

THALES

2018 Half year results

20 July 2018

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to make the world go round,
they rely on Thales

H1 2018 business environment



- Aeronautics: positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: continued dichotomy between steady institutional & military market and hesitant commercial telecom market



- Strong demand in emerging markets, driven by urbanization
- Continued demand for renovation and upgrades of signalling infrastructures in mature markets



- Geopolitical tensions and security threats
- Confirmed ramp-up of defence budgets in mature markets
- High demand for cybersecurity, in particular corporate data protection

H1 2018 highlights

Order intake in line with expectations

Strong sales growth, driven by solid dynamics in Transport and Defence & Security

Significant increase in profitability, while accelerating R&D investments

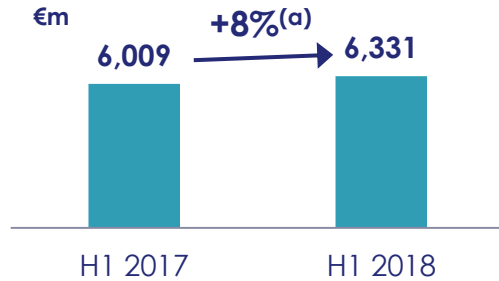
New medium-term ambition, priorities and financial targets announced at 6 June CMD

Teams focused on delivering on medium-term ambition and targets

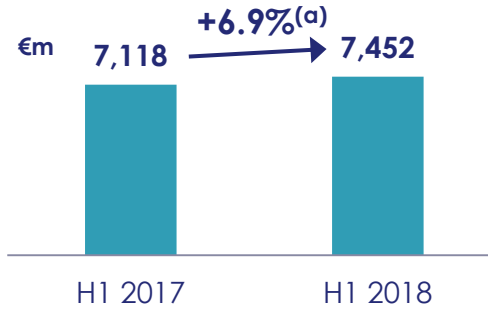


H1 2018 key figures (all prior year figures restated for IFRS 15)

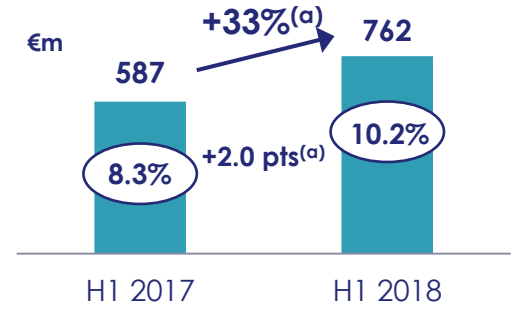
Order intake



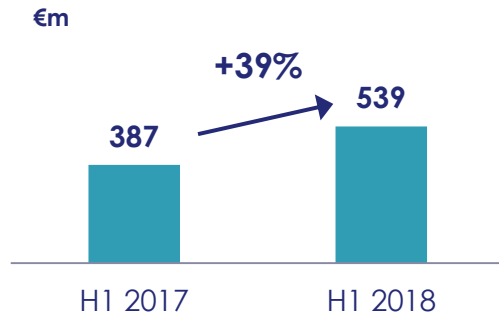
Sales



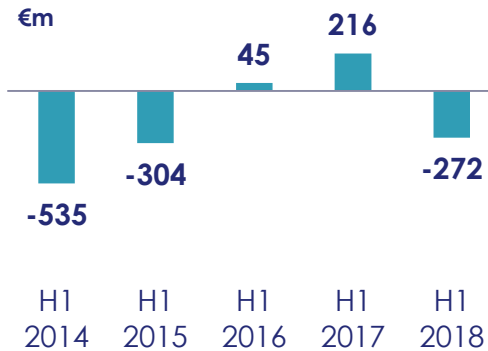
EBIT and EBIT margin^(b)



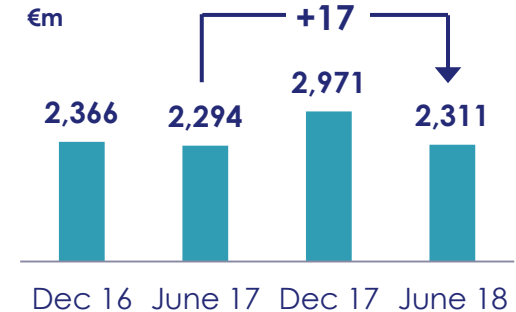
Adjusted net income^(b)



Free operating cash-flow^(b)



