFG frigate programmes and strong services business. Air Systems business fell slightly (-2%); military sales by this division were stable but sales of air traffic control equipment and systems fell despite solid growth in customer support business.

Security revenues remained stable overall (+1%), with some variations between sectors: sales increased by 6% in rail signalling and by 7% in enterprise services, but difficulties on certain major transport ticketing and access control projects eroded overall revenue performance in this segment. In addition, training & simulation and security equipment revenues were lower than in the first half of 2007, which was a particularly active period for these businesses.

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Consolidated revenues by destination

First-half revenues (in millions of euros)	2007 restated	2008	Total change	Organic change	2008 in %
France	1,583	1,425	-10%	-5%	25%
United Kingdom	763	791	+4%	+20%	14%
Other Europe	1,473	1,447	- 2%	+3%	26%
Total Europe	3,819	3,663	- 4%	+3%	65%
Asia Pacific	778	780	+0%	+11%	14%
North America	593	528	-11%	-3%	9%
Near and Middle East	388	475	+22%	+25%	8%
Rest of world	213	223	+5%	+11%	4%
Total outside Europe	1,972	2,005	+2%	+10%	35%
Consolidated revenues	5,791	5,668	- 2%	+6%	100%

The decrease in sales in France is largely the result of billing schedules on defence programmes. Billings in the United Kingdom rose by 20% after correction for the impact of the fall of the pound sterling between the first half of 2007 and the first half of 2008.

Asia-Pacific sales grew by 11% on a comparable basis, with strong increases in all three core business segments. The very sharp growth in Middle East revenues also reflects higher sales by all three segments. In particular, the space business recorded its first revenues on the major Yahsat and Arabsat contracts signed in 2007 in this region. In North America, sustained sales performance by the military air system business did not entirely offset lower billings in defence communications and civil aerospace in the United States.

New order intake in the first half of the year stood at **€6,051m** compared with €5,331m for the first half of 2007 (€5,499m using restated figures), representing an increase of 13% overall, or 16% on a comparable basis. The book-to-bill ratio stood at 1.07 compared with 0.95 for the first half of 2007. Underpinning this favourable trend is both an increase of 6% in orders worth less than €100m each and the award of three major contracts worth a total of €605m: the *FSTA* refuelling aircraft programme in the United Kingdom (€326m booked by Thales UK) as part of the AirTanker consortium¹, the *Lorads III* contract (€153m) to supply a new air traffic control system for Singapore airport, and an order worth €126m from the Moroccan

¹ Cobham, EADS, Rolls-Royce, Thales UK and VT Group

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THALES

Navy to provide equipment and systems for three corvettes. Only one military order worth more than €100m had been booked in the first half of 2007. Significantly, these figures at end of June 2008 do not include the United Kingdom's CVF programme, which was signed in early July and represents an order worth some €600m for Thales.

First-half order intake (in millions of euros)	2007 published	2007 restated	2008	Total change from published figures	Organic change
Aerospace & Space	1,453	1,621	2,003	+38%	+ 28%
Defence	2,224	2,224	2,562	+15%	+ 17%
Security	1,482	1,482	1,454	-2%	-1%
<i>Other and divested businesses</i>	172	172	32	ns	ns
Consolidated order intake	5,331	5,499	6,051	+13%	+16%

The strong increase in order intake in the **Aerospace & Space** segment (+28%, book-to bill ratio of 1.12 compared with 0.95 at 30 June 2007) was driven by good performance in both the Aerospace and Space businesses. Order intake by the Space business increased by 31%, with orders for two satellites for *Eutelsat* and *Nilesat*, two payloads for *Koreasat* and *Amos 4* and several orders for the *Galileo* programme. The growth in overall order intake by the Aerospace division (26%) is attributable in particular to a strong increase in orders booked by military businesses (42%), which received the majority of the orders placed with Thales for the *FSTA* programme, and also to good performance by the civil businesses (+17%), particularly IFE (+27%) but also Airbus and support activities.

