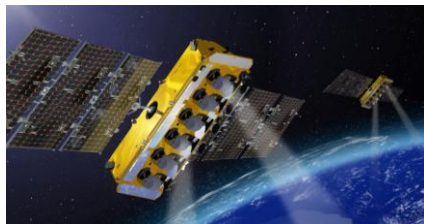


## 2016 Half-year results

22 July 2016



# H1 2016 business environment



## Aerospace

- Avionics: continued positive dynamics for cockpit avionics and in-flight entertainment and connectivity
- Space: strong interest in new generation civil telecom solutions, increased demand from institutional and military segments

## Transport

- Strong demand in both emerging markets and Europe

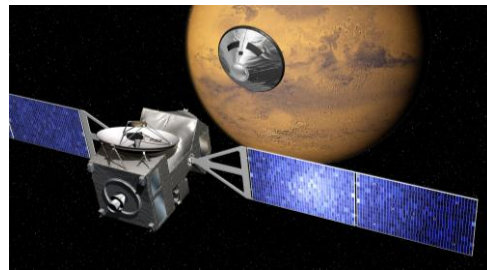
## Defence and security

- Increased geopolitical tensions and security threats
- Improved outlook in mature markets despite ongoing budget pressures
- Opportunities in emerging markets

# H1 2016 highlights

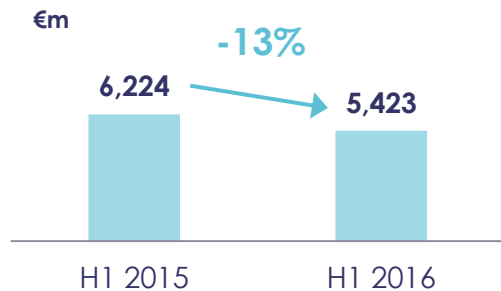
- Order intake in line with expectations
- Strong sales growth, across all segments
- Significant increase in profitability, in line with targets
- Recovery of transport on track
- Closing of Vormetric acquisition