Net cash position



(a) Organic: at constant scope and exchange rates

(b) The definition of all non-GAAP measures can be found in appendix

H1 2018 order intake

**Solid order intake momentum,
up 5% (+8% organically)**

**3 large^(a) orders booked in Q2 2018,
for a total of 6 in H1 2018**

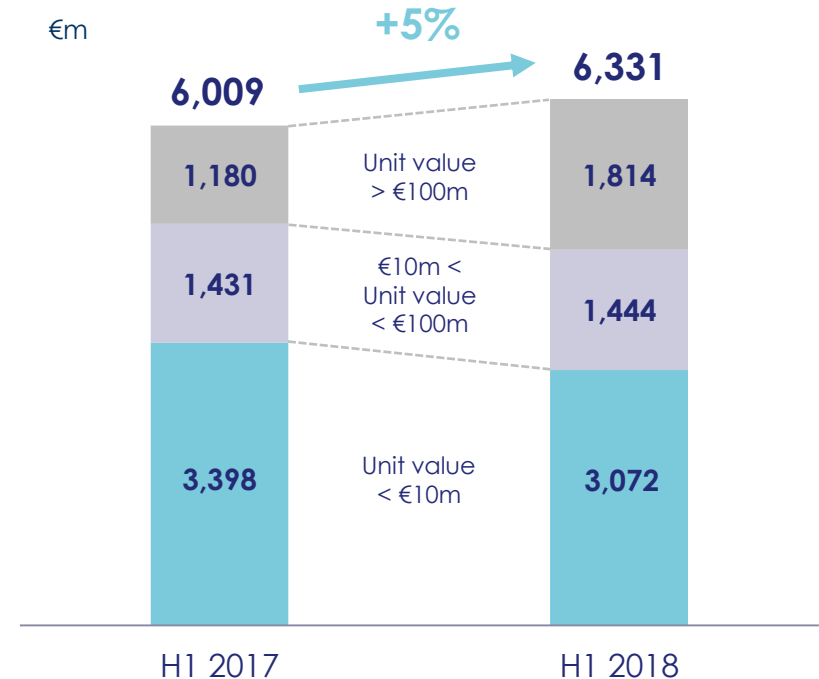
- Konnect VHTS satellite
- Combat Management System for 5 German K130 corvettes
- Upgrade of sonars on Collins class Australian submarines

**Progressive recovery of smaller
orders^(b), affected by negative
quarter-to-quarter phasing effects**

(a) With a unit value over €100m

(b) With a unit value of less than €10m

Order intake by contract unit value



H1 2018 organic sales growth

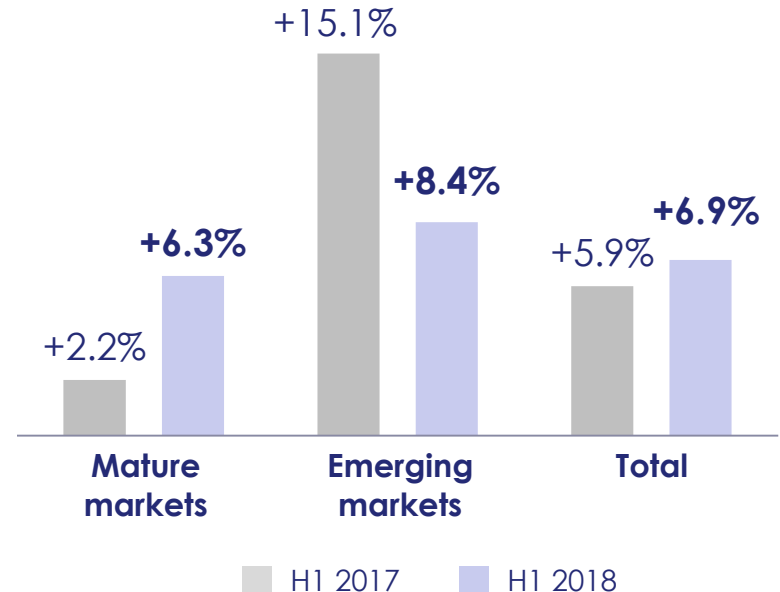
Negative currency impact abating

- Q1: -94m€, -2.9% of sales
- Q2: -53m€, -1.4% of sales

Geographically broad-based organic sales growth

- Solid growth in emerging markets
- Continued growth in mature markets, especially in Defence & Security segment

