Dear Shareholders,

In 2011, in an economic and geopolitical context that turned out to be even more difficult than expected, especially in defence, we delivered on our objectives.

Our order intake increased slightly and we have an order book representing two years of business. Our revenues were stable overall, the expected decline in Defence & Security being offset by the increase in Aerospace & Transport. Most importantly, our results showed a strong recovery. The EBIT margin reached 5.7% of our revenues, exceeding our initial objective of 5%. This improvement reflects better execution of our contracts and the first tangible results of our Probasis performance plan. Finally, our cash flow generation remained very satisfactory and enabled Thales to present a solid financial structure, with no debt.

Naturally, we want our shareholders to share in this recovery. The Board of Directors therefore proposed an increased dividend of €0.78 per share, which was approved at the Annual General Meeting on 15 May 2012. This Annual General Meeting was also an opportunity to renew part of our Board of Directors with the appointment of three new members, thereby strengthening its independence and the number of women on the Board.

In 2012 we continue to face an uncertain environment: in particular, the debt crisis in Europe has led to budget reductions in many countries and greater pressure on our government markets. Nevertheless, we are confident in Thales’s capacity to continue to improve its results.

First and foremost, our civil activities in aeronautics, transport and security represent nearly half of our revenues and fuel our growth. Our longstanding international positioning also enables us to capture the growth of emerging countries, the source of one third of orders last year. Innovation is a key priority for the Group and we are maintaining a high level of research and development. We are thus preparing for the future and keeping our lead in a highly competitive international scene. And lastly, our Probasis performance plan is progressing as scheduled. The first positive impacts on our financial results were seen last year and we will be reaping the benefits over the coming years.

Thank you for your support and loyalty.

Luc Vigneron
2011 results

**Key figures in Q1 2012**

- **Revenues:** €2.7bn
  (+7%, -1% excluding the impact of DCNS[^4])
  with growth in Aerospace & Transport driven by the continuing recovery of the civil aeronautics activities and the resilience of the Defence & Security business.

- **Order intake:** €2.6bn, up sharply by +35% (+33% excluding the impact of DCNS[^4]).
  Stable order intake in Defence & Security in a context of continuing budgetary pressure in Europe and a strong growth in Aerospace & Transport driven by civil aeronautics and rail signalling.

**Revenues: €13.03bn**

Revenues remained virtually stable during 2011 compared with the previous year (€13.12bn) at constant exchange rates. Defence & Security, which accounts for just over half of our total business, generated a steady revenue stream, slightly lower over the year (-3%). By contrast, Aerospace & Transport saw revenue growth of +3%, thanks to the confirmed upturn of civil aeronautics.

**Order intake: €13.21bn**

Order intake was up 1% from 2010 with a book-to-bill ratio of 1.01, in line with the objectives set at the beginning of 2011. The increased order intake in Defence & Security (+17%) reflects the booking of the Mirage 2000 upgrade contract in India. However, orders in Aerospace & Transport decreased (-13%), with the good performance in civil aeronautics not fully offsetting the decrease in space after the exceptional level of orders in 2010.

**EBIT (1): €749m**

EBIT (1) improved strongly and totalled €749m, representing 5.7% of revenues, as against a loss of €92m in 2010. This recovery in EBIT (1) reflects the positive impact of the Probasis performance plan, led by better project execution. In particular, the situation on complex projects, which had led to the registration of very high charges in 2009 and 2010, was stabilised. This favourable upturn can be seen in both business sectors. EBIT (1) for Defence & Security amounted to €504m (compared with €152m in 2010), while EBIT (1) for the Aerospace & Transport sector returned to positive, at €294m, compared with a loss of €221m the previous year.

Financial year 2011 closed with a net profit, Group share (2) of €566m (compared with a net loss of €45m in 2010).

**Solid financial situation**

With the improved results, the free operational cash flow (3) rose 40% to total €379m compared with €271m over the previous year. The Group ended 2011 with a positive cash balance of €906m (or €192m excluding the impact of DCNS[^4], almost identical to the previous year’s €191m).

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[^4]: After restructuring and before impact of purchase price allocation (PPA).
[^2]: Before impact of purchase price allocation (PPA).
[^3]: Operating cash flow + change in working capital requirement and reserves for contingencies – payments of pension benefits (excluding payments for the reduction of deficits in the UK) – taxes paid – net operating investments.
[^4]: Excluding the impact of the proportionate consolidation of DCNS at 35%.
Board of Directors – new appointments

The Annual General Meeting on 15 May 2012 appointed three new directors:

- **Ann Taylor** (independent director): of British nationality, Ann Taylor is currently a member of the House of Lords and sits on the National Security Strategy Joint Committee. She has been a Member of Parliament in the United Kingdom and has held a variety of ministerial posts, including in homeland security and defence.

- **Anne-Claire Taittinger** (independent director): having started her career at Caisse des Dépôts et Consignations, Anne-Claire Taittinger has assumed a variety of operational management responsibilities and from 1996 to 2006 chaired the Management Board of Groupe Taittinger and Groupe du Louvre.

- **Jeanne-Marie Prost** (director representing the French State) has held various posts at the Ministries of the Economy, Finance and Budget, then at France Télévisions, before becoming a partner of the Brunswick Group Ltd in London. Since 2009, Jeanne-Marie Prost has been the deputy head of the Médiation Nationale du Crédit aux Entreprises.

Luc Vigneron and the entire Board of Directors expressed their sincere thanks to Bernard Récat, Pierre Mutz and Roger Freeman for their contribution in recent years.

In-flight entertainment: Thales innovates

Today, more than 130,000 passengers per day are already using Thales in-flight entertainment systems during their flights.

In order to offer greater viewing comfort and a large choice of programming, airlines have gradually replaced the single screen in cabins by individual screens. Soon, two screens instead of one today will be available for a passenger thanks to the Touch Passenger Media Unit (TouchPMU) from Thales.

Designed to be both an independent station that can host a variety of applications and a command interface for all the functions available, the TouchPMU offers high upgrade capacity by taking advantage of a number of applications available on different platforms in the multimedia world. In a single object with ergonomic design, the TouchPMU combines all the traditional passenger seat control functions, a multimedia system, numerous interactive games, and email and SMS communications capacities. Embedding a powerful processor, it has the power of a PC with the electric consumption of a smartphone. Thus, the TouchPMU offers passengers greater comfort and interactivity in flight, and allows the airlines to stand out from their competitors by giving customers the latest in multimedia technologies during flight.

The TouchPMU has already been extremely successful with airlines, who have already selected it to equip several aircraft models. The TouchPMU has also been recognised and praised by the industry, earning several prizes, including the “2010 Aircraft Award” from the prestigious Airline Passenger Experience Association and the “Crystal Cabin Award” in 2011 in Hamburg at the “Aircraft Interiors 2011” trade show.
Shareholder news

2011 dividend

Thales’ Annual General Meeting, convened on 15 May 2012, approved the payment of a dividend of €0.78 per share for the financial year 2011, payable entirely in cash (an interim dividend of €0.25 having already been paid in December 2011).

For further information, contact your financial advisor or visit http://www.thalesgroup.com/Group/Investors/Shareholding/Dividends/

Thales share price (from 1 January to 12 May 2012)

Shareholder information

Listing markets:
NYSE Euronext Paris (compartment A)

Principal reference indices:
CAC Next20, SBF120, SBF250, CAC Large 60, CAC AllShares

Number of shares at 31 December 2011:
202,328,457

Highest share price during Q1 2012:
€28.71 (16 March 2012)

2011 earnings per share:
€2.88

2011 dividend per share:
€0.78

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