Order intake in the **Defence** segment also grew strongly, increasing by 17% with constant exchange rates to achieve a book-to-bill ratio of 1.05 (0.92 at 30 June 2007). Orders bookings rose particularly sharply in the Naval division (+40%), with new orders for corvette programmes in Morocco and Indonesia and for sonar systems², and the Air Systems division (+33%), with the *Lorads III* air traffic control programme in Singapore. After a particularly active year in 2007, order intake by the Land & Joint Systems division rose by 2%.

In the **Security** segment, the book-to-bill ratio remained stable at 1.04 as new orders fell by 1% on an organic basis. Higher order intake by the components, security systems and transportation system businesses, and by the simulation business (which benefited from the *FSTA* refuelling aircraft programme in the United Kingdom) offset a marked decrease (-26%) in rail signalling orders, which are expected to improve in the second half of the year with the award of a number of major contracts.

² The United Kingdom's CVF aircraft carrier contract was signed in early July and will be booked in the third quarter.

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Results

EBIT (Income from operations after restructuring costs)⁽³⁾ stood at €375m at 30 June 2008 compared with €399m at 30 June 2007 (and €398m on a restated basis), which represents a decrease of 6% in monetary terms, but corresponds to an increase of 10% on a like-for-like basis and with constant exchange rates.

- This trend primarily reflects very good performance by the **Defence** segment which enjoys an increase in both revenues and margin levels: at €235m compared with €207m at 30 June 2007, EBIT of the segment has grown by close to 20% at constant exchange rates. All three divisions in this segment contributed positively to this increase.
- Moreover, the **Aerospace & Space** segment did more than resisting to persistent weakness of the US dollar: EBIT of the Aerospace division remained stable at €72m compared with €73m at 30 June 2007, despite being the most severely affected by exchange rate fluctuations (total impact of €(20)m). At constant exchange rates, EBIT of the division increased by more than 30%, despite approximately €(20)m of cost overruns on the flight management system for the A400M. The Space businesses more than doubled their EBIT, from €10m at 30 June 2007 to €24m at 30 June 2008 despite a negative currency impact of €(6)m.
- The notable decrease in the income of the **Security** segment (€51m compared with €104m a year ago) is mainly attributable to the ticketing business, where problems on two complex contracts led to cost overruns of €(45)m.
- Thales recorded a further decrease in **restructuring costs**, from €16m to €11m, reaping in 2008 the full benefits of the "Optimum" plan launched in 2005. In view of the monetary environment, these competitiveness efforts will nevertheless be continued, but will not require the same level of charges thanks to the expected growth of the activity.

Income of operating activities stood at €387m, including net capital gains of €57m, of which a €53m gain on the disposal of the payment solutions business, and €(43)m corresponding to depreciation of residual goodwill on the ticketing business. At 30 June 2007, income of operating activities stood at €694m, including a €318m capital gain booked on the sale to DCNS of the company's surface naval businesses in France.

⁽³⁾ Before adjustment for purchase price allocation

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Net income, Group share stood at €289m at 30 June 2008, compared with €559m at 30 June 2007⁽³⁾, including the exceptional capital gain mentioned above.

Net debt stood at €912m, compared with €1,204m at 30 June 2007 and €291m at 31 December 2007, and takes into consideration negative free cash flow of operating activities of €(365)m compared with €(378)m at 30 June 2007 (a usual trend in the first half), as well as dividend payments of €(195)m.

2008 full-year outlook

Despite the persistent strength of the euro against the dollar and the pound sterling, tight budgets in some of the company's main domestic markets and delays on certain major Boeing and Airbus aerospace programmes, Thales confirms its full-year objective of 6% organic growth in revenues for 2008.

In addition, with the improvement in operational performance expected in the Security segment in the second half of the year, and a further reduction in restructuring costs, Thales also confirms its target of achieving an EBIT margin of at least 7.25% of revenues, compared with 7% in 2007.

