THALES

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OCTOBER 2012

Shareholders' newsletter

Luc Vigneron,

Chairman & Chief Executive Officer of Thales

Dear Shareholders,

Thales has put in a robust performance in an uncertain economic climate since the start of the year.

Strengthened by our balanced portfolio of civil and defence businesses, we are benefiting from the growth in aeronautics, space and transport, while our offering in defence, at the heart of operational priorities of modern armed forces, has proved resilient despite strong budgetary pressures in Europe and North America. Our order intake at the end of September was higher than last year, even though in 2011 we benefited from the exceptional contract to upgrade India's Mirage 2000 fighters. Our revenues are also solid, and growth in our civil business is mitigating the less favourable environment in defence.

Our Probasis plan is being rolling out as planned, and continues to help us improve our performance across all our businesses lines. The positive impact on our financial results was already apparent at the end of June, and is expected to increase in the next few months. This performance has added to our confidence that we can achieve the targets we set for this year.

This restored soundness is a strong advantage for Thales in the current environment, where tight government budgets are making European alliances strategies even more essential. Although the recent failure of the proposed BAE Systems - EADS merger shows how hard it is to create very large tie-ups in Europe, it does not mean that every European industrial consolidation strategy is destined to fail.

Thales takes a pragmatic approach in this regard that has made it a key defence player in Europe. The Group already has a European industrial base, having built bridges between France and other European countries based on specific know-how and organised into industrial networks: for example, warship sonar with the UK, radar with the Netherlands and cryptography with Norway. We also always have capacity for bolt-on targeted acquisitions, as long as they enhance our technological portfolio or improve our market access.

Creating a network of partner companies with other players in the sector is also part of building a strong European industrial base. Thales has already done this with Finmeccanica in the space sector, Diehl in avionics and munitions and Safran in optronics.

Lastly, strengthening financial ties through minority but significant equity interests is a way of consolidating a consistent business network. The increase of our stake in DCNS to 35%, and our plan to acquire some of Nexter's share capital, are part of this approach. These connections facilitate the sharing of know-how, make export organisation more effective and leave the door open for broader partnerships.

With this networking approach (subsidiaries, joint venture companies, significant equity interests) Thales is taking steps to respond as effectively as possible to the new constraints in the European defence sector.

Luc Vigneron

2012 half-year results

Order intake: €6.10 billion

New orders increased by 16% compared with the first half of 2011, totalling €6.10 billion (€5.84 billion, up 11%, excluding DCNS impact [1]). The increased order intake in Defence & Security (+22%) mainly reflects the registration of a major air defence contract in the Netherlands, several naval systems successes in the Middle East and the award of the Contact radio communications contract in France (see Focus on page 3). New orders in Aerospace & Transport (+3%) were driven by bookings of major rail transport contracts and a strong performance in civil aeronautics. At 30 June 2012, the order book stood at €30.69 billion, representing more than 26 months of revenues.

Revenues: €6.41 billion

Total revenues amounted to €6.41 billion at 30 June 2012, an increase of 7%, because of the impact of the proportionate consolidation of DCNS at 35%. Excluding this impact [1], revenues remained almost unchanged from the first half of 2011 at €5.96 billion compared with €5.97 billion. Defence & Security, which accounts for just over half of our total business, generated slightly lower revenues in the half-year (-1%). Aerospace & Transport, however, recorded revenue growth of 2% due to the positive trend in civil aeronautics, in original equipment and support activities.

EBIT [2]: €338 million (5.3% of revenues)

EBIT [2] represents 5.3% of revenues, at €338 million (excluding DCNS impact [1] it would be €301 million, or 5.0% of revenues), compared with €303 million (5.1% of revenues) in the first half of 2011. The improvement in EBIT [2] in the first half-year reflects the continuing roll-out of the Probasis plan as well as lower restructuring costs. EBIT [2] in the Defence & Security segment came in at €191 million (compared with €195 million in the first half 2011), while EBIT [2] in the Aerospace & Transport segment continued its recovery, coming in at €140 million, compared with €101 million at 30 June 2011.

The first half of 2012 thus resulted in a net profit, Group share [2] of €175 million (compared with €173 million in the first half of 2011).

Sound financial position

Over the first six months of 2012, free operating cash flow [3] improved compared with the same period last year and stood at –€203 million (–€110 million excluding DCNS impact [1]), compared with –€266 million, thanks to the improvement in the working capital requirements. At the end of June 2012, net cash totalled €607 million (a net debt of –€14 million excluding DCNS impact [1]), compared with net debt of –€175 million at the end of June 2011.

1. "DCNS impact" = "impact of the proportionate consolidation of DCNS at 35% since 31 December 2011".
2. Before impact of purchase price allocation (PPA).
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 2012

- **Revenues: €9,30 billion**
  up +8% at 30 September 2012 (€8,66 billion, up +1%, excluding DCNS impact [1]).
  - Defence & Security resilient, despite budget constraints in Europe and North America,
  - continuing positive trend in Aerospace & Transport.
- **Order intake: €9,04 billion,** up +7% in the first nine months of the year (€8,55 billion, up +1%, excluding DCNS impact [1]).
  - a decline in Defence & Security, due to the major contract to upgrade Indian Mirage 2000 fighters in the third quarter of 2011,
  - growth in the Aerospace & Transport segment.