**Continued focus on profitable and sustainable growth**

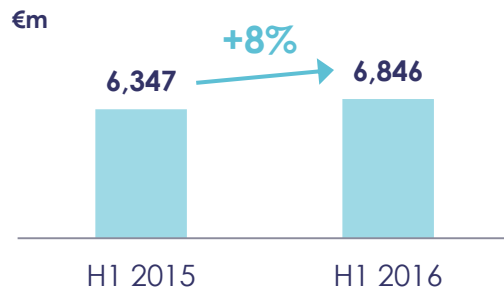


# H1 2016 key figures

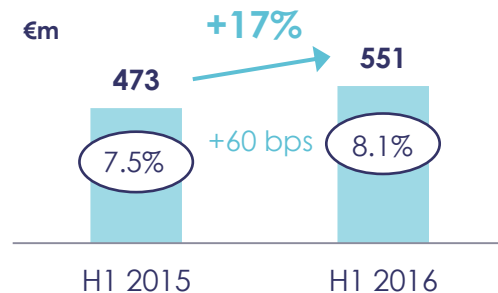
## Order intake



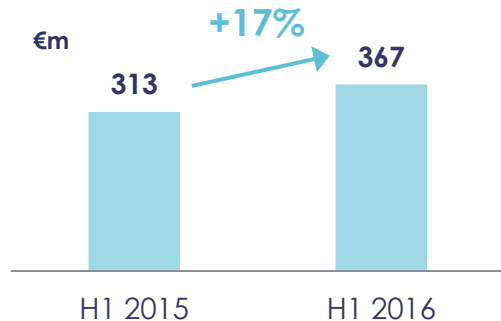
## Sales



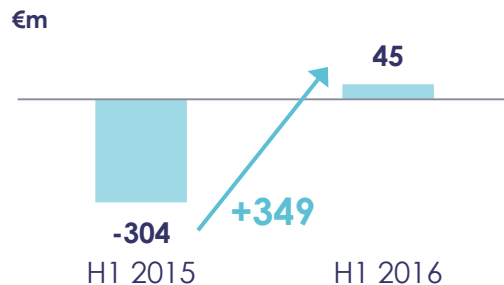
## EBIT and EBIT margin <sup>(a)</sup>



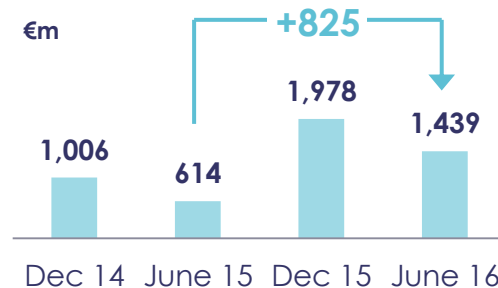
## Adjusted net income <sup>(a)</sup>



## Free operating cash-flow <sup>(a)</sup>



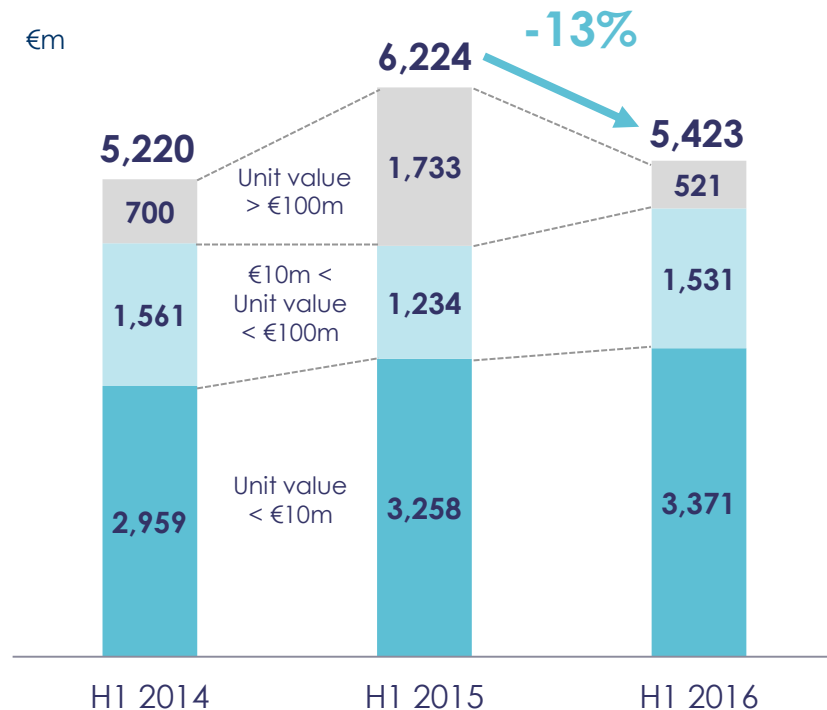
## Net cash position



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

# H1 2016 order intake

- Order intake in line with expectations
- 3 contracts over €100m, of which one in emerging markets
  - Watchkeeper drone support for UK Ministry of Defense
  - Satellite for a customer in the Middle-East
  - Security of 170 sites of the Dutch Ministry of Defense
- Solid base of small contracts (unit value < €10m)



# H1 2016 organic sales growth

## Return to growth in mature markets

- Europe: +8%, of which France: +6%, UK: +4%
- Australia-New Zealand: +8%

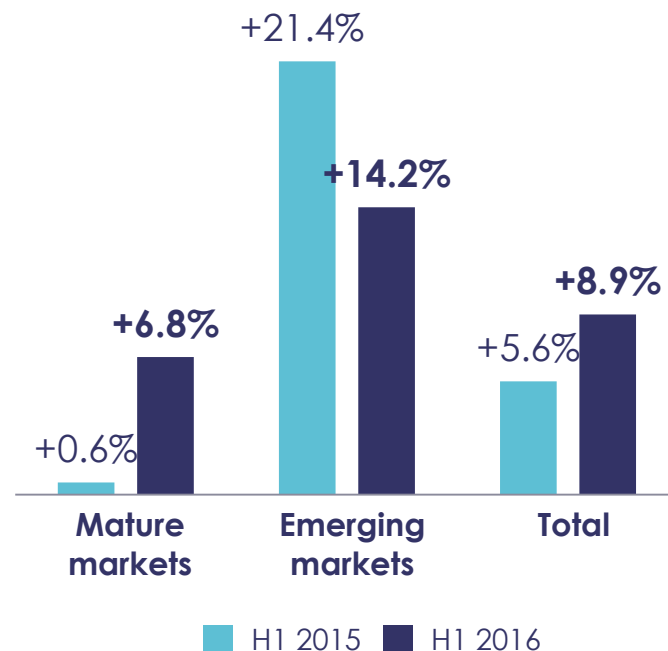
## Continuous high growth in emerging markets

