

Shareholders newsletter

June 2017

Patrice Caine
Chairman & Chief
Executive Officer



Dear shareholder,

2016 represented another successful milestone for our profitable growth strategy.

Order intake remained at a high level, outperforming sales for the fourth year in a row. The Group enjoyed significant commercial successes in in-flight entertainment, urban rail signalling, with the extension of the Dubai metro, and Defence & Security, with the order of 36 Rafale fighter aircraft by the Indian government. The fact that these major contracts were signed confirmed the Group's momentum in emerging markets, which has been one of our strategic priorities since 2013. Organic sales growth came out at +7%, with all of our businesses contributing to this performance. Profitability continued to increase in line with our medium-term targets. At the same time, we were able to increase our investments in innovation, digital transformation and talent development.

Good financial performance of the Group has been confirmed during first quarter of 2017. Orders are in line with our expectations, while revenues were very strong, ahead of our annual objectives.

The Group's strategic priorities remain unchanged for the coming years. We are staying focused on leveraging all the performance drivers identified in our Ambition 10 strategy: growth, competitiveness and people – the latter being key to the success of a high-tech Group such as Thales.

Thales will be able to count on a solid momentum in its civil markets, driven by long-term trends such as the growth in air travel, the increasing urbanisation of emerging markets, and the need for more efficient transport infrastructure in mature markets. The Group also expects to benefit from the inflection of defence budgets, which has reached a political consensus in most European countries.

Furthermore, the digital transformation that both our civil and military customers are undergoing represents an excellent development opportunity for Thales. The nature of our business, typically focused on processing sensor-generated data, has enabled us to develop an extensive expertise in four key digital technologies: connectivity and mobility, crucial to the internet of Things, "Big Data", the processing of very large data sets, Artificial Intelligence, and cyber-security, essential in every digital transformation project. By leveraging these skills, and strengthening them through increased Research & Development as well as targeted acquisitions where necessary, not only will we be able to grow the incremental innovations we offer our customers, but we will also have the ability to conceive breakthrough innovations that may open up new markets.

It was my pleasure and honor to meet with some of you during the Annual General Meeting on May 2017. This gave me the opportunity to come back on these important topics for the future and some important projects rallying the employees of your Group.

Thanks to the commitment of all its teams, your Group is driving a deep transformation that will foster profitable and sustainable growth.

I Thank you for your confidence.

Patrice Caine
Chairman & Chief Executive Officer

2016 ANNUAL RESULTS

Order intake down in comparison with a record 2015 (€16.5bn, -11% at constant scope and currency)

Order intake in 2016 amounted to €16.5bn, down 13% on the record high of 2015 (down 11% at constant scope and currency). Commercial momentum was solid in all of the Group's businesses, with the decrease explained by an exceptional volume of large orders booked in 2015.

From a geographical point of view, orders fell as expected in mature markets (-20%), where the clients of three of the five major 2015 orders listed above were located. Emerging markets continued to report a solid order intake (+3).

Increase of revenues (€14.9bn, +6,8%)

Sales in the Aerospace segment came in at €5.8bn, up 8.5% at constant scope and currency). Sales of commercial and military aircraft avionics and in-flight entertainment proved particularly buoyant as sales in the Space segment, lifted by the ramp-up of contracts signed in 2014 and 2015.

In the Transport segment, sales totalled €1.6bn, up 8.3% at constant scope and currency. This reflects the start of invoicing on the major projects won in 2015.

Sales in the Defence & Security segment were €7.4bn, up 5.0% at constant scope and currency. Almost all businesses contributed to this momentum.

From a geographical perspective, this good performance reflects both continued strong growth in emerging markets (up 14.0%) and a return to organic growth in mature markets (up 3.9%). Emerging markets accounted for 30% of the Group's sales in 2016.

Strong EBIT growth (€1.3bn, +15.0% at constant scope and currency)

The Aerospace segment posted EBIT of €571 million (9.8% of sales), versus €518 million in 2015 driven by a good performance in the avionics and Space segments. EBIT of the Transport segment increased sharply, at €11 million, compared to a negative €37 million in 2015, in line with increasing revenues and the operational recovery plan implemented. EBIT for the Defence & Security segment was €788 million (10.7% of sales), compared to €760 million in 2015.

