

JUNE 2016

Shareholders newsletter



Patrice Caine

Chairman & Chief Executive Officer of Thales

Dear shareholder,

In 2015, Thales saw renewed sustainable growth.

2015 represented an important step in the success of our profitable growth strategy, Ambition 10.

Orders were up 31% compared to 2014, reaching a record level of €18.9 billion. At the same time, our sales figures returned to solid growth after several years of relative stability.

This very positive performance was achieved thanks to the involvement of all Thales teams who, together, made the initiatives undertaken as part of our "Ambition Boost" performance plan a success. I am referring in particular to our success in emerging markets and the signing of several major contracts, as well as our marketing approach, with a renewed focus on creating value for our customers.

Our sales in emerging markets have continued to grow strongly: they were up by 16% compared to 2014, and by 40% compared to 2012. Our order intake across these markets reached €6 billion in 2015, compared to only €3 billion in 2012.

In 2015, Thales signed no less than 24 large contracts over €100 million, with five jumbo contracts worth more than €500 million each in every major sector: the signalling for four lines on the London Underground,

orders linked to Egypt and Qatar's purchase of Rafale combat aircraft, more than 1,000 Hawkei vehicles for the Australian Defense Force and a military satellite communication system for France, ComSat NG. This strong commercial momentum was not limited to large contracts: the essential base formed by the intake of orders of less than €10 million, which represent almost 50% of our activity, also grew by 6%.

As of the end of 2015, your Group's balance sheet is particularly strong. It is debt-free and can finance investments and targeted acquisitions generating strong synergies, such as the acquisition of LiveTV in 2014 and the acquisition of Vormetric that was completed in March.

Our performance in 2015 strengthens my belief that Thales is experiencing renewed sustainable growth. This growth will, in turn, lead to new challenges that the company looks forward to rising to in the future.

Thanks to the work of all its teams, Thales is undergoing a profound transformation, which will foster a profitable and sustainable growth.

I thank you for your confidence,

Patrice Caine

2015 full year results

Order intake: €18,880 million (+28% at constant scope and exchange rates)

Thales benefited from a particularly high number of large orders with a unit value over €100 million in all Group segments.

From a geographical perspective, orders were up sharply both in mature markets (€12,701 million, +26%), and in emerging markets (€6,179 million, +45%).

Sales: €14,063 million (+4.5 % at constant scope and exchange rates)

In the Aerospace segment, sales amounted to €5,381 million, up 1.7% at constant scope and exchange rates.

The Avionics business continued to benefit from a favorable currency impact and the acquisition of Live TV, as well as the increased sales of commercial avionics and in-flight entertainment systems.

In the Transport segment, sales amounted to €1,519 million, (+4.1% at constant scope and exchange rates). Despite execution difficulties on a number of contracts, this segment returned to growth after two years of organic decline in sales.

Sales in the Defence & Security segment reached €7,084 million, up 9.3% compared to 2014 (+6.8% at constant scope and exchange rates). All activities contributed to this positive trend.

EBIT ⁽¹⁾: €1,216 million (+18.0% at constant scope and exchange rates)

The EBIT for the Aerospace segment increased to €518 million (9.6% of sales) compared to €505 million (10.1% of sales) in 2014.

The Transport segment reported an EBIT of €-37 million (-2.4% of sales) compared to €32 million (2.3% of sales) in 2014. As part of the in-depth review of the contract portfolio carried out during the first half of 2015, additional charges were booked, which had a major impact on the profitability of this segment. In line with the recovery plan implemented by the new management team, this segment achieved break-even in the second half of 2015 (+€2 million).

The EBIT for the Defence & Security segment increased significantly, totalling €760 million (10.7% of sales) compared to €620 million in 2014 (9.6% of sales). In addition to the very satisfactory level of contract execution, the rise in margins was driven by the healthy commercial dynamics, particularly in the Land & Air Systems and Secure Communications and Information Systems businesses.

The contribution made by DCNS to EBIT stood at €22 million in 2015, compared with €-117 million in 2014. DCNS is implementing its recovery plan as expected.

Adjusted net income, Group share ⁽²⁾ stood at €809 million, compared to €562 million in 2014, after

an adjusted tax charge¹ of €266 million compared to €258 million in 2014. The effective tax rate is 27%, compared to 29% in 2014.

The adjusted net income, Group share, per share¹ amounted to €3.89, up sharply on 2014 (€2.75).

A strong financial situation

Free operating cash flow amounted to €1,110 million. It increased sharply compared to 2014 (€501 million), despite an increase in net operating investments (€458 million compared to €443 million in 2014) as part of the optimisation of the Group's industrial base. Above and beyond the improvement in EBIT, it benefited from advance payments received on orders recorded during the year.

At 31 December 2015, net cash amounted to €1,978 million compared to €1,006 million at the end of December 2014.

1. Income from operations, increased by the share of net income in equity-accounted companies, before the impact of amounts relating to the amortisation of intangible assets acquired (purchase price allocation, "PPA") as part of material business combinations.

2. Adjusted net income corresponds to the net income attributable to shareholders of the parent company, excluding the following items: amortisation of intangible assets, gains and losses on disposals, changes in scope and other movements, changes in the value of foreign exchange derivatives, in addition to actuarial gains and losses on long-term benefit plans, net of tax impacts.

