

NOVEMBER 2015

Shareholders' newsletter

Patrice Caine

Chairman & Chief Executive Officer of Thales



Dear Shareholder,

Since the beginning of the year, Thales' performance figures attest to the relevance of our profitable growth strategy.

Our order intake has risen sharply, driven in particular by the Middle East and Asian markets, with the success of the Rafale on export markets as well as major orders for rail signalling equipment (Qatar and Hong Kong) and civil security (Oman airports). We have also recorded several great successes in our major operating countries, including a very large contract for the modernisation of signalling on the London Underground and the sale of over 1,000 protected vehicles in Australia.

Furthermore, as expected, our sales have returned to growth, both in our civil and defence activities. Thanks

to this positive momentum and to our competitiveness efforts, our operating margin is continuing to improve: this year, our EBIT should grow in the region of 15%.

These developments and the soundness of our financial structure give us the room for manoeuvre we need to support our organic growth through targeted acquisitions, such as that of Vormetric, announced just recently. Over and above the strengthening of our leadership in the high-growth market of cybersecurity, we are further consolidating our profitable growth prospects for the years ahead.

Thank you for your confidence.

Patrice Caine

2015 half-year results

Order intake: €6.22 billion

(14% increase, on a like-for-like basis and at a constant exchange rates)

In the first half-year, order intake posted strong growth and the order book amounted to €27.6 billion, i.e. over two years of sales. Thales recorded 5 major orders, each with a unit value in excess of €100 million, including the contract for 24 Rafale fighter aircraft with Egypt. Order intake in emerging markets grew by 51% compared to 30 June 2014 and these markets accounted for 40% of total order intake.

Order intake in the Aerospace segment was down at €1,849 million, as space orders have not reached the high level recorded in the first half-year of 2014. By contrast, the civil aeronautics segment has remained dynamic (onboard avionics, in-flight entertainment). Order intake in the Transport segment has almost doubled compared to 30 June 2014 (up by 88%) and stood at €1,197 million, driven by large orders for rail supervision and signalling equipment in Hong Kong and Qatar. Order intake in the Defence & Security segment grew strongly to €3,152 million, versus €2,485 million in the first six months of 2014 (up by 27%), boosted in particular by the order for 24 Rafale placed by Egypt.

Sales: €6.35 billion

(up by 6%, on a like-for-like basis and at a constant exchange rates)

As anticipated, Group sales returned to growth, registering a rise of 11%, to €6,347 million as at 30 June 2015, compared to €5,695 million for the first half of 2014 (up by 6% on a like-for-like basis and at constant exchange rates).

Sales in the Aerospace segment, €2,511 million, were up by 13% compared to the first half-year of 2014, with aeronautics and space activities both growing. Sales in the Transport segment were virtually unchanged at €569 million (signalling was up, but ticketing was down), and sales in the Defence & Security segment reached €3,229 million, a growth of 12% (modernisation of Indian Mirage aircraft, naval activities, air control, civil security).

EBIT ⁽¹⁾: €473 million

(7.5% of sales)

The Group reported EBIT ⁽¹⁾ of €473 million versus €402 million (7.1% of sales) in the first half-year of 2014. This progression is a result of the rise in sales and the impact of the competitiveness plans – even though the Group further increased its commercial and research and development efforts, and pension costs deteriorated by €10 million compared to the first half of 2014.

The Aerospace and Defence & Security segments posted EBIT margins of around 9%. On the other hand, the Transport segment, reporting a loss over the half-year, was penalised by execution difficulties on several urban signalling projects.

Adjusted net income ⁽²⁾, Group share: €313 million (up by 29%)

Adjusted net income ⁽²⁾ Group share amounted to €1.51 per share compared to €1.19 at the end of June 2014.

Sound financial position

The Group's net cash stood at €614 million versus €53 million at the end of June 2014 (and €1,006 million at the end of December 2014), reflecting the usual seasonal flow of customer payments and the positive impact of the downpayment from the Egyptian Rafale contract.

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 relates to net income excluding the following items, net of corresponding tax effects: (i) amortisation of intangible assets, (ii) results of disposals of assets, change in scope of consolidation and others, (iii) change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts), (iv) actuarial gains on long-term benefits (accounted within the "finance cost on pensions and other long-term benefits" in the consolidated accounts).

Key figures as at 30 September 2015

- **Order intake: €10.31 billion**, (up by 37% versus the first nine months of 2014), as the positive trend of the first half-year has continued into the third quarter with a large signalling contract in London (see page 3), several space contracts (Euclid, SkyMed), and security contracts for airports of Oman.
- **Sales: €9.13 billion**, (up by 9% compared with the first nine months of 2014) thanks to the growth in order intake over the past two years and to favourable exchange rates.

