

NOVEMBER 2013

Shareholders' newsletter



Jean-Bernard Lévy

Chairman & Chief Executive Officer of Thales

Dear Shareholder,

Our results improved again in the first six months of 2013, thanks to the pursuit of our performance plan and growth in our sales, which continued in the third quarter. This encouraging performance makes us confident that we will achieve our targets for this year.

However, our defence activities continue to operate in a context of strong budgetary pressure in Europe and the United States. In France, we are paying close attention to the current parliamentary debates on the future military programming law for 2014-2019, which provides for a stable budget in current euros in its first years.

More than ever, it is vital for the Group to seek growth from its civil activities (particularly avionics and transport) and a stronger presence in emerging markets. The successes we have achieved in the past nine months in these markets have shown this to be an effective approach, whether in rail signalling in Egypt and South Africa, or in civil security and air defence systems in the Middle East. In addition, several emerging countries selected our offers during the summer, and we expect these contracts to be confirmed in the next few months.

Thank you for your support. I hope you will enjoy reading this newsletter.

Jean-Bernard Lévy

2013 half-year results

Order intake: €5.7 billion

(-3% at constant scope and exchange rates)

Order intake in Aerospace came to €1.8 billion, down 2% in organic terms, as continuing growth in on-board avionics and Space failed to compensate fully for lower orders in in-flight entertainment. The Transport sector did not reach the high order intake of last year, but nevertheless achieved several major successes, in South Africa, Egypt, Poland and Canada. Defence & Security order intake stood up well, due mainly to the in-service support contract for sensor systems used by the British Navy (cf. page 3).

In total, during the first six months of the year, Thales registered eight orders with a unit value of more than €100 million (compared with only five in the same period in 2012), while orders in the emerging markets, which are areas of growth for the Group, rose by 6% at constant scope and exchange rates.

At the end of June 2013, the order book stood at €28.9 billion, representing over two years of business.

Sales: €6.5 billion

(+4% at constant scope and exchange rates)

Group sales grew slightly over the half-year, driven by the dynamism of civil avionics and defence activities, which were sustained by several long-term contracts. Only Transport sales decreased during the first six months, as recent order intake had only a progressive impact on the business.

EBIT ⁽¹⁾: €360 million (5.6% of sales)

EBIT ⁽¹⁾ represented 5.6% of sales, coming in at €360 million, compared with €338 million (5.3% of sales) at the end of June 2012. This growth in EBIT ⁽¹⁾ (+8.7% on at constant scope and exchange rates), reflects the continuing roll-out of the performance plan, and was particularly marked in the Aerospace sector. The Group also pursued its self-funded R&D commitment, which increased by 7% at constant scope and exchange rates.

Adjusted net income, Group share ⁽²⁾: €225 million (+5%)

Despite a marked increase in the tax charge, adjusted net income ⁽²⁾ rose by 5%, largely due to the improvement in EBIT.

Sound financial position

After substantial receipts at end-2012, free operating cash flow ⁽³⁾ declined compared with the first half of 2012, to -€399 million compared with -€202 million at 30 June 2012.

At the end of June 2013, the Group was again in a positive net cash position, at €881 million (compared with net cash of €1,528 million at the end of December 2012, and €607 million at the end of June 2012).

1. After restructuring and before purchase price allocation ("PPA") impact.
2. Adjusted net income excludes "disposal of assets, changes in scope of consolidation and other", changes in fair value derivative exchange instruments, actuarial gains/losses on other post-retirement benefits and impact of purchase price allocation, net of the corresponding tax effects.
3. Operating cash flow + change in working capital requirement (WCR) and reserves for contingencies - payments of pension benefits (excluding payments for the reduction of deficits in the UK) - taxes paid - net operating investments.

Key figures at 30 September 2013

• Sales: €9.5 billion

Organic increase of 6% compared with 30 September 2012, boosted by growth in Aerospace (flight avionics, in-flight entertainment and military simulation) and DCNS (FREMM frigates and Barracuda submarines).

• Order intake: €8.2 billion

Organic decrease of 6% compared with 30 September 2012, despite a continuing positive trend in on-board avionics (Airbus) and several orders in emerging markets in the third quarter of 2013. Several Group offers were also selected in these emerging markets during the summer, and these contracts are expected to be confirmed in the next few months.

