Updated 2019 outlook

13 June 2019

The people we all rely on to make the world go round, they rely on Thales
## Gemalto acquisition: compelling strategic rationale

### Accelerating Thales’s digital strategy across all markets

- Adding key technological capabilities
  - Object and people authentication
  - Biometrics
  - Industrial IoT solutions
- Cloud-based solutions and digital platforms
- Large pool of digital talents

### Creating a leader in the fast-growing digital security market

- Global leader in digital identification and security of connected objects and identities
- Global leader in enterprise data protection
- Leveraging Thales’s extensive technology portfolio and global sales footprint

### Reinforcing unique and differentiated market position
Integration completed, cost synergy capture fully on track

New Digital Identity and Security (DIS) Global Business Unit fully operational

- Selected organization minimizes business disruption

Cost synergy target upgraded to upper range after GP HSM disposal

- €100-150m initial range included ~€30m linked to GP HSM
- Integration costs: ~€60m in 2019, ~€30-40m in 2020
- 2019 cost synergies: ~€20m

Breakdown of expected run-rate cost synergies

€120m

- Overall SG&A savings 35%
- Procurement savings 30%
- Footprint optimization and other 20%
- R&D and SG&A optimization in enterprise data protection 15%
DIS: internal portfolio momentum delivering 0-2% growth in 2019

Sales dynamics expected in line with plan
- Solid growth in identity & biometrics, identity management and data protection, and IoT solutions fully offsets material decline of traditional SIM cards
- Innovation offsetting price pressure in banking and payment
- Assessment of revenue synergies ongoing

Limited scope and currency effects
- Small acquisitions partly offsetting disposal of Netsize at end 2018
- Material USD exposure

Order intake structurally aligned with sales
- Shorter order cycle than in other Thales businesses

Pro forma\(^{(a)}\) DIS sales breakdown by sub-segment (2018)

- \(\text{F}3.1\text{bn}\)
  - \(\text{Identity & biometrics} \approx \text{F}650\text{m}, 20\%
  - \(\text{Identity management & data protection}^{(b)} \approx \text{F}550\text{m}, 18\%
  - \(\text{Analytics & Internet of Things} \approx \text{F}400\text{m}, 13\%
  - \(\text{Banking & payment} \approx \text{F}900\text{m}, 30\%
  - \(\text{Mobile connectivity} \approx \text{F}600\text{m}, 19\%

Of which, traditional SIM cards: \(\approx \text{F}400\text{m}, 13\%

(a) Reported Gemalto sales (\(\text{F}2,969\text{m}\)) + D&S sales transferred to DIS (\(\text{F}186\text{m}\)) – Netsize (\(\text{F}52\text{m}\))
(b) Does not include \(\approx \text{F}350\text{m}\) cybersecurity sales recorded in other DIS business lines and in Defence & Security segment
Moving from Gemalto PFO to DIS EBIT

€m

2018 reported Gemalto PFO: 332

P&L alignment: -100
- Restructuring: -27
- Share-based compensation: -32
- Gain on disposal: -32
- Other: -10

R&D capitalisation policy: -20

Scope\(^{(a)}\): +15

2018 pro forma DIS segment EBIT: 227

7.3%

\(^{(a)}\) Disposal of Netsize and transfer of activities from Defence & Security segment to DIS. See detailed computation on page 12.
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**DIS: underlying margin improvement in 2019…**

- **2018 pro forma DIS segment EBIT:** €227m (7.3%)
- **2018 one-off effects:** +9
- **Restructuring and share-based compensation:** +59
  
  vs normalized level of ~50

- **2018 underlying DIS segment EBIT:** €236m (7.6%)
- **2019 underlying DIS segment EBIT:** €300-320m
  
  ~10%

- **2019 one-off effects:** ~40
  
  Integration costs: ~60
  
  Restructuring and share-based compensation: ~+20
  
  (~30 vs normalized level of ~50)

- **Q1-2019 DIS segment EBIT:** ~8.5%
  
  9 months: 240-260

**Note:** All targets based on June 2019 scope and foreign exchange rates, post IFRS 16.
...driving a €200m increase in group EBIT guidance

