Introduction to Thales

2018-21: targeting industry leadership

Five key priorities for 2018-21

2018 Full-Year results

Outlook
Thales today: a set of focused, technology-driven businesses

- **Sales by solution**
  - 13% Transport
  - 15% Space
  - 36% Aerospace
  - 21% Avionics
  - 25% Communications, command & control
  - 25% Sensors and mission systems
  - 51% Defence & security

- **Sales by end market**
  - 13% Civil space
  - 17% Civil aeronautics
  - 13% Ground transport
  - 8% Other civil

- **Sales by region**
  - 55% Europe
  - 31% Rest of world
  - 9% North America
  - 5% Australia/NZ

**Worldwide Rankings**
- **Flight avionics**: #3
- **In-flight entertainment**: #2
- **Space solutions**: #2 (civil satellites)
- **Rail signalling and supervision**: #2
- **Advanced defence systems**: #1 in Europe (defence sensors and mission systems)
- **Air Traffic Management**: #1
Thales: a pure player focused on intelligent systems

Addressing some of the most demanding end markets...

...leveraging a unique portfolio of key common technologies

Critical decision chain

Sensing and data gathering ▶ Data transmission and storage ▶ Data processing and decision making

Hardware + software ▶ Hardware + software ▶ Software + systems

Sensors, mission systems, communication, command and control systems
Thales builds on 4 key strengths

**Cutting edge R&D**
- €3bn, ~20% of sales
- ~75% customer-funded
- 25,000+ engineers
- Ranked by Nature as first non-pharma company in Europe for quality of research

**Deep domain knowledge**
- Top 3 globally or #1 in Europe across businesses
- Leverage across 5 end markets with many technological similarities

**Growing digital asset base**
- Thales portfolio: digital “by nature”
- Significant organic and inorganic initiatives, targeting 4 key digital technologies
- Large integrated network of digital native talents

**Global presence**
- Presence in 50+ countries and sales in 100+ countries
- Proven ability to address complex markets and partnerships
- Capitalizing on 40+ year presence

Investor meeting - 5
Resilience embedded in business model

High geographical diversification
- Sales >€100m in 28 markets

Platform-agnostic positioning
- On-board all major aircraft, train and metro platforms
- Serving 55+ armed forces

Strong program diversification
- Largest program represents less than 5% of sales

Balancing defence and civil business models

Ability to cross-sell technologies across end markets

Geographical sales breakdown

- Mature markets: 69%
  35 countries, of which 12 with sales above €100m

- Middle-East: 10%
  12 countries, of which 4 with sales above €100m

- Asia: 14%
  27 countries, of which 10 with sales above €100m

- Rest of the world: 6%
  31 countries, of which 2 with sales above €100m
Thales delivers a best-in-class ROCE

ROCE in line with best-in-class peers

Asset turn higher than peers

Thales light asset base underpinned by

- No capitalization of R&D
- Relatively low goodwill and PPA
- Significant negative working capital driven by export projects

Peer group: BAE Systems, Honeywell, Leonardo, Lockheed-Martin, Raytheon, Safran

2017 ROCE

<table>
<thead>
<tr>
<th></th>
<th>Peer 6</th>
<th>Peer 5</th>
<th>Peer 4</th>
<th>Peer 3</th>
<th>Thales before one-offs(a)</th>
<th>Peer 2</th>
<th>Peer 1</th>
<th>Thales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>10%</td>
<td>13%</td>
<td>16%</td>
<td>18%</td>
<td>20%</td>
<td>21%</td>
<td>23%</td>
<td>25%</td>
</tr>
</tbody>
</table>

2017 asset turn

<table>
<thead>
<tr>
<th></th>
<th>Peer 5</th>
<th>Peer 6</th>
<th>Peer 2</th>
<th>Peer 1</th>
<th>Peer 4</th>
<th>Peer 3</th>
<th>Thales before one-offs(a)</th>
<th>Thales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.4</td>
<td>1.6</td>
<td>1.6</td>
<td>1.9</td>
<td>2.1</td>
<td>2.2</td>
<td>3.0</td>
<td>3.6</td>
</tr>
</tbody>
</table>

(a) Capital employed adjusted up by €950m accumulated one-off positive WCR effects recorded at end 2017
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Outlook
Ambition 10: a 10-year journey to industry leadership in all segments

Building a growing, more global and more profitable Thales

Leadership in all segments
- Grow faster than the market
- Grow profitably in a sustainable way
All Thales markets benefit from solid underlying trends...

**Overall market**
- Stable to improving trends in government budgets and GDP growth
- Operational efficiency: a growing priority, increasingly enabled by intelligent systems
- Growing demand for security and safety

**Aerospace**
- Long-term growth in global air traffic
- Focus on operational and environmental efficiency
- Unique position of space systems to address new needs

**Transport**
- Urbanization and increasing need for mobility supporting rail development
- Renovation of signalling: a key lever to increase efficiency of existing infrastructures

**Defence & Security**
- Confirmed trend-up of defence budgets in mature countries, facing increased geopolitical tensions and the return of symmetric threats
- Need to address growing security concerns related to asymmetric threats and terrorism
- High demand for cybersecurity, in particular corporate data protection
...supporting ~3% sustained market growth...