"Contact" military radio programme in France

The French defence procurement agency (DGA) officially notified Thales in June of this year of the award of the development contract for the "Contact" (COmmunications Numériques TACtiques et de Théâtre: tactical and theatre digital communications) programme, worth €220 million. This strategic programme is designed to equip the majority of the French forces' platforms with next-generation tactical radios incorporating innovative software-defined radio technology.

Future Contact radio products will be fielded with the French Army, Air Force and Navy, providing faster transmission speeds, better security and heightened interoperability to all forces engaged in theatre operations. They will be interoperable with the communication systems of other nations to facilitate information flows between allies during coalition operations.

This Contact award is a further endorsement of Thales's defence communications technology. With this contract, Thales has consolidated its worldwide leadership and is now in a strong position to repeat the export success of its PR4G radios (more than 150,000 radios in service in 40 countries).

Programme « Contact »

Commercial successes in Asian rail traffic control

A global leader in rail signalling systems, Thales develops traffic management systems for mainline railways (European Train Control System – ETCS – solutions) and for metros (Communications-Based Train Control – CBTC – solutions).

More than 55 metro systems worldwide are currently equipped with Thales's CBTC solution, which helps to reduce network congestion and improve train reliability and frequency for passengers.

Rail traffic control centre

With this wealth of expertise, Thales achieved a number of commercial successes in Asia in the first nine months of 2012:

- January: upgrading the metro line serving the international airport in Hong Kong
- February: modernising signalling systems on the North-South and East-West metro lines in Singapore
- March: extending the automated metro line in Sin Bundang, South Korea
- August: upgrading and extending the automated Ampang metro line in Kuala Lumpur, Malaysia
- September: equipping the rail link to Nanjing Airport, the first success of Thales SAIC Transportation, the new joint venture created last year with Shanghai Electric Corporation. The contract has consolidated Thales's front-rank position on the Chinese signalling market, after successes in Beijing, Shanghai, Wuhan, Guangzhou and Hong Kong in recent years.

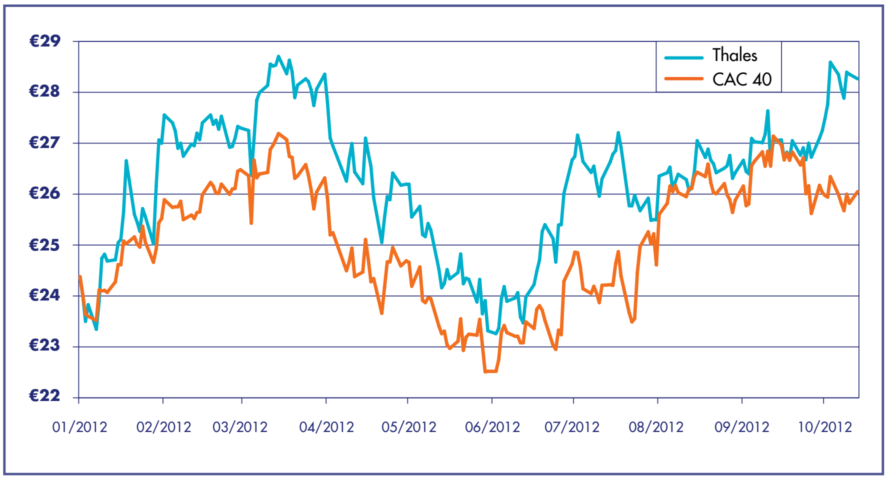
Shareholder news

Thales rewarded for the quality of its financial communication

On 4 October 2012, Thales's financial communication was rewarded during the 2012 Financial Transparency Awards ceremony held in Paris. The Group received the award of the "Best progression among SBF 120 companies" and ranked second in the "Large caps" and "Industrial Goods & Services" companies. The Financial Transparency Awards reward best practices of listed companies in terms of access to regulated financial information. This year the Financial Transparency Awards went to 9 companies out of a panel of 170 companies listed in Paris, under the supervision of a scientific committee composed of representatives of the AMF (French financial markets authority), the NYSE Euronext, the SFAF (French association of financial analysts), the AFG (French financial management association), the IFA (French institute of administrators), Paris Dauphine University and several shareholders' associations[1].

1. ADAM *(l'Association de défense des actionnaires minoritaires)*, APAI *(l'Association pour le patrimoine et l'actionnariat individuel)* and F2IC *(Fédération des investisseurs individuels et des clubs d'investissement)*.

Thales share price (from 1 January to 15 October 2012)



Shareholder information

Listing markets:
NYSE Euronext Paris (compartiment A)

Principal reference indices:
SBF120, SBF250, CAC AllShares

Number of shares at 31 December 2011:
202 328 457

Highest closing price during the first nine months of 2012:
€28.71 *(16 March 2012)*

2011 earnings per share:
€2.88

2011 dividend per share:
€0.78

SCHEDULE

28 February 2013: 2012 annual results
25 May 2013: Annual General Meeting

CONTACTS

Thales
45, rue de Villiers
92526 Neuilly-sur-Seine cedex
France

Investor Relations
Tel: 33 (0)1 57 77 89 02
Fax: 33 (0)1 57 77 86 59
ir@thalesgroup.com

Employee shareholders
Tel: 33 (0)1 57 77 80 65
Fax: 33 (0)1 57 77 84 46
employee.shareholding@thalesgroup.com

Société Générale (registered shares)
Département Titres & Bourse
BP 81236
44312 Nantes cedex 3
France
www.nominet.socgen.com