<table>
<thead>
<tr>
<th><strong>EBIT, €m</strong></th>
<th><strong>2018 pro forma</strong></th>
<th><strong>2019 objective</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial group EBIT guidance</td>
<td>1,685</td>
<td>1,780 to 1,800</td>
</tr>
<tr>
<td>+ Full Year DIS segment EBIT(^{(a)})</td>
<td>227</td>
<td>260 to 280</td>
</tr>
<tr>
<td>- Impact of Gemalto consolidation from 1(^{st}) April 2019</td>
<td></td>
<td>~ -20</td>
</tr>
<tr>
<td>- EBIT of D&amp;S businesses transferred to DIS</td>
<td>-16</td>
<td>~ -50</td>
</tr>
<tr>
<td>- EBIT of GP HSM business (deconsolidated as of 1(^{st}) January 2019)</td>
<td>-31</td>
<td></td>
</tr>
<tr>
<td>= New group EBIT guidance</td>
<td></td>
<td>1,980 to 2,000</td>
</tr>
</tbody>
</table>

\(^{(a)}\) Including D&S businesses transferred to DIS
2019 updated financial objectives

Order intake

- Slightly above €18bn

Sales

- Thales excluding DIS segment: Organic growth between 3% and 4% (unchanged)
- DIS segment: Organic growth between 0% and 2% (a)

EBIT (b)

- €1,980-2,000m (c)

(a) On a full-year basis
(b) Non-GAAP measure: see definition in appendix
(c) Based on June 2019 scope and foreign exchange rates, post IFRS 16. See detailed computation page 12
Medium-term outlook update

Thursday 3 October 2019
from 8:30am CET

Capital Markets Day

Downtown Paris location
(location to be finalized, end of event expected after lunch)
Appendix

The people we all rely on to make the world go round, they rely on Thales
<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td>Paris Air Show</td>
<td>17-20 June 2019</td>
</tr>
<tr>
<td>H1 2019 results</td>
<td>4 September 2019 (before market)</td>
</tr>
<tr>
<td>Capital Markets Day</td>
<td>3 October 2019</td>
</tr>
<tr>
<td>Q3 and 9m 2019 sales</td>
<td>22 October 2019</td>
</tr>
</tbody>
</table>
# 2018 pro forma DIS sales and EBIT

<table>
<thead>
<tr>
<th>€m</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gemalto</td>
<td>650</td>
<td>737</td>
<td>727</td>
<td>855</td>
<td>2,969</td>
</tr>
<tr>
<td>- Disposed business(^{(1)})</td>
<td>-15</td>
<td>-14</td>
<td>-12</td>
<td>-11</td>
<td>-52</td>
</tr>
<tr>
<td>+ D&amp;S businesses transferred to DIS(^{(2)})</td>
<td>+41</td>
<td>+44</td>
<td>+42</td>
<td>+59</td>
<td>+186</td>
</tr>
<tr>
<td><strong>DIS segment, pro forma</strong></td>
<td>676</td>
<td>767</td>
<td>757</td>
<td>903</td>
<td>3,103</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018 EBIT</th>
</tr>
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<tbody>
<tr>
<td>€m</td>
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<tr>
<td>-------</td>
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<td><strong>DIS segment, pro forma</strong></td>
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</tbody>
</table>

**DIS EBIT margin, pro forma**

\(^{(1)}\) Netsize

\(^{(2)}\) Thales businesses transferred from the “Defence & Security” to the “Digital Identity and Security” segment.
## 2019 scope impacts

### 2018 sales

<table>
<thead>
<tr>
<th>€m</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP HSM business(^{(a)})</td>
<td>24</td>
<td>27</td>
<td>25</td>
<td>32</td>
<td>108</td>
</tr>
<tr>
<td>D&amp;S businesses transferred to DIS(^{(b)})</td>
<td>41</td>
<td>44</td>
<td>42</td>
<td>59</td>
<td>186</td>
</tr>
</tbody>
</table>

### 2018 EBIT

<table>
<thead>
<tr>
<th></th>
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<th>H2</th>
<th>FY</th>
</tr>
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<tbody>
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<td>GP HSM business(^{(a)})</td>
<td>15</td>
<td>16</td>
<td>31</td>
</tr>
<tr>
<td>D&amp;S businesses transferred to DIS(^{(b)})</td>
<td>6</td>
<td>10</td>
<td>16</td>
</tr>
</tbody>
</table>

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\(^{(a)}\) Thales’s GP HSM business is deconsolidated as of 1\(^{st}\) January 2019. In 2018, it was assigned to the “Defence & Security” segment.

\(^{(b)}\) Thales businesses transferred from the “Defence & Security” to the “Digital Identity and Security” segment.
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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