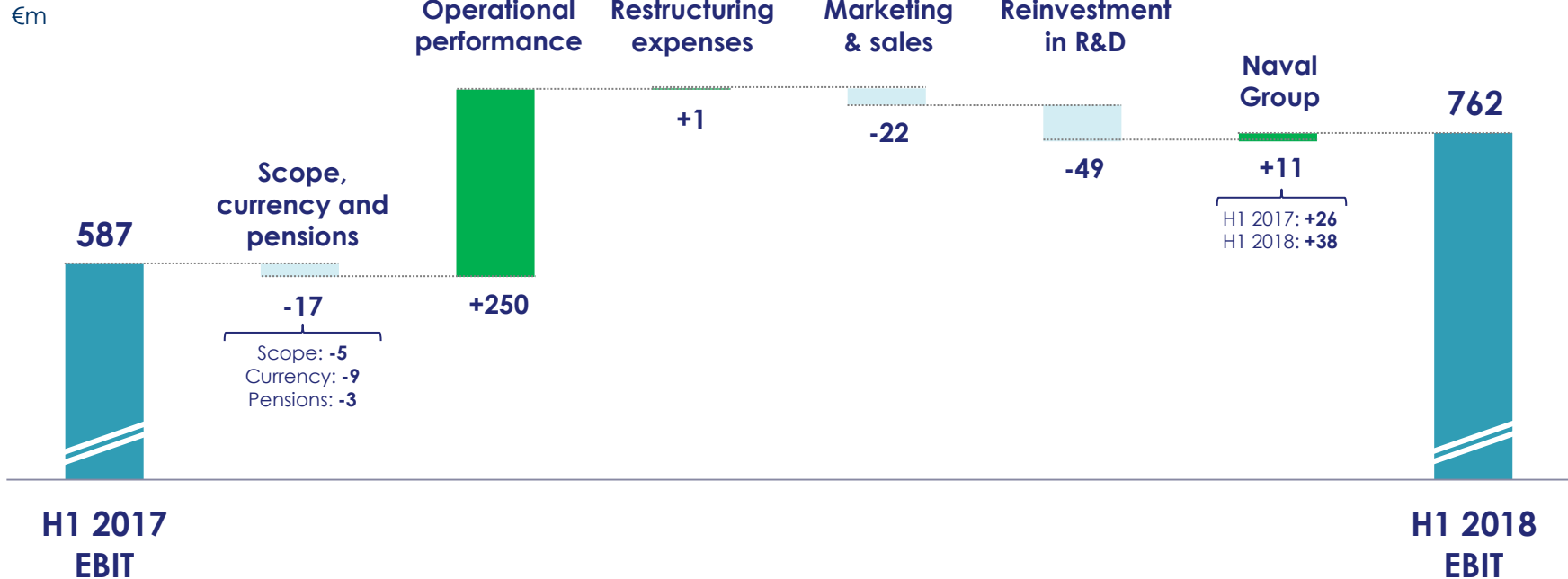
Organic sales growth



Summary adjusted P&L: from sales to EBIT

	H1 2018		H1 2017		Change	
	€m	% of sales	€m	% of sales	total	organic
Sales	7,452		7,118		+4.7%	+6.9%
Gross margin	1,922	25.8%	1,700	23.9%	+13%	+15%
Indirect costs	(1,223)	-16.4%	(1,163)	-16.3%	+5%	+7%
o/w R&D expenses	(406)	-5.4%	(360)	-5.1%	+13%	+14%
o/w Marketing & Sales expenses	(541)	-7.3%	(530)	-7.4%	+2%	+4%
o/w General & Administrative expenses	(276)	-3.7%	(274)	-3.8%	+1%	+3%
Restructuring costs	(22)		(24)		-8%	-6%
Share in net result of equity-accounted affiliates, excluding Naval Group	47		48		-1%	+2%
EBIT excluding Naval Group	724	9.7%	561	7.9%	+29%	+32%
Share in net result of Naval Group	38		26		+42%	+42%
EBIT	762	10.2%	587	8.3%	+30%	+33%

EBIT improvement driven by solid operational performance



EBIT by operating segment

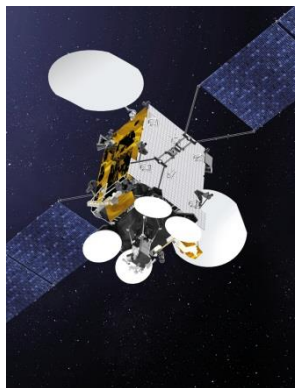
€m / % of sales	H1 2018		H1 2017		Change	
					total	organic
Aerospace	291	10.5%	260	9.3%	+12%	+13%
Transport	27	2.9%	8	1.1%	+220%	+231%
Defence & Security	444	11.8%	325	9.2%	+37%	+40%
EBIT – operating segments	761	10.3%	594	8.4%	+28%	+31%
Other	(37)		(33)			
EBIT – excluding Naval Group	724	9.7%	561	7.9%	+29%	+32%
Naval Group	38		26		+42%	+42%
EBIT – total	762	10.2%	587	8.3%	+30%	+33%

Recovery of Transport on track

Solid performance of Aerospace and Defence & Security segments



Aerospace: H1 2018 key figures



€m	H1 2018	H1 2017	Change	
			total	organic
Order intake	2,042	2,274	-10%	-8%
Sales	2,768	2,797	-1.0%	+1.1%
EBIT	291	260	+12%	+13%
<i>in % of sales</i>	10.5%	9.3%	+1.2 pt	+1.1 pt

Order intake down due to high comps

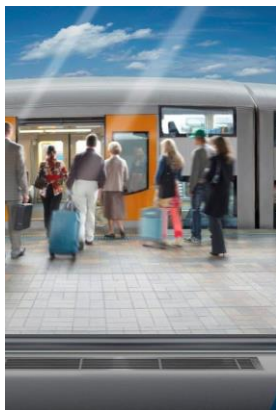
- High H1 2017 level thanks to large In-Flight Entertainment (IFE) order
- Space orders slightly up