Key figures for Q1 2016

- **Order intake: € 2,312 million**, (-18 % compared with Q1 2015). It is logically lower than in Q1 2015 when the Group recorded the Egyptian Rafale contract. Compared with Q1 2014, which did not integrate any jumbo contract, Q1 2016 is up 11%.
- **Sales : €2,732 million**, up by 7.3% at constant scope and exchange rates. This is mainly due to a good performance in Transport (+ 11.3%) and Defence & Security (+11.4%).

Annual general meeting on 18 May 2016

The combined Annual General Meeting (AGM) of Thales shareholders, chaired by Patrice Caine, the Group's Chairman and Chief Executive Officer, was held on 18 May 2016 in Paris La Défense.

It has approved in particular the 2015 financial statements as well as the distribution of a dividend of €1.36 per share including the interim dividend of €0.35 already paid in December 2015. The payment in cash of the final dividend of €1.01 took place on 1st June 2016.



Qatar selects the Rafale for its air force



© Dassault Aviation

24 Rafale omnirole combat aircrafts have been ordered by the Qatar Air Force.

This contract has been booked at the end of 2015.

Thales equips the Rafale with systems providing it with a multi-sensor capability. These systems represent around 25% of the total value of the Rafale.

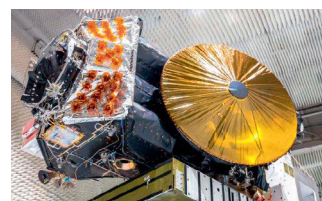
ExoMars successfully launched

Europe's ExoMars spacecraft was successfully launched on 14 March 2016 from the Baikonur Cosmodrome in Kazakhstan.

ExoMars will reach the Red Planet after a journey of almost 7 months. Among the trace gases that the mission will study, methane is particularly interesting, as on Earth it is often an indicator of life.

ExoMars is the first mission of the ESA "Aurora" exploration program which is articulated around two separated missions. Thales Alenia Space acts as prime for the industrial program.

Thales Alenia Space is the prime contractor of the program which will last until 2020.



Thales AVANT IFE and connectivity selected by Singapore Airlines for its A350 XWB



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Thales In-Flight Experience will equip Singapore Airlines on its future fleet of A350 XWB aircraft configured for medium-haul operations.

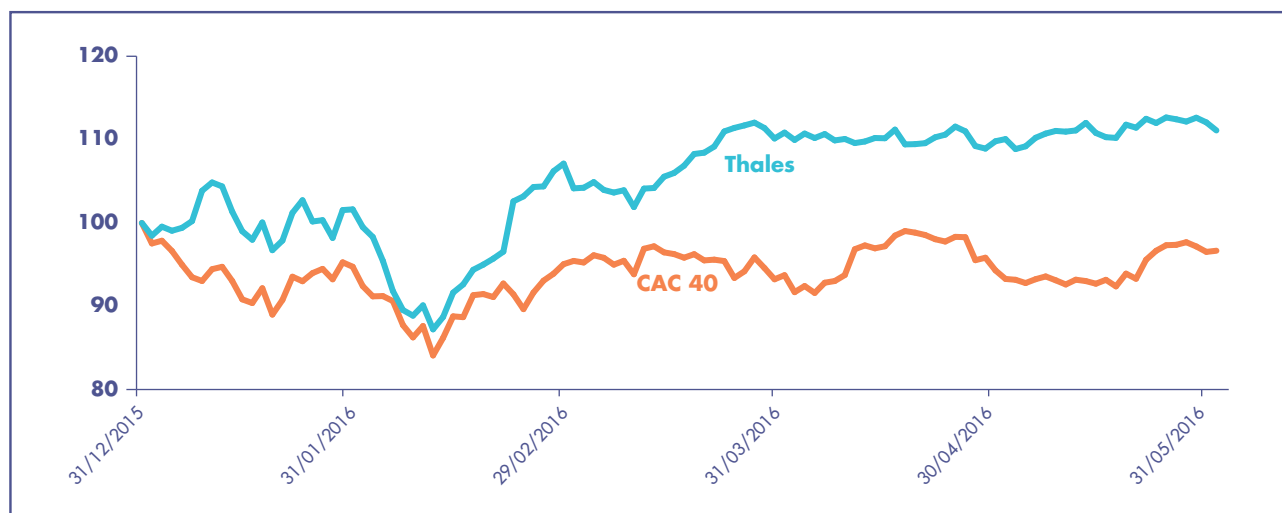
For the first time, Singapore Airlines, which is recognized for its high standards of service and unique cabin experience, has chosen Thales for the supply of the multi-media equipment on board.

Thales, with its AVANT Android based system offers a flexible architecture that responds to these needs. Through its innovative User Application portal, Thales will assist Singapore Airlines to constantly introduce the newest and most sought after apps present in the consumer market, to their passengers.

Shareholder news

Thales share price

(since 31 December 2015)



Shareholder information

Listing market:

Euronext Paris (compartment A)

Main reference indices:

CAC Next20, SBF1 20, SBF250, CAC Large60 and CAC AllShares

Number of shares as of 31 December 2015:

210,961,404

Highest closing price since the 1st of January 2016:

€77.88 (26 May 2016)

Lowest closing price since the 1st of January 2016:

€60.24 (11 February 2016)

Dividend (21% increase compared with 2014):

- interim dividend: €0.35 paid on 11 December 2015
- final dividend: €1.01 paid on the 1st of June 2016

CALENDRIER

22 July 2016: 2016 half-year results

19 October 2016 : Q3 2016 sales and order intake

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