- +14%, after +21% in H1 2015

**Confirmed organic growth,  
driven by all markets**

(a) In this presentation, "organic" means "at constant scope and exchange rates"

## Organic<sup>(a)</sup> sales growth



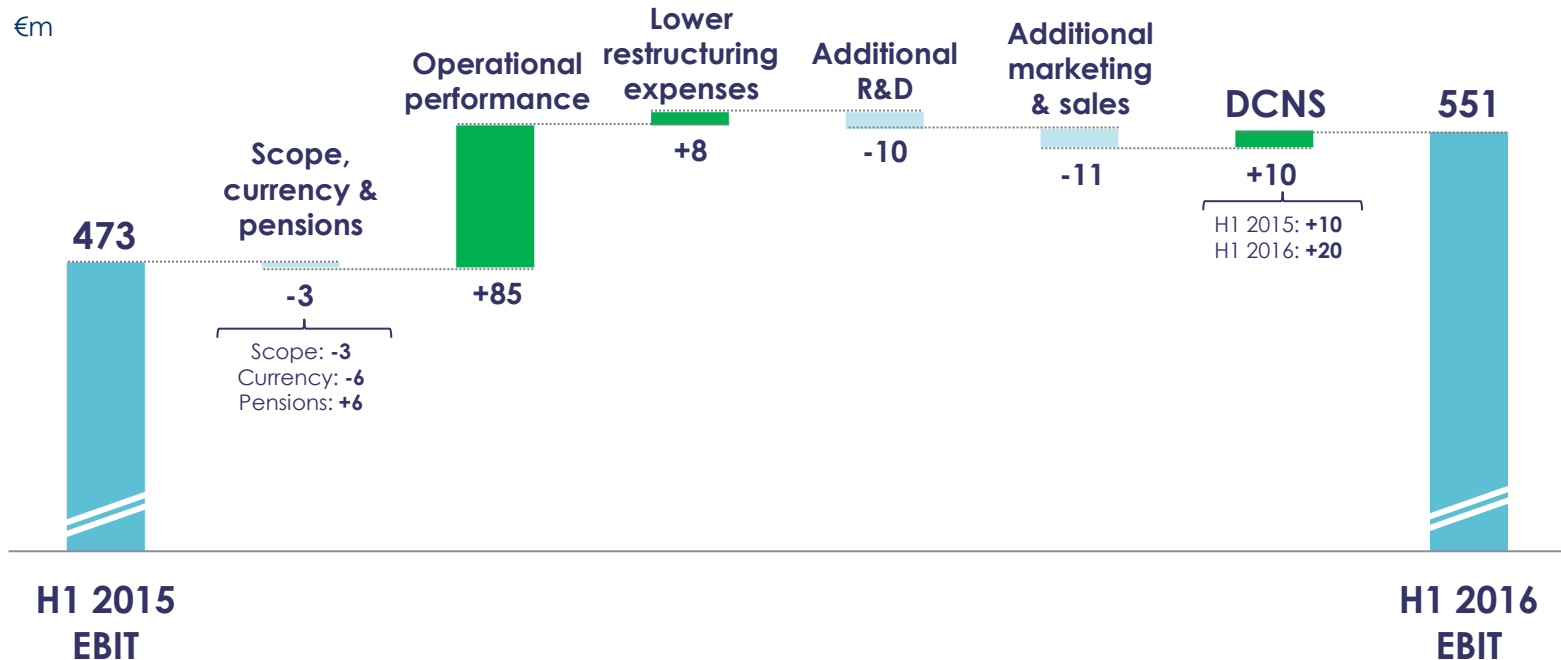
# Summary P&L: from sales to EBIT

	H1 2016		H1 2015		change	
	€m	% of sales	€m	% of sales	total	organic
Sales	6,846		6,347		+8%	+9%
Gross margin	1,634	23.9%	1,520	23.9%	+8%	+7%
Indirect costs <sup>(a)</sup>	(1,118)	16.3%	(1,064)	16.8%	+5%	+4%
o/w R&D expenses	(325)	4.7%	(310)	4.9%	+5%	+3%
o/w Marketing & Sales expenses	(526)	7.7%	(495)	7.8%	+6%	+4%
o/w General & Administrative expenses	(268)	3.9%	(259)	4.1%	+3%	+4%
Restructuring costs	(34)	0.5%	(43)	0.7%	-20%	-19%
Share of net result of equity-accounted affiliates excl. DCNS	50		50			
EBIT excluding DCNS	532	7.8%	463	7.3%	+15%	+17%
Share of net result of DCNS	20		10			
EBIT	551	8.1%	473	7.5%	+17%	+19%