Sales growth affected by slowdown of commercial telecom satellite market and high comps in IFE

Increased profitability driven by competitiveness initiatives, offsetting significant increase in R&D



Transport: H1 2018 key figures



€m	H1 2018	H1 2017	Change	
			total	organic
Order intake	835	662	+26%	+28%
Sales	904	761	+18.8%	+22.2%
EBIT	27	8	+220%	+231%
<i>in % of sales</i>	2.9%	1.1%	+1.8 pt	+1.9 pt

Solid order intake momentum

- 2 large main line signalling orders

Strong sales growth, driven by both urban rail and main line signalling

Further recovery of profitability

- Progressive delivery of loss-making contracts
- Operating leverage from strong sales growth



Defense & Security: H1 2018 key figures



€m	H1 2018	H1 2017	Change	
			total	organic
Order intake	3,434	3,035	+13%	+16%
Sales	3,757	3,533	+6.3%	+8.5%
EBIT	444	325	+37%	+40%
<i>in % of sales</i>	<i>11.8%</i>	<i>9.2%</i>	<i>+2.6 pts</i>	<i>+2.7 pts</i>

Good order intake momentum, notably in naval systems, Air Traffic Management, and cybersecurity

Broad-based sales growth

Significant increase in profitability

- Top line growth and operating leverage on indirect costs
- Positive €20m one-off impact related to 2 commercial disputes
- Ramp-up in R&D expenses

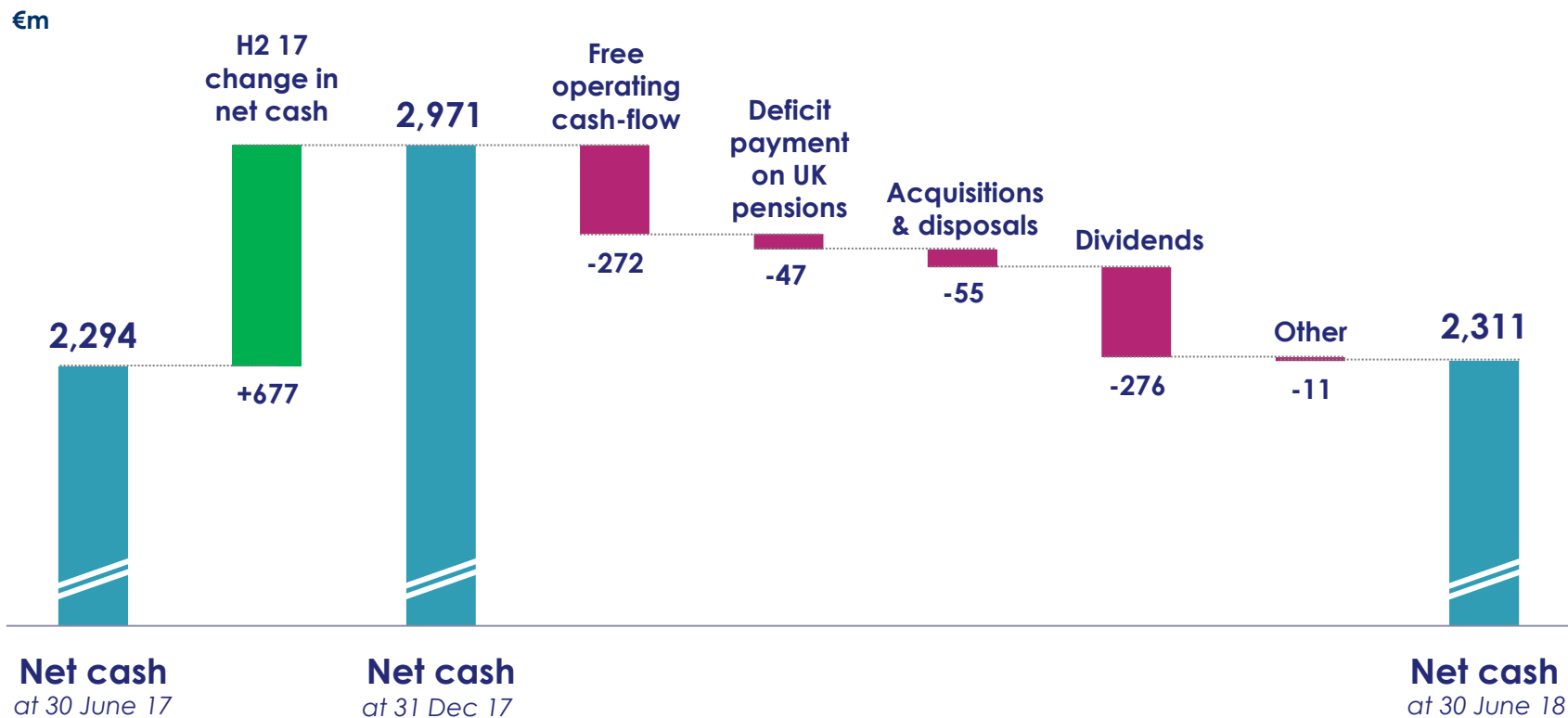
Summary adjusted P&L: from EBIT to adjusted net income