The contribution made by DCNS to EBIT stood at €34 million in 2016, compared to €22 million in 2015, benefiting from the gradual upturn in its profitability, and from a non-recurring, non-operating item.

Adjusted net income, Group share, improved (at €897 million versus €809 million in 2015)

Adjusted net income, Group share, per share 3 came out at €4.25, up 9% on 2015 (€3.89).

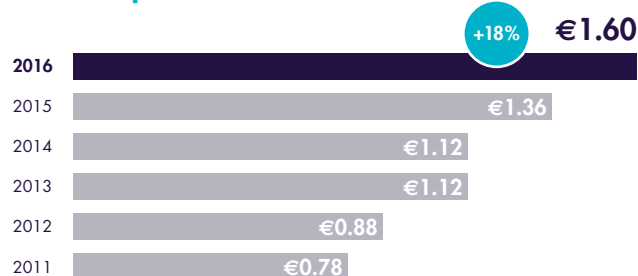
A solid financial situation

Free operating cash flow, at €954 million (€1,110 million in 2015) remained high, lifted by EBIT growth and by advance payments received on orders during the year.

At 31 December 2016, net cash amounted to €2,366 million compared to €1,978 million at end-2015, after the distribution of €297 million in dividends (€234 million in 2015).

The net balance of acquisitions and disposals is an expenditure of €94 million: the acquisition of Vormetric, finalised in March (€372 million expense) was partly offset by the balancing cash payment received in connection with the change in scope of the Thales Raytheon Systems joint venture (€81 million) and by cash received in relation to the sale of the shareholding in Hanwha Thales (€204 million).

Dividend per share



Q1: Key figures as of 31 March 2017

Order intake: €2.3bn (-1% vs. Q1 2016)

One large order worth over €100 million was booked in Q1 2017, for the supply of a telecommunications satellite.

Sales: €3.1bn, up 11,0% at constant scope and currency

All businesses contributed to this momentum. From a geographical perspective, this very good performance reflects both continued strong growth in emerging markets (up 16.6%) and increased organic growth in mature markets (up 8.7%, after +2.5% in Q1 2016).

KEY FACTS

Annual General Meeting on 17 May 2017

The combined Annual General Meeting (AGM) of Thales shareholders, chaired by Patrice Caine, the Group's Chairman and Chief Executive Officer, was held on 17 May 2017 in Paris.



Patrice Caine took this opportunity to come back on the major strategic priorities of the Group. He stressed the importance of the digital transformation for which Thales is particularly well prepared. The Group keeps increasing its expertise in 4 key technologies: connectivity, Big Data, Artificial Intelligence and cybersecurity, which are growth drivers for the Group.

The AGM has approved in particular the 2016 financial statements as well as the distribution of a dividend of €1.60 per share including the interim dividend of €0.40 already paid in December 2016. The payment in cash of the final dividend of €1.20 took place on 2 June 2016.

The slide-show of the AGM is available on Thales website at: <https://www.thalesgroup.com/en/investor/retail-investors/annual-general-meeting>

Thales acquires Guavus, one of the pioneers of real-time big data analytics

Headquartered in San Mateo, California, in Silicon Valley, the company employs 250 people of which 160 are R&D engineers. Guavus is one of the pioneers of real-time big data analytics.



Guavus, a leader in real-time big data processing and analytics, is perfectly suited to the growing needs of an increasingly connected global ecosystem. The company has built a recognised industrial "big data" platform particularly suited to real-time analytics, designed to be easily implemented across any number of new markets. Airlines, satellite, air traffic control, metro or train operators, armed forces or security officials of large urban or energy infrastructures rely on Thales's high technology solutions to take the best decisions in real time.

In a world facing exponential growth in the volume of data coming from increasingly connected sensors, Guavus' acquisition opens broad opportunities for Thales in areas including predictive maintenance, cyber security, monitoring of critical infrastructures, network and telecommunication systems optimization. This acquisition should be finalized during the third quarter of 2017.