<table>
<thead>
<tr>
<th>Civil aviation</th>
<th>Space</th>
<th>Rail signalling</th>
<th>Civil cybersecurity</th>
<th>Global defence budgets</th>
</tr>
</thead>
<tbody>
<tr>
<td>+3.5% 2017-36</td>
<td>+1%   2018-21</td>
<td>+4% 2018-30</td>
<td>+3% 2014-20</td>
<td>+8% 2018-21</td>
</tr>
</tbody>
</table>

**Annual growth forecasts - sources:**
- Civil aviation: IATA (air passenger numbers)
- Rail signalling: UNIFE, 3-year average forecasts 2019-21 vs 2013-15
- Civil cybersecurity: Gartner
- Defence budgets: Jane’s defence, current terms, country budget planning, excludes China and Russia

**Global defence budgets:**
- Europe 2018-22: +3.5%
- Asia-Pacific and Middle-East 2018-22: +6%
…combined with Digital as a long-term disrupter

Digital technologies will revolutionize the future of Thales markets

- Leapfrog in performance: enhanced features and/or new capabilities
- Potential breakthrough in cost competitiveness
- Opportunities for new business models

Adoption of digital technologies will take time

- Highly regulated markets requiring long certification processes
- Long acquisition cycles combined with long service life (10-20 years)

Acceleration of digital innovation increases opportunities for bold technology leaders
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2018-21: five key priorities

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
Reinforce customer-centric organization and culture

Three 2018-21 priorities...

- Deepen customer intimacy
- Consistently optimize sales pipeline
- Develop exports from large countries

...capitalizing on marketing and sales excellence

- New marketing initiatives focused on digital value propositions and Group positioning as partner in digital transformation
- Central “sales transformation” function up and running since Summer 2018
- Comprehensive program launched to enhance commercial performance and sales effectiveness
Relentlessly optimize operational performance

Group cost structure

- €14.2bn total costs
  - 17% Project delivery
    (bids, project management, production, customer service)
  - 18% Engineering
  - 9% Support functions
  - 8% Other
  - 48% External purchases

Focus on 4 high impact initiatives

- Procurement performance
- Engineering competitiveness
- Support function efficiency
- Excellence in delivery

(a) Excluding external purchases
## 4 key initiatives to sustainably optimize operational performance

### Procurement performance
- New worldwide integrated organization, fully accountable for performance
- Full leverage of Thales global scale through massification and consolidation
- Deployment of powerful new procurement methods
- Enhancement of tools and capabilities

### Engineering competitiveness
- Deployment of state-of-the-art engineering tools and agile methods
- Constant skills and capability reinforcement
- Digital Factory
- Optimal footprint and make-or-buy strategy

### Support function efficiency
- Demand management to focus on most added-value activities
- Standard worldwide operating models across every support function, fostering process standardization and digitalization
- Increase platforming and near/off-shoring of shared services
- People and skills development

### Excellence in delivery
- Continuous improvement in operational excellence, from bids to project execution, while delivering growth
- Maintaining specific focus on project execution in Transport
- Industry 4.0 and lean supply chain processes
Good progress on Ambition 10 competitiveness initiatives

**Procurement: transformed organization starts to deliver**

- Global procurement organization fully operational
- 90% of external purchases reviewed as part of “category waves” in 2018, with significant savings identified
- 25 “product conventions” organized in 2018, supporting further product cost optimization
- 18% reduction in active supplier base

**Continued roll-out of support function transformation**

Support function cost<sup>(a)</sup> as a percentage of sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2017</th>
<th>2018</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>9.1%</td>
<td>8.1%</td>
<td>7.8%</td>
<td>~7.2%</td>
</tr>
</tbody>
</table>

<sup>(a)</sup> Includes both support function costs reported in the P&amp;L “G&A expenses” line and the ones included in “cost of sales”

**Leveraging powerful margin enhancement levers**
Accelerate R&D investments to drive technological excellence

Thales’s core competitive advantage: world leading R&D capability

- TOP 100 GLOBAL INNOVATORS
- 6 times winner 2012, 2013, 2015, 2016, 2017, 2018
- Prestigious recognitions for researchers

R&D headcount
- 40% of total staff

R&D total spend
- >€3 bn
- ~75% Customer-funded R&D
- ~25% Self-funded R&D

R&D total spend
- ~2.2 Customer-funded R&D
- ~1 Self-funded R&D
- ~3 Self-funded R&D up 25 to 30%, focused on
  - Transverse digital levers and technologies
  - Breakthrough “dream products” across key product lines
  - Competitive product policy

~4 Customer-funded R&D

Prestigious recognitions for researchers:
- 6 times winner 2012, 2013, 2015, 2016, 2017, 2018
Quick adoption of digital technologies inside core products to support top-line growth

Emerging digital services boosting longer-term growth post 2022

> “As a service” business models delivering steady growth and recurring revenues
Lead digital transformation of markets: recent examples

- **Big data-enabled observation constellation**
- **Demonstrations of autonomous rail technologies**
- **Autonomous mine warfare**
- **First Digital Factory solutions launched commercially**

Capitalizing on critical mass of expertise in digital technologies
Gemalto: a global player in digital security

Global specialist in authentication systems and data protection

Leading technologies with applications in broad range of industries

Moving from hardware to embedded software, then to software platforms

2018 revenues of €3.0bn

2017 revenue breakdown by division

- Payment ~€800m, 28%
- SIM cards ~€500m, 17%
- Mobile platforms & services ~€200m, 7%
- Government programs ~€600m, 19%
- Enterprise cybersecurity ~€450m, 16%
- Industrial Internet of Things (M-to-M) ~€350m, 12%
Thales + Gemalto: powering and securing the complete critical digital decision chain

Critical decision chain

Sensing and data gathering
- Mission sensors
- Objects
- Networks & Gateways

Data transmission and storage
- Identity data
- Mission and identity data

Data processing and decision making
- Mission data
- Platforms to manage objects
- Platforms to manage missions
- Mission applications

Critical digital decision chain

(a) Including big data analytics, artificial intelligence algorithms
Thales and Gemalto: selected use cases