€m	H1 2018	H1 2017
EBIT	762	587
Cost of net financial debt and other financial results	(3)	(18)
Finance costs on pensions and other employee benefits	(27)	(31)
Income tax	(173)	(125)
<i>Effective tax rate</i>	26.6%	26.9%
Adjusted net income	560	414
Minorities	(22)	(27)
Adjusted net income, Group share	539	387
EPS: Adjusted net income, Group share, per share (in €)	2.54	1.83

H1 2018 Free operating cash flow

€m	H1 2018	H1 2017
Operating cash flow before WCR changes	915	692
+ Change in WCR and reserves for contingency reserves	(915)	(172)
+ Pension cash out, excluding deficit payment on UK pensions	(70)	(62)
+ Net financial interest	(16)	(6)
+ Income tax paid	(33)	(46)
= Net cash flow from operating activities	(118)	406
+ Net operating investments	(153)	(189)
= Free operating cash flow	(272)	216

Movement in net cash over H1 2018



2018-21: five key priorities

2018

2021

AMBITION

Leadership in all segments

- Grow profitably in a sustainable way
- Grow faster than the market



1

Reinforce customer-centric organization and culture



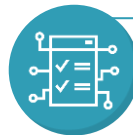
2

Relentlessly optimize operational performance



3

Accelerate R&D investments to drive technological excellence



4

Lead in digital transformation of markets



5

Execute on transformative acquisition of Gemalto

2018 financial objectives

Order intake

Around €15.5bn

Sales^(a)

Organic growth between 4% and 5%

EBIT^(b)

€1,620-1,660m^(c)