Thales to provide in-service support for Royal Navy sensor systems

Thales has signed a 10-year contract with the UK Ministry of Defence worth up to £600 million to provide in-service support for sensor systems used by the Royal Navy.

The agreement covers sonar and electronic warfare systems on surface ships, as well as all submarine visual systems, including Vanguard and Trafalgar class periscopes and Astute class optronics masts.



2013 Paris Air Show



From 17 to 23 June, the Paris Air Show at Le Bourget brought together more than 2,200 exhibitors from 44 different countries and 315,000 visitors, including 140,000 professionals and 285 official delegations.

Thales showcased its products and solutions in avionics, intelligence, mission systems, drones, civil and military command centres, air traffic management and space.

The show was also an opportunity for the Group to sign new contracts, including for anti-ballistic-missile defence systems with NATO, supporting and maintaining in operating condition the onboard equipment of some 20 aircraft owned by the French armed forces, as well as the Exomars contract signed with the European Space Agency.

Thales confirms its position as an innovative company

For the second year running, Thales has been included in Thomson Reuters' Top 100 Global Innovators classification. These awards are made in recognition of the innovation capacity of businesses and research centres worldwide, based on an assessment of their active intellectual property management policy, taking four criteria into account: the number of patents filed, the number of patents accepted compared with the volume filed, and the geographical scope and profile of the patents.

Thales currently has a portfolio of 13,000 patents, and the 22,500 engineers and researchers belonging to the Group filed more than 350 new patent requests in 2012. 60% of the R&D workforce is based in France, but Thales also deployed its R&D capacity in the rest of Europe, North America and Asia.

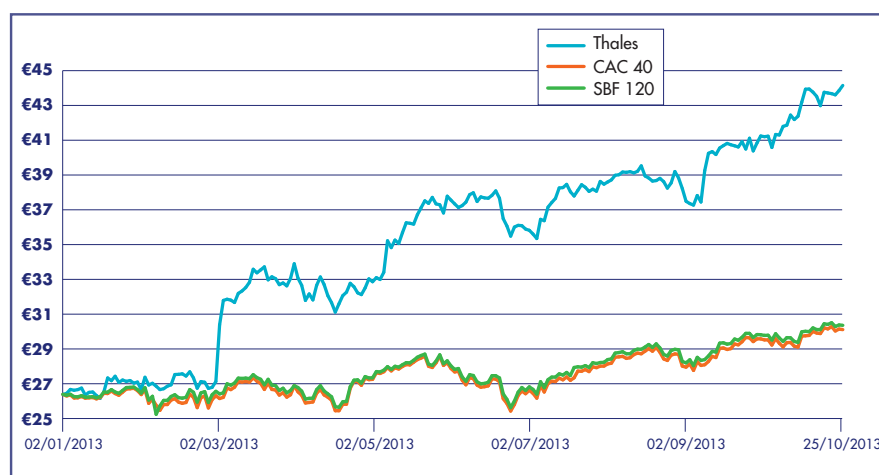


Shareholder news

Thales praised for quality of its financial communication

On 1 October 2013, at the 2013 Financial Transparency Awards ceremony, Thales was again recognised for the quality of its financial communication, winning second place in the "Industrial goods and services" category and ranking 8th overall in the SBF120. The Financial Transparency Awards reward best practices of listed companies in terms of access to regulated financial information, under the aegis of a scientific committee comprising the NYSE Euronext, Paris EUROPLACE, the French Society of Financial Analysis, the French Association of Financial Management, the French Institute of Directors, the Association for Individual Assets and Shareholding, the Association of Individual Investors and Investment Clubs and the Leonard de Vinci School of Management.

Thales share price (from 1 January to 25 October 2013)



Shareholder information

Listing markets:

NYSE Euronext Paris
(compartment A)

Principal reference indices:

SBF120, SBF250, CAC AllShares

Number of shares

at 30 June 2013:

203,759,233

Highest closing price since

1 January:

€44.26 (25 October 2013)

Lowest closing price since

1 January:

€26.01 (16 January 2013)

Dividend:

- paid for 2012: €0.88

- interim 2013 : €0.27,
paid on 15 December 2013

SCHEDULE

19 February 2014: publication of 2013 annual results

14 May 2014: Annual General Meeting

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