Australia selects Thales' Hawkei protected vehicle

Further to the signing of a contract worth over €820 million for the delivery of 1,100 vehicles, the Hawkei protected vehicle, manufactured at the Thales site in Bendigo, in south-east Australia, will be added to the fleet of armoured vehicles already operated by the Australian Defence Force (ADF).

Australian forces will thus enjoy the benefit of greater protection and mobility provided by this powerful tactical 4x4 vehicle.



London Underground awards the modernisation of 4 lines to Thales



This contract, valued at €1 billion, covers the signalling and control system for trains on the District, Circle, Metropolitan and Hammersmith & City lines of the London Underground. Trains will thus be able to travel faster and more frequently, thereby increasing the capacities of these lines by one third.

Work on the project will run until the 2023 and follows on from the modernisation work already carried out by Thales for signalling on the Jubilee and Northern lines.

Thales to create a global leader in data protection by acquiring Vormetric

At the end of October, Thales announced the acquisition of Vormetric, a world leader for data protection solutions in physical, virtual and cloud infrastructures.

Vormetric, based in San Jose, California, employs 200 people and works with over 1,500 customers, including 17 of the biggest American corporations.

The transaction, for an amount of US\$ 400 million, should be finalised during the first quarter of 2016. This operation complements Thales activities in the field of cybersecurity and will enable the Group to offer customers a comprehensive range of solutions to protect data from cyber threats.



Thales is added to Europe and World indices of Dow Jones Sustainability Index (DJSI)



Thales is added to Europe and World Dow Jones Sustainability Indices (DJSI) established by asset manager firm RobecoSAM, which has awarded the Group with the highest score in the Aerospace and Defence segment for sustainability performance.

These extra-financial indices, the most widely recognised by investors on a global scale, bring together companies that are considered to provide the best performance

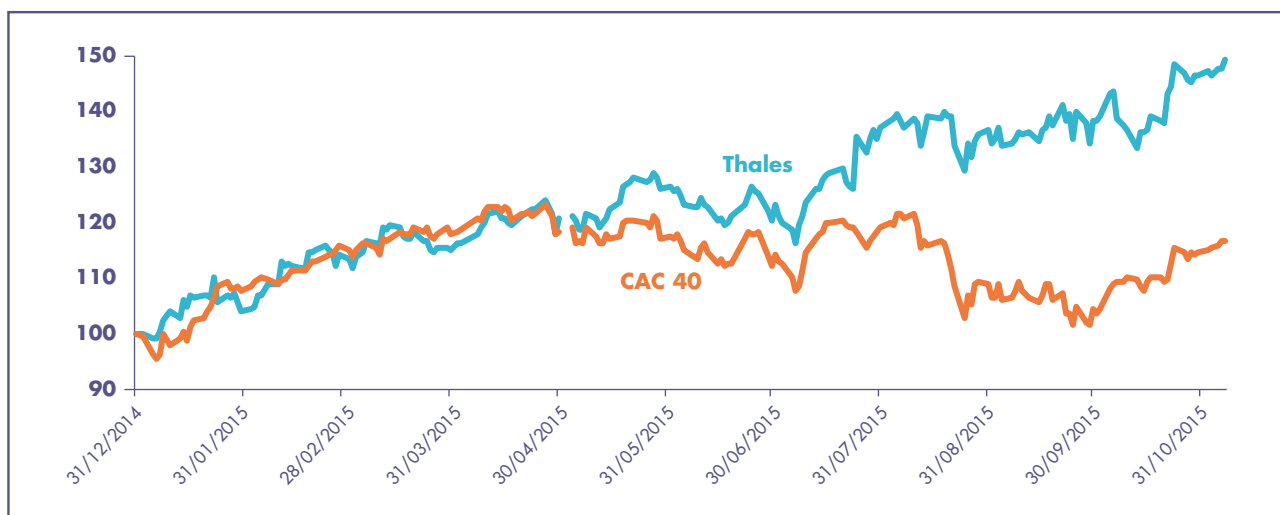
in terms of corporate social responsibility. Of the 39 companies up for analysis worldwide in the Aerospace & Defence segment, only six are considered as highly sustainable.

By awarding Thales with the highest score in its segment, RobecoSAM has recognised the value of the proactive policy for Corporate Responsibility conducted by the Group over the past 15 years, and its performance in terms of environmental, social and governance factors.

Shareholder news

Thales share price

(price movements since 1 January 2015)



Shareholder information

Listing markets:
Euronext Paris (compartiment A)

Principal reference indices:
CAC Next20, SBF250, CAC Large60 and CAC AllShares

**Number of shares
at 30 June 2015:**
210,162,630

**Highest closing price since
1 January:**
€66.85 (23 October 2015)

**Lowest closing price since
1 January:**
€44.535 (5 January 2015)

Dividend:
- paid for 2014: €1.12
- 2015 interim dividend: €0.35
paid on 11 December 2015

CALENDAR

24 February 2016: release of 2015 annual results

18 May 2016: Annual General Meeting

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