(a) Compared to restated IFRS 15 sales of €15,228m

(b) Non-GAAP measure: see definition in appendix

(c) Based on February 2018 scope and foreign exchange rates

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Appendix

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Upcoming events

Q3 and 9m 2018 sales

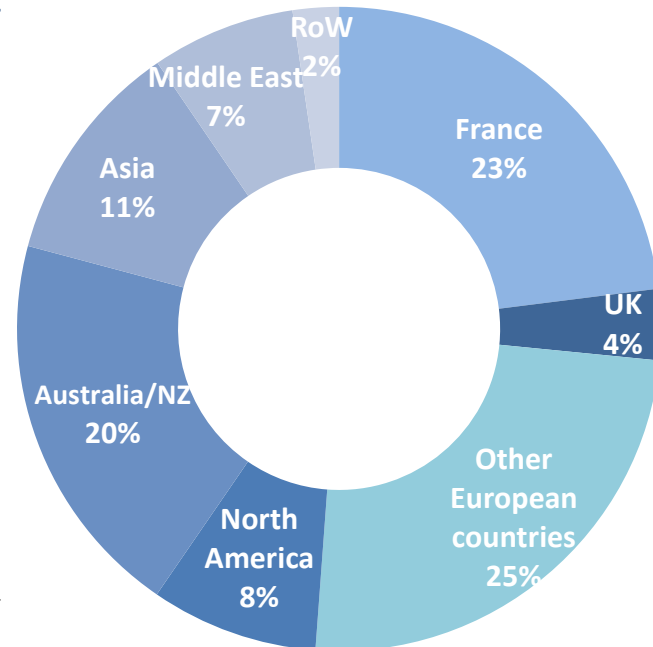
18 October 2018

Full Year 2018 results

26 February 2019

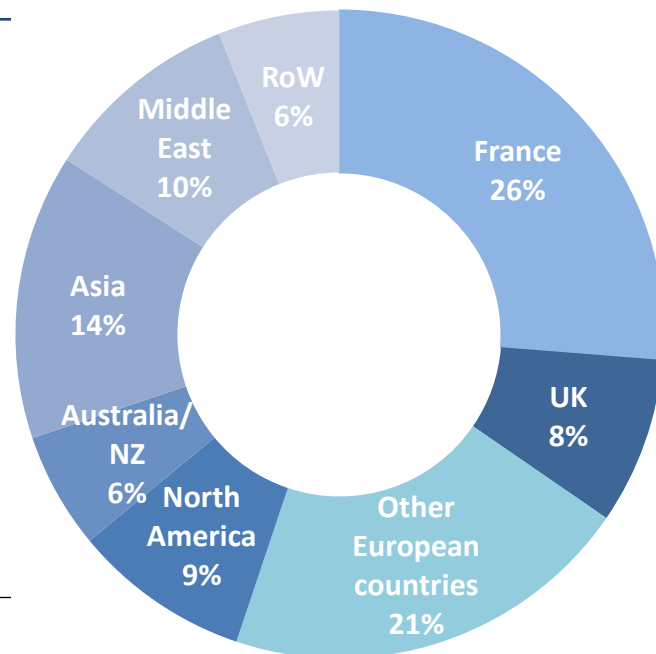
H1 2018 order intake by destination

€m	H1 2018	H1 2017	change	
			total	organic
France	1,456	1,803	-19%	-18%
United Kingdom	226	370	-39%	-38%
Other European countries	1,558	1,142	+36%	+38%
Europe	3,240	3,315	-2%	-1%
North America	532	676	-21%	-15%
Australia/NZ	1,239	381	+225%	+254%
Mature markets	5,011	4,371	+15%	+18%
Asia	716	708	+1%	+4%
Middle East	457	570	-20%	-18%
Rest of the world	147	359	-59%	-58%
Emerging markets	1,320	1,638	-19%	-17%
Total	6,331	6,009	+5%	+8%



H1 2018 sales by destination

€m	H1 2018	H1 2017	change	
			total	organic
France	1,956	1,819	+7.6%	+8.2%
United Kingdom	621	638	-2.6%	-0.8%
Other European countries	1,532	1,468	+4.3%	+5.1%
Europe	4,110	3,926	+4.7%	+5.6%
North America	660	663	-0.4%	+3.9%
Australia/NZ	433	399	+8.3%	+18.0%
Mature markets	5,203	4,988	+4.3%	+6.3%
Asia	1,062	1,001	+6.1%	+8.8%
Middle East	736	737	-0.2%	+2.5%
Rest of the world	452	392	+15.2%	+18.5%
Emerging markets	2,249	2,130	+5.6%	+8.4%
Total	7,452	7,118	+4.7%	+6.9%



H1 2018 adjusted net result

€m	Consolidated P&L H1 2018	Amortisation of intangible assets (PPA)	Expenses related to acquisitions	Disposal of assets and others	Change in fair value of derivative FX instruments	Actuarial gains/losses on other long term benefits	Adjusted P&L H1 2018
Sales	7 452						7 452
Cost of sales	(5 530)		0				(5 530)
R&D	(407)		1				(406)
Selling costs	(543)		1				(541)
G&A costs	(277)		1				(276)
Restructuring costs	(22)						(22)
Amortisation of intangible assets (PPA)	(51)	51					0
Income from operations	623	51	4				677
Impairment of non-current operating assets							
Share in net income (loss) of equity affiliates	71	13					85
Income of operating activities incl. share in net income of equity affiliates	694						
EBIT		64	4				762
Result of disposal of assets, change in scope and others	(19)			19			-
Cost of net financial debt	(3)						(3)
Other financial income (expense)	(35)		8		27		1
Finance costs on pensions and other employee benefits	(22)					(5)	(27)
Income tax	(140)	(14)	(4)	(6)	(9)	2	(173)
Net income (loss)	475	50	8	12	18	(3)	560
Minorities	(18)	(4)			(1)		(22)
Net income (loss), Group share	457	47	8	12	18	(3)	539

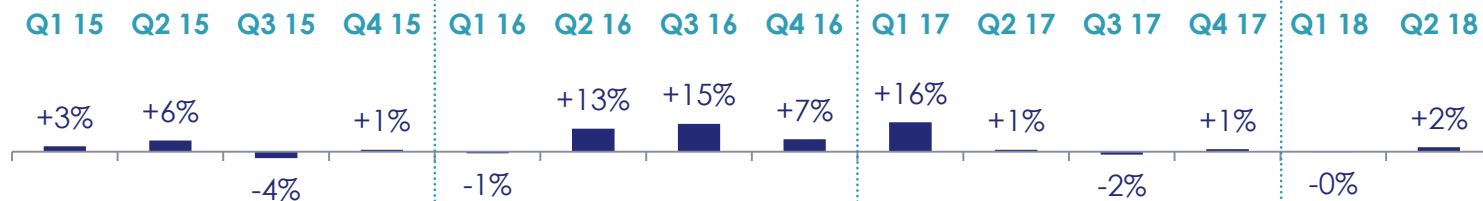
H1 2017 adjusted net result

€m	Consolidated P&L H1 2017	Amortisation of intangible assets (PPA)	Expenses related to acquisitions	Disposal of assets and others	Change in fair value of derivative FX instruments	Actuarial gains/losses on other long term benefits	Adjusted P&L H1 2017
Sales	7 118						7 118
Cost of sales	(5 419)		0				(5 418)
R&D	(363)		3				(360)
Selling costs	(533)		3				(530)
G&A costs	(278)		4				(274)
Restructuring costs	(24)						(24)
Amortisation of intangible assets (PPA)	(54)	54					0
Income from operations	449	54	10				513
Impairment of non-current operating assets	0						0
Share in net income (loss) of equity affiliates	61	13					74
Income of operating activities incl. share in net income of equity affiliates	510						
EBIT		68	10				588
Result of disposal of assets, change in scope and others	(9)			9			0
Cost of net financial debt	2						2
Other financial income (expense)	(63)				43		(20)
Finance costs on pensions and other employee benefits	(28)					(3)	(31)
Income tax	(90)	(19)	(3)	1	(15)	1	(125)
Net income (loss)	322	49	7	10	28	(2)	414
Minorities	23	4			0		27
Net income (loss), Group share	299	46	7	10	28	(2)	387