Thales welcomes contract award for French Defence Ministry's intermediate-size frigate programme

In April, the French defence ministry notified to Thales and DCNS they were the contract for the development and construction of five intermediate-size frigates for the French Navy under the FTI (*Frégate de Taille Intermédiaire*) programme managed by the French defence procurement agency (DGA). The first frigate will be delivered in 2023 and is scheduled to enter service in 2025.

Thales will provide a number of latest-generation systems for the French Navy's future intermediate-size frigate programme.



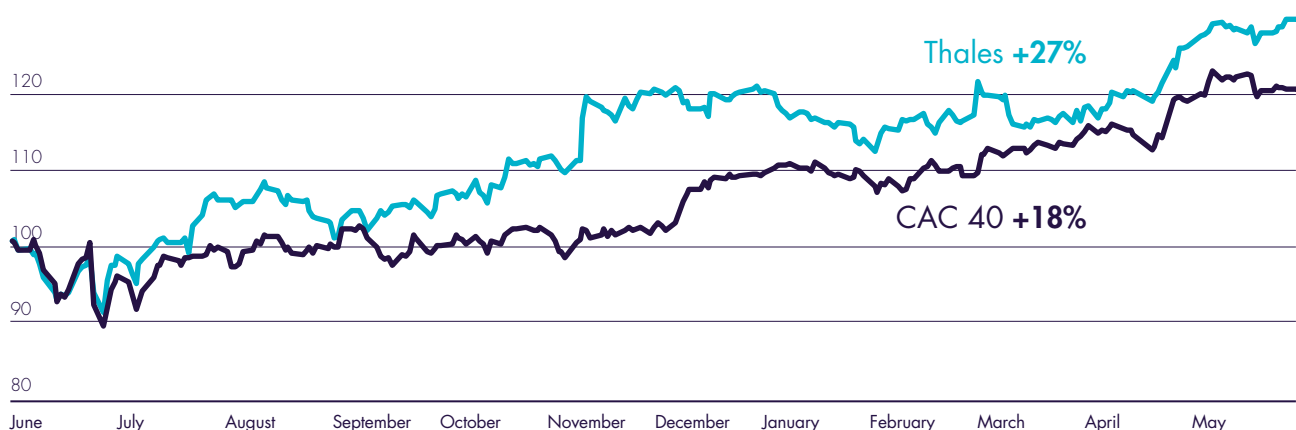
Thales will thus provide the new Sea Fire radar, one of the most innovative systems. For the first time a fully solid-state multi-function radar with a four-panel phased array antenna will equip a French Navy vessel. Sea Fire radar is fully digital. Thales will also provide the compact version of the CAPTAS-4 towed-array sonar, the Aquilon integrated naval communication system, guaranteeing interoperability between all the actors taking part in the FTI's future missions and also the new fully digital SENTINEL electronic warfare system compatible with modern shipboard systems.

Thales equipment and systems are in service with 53 navies on board of more than 500 vessels.

SHAREHOLDER NEWS

Thales share price

> SHARE PRICE SINCE 1ST JUNE 2016



Shareholder information

Listing market:

Euronext Paris (compartment A)

Main reference indices:

CAC Next20, SBF250, CAC Large60 and CAC AllShares

Number of shares as of 31 May 2017: 212,483,601

Highest closing price from 1st June 2016 to 31 May 2017:

€99,22 (26 May 2017)

Lowest closing price from 1st June 2016 to 31 May 2017:

€70,33 (27 June 2016)

Dividend: 18% increase compared with 2016

Interim dividend: €0.40 paid on 9 December 2016

Final dividend: €1.20 paid on 2 June 2017

Agenda

26 July 2017

2017 Half-year results

19 October 2017

Order intakes and revenues for the first nine months of 2017

Contacts

Thales

Tour Carpe Diem
31 place des Corolles
CS 20001
92098 Paris-La Défense
www.thalesgroup.com

Investor relations

Tel.: +33 1 57 77 89 02
Email: ir@thalesgroup.com

Employee shareholders

Tel.: +33 1 57 77 80 65
Fax: +33 1 57 77 84 46
Email: employee.shareholding@thalesgroup.com

Société Générale (registered shares)

Département Titres & Bourse
BP 81236
44312 Nantes Cedex
www.nominet.socgen.com