Shareholders newsletter

>> Luc Vigneron,
Chairman & Chief Executive Officer of Thales

Dear Shareholders,

The significant increase in our earnings over the first half of 2011 is encouraging and fully in line with the objectives we have set ourselves for this year.

Thales was able to achieve some growth in orders during the first half of 2011, driven by the performance of the Aerospace & Transport sector. Revenues are stable, with growth in Aerospace & Transport reflecting the upturn in the civil avionics business, offsetting the less dynamic performance in Defence & Security. Our EBIT is growing strongly, thanks to better project execution, combined with the initial results of our Probasis performance plan.

These positive results and the signing of an agreement with Airbus on the execution conditions of the A400M project put the Group on a favourable path for reaching its targets for 2011.

The current environment has of course been marked by public budgets coming under strong pressure in Europe and North America. We can therefore expect to see a contraction in our defence orders in the future, as well as greater competition on international markets. With this in mind, we are continuing to roll out our Probasis performance plan. In addition, our balanced portfolio, combining defence and civil, our position in growth regions, and our sound financial structure all represent crucial assets for making it through the turbulent economic period we face today.

Against this backdrop, your support, which you recently confirmed once again with more than 90% of you opting for your dividends to be paid in shares, is very encouraging in terms of our strong commitment to deploying our strategy, focused on improving our performance, further strengthening our offers, and developing our business internationally. I am confident that this strategy will make it possible to build a Group that is stronger and more integrated, creating lasting value for our shareholders.

Luc Vigneron

>>>>>>>>>>>

2011 first-half earnings

Revenues: €5,968m

Consolidated revenues are stable at €5,968 million, compared with €5,955 million at 30 June 2010. Defence & Security, which accounts for just over half of our total revenues, recorded a slight reduction in its revenues over the first half of the year (-3%). This contraction was offset by the Aerospace & Transport sector, whose revenues rose 5%, driven by the upturn in civil avionics and growth in the space business.

Order intake: €5,241m

Order intake came in 2% higher than the first half of 2010. Defence & Security orders are down (-3%) compared with the first half of 2010, when several defence contracts were awarded for export and in the UK. On the other hand, our orders show strong growth (+7%) in Aerospace & Transport, thanks to our civil avionics business in particular.

EBIT (1) (after restructuring): €303m

EBIT (1) came to €303 million, represents 5.1% of revenues, compared with €204 million and 3.4% of revenues for the first half of 2010. More specifically, this growth in EBIT reflects improved project execution, with the non-occurrence of the negative variances on complex contracts that weighed on earnings in the first half of 2010, in addition to the positive impact of the agreement signed with Airbus for the A400M project (see below).

EBIT (1) for the Aerospace & Transport segment rose strongly to €110 million (4.2% of revenues, compared with €7 million for the first half of 2010). For the Defence & Security segment, EBIT is stable at €202 million, representing 6.1% of revenues, compared with €207 million for the first half of 2010, despite a significant increase in restructuring costs.

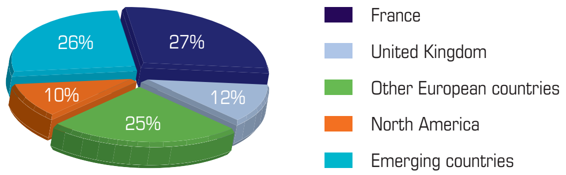
In this way, the first half of 2011 shows a net profit (1), Group share, of €173 million, compared with €138 million for the first half of 2010.

(1) Before impact of purchase price allocation (PPA).

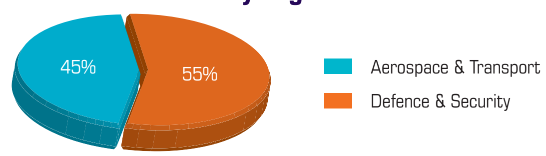
Sound financial position

Free operating cash flow for the first half of the year came to €-265 million, compared with €-457 million for the same period last year, an improvement linked to strict control over costs and working capital requirements. At the end of June 2011, net debt totalled €175 million, compared with a positive net cash position of €191 million at the end of December 2010, but in strong improvement compared with the level at the end of June 2010 (net debt of €595 million).