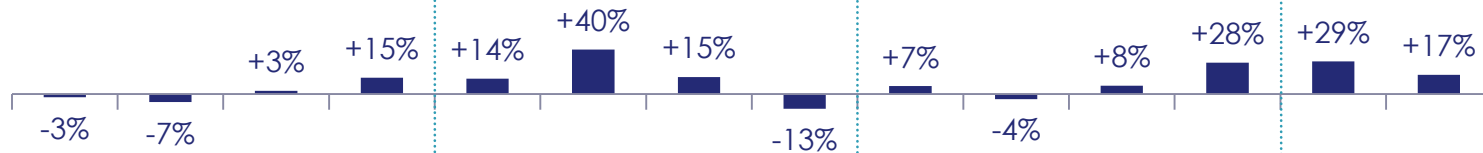
Organic sales growth per quarter



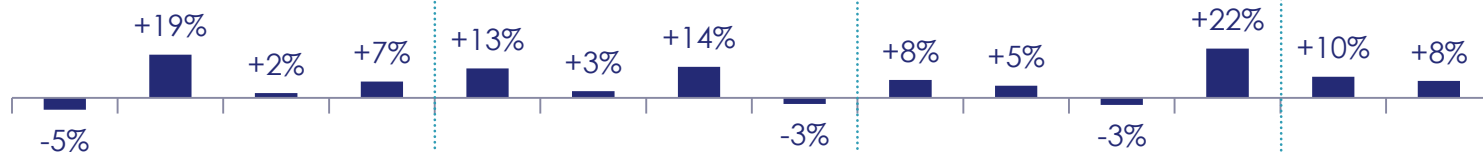
Aerospace



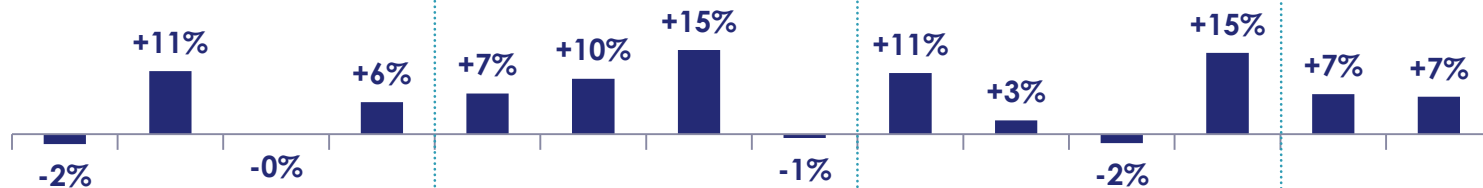
Transport



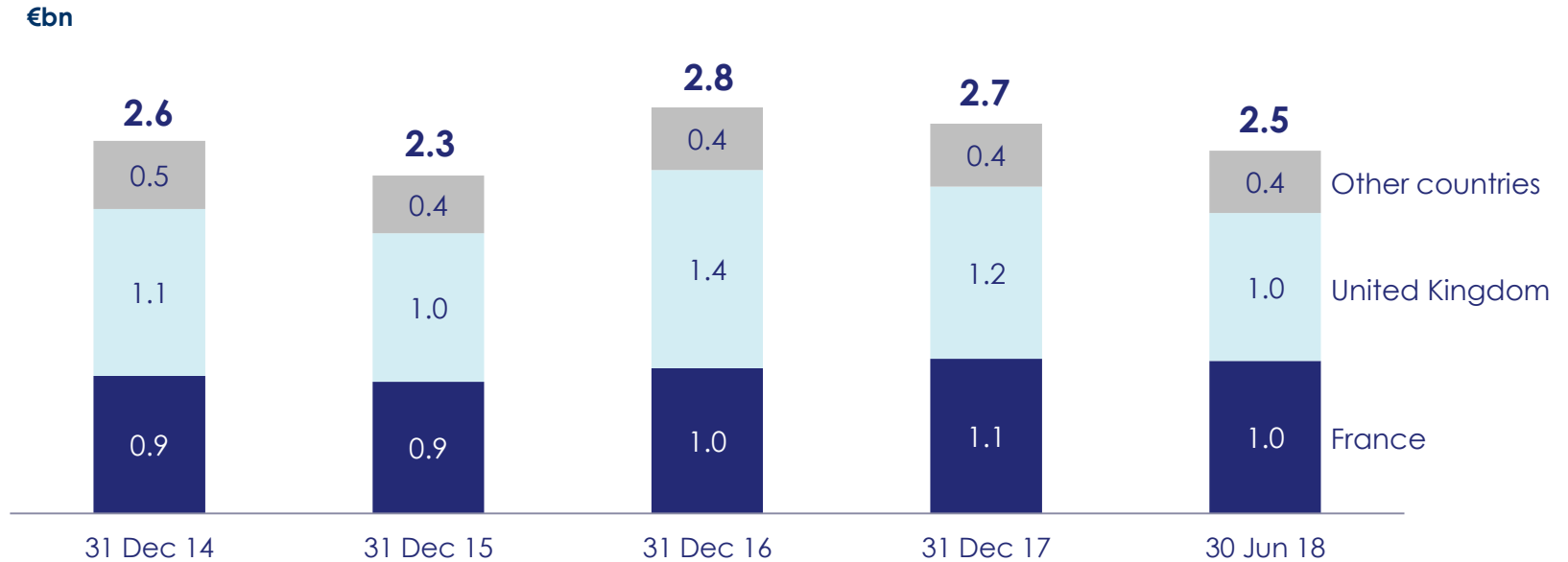
Defence & Security



Total



Evolution of net pension provision



Liability discount rate

	31 Dec 14	31 Dec 15	31 Dec 16	31 Dec 17	30 Jun 18
France	1.5%	2.0%	1.5%	1.2%	1.5%
UK	3.7%	4.0%	2.8%	2.6%	2.8%

Q2 2018 order intake by operating segment

€m	Q2 2018	Q2 2017	change	
			total	organic
Aerospace	1,291	1,349	-4%	-2%
Transport	347	447	-22%	-21%
Defence & Security	1,652	1,923	-14%	-13%
Other	9	22		
Total	3,298	3,742	-12%	-10%

Q2 2018 sales by operating segment

€m	Q2 2018	Q2 2017	change	
			total	organic
Aerospace	1,483	1,465	+1.2%	+2.4%
Transport	518	451	+15.0%	+17.4%
Defence & Security	2,028	1,913	+6.0%	+7.6%
Other	12	12		
Total	4,040	3,841	+5.2%	+6.7%

Definition of non-GAAP measures and other remarks

Rounding of amounts in euros

In the context of this presentation, the amounts expressed in millions of euros are rounded to the nearest million. As a result, the sums of the rounded amounts may differ very slightly from the reported totals. All ratios and variances are calculated based on underlying amounts, which feature in the consolidated financial statements.

Definitions

- **Organic:** at constant scope and exchange rates;
- **Book-to-bill ratio:** ratio of orders received to sales;
- **Mature markets:** All countries in Europe excluding Russia and Turkey, North America, Australia and New Zealand;
- **Emerging markets:** All other countries, i.e. Middle East, Asia, Latin America and Africa.

Non-GAAP measures

This presentation contains non-Generally Accepted Accounting Principles (GAAP) financial measures. Thales regards such non-GAAP financial measures as relevant operating and financial performance indicators for the Group, as they allow non-operating and non-recurring items to be excluded. Thales definitions for such measures may differ from similarly titled measures used by other companies or analysts.