**Smart rail infrastructures**

**Battlefield cloud**

**Silent authentication**

1. **Credit cards**
2. **SMS**
3. **Computer display**
Gemalto well advanced in its transition from its historical businesses to faster-growing markets

Thales to combine key digital assets with Gemalto in order to:

- Strengthen common digital capabilities
- Accelerate growth of combined entity

New Global Business Unit to accelerate digital transformation across all Thales vertical markets

Segment revenue breakdown\(^{(a)}\)

- \textbf{Defence & Security} 40%  
- \textbf{Aerospace} 32%  
- \textbf{Digital security} 18%  
- \textbf{Transport} 10%  

\(^{(a)}\) 2017 Combined pro forma
Gemalto acquisition progressing well

Execution of transaction

- Offer formally launched in March 2018
- €4.8bn offer price fully financed at very attractive rate (<1%)
- Only 3 regulatory authorizations still to obtain
  - US DoJ (antitrust)
  - Russia (antitrust and foreign investment)
- Definitive agreement signed to sell GP HSM business
- Expected closing: March 2019

Integration planning

- Common ‘DNA’ and culture: a strong foundation for successful integration
- Extensive preparation over past 12 months
  - Integration Project Management Office managing 18 workstreams in parallel
  - Hundreds of people mobilized
- Planned leadership and organizational structure announced internally
  - Gemalto to become Thales “Digital security” Global Business Unit
  - Complemented with key Thales digital assets

Ready to deliver synergies from day one
Summary

Unique portfolio positioning
- Markets benefiting from solid underlying growth
- Increased opportunities for technology leaders

Continued focus on operational performance
- Reinforcement of customer-centric organization and culture
- New competitiveness initiatives gaining momentum in coming years

Strong development levers
- Further acceleration of R&D investments, especially in digital technologies
- Transformative acquisition of Gemalto

Executing on long-term vision: leadership in all segments

Grow faster than the market
Grow profitably in a sustainable way
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Outlook
Full-Year 2018 highlights

Order intake above expectations

Strong sales growth, driven by Transport and Defence & Security segments

Significant increase in profitability, while accelerating R&D investments

New medium-term ambition, priorities and financial targets announced in June

Extensive preparation for integration of Gemalto
2018: a solid first step towards our 2021 leadership ambition

**Leadership in all segments**

**Growth**
- Organic sales, base 100 in 2013
- 3 to 5% CAGR +4% 18-21 average annual growth
- 2013: 100
- 2017: 118
- 2018: 124
- 2021 target

**Profitability**
- % EBIT margin
- +0.45 pt per year
- 2013: 8.0%
- 2017 (a): 9.8%
- 2018: 10.6%
- 2021 target: 11 to 11.5%

**R&D investments**
- Self-funded R&D, €m
- +10%
- 2013: 612
- 2017: 797
- 2018: 879
- 2021 target

---

[a] Reported margin – 2017 margin restated for IFRS 15: 9.0%
2018 key figures (all prior year figures restated for IFRS 15)

**Order intake**

<table>
<thead>
<tr>
<th>Year</th>
<th>€m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>14,931</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>16,034</td>
<td>+9%</td>
</tr>
</tbody>
</table>

**Sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>€m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>15,228</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>15,855</td>
<td>+5.3%</td>
</tr>
</tbody>
</table>

**EBIT and EBIT margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>€m or %</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,365</td>
<td>9.0%</td>
</tr>
<tr>
<td>2018</td>
<td>1,685</td>
<td>+1.7 pt</td>
</tr>
</tbody>
</table>

**Adjusted net income**

<table>
<thead>
<tr>
<th>Year</th>
<th>€m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>840</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1,178</td>
<td>+40%</td>
</tr>
</tbody>
</table>

**Free operating cash-flow**

<table>
<thead>
<tr>
<th>Year</th>
<th>€m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,365</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>811</td>
<td>-41%</td>
</tr>
</tbody>
</table>

**Dividend**

<table>
<thead>
<tr>
<th>Year</th>
<th>€</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.75</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>2.08</td>
<td>+19%</td>
</tr>
</tbody>
</table>

(a) Organic: at constant scope and exchange rates
(b) The definition of all non-GAAP measures can be found in appendix
(c) Proposed to the 15 May 2019 Annual General Meeting
2018 order intake

Solid order intake momentum, up 7% (+9% organically)

9 large\(^{(a)}\) orders booked in Q4 2018, for a total of 19 in 2018

Record high order intake in mature markets

➢ Fully offsetting phasing effects affecting emerging markets

Smaller orders\(^{(b)}\) stable

➢ Full recovery in H2 (up 8%) following -10% in H1

Order intake by contract unit value

<table>
<thead>
<tr>
<th>Unit value</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; €100m</td>
<td>2,915</td>
<td>4,593</td>
</tr>
<tr>
<td>€10m &lt; Unit value &lt; €100m</td>
<td>4,793</td>
<td>4,231</td>
</tr>
<tr>
<td>&lt; €10m</td>
<td>7,223</td>
<td>7,210</td>
</tr>
</tbody>
</table>

\(^{(a)}\) With a unit value over €100m
\(^{(b)}\) With a unit value of less than €10m
## Aerospace: 2018 key figures

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>change total</th>
<th>change organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order intake</td>
<td>5,346</td>
<td>5,237</td>
<td>+2%</td>
<td>+3%</td>
</tr>
<tr>
<td>Sales</td>
<td>5,780</td>
<td>5,747</td>
<td>+0.6%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>EBIT</td>
<td>580</td>
<td>567</td>
<td>+2%</td>
<td>+3%</td>
</tr>
<tr>
<td>in % of sales</td>
<td>10.0%</td>
<td>9.9%</td>
<td>+0.2 pt</td>
<td>+0.2 pt</td>
</tr>
</tbody>
</table>