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APPENDIX

Impact of purchase price allocation (PPA) on the profit and loss account

<i>in millions of euros</i>	H1 2008 "adjusted"	Impact of PPA*	H1 2008 consolidated
Income from operations before restructuring costs	386	-62	324
Income from operations after restructuring costs (EBIT)	375	-62	313
Income from operating activities	387	-62	325
Income tax	(91)	21	(70)
Unconsolidated affiliates	30	-4	26
Net income	289	-45	244
Net income, Group share	289	- 45	244

*PPA: Purchase Price Allocation (adjustments to reflect the fair value of assets and liabilities acquired)

Summarised profit and loss account*

<i>in millions of euros</i>	H1 2007	H1 2008
Consolidated revenues	5,584	5,668
Income from operations before restructuring costs	415	386
Restructuring costs	(16)	(11)
EBIT	399	375
Gains (Losses) on disposals & others	296	12
Income of operating activities	695	387
Financial results	(25)	(32)
Other components of pension charges	(1)	(5)
Income tax	(124)	(91)
Unconsolidated affiliates	15	30
Net income	560	289
- minority interests	1	(0)
Net income, Group share	559	289

* before adjustment for PPA

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Summarised statement of cash flows

<i>in millions of euros</i>	H1 2007 restated	H1 2008
Operating cash flows before working capital changes	499	479
Change in WCR	(609)	(509)
Payment of pension benefits *	(37)	(30)
Income tax (paid) / received	(34)	(47)
Net cash flows from operating activities	(182)	(107)
Net capital expenditures	(192)	(258)
Free cash flows from operating activities	(378)	(365)
(Acquisitions) / disposals	(756)	76
Contribution to unfunded status of UK pension schemes	(37)	(73)
Dividends paid	(169)	(195)
Net cash flows of the period	(1,340)	(558)

* Excluding contribution to unfunded status of UK pension schemes

EBIT* by segment

<i>in millions of euros</i>	H1 2007*	H1 2007 restated	<i>% of revenues</i>	H1 2008	<i>% of revenues</i>
Aerospace & Space	84	83	4.9%	96	5.4%
Defence	207	207	8.6%	235	9.6%
Security	104	104	7.3%	51	3.7%
Others & disposals	4	4	ns	(7)	ns
EBIT	399	398	6.9%	375	6.6%

* before adjustment for PPA

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Information by segment

Aerospace & Space

<i>In millions of euros</i>	H1 2007	H1 2007 restated	H1 2008
Order book at 30 June	6,873	6,873	7,300
Order intake	1,453	1,621	2,003
<i>Book to bill</i>	0.97	0.95	1.12
Consolidated revenues	1,496	1,703	1,791
Income from operations before restructuring costs *	93	91	102
EBIT *	84	83	96
<i>% of revenues</i>	5.6%	4.9%	5.4%

Defence

<i>In millions of euros</i>	H1 2007	H1 2008
Order book at 30 June	10,252	10,351
Order intake	2,224	2,562
<i>Book to bill</i>	0.92	1.05
Consolidated revenues	2,407	2,439
Income from operations before restructuring costs *	207	235
EBIT *	207	235
<i>% of revenues</i>	8.6%	9.6%

Security

<i>In millions of euros</i>	H1 2007	H1 2008
Order book at 30 June	5,183	4,916
Order intake	1,482	1,454
<i>Book to bill</i>	1.04	1.04
Consolidated revenues	1,418	1,397
Income from operations before restructuring costs *	106	54
EBIT *	104	51
<i>% of revenues</i>	7.3%	3.7%

* before adjustment for PPA

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THALES

Quarterly information

Consolidated revenues

<i>In millions of euros</i>	2007	2008	Total change	Organic change
Q1	2,194	2,308	5%	7.3%
Q2	3,390	3,360	-1%	5.4%
H1	5,584	5,668	2%	6.3%

Q2 by segment

<i>In millions of euros</i>	Q2 2007	Q2 2008	Total change	Organic change
Aerospace & Space	1,043	1,071	3%	9%
Defence	1,440	1,447	1%	4%
Security	815	819	0%	2%
Other	92	23		
Consolidated Q2 revenues	3,390	3,360	-1%	5.4%

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