- **EBIT:** income from operations; *plus* the share of net income or loss of equity affiliates *less*: amortization of acquired intangible assets (PPA). From 1 January 2016, it also excludes expenses recorded in the income from operations and in the financial result that are directly related to business combinations (2017 impact: +€18m, 2016 impact: €+19m). See also notes 13-a and 2 of the consolidated financial statements at 31 December 2017.
- **Adjusted net income:** net income, *less* the following elements, net of the corresponding tax effects: (i) amortization of acquired intangible assets, (ii) expenses recorded in the income from operations or in "financial results" which are directly related to business combinations, which by their nature are unusual (2017 impact: +€12m, 2016 impact: €+12m), (iii) disposal of assets, change in scope of consolidation and other, (iv) change in fair value of derivative foreign exchange instruments (recorded in "other financial results" in the consolidated accounts), (v) actuarial gains or losses on long-term benefits (accounted within the "finance costs on pensions and employee benefits" in the consolidated accounts). See note 13-a of the consolidated financial statements at 31 December 2017. This definition implies the definition of several other adjusted financial measures, such as adjusted gross margin, adjusted tax, adjusted EPS See page 14 and 15 of the 2018 Half year press release for detailed calculation of these other indicators over H1 2018.
- **Free operating cash flow:** net cash flow from operating activities, *less*: capital expenditures, *less*: deficit payments on pensions in the United Kingdom. See notes 13-a and 6.4 of the consolidated financial statements at 31 December 2017.



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