**Limited growth in order intake in spite of recovery in Space**
- Space orders strongly up on low 2017 level
- High comps in avionics and In-Flight Entertainment (IFE)

**Solid sales growth in aeronautics offset by slowdown of commercial telecom satellite market and high comps in IFE**

**Increased profitability driven by competitiveness initiatives and lower restructuring, offsetting significant increase in R&D**
## Transport: 2018 key figures

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>change total</th>
<th>change organic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Order intake</strong></td>
<td>€1,858</td>
<td>€1,781</td>
<td>+4%</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>€2,001</td>
<td>€1,723</td>
<td>+16.1%</td>
<td>+17.9%</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>€88</td>
<td>€57</td>
<td>+56%</td>
<td>+57%</td>
</tr>
<tr>
<td>in % of sales</td>
<td>4.4%</td>
<td>3.3%</td>
<td>+1.1 pt</td>
<td>+1.1 pt</td>
</tr>
</tbody>
</table>

- Solid order intake, especially in main line signalling
- Record sales growth, driven by both urban rail and main line signalling
- Further recovery of profitability, thanks to progressive delivery of loss-making contracts
- 2019 EBIT to be affected by restructuring cost
Defence & Security: 2018 key figures

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>change total</th>
<th>change organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order intake</td>
<td>8,775</td>
<td>7,857</td>
<td>+12%</td>
<td>+13%</td>
</tr>
<tr>
<td>Sales</td>
<td>8,020</td>
<td>7,690</td>
<td>+4.3%</td>
<td>+5.6%</td>
</tr>
<tr>
<td>EBIT</td>
<td>1,007</td>
<td>757</td>
<td>+33%</td>
<td>+35%</td>
</tr>
<tr>
<td>in % of sales</td>
<td>12.6%</td>
<td>9.8%</td>
<td>+2.7 pts</td>
<td>+2.8 pts</td>
</tr>
</tbody>
</table>

Broad-based order intake momentum
➢ Order book above €20bn for the first time ever

Diversified sales growth

Significant increase in profitability
➢ Top line growth, competitiveness initiatives and good project execution
➢ Positive €20m one-off impact related to 2 commercial disputes
➢ Non-recurrence of negative IFRS 15 impact
EBIT improvement driven by solid operational performance

€m

Operational performance: +32
Restructuring expenses: -37
Marketing & sales: -83
Reinvestment in R&D: +30

2017:
Corporate scope: -5
Currency: -15
Pensions: -4

2018:

Scope, currency and pensions: 1,365
Restructuring expenses: -24
Marketing & sales: +402
Reinvestment in R&D: 1,685

Naval Group:
2017: 33
2018: 63

(a) On the 2017 P&L restated for IFRS 15. Reported 2017 contribution: €48m
Cash conversion in line with expectations

Reported cash conversion

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted net income</th>
<th>Free operating cash flow</th>
<th>Cash conversion ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-17</td>
<td>813</td>
<td>982</td>
<td>121%</td>
</tr>
<tr>
<td>2018</td>
<td>1,178</td>
<td>811</td>
<td>69%</td>
</tr>
</tbody>
</table>

Cash conversion before one-offs

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted net income</th>
<th>Free operating cash flow</th>
<th>Cash conversion ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-17</td>
<td>863</td>
<td>745</td>
<td>86%</td>
</tr>
<tr>
<td>2018</td>
<td>1,178</td>
<td>1,011</td>
<td>86%</td>
</tr>
</tbody>
</table>

(a) One-off items on adjusted net income: €117m non cash losses at Naval group in 2014, €85m non cash tax items in 2016 and 2017
One-off items on Free operating cash flow: 2014-17: €950m of positive WCR effects, 2018: ~€200m estimated unwinding of 2017 one-off positive WCR effect
Adjusted EPS and dividend per share

Adjusted EPS up 12% per year since 2013

Proposed 2018 dividend: €2.08 per share\(^{(a)}\)
- Pay-out ratio: 38%

Dividend up 13% per year since 2013
- Quasi doubling in 5 years

\(^{(a)}\) Subject to approval by the 15 May 2019 Annual General Meeting
\(^{(b)}\) Corrected for negative Naval Group contribution (€0.57)
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Outlook
Organic sales growth sustainably above market

Group organic sales growth target

- 3% to 5% growth on average over 2018-2021

<table>
<thead>
<tr>
<th>Market trend</th>
<th>Organic sales growth target</th>
</tr>
</thead>
<tbody>
<tr>
<td>+2%</td>
<td>+2-3%</td>
</tr>
<tr>
<td>+3%</td>
<td>+4-5%</td>
</tr>
<tr>
<td>+3.5%</td>
<td>+4-6%</td>
</tr>
</tbody>
</table>

NB: targets excluding Gemalto
Sustainable new round of margin increase

- Investing for the future, notably digital
- Targeting high returns on R&D investments

NB: targets excluding Gemalto

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT Margin</th>
<th>Increase in Profitability</th>
<th>Additional R&amp;D</th>
<th>Profitability Increase</th>
<th>Additional R&amp;D Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8.0%</td>
<td>+200bps</td>
<td>-20bps</td>
<td>9.8%</td>
<td>+200 to +240 bps</td>
</tr>
<tr>
<td>2017</td>
<td>9.8%</td>
<td></td>
<td></td>
<td>11% to 11.5%</td>
<td>-50 to -100 bps</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Investing for the future, notably digital

Targeting high returns on R&D investments
All operating segments to contribute to EBIT margin improvement

EBIT margin targets

**Aerospace**
- 2017: 10.0%
- 2021: 10.5% to 11.0%
- +50 to +100 bps

**Transport**
- 2017: 4.1%
- 2021: 8.0% to 8.5%
- +400 to +450 bps

**Defence & Security**
- 2017: 10.9%
- 2021: 11.5% to 12.5%
- +60 to +160 bps

NB: targets excluding Gemalto
Strategic initiatives deliver significant EPS accretion, with further upside from Gemalto integration.