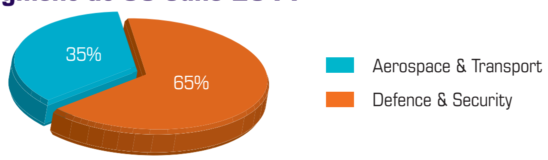
Breakdown of revenues by destination at 30 June 2011



Breakdown of revenues by segment at 30 June 2011



Breakdown of EBIT (1) (after restructuring) by segment at 30 June 2011



Bringing difficult programmes back under control

One of the Group's priorities is to improve the performance of contracts. Over the last few months, Thales has signed several amendments with its customers covering the complex projects that led to a very significant level of costs in 2009 and 2010:
- July 2011: A400M (flight management system, FMS): global agreement signed with Airbus covering technical, operational and commercial issues;
- March 2011: Meltem (maritime patrol aircraft – Turkey): agreement signed with the Turkish Ministry of Defence;
- December 2010: ticketing in Denmark: agreement signed with Rejsekort.

>>>>>>>>>>>

Mirage 2000 upgrade contract for the Indian Air Force

On 29 July 2011, Thales and Dassault Aviation signed a contract to upgrade the Indian Air Force's Mirage 2000 fleet.

Mirage 2000-© PRAKASH SINGH - A

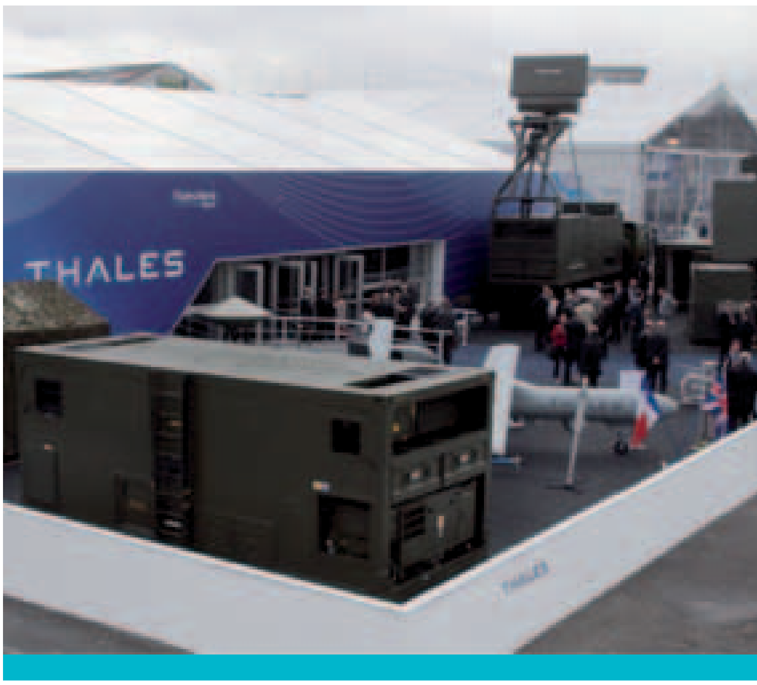
Based on the integration of latest generation equipment and systems, the upgrade will further enhance the technical-operational capabilities of the Indian Air Force's Mirage 2000. The aircraft represents a long tradition of cooperation with French military aviation, initiated 50 years ago.

The programme will be rolled out in two separate phases:
- the first one overseen by Thales and Dassault Aviation, will focus on defining and assessing the aircraft's configuration, with two fighter aircrafts upgraded in France, then two fighters upgraded at our Indian partner's facilities in Bangalore;
- the second will be carried out entirely in India, under Indian responsibility, with the 47 remaining fighters to be upgraded, while Thales and Dassault Aviation will provide technical support.

The extensive involvement of Indian industry within the programme will consolidate existing ties with the French aerospace industry and will reinforce long-term cooperation based on cutting edge technologies and the sharing of technical know-how and expertise.