- Lower tax rate:
  - Effective tax rate moving from 31%\(^{(a)}\) to 23-24%

- More efficient balance sheet:
  - Interest rate <1%
  - Immediate 15-20% adjusted EPS accretion

- Gemalto 2018-21 margin increase:

- Gemalto synergies:
  - €100 to €150m recurring pre-tax cost synergies, meaningful revenue synergies

- 2017 adjusted EPS:
  - €4.64

- 2021 adjusted EPS:
  - +3 to +5% organic growth on average, 11% to 11.5% EBIT margin
  - 11% to 11.5% EBIT margin

- 2021 adjusted EPS:
  - Including Gemalto

(a) 2017 effective tax rate. 25.9% excluding one-off non-cash tax items
Maintaining strong focus on cash flow generation

2014-17: turning Thales into a cash-flow minded company
- Incentives at all levels
- No compromise on payment terms
- Higher hurdle rate on capex
- Limited tax cash out vs. tax P&L expense

2018-21: further increase in cash conversion before one-offs
- Targeting ~90%
- In spite of less favorable gap between tax P&L expense and cash out following consumption of net operating losses

Cash conversion

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported Adjusted Net Income</th>
<th>Reported Free Operating Cash Flow</th>
<th>Cash Conversion Ratio (Free Operating Cash Flow / Adjusted Net Income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>642</td>
<td>477</td>
<td>74%</td>
</tr>
<tr>
<td>2014-17</td>
<td>813</td>
<td>982</td>
<td>121%</td>
</tr>
<tr>
<td>2014-17</td>
<td>863</td>
<td>745</td>
<td>86%</td>
</tr>
</tbody>
</table>

Cash conversion ratio: Free operating cash flow / adjusted net income

(a) One-off items on adjusted net income: €117m non cash losses at Naval group in 2014, €85m non cash tax items in 2016 and 2017 – One-off items on Free operating cash flow: €950m of positive WCR effects booked in 2015-17

NB: targets excluding Gemalto
A more efficient capital structure to support significant dividend growth whilst maintaining financial flexibility

Improved balance sheet efficiency after Gemalto acquisition

<table>
<thead>
<tr>
<th></th>
<th>2017 reported</th>
<th>2017 pro forma after Gemalto acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>0.0</td>
<td>0.04</td>
</tr>
<tr>
<td>Net debt</td>
<td>-2.5</td>
<td></td>
</tr>
</tbody>
</table>

Dividend growth in line with adjusted EPS

Financial flexibility to allow bolt-on acquisitions while deleveraging the company

Strong investment grade maintained

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>AAA</td>
</tr>
<tr>
<td>Moody's</td>
<td>Aaa</td>
</tr>
<tr>
<td></td>
<td>A-/BBB+</td>
</tr>
<tr>
<td></td>
<td>A2 / A3</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
</tbody>
</table>

€bn
Business environment

Unchanged solid underlying trends

- Civil markets benefiting from long-term growth trends: global air traffic, urbanization, mobility, data protection...
- Confirmed uptrend of defence budgets in both mature and emerging countries

Growing role of intelligent systems to deliver operational efficiency

Digitalization gathering pace across markets

Markets underpinned by major societal aspirations

- Security, safety, environmental efficiency...

Highly diversified customer base

- 5 markets in 100+ countries
- Broad program diversification

Balancing defence and civil business models

Thales: combining solid growth opportunities and business model resilience
2019 financial objectives

Reminder: targets excluding Gemalto and impact of disposal of GP HSM business

<table>
<thead>
<tr>
<th>Order intake</th>
<th>Around €16bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Organic growth between 3% and 4%</td>
</tr>
<tr>
<td>EBIT(^{(a)})</td>
<td>€1,780-1,800m(^{(b)})</td>
</tr>
</tbody>
</table>

\(^{(a)}\) Non-GAAP measure: see definition in appendix
\(^{(b)}\) Based on February 2019 scope and foreign exchange rates, post IFRS 16
## A strong set of focused businesses