Paris Air Show

From 20 to 26 June, the Paris Air Show brought together almost 2,000 exhibitors from 46 different countries and 380,000 visitors, including 140,000 professionals. An opportunity for Thales to showcase its flagship solutions and products for avionics, mission systems, drones, space and air traffic management.



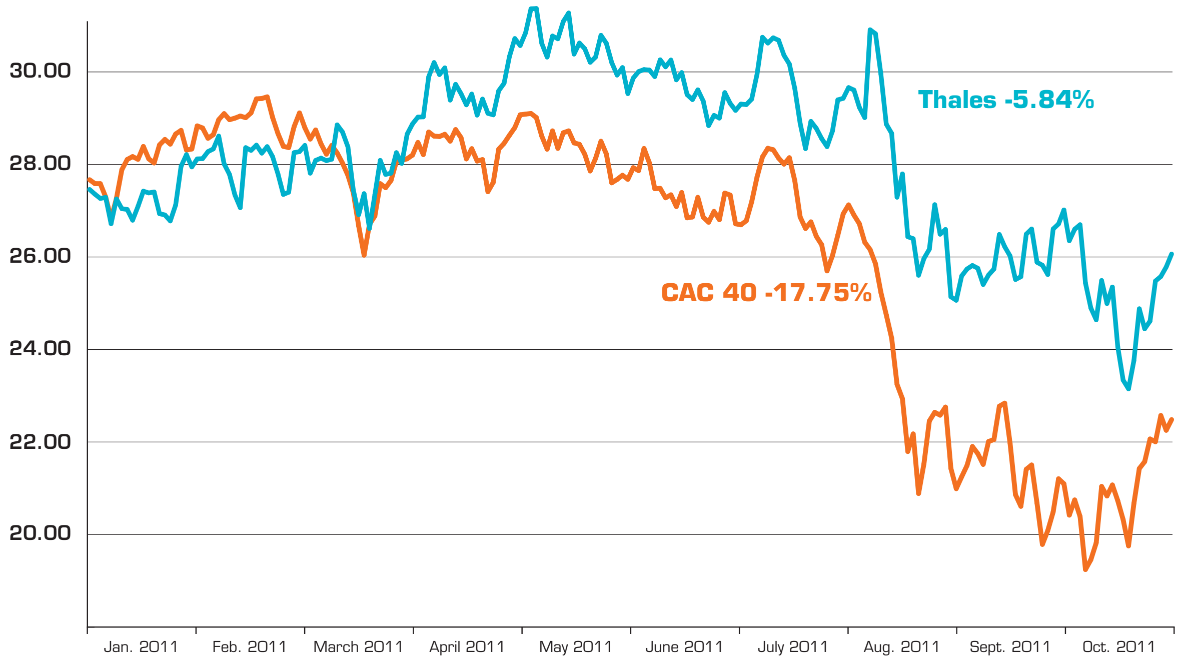
A longstanding partner of aircraft manufacturers, Thales is delighted with the record levels of civil aviation orders recorded during this show.

The 2011 Paris Air Show provided an opportunity for the Group to sign new contracts, including the deal to develop and deploy the ground segment of the European space programme Galileo. The ground segment will monitor satellite signals, provide additional communication networks and deliver reliable and accurate navigation services for the satellites.

Shareholder news

Thales share price (from 1 January to 13 October 2011)

Thales' share price has fallen -5.84% since the start of the year, particularly following the crisis seen in August 2011, compared with -17.75% for the CAC 40 index over the same period.



Shareholder information

> **Listing markets:** Euronext Paris, compartiment A

> **Principal reference indices:**
CAC Large 60, CAC Next20, SBF120, Euronext 100, CAC Aero et Def

> **Number of shares at 30 September 2011:** 202,328,457

> **Highest share price during the first few months of 2011:**
€30.500 *(3 May)*

> **Lowest share price during the first few months of 2011:**
€22.110 *(4 October)*

> **2010 earnings per share:** €-0.23

> **2010 dividend per share:** €0.50

> **Announcement of revenues at 30 September 2011:**
8 November 2011

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