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sub-segment</th>
<th>Civil</th>
<th>Military</th>
<th>2018 sales (£m)</th>
<th>Market position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aerospace</strong></td>
<td><strong>Flight avionics</strong> including cockpit avionics, communications, electrical systems, training and simulation</td>
<td><img src="image" alt="flight avionics" /></td>
<td><img src="image" alt="flight avionics" /></td>
<td>~2,100</td>
<td>#3 worldwide (flight avionics)</td>
</tr>
<tr>
<td>36% of 2018 sales</td>
<td><strong>Connected in-flight entertainment (IFE)</strong></td>
<td><img src="image" alt="IFE" /></td>
<td><img src="image" alt="IFE" /></td>
<td>~750</td>
<td>#2 worldwide</td>
</tr>
<tr>
<td></td>
<td><strong>Microwave tubes</strong> for satellite, medical, scientific and military applications</td>
<td><img src="image" alt="microwave tubes" /></td>
<td><img src="image" alt="microwave tubes" /></td>
<td>~450</td>
<td>#1 worldwide</td>
</tr>
<tr>
<td></td>
<td><strong>Space solutions</strong> for telecom, observation, navigation and exploration</td>
<td><img src="image" alt="space solutions" /></td>
<td><img src="image" alt="space solutions" /></td>
<td>~2,500</td>
<td>#2 worldwide (civil satellites)</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td><strong>Rail signalling and supervision</strong> including passenger payment collection systems</td>
<td><img src="image" alt="rail signalling" /></td>
<td><img src="image" alt="rail signalling" /></td>
<td>~2,000</td>
<td>#2 worldwide</td>
</tr>
<tr>
<td>13% of 2018 sales</td>
<td><strong>Sensors and mission systems</strong> including radars, sonars, optronics, mission systems for combat aircraft, ships and submarines, missiles and armored military vehicles</td>
<td><img src="image" alt="sensors and mission systems" /></td>
<td><img src="image" alt="sensors and mission systems" /></td>
<td>~4,000</td>
<td>#1 in Europe</td>
</tr>
<tr>
<td><strong>Defence &amp; security</strong></td>
<td><strong>Communications, command and control systems</strong> including military communications and networks, military command and control systems (C4I), civil and military cybersecurity, Air Traffic Management, and security solutions for countries, cities and critical infrastructures</td>
<td><img src="image" alt="communications, command and control systems" /></td>
<td><img src="image" alt="communications, command and control systems" /></td>
<td>~4,000</td>
<td>#2 worldwide (military tactical communications) #1 worldwide (air traffic management)</td>
</tr>
<tr>
<td>51% of 2018 sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Highly diversified Defence & security customer base

Defence & security sales by region, 2018

- 49% outside Europe
- 32% France
- 14% Asia
- 13% Middle East
- 10% Australia/NZ
- 7% Rest of the world
- 7% United Kingdom
- 11% Rest of Europe
- 7% North America
### 2018 order intake by destination

<table>
<thead>
<tr>
<th>€m</th>
<th>2018</th>
<th>2017</th>
<th>change</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total</td>
<td>organic</td>
<td>total</td>
<td>organic</td>
</tr>
<tr>
<td>France</td>
<td>5,183</td>
<td>4,443</td>
<td>+17%</td>
<td>+17%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>746</td>
<td>1,153</td>
<td>-35%</td>
<td>-35%</td>
</tr>
<tr>
<td>Other European countries</td>
<td>3,872</td>
<td>2,919</td>
<td>+33%</td>
<td>+33%</td>
</tr>
<tr>
<td>Europe</td>
<td>9,802</td>
<td>8,515</td>
<td>+15%</td>
<td>+16%</td>
</tr>
<tr>
<td>North America</td>
<td>1,501</td>
<td>1,536</td>
<td>-2%</td>
<td>+1%</td>
</tr>
<tr>
<td>Australia/NZ</td>
<td>1,494</td>
<td>671</td>
<td>+123%</td>
<td>+138%</td>
</tr>
<tr>
<td>Mature markets</td>
<td>12,797</td>
<td>10,722</td>
<td>+19%</td>
<td>+21%</td>
</tr>
<tr>
<td>Asia</td>
<td>1,764</td>
<td>2,168</td>
<td>-19%</td>
<td>-17%</td>
</tr>
<tr>
<td>Middle East</td>
<td>952</td>
<td>1,218</td>
<td>-22%</td>
<td>-21%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>521</td>
<td>824</td>
<td>-37%</td>
<td>-35%</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>3,237</td>
<td>4,210</td>
<td>-23%</td>
<td>-22%</td>
</tr>
<tr>
<td>Total</td>
<td>16,034</td>
<td>14,931</td>
<td>+7%</td>
<td>+9%</td>
</tr>
</tbody>
</table>
## 2018 sales by destination

<table>
<thead>
<tr>
<th></th>
<th>€m 2018</th>
<th>€m 2017</th>
<th>change total</th>
<th>change organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>3,985</td>
<td>3,700</td>
<td>+7.7%</td>
<td>+7.9%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,253</td>
<td>1,327</td>
<td>-5.5%</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Other European countries</td>
<td>3,498</td>
<td>3,313</td>
<td>+5.6%</td>
<td>+5.9%</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>8,736</td>
<td>8,340</td>
<td>+4.7%</td>
<td>+5.1%</td>
</tr>
<tr>
<td>North America</td>
<td>1,367</td>
<td>1,392</td>
<td>-1.8%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Australia/NZ</td>
<td>858</td>
<td>838</td>
<td>+2.3%</td>
<td>+9.2%</td>
</tr>
<tr>
<td><strong>Mature markets</strong></td>
<td><strong>10,960</strong></td>
<td><strong>10,570</strong></td>
<td>+3.7%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Asia</td>
<td>2,297</td>
<td>2,156</td>
<td>+6.5%</td>
<td>+7.7%</td>
</tr>
<tr>
<td>Middle East</td>
<td>1,647</td>
<td>1,569</td>
<td>+4.9%</td>
<td>+6.2%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>950</td>
<td>932</td>
<td>+2.0%</td>
<td>+4.2%</td>
</tr>
<tr>
<td><strong>Emerging markets</strong></td>
<td><strong>4,894</strong></td>
<td><strong>4,657</strong></td>
<td>+5.1%</td>
<td>+6.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,855</td>
<td>15,228</td>
<td>+4.1%</td>
<td>+5.3%</td>
</tr>
</tbody>
</table>
## EBIT by operating segment

<table>
<thead>
<tr>
<th>€m / % of sales</th>
<th>2018</th>
<th>2017</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>total</td>
<td>organic</td>
</tr>
<tr>
<td>Aerospace</td>
<td>580</td>
<td>567</td>
<td>+2%</td>
</tr>
<tr>
<td></td>
<td>10.0%</td>
<td>9.9%</td>
<td>+3%</td>
</tr>
<tr>
<td>Transport</td>
<td>88</td>
<td>57</td>
<td>+56%</td>
</tr>
<tr>
<td></td>
<td>4.4%</td>
<td>3.3%</td>
<td>+57%</td>
</tr>
<tr>
<td>Defence &amp; Security</td>
<td>1,007</td>
<td>757</td>
<td>+33%</td>
</tr>
<tr>
<td></td>
<td>12.6%</td>
<td>9.8%</td>
<td>+35%</td>
</tr>
<tr>
<td>EBIT - operating segments</td>
<td>1,675</td>
<td>1,380</td>
<td>+22%</td>
</tr>
<tr>
<td></td>
<td>10.6%</td>
<td>9.1%</td>
<td>+23%</td>
</tr>
<tr>
<td>Other</td>
<td>(53)</td>
<td>(48)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EBIT - excluding Naval Group</td>
<td>1,623</td>
<td>1,333</td>
<td>+22%</td>
</tr>
<tr>
<td></td>
<td>10.2%</td>
<td>8.8%</td>
<td>+23%</td>
</tr>
<tr>
<td>Naval Group</td>
<td>63</td>
<td>33</td>
<td>+91%</td>
</tr>
<tr>
<td></td>
<td>10.0%</td>
<td>9.0%</td>
<td>+91%</td>
</tr>
<tr>
<td>EBIT - total</td>
<td>1,685</td>
<td>1,365</td>
<td>+23%</td>
</tr>
<tr>
<td></td>
<td>10.6%</td>
<td>9.0%</td>
<td>+25%</td>
</tr>
</tbody>
</table>

### Contribution to EBIT improvement from all segments

Significant EBIT margin expansion in Defence & Security
## Summary adjusted P&L: from sales to EBIT

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th>2017</th>
<th></th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€m</td>
<td>%</td>
<td>€m</td>
<td>%</td>
<td>total</td>
</tr>
<tr>
<td>Sales</td>
<td>15,855</td>
<td></td>
<td>15,228</td>
<td></td>
<td>+4.1%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>4,088</td>
<td>25.8%</td>
<td>3,712</td>
<td>24.4%</td>
<td>+10%</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>(2,526)</td>
<td>-15.9%</td>
<td>(2,404)</td>
<td>-15.8%</td>
<td>+5%</td>
</tr>
<tr>
<td>o/w R&amp;D expenses</td>
<td>(879)</td>
<td>-5.5%</td>
<td>(797)</td>
<td>-5.2%</td>
<td>+10%</td>
</tr>
<tr>
<td>o/w Marketing &amp; Sales expenses</td>
<td>(1,095)</td>
<td>-6.9%</td>
<td>(1,065)</td>
<td>-7.0%</td>
<td>+3%</td>
</tr>
<tr>
<td>o/w General &amp; Administrative expenses</td>
<td>(552)</td>
<td>-3.5%</td>
<td>(542)</td>
<td>-3.6%</td>
<td>+2%</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>(48)</td>
<td>-40%</td>
<td>(81)</td>
<td>-40%</td>
<td></td>
</tr>
<tr>
<td>Share in net result of equity-accounted affiliates, excluding Naval Group</td>
<td>109</td>
<td></td>
<td>106</td>
<td></td>
<td>+3%</td>
</tr>
<tr>
<td><strong>EBIT, excluding Naval Group</strong></td>
<td>1,623</td>
<td>10.2%</td>
<td>1,332</td>
<td>8.7%</td>
<td>+22%</td>
</tr>
<tr>
<td>Share in net result of Naval Group</td>
<td>63</td>
<td></td>
<td>33</td>
<td></td>
<td>+91%</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>1,685</td>
<td>10.6%</td>
<td>1,365</td>
<td>9.0%</td>
<td>+23%</td>
</tr>
</tbody>
</table>
## Summary adjusted P&L: from EBIT to adjusted net income

<table>
<thead>
<tr>
<th></th>
<th>€m</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBIT</strong></td>
<td></td>
<td>1,685</td>
<td>1,365</td>
</tr>
<tr>
<td>Cost of net financial debt and other financial results</td>
<td>(15)</td>
<td>(24)</td>
<td></td>
</tr>
<tr>
<td>Finance costs on pensions and other employee benefits</td>
<td>(52)</td>
<td>(63)</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
<td>(387)</td>
<td>(375)</td>
</tr>
<tr>
<td><em>Effective tax rate</em></td>
<td></td>
<td>26.7%</td>
<td>33.0%*</td>
</tr>
<tr>
<td><strong>Adjusted net income</strong></td>
<td></td>
<td>1,232</td>
<td>903</td>
</tr>
<tr>
<td>Minorities</td>
<td></td>
<td>(53)</td>
<td>(63)</td>
</tr>
<tr>
<td><strong>Adjusted net income, Group share</strong></td>
<td></td>
<td>1,178</td>
<td>840</td>
</tr>
<tr>
<td><strong>EPS: Adjusted net income, Group share, per share (in €)</strong></td>
<td></td>
<td>5.55</td>
<td>3.97</td>
</tr>
</tbody>
</table>
### Organic sales growth per quarter

<table>
<thead>
<tr>
<th>Q1 15</th>
<th>Q2 15</th>
<th>Q3 15</th>
<th>Q4 15</th>
<th>Q1 16</th>
<th>Q2 16</th>
<th>Q3 16</th>
<th>Q4 16</th>
<th>Q1 17</th>
<th>Q2 17</th>
<th>Q3 17</th>
<th>Q4 17</th>
<th>Q1 18</th>
<th>Q2 18</th>
<th>Q3 18</th>
<th>Q4 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+3%</td>
<td>+6%</td>
<td>+1%</td>
<td>-4%</td>
<td>+13%</td>
<td>+15%</td>
<td>+7%</td>
<td>+16%</td>
<td>+1%</td>
<td>+1%</td>
<td>-2%</td>
<td>-0%</td>
<td>-3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+3%</td>
<td>+15%</td>
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</tbody>
</table>
Historical sales and EBIT performance by segment

**Aerospace**
- Organic sales growth:
  - 2014: +1%
  - 2015: +2%
  - 2016: +4%
  - 2017: +1%
  - 2018: +9%
- EBIT margin:
  - 2014: 10.1%
  - 2015: 9.6%
  - 2016: 9.8%
  - 2017: 10.0%
  - 2018: 10.0%

**Transport**
- Organic sales growth:
  - 2014: -4%
  - 2015: +8%
  - 2016: +11%
  - 2017: +18%
- EBIT margin:
  - 2014: 2.3%
  - 2015: 0.7%
  - 2016: 4.1%
  - 2017: 4.4%
  - 2018: -2.4%

**Defence & Security**
- Organic sales growth:
  - 2014: +7%
  - 2015: +5%
  - 2016: +9%
  - 2017: +6%
- EBIT margin:
  - 2014: 9.6%
  - 2015: 10.7%
  - 2016: 10.7%
  - 2017: 10.9%
  - 2018: 12.6%

**Total Group**
- Organic sales growth:
  - 2014: +4.5%
  - 2015: +6.8%
  - 2016: +7.2%
  - 2017: +5.3%
- EBIT margin:
  - 2014: 7.6%
  - 2015: 8.6%
  - 2016: 9.1%
  - 2017: 9.8%
  - 2018: 10.6%

Note: Group EBIT includes equity associate Naval Group (losses in 2014)
Historical trend in cash conversion

Adjusted net income conversion into Free operating cash flow

Six-year average: 102%

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted net income</th>
<th>Free operating cash flow</th>
<th>Cash conversion ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>€642</td>
<td>€477</td>
<td>74%</td>
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<tr>
<td>2014</td>
<td>€562</td>
<td>€501</td>
<td>89%</td>
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<td>2015</td>
<td>€809</td>
<td>€1,110</td>
<td>137%</td>
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<td>2016</td>
<td>€897</td>
<td>€954</td>
<td>106%</td>
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<td>2017</td>
<td>€982</td>
<td>€1,365</td>
<td>139%</td>
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<td>2018</td>
<td>€1,178</td>
<td>€811</td>
<td>69%</td>
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</table>

EBIT conversion into Free operating cash flow

Six-year average: 67%

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
<th>Free operating cash flow</th>
<th>Cash conversion ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>€1,011</td>
<td>€477</td>
<td>47%</td>
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<tr>
<td>2014</td>
<td>€985</td>
<td>€501</td>
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<td>2015</td>
<td>€1,216</td>
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<tr>
<td>2016</td>
<td>€1,110</td>
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<td>70%</td>
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<td>2017</td>
<td>€1,354</td>
<td>€1,365</td>
<td>88%</td>
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<tr>
<td>2018</td>
<td>€1,543</td>
<td>€1,685</td>
<td>48%</td>
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</tbody>
</table>
# Reference table

## Growth drivers
- Sales breakdown by segment and sub-segment: page 3, 49
- Positioning and key strengths: page 3-6
- Market dynamics: page 10-12, 46
- Key Ambition 10 growth initiatives: page 15, 19-26
- Historical sales growth by segment: page 57
- Sales by region of destination: page 3, 50, 52
- Organic sales growth per quarter: page 56
- 2018 order intake: page 32, 51

## Margins, competitiveness
- Key Ambition 10 competitiveness initiatives: page 16-18
- 2017 to 2018 EBIT bridge: page 36
- Summary adjusted P&L: page 54, 55
- 2018 EBIT by operating segment: page 53
- Historical EBIT margin by segment: page 57

## Capital allocation and cash conversion
- ROCE benchmark: page 7
- 2018 cash conversion: page 37
- Cash conversion target, balance sheet: page 44-45
- Historical EPS and dividend: page 38
- Historical trend in cash conversion: page 58

## Financial objectives
- 2021 financial objectives: page 40-45
- 2019 financial objectives: page 47

## Gemalto
- Gemalto presentation: page 22
- Strategic rationale: page 23-24
- Update on integration plan and execution: page 25-26
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), expenses recorded in the income from operations that are directly related to business combinations. See also notes 13-a and 2 of the consolidated financial statements at 31 December 2018.
- **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, (iii) disposal of assets, change in scope of consolidation and other, (iv) impairment of non-current assets, (v) changes in the fair value of derivative foreign exchange instruments (recognized under "other financial income and expenses" in the consolidated financial statements), (vi) actuarial gains or losses on long-term benefits (recognized under "finance costs on pensions and employee benefits" in the consolidated financial statements). See note 13-a of the consolidated financial statements at 31 December 2018. This definition implies the definition of several other adjusted financial measures, such as adjusted gross margin, adjusted tax, adjusted EPS …. See page 15 and 16 of the 2018 Full-Year press release for detailed calculation of these other indicators.
- **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 2018.
- **Net cash**: difference between the sum of "cash and cash equivalents" and "current financial assets" items and short and long-term borrowings, after deduction of interest rate derivatives. See note 6.2 of the consolidated financial statements at 31 December 2018.
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