(a) H1 2016 indirect costs items adjusted for impact of Vormetric acquisition (€7m)

# EBIT bridge

- Solid operational performance
- Increased R&D and marketing & sales investments





# EBIT by segment

- Good performance of both Aerospace and Defense & Security
- Transport: recovery in line with expectations

€m	H1 2016		H1 2015		change	
					total	organic
<b>Aerospace</b>	<b>239</b>	<b>9.0%</b>	<b>224</b>	<b>8.9%</b>	<b>+7%</b>	<b>+8%</b>
<b>Transport</b>	<b>(12)</b>	<b>-1.6%</b>	<b>(39)</b>	<b>-6.9%</b>	<b>-</b>	<b>-</b>
<b>Defense &amp; Security</b>	<b>335</b>	<b>9.8%</b>	<b>301</b>	<b>9.3%</b>	<b>+11%</b>	<b>+15%</b>
<b>EBIT - operating segments</b>	<b>562</b>	<b>8.3%</b>	<b>485</b>	<b>7.7%</b>	<b>+16%</b>	<b>+18%</b>
Other	(30)		(22)			
<b>EBIT - excluding DCNS</b>	<b>532</b>	<b>7.8%</b>	<b>463</b>	<b>7.3%</b>	<b>+15%</b>	<b>+17%</b>
DCNS	20		10			
<b>EBIT - total</b>	<b>551</b>	<b>8.1%</b>	<b>473</b>	<b>7.5%</b>	<b>+17%</b>	<b>+19%</b>

# Aerospace: H1 2016 key figures

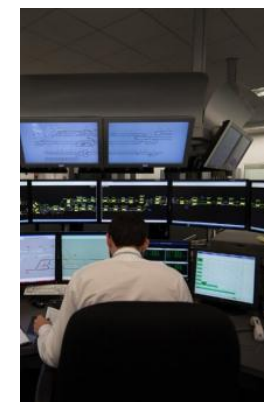
€m	H1 2016	H1 2015	change	
			total	organic
Order intake	2,218	1,851	+20%	+21%
Sales	2,667	2,512	+6%	+7%
EBIT	239	224	+7%	+8%
<i>in % of sales</i>	9.0%	8.9%		

- Strong order intake momentum
- Good progress on key programs: A350 ramp-up, Exomars, Iridium Next...
- Revenue growth driven by aircraft avionics and space
- Margin improvement slowed down by change in allocation rule of shared commercial costs



# Transport: H1 2016 key figures

€m	H1 2016	H1 2015	change	
			total	organic
Order intake	507	1,197	-58%	-56%
Sales	717	569	+26%	+29%
EBIT	(12)	(39)	-	-
<i>in % of sales</i>	<i>-1.6%</i>	<i>-6.9%</i>		



- Order intake down compared to exceptional H1 2015
- Strong revenue growth, driven by initial delivery of large contracts won in 2015 and recovery of execution
- Operational recovery on track

# Defense & Security: H1 2016 key figures

€m	H1 2016	H1 2015	change	
			total	organic
Order intake	2,665	3,150	-15%	-15%
Sales	3,421	3,228	+6%	+7%
EBIT	335	301	+11%	+15%
<i>in % of sales</i>	9.8%	9.3%		

- Order intake logically down on H1 2015 (Egyptian Rafale contract)
- Strong revenue growth across wide range of activities
- Increased profitability driven by top line growth and lower restructuring



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

Improved EBIT and lower effective income tax rate drive significant increase in adjusted net income

€m	H1 2016	H1 2015
<b>EBIT</b>	<b>551</b>	<b>473</b>
Impairment of non-current operating assets	0	0
Cost of net financial debt and other financial results	(2)	7
Finance costs on pensions and other employee benefits	(34)	(35)
Income tax	(117)	(109)
<b>Adjusted net income</b>	<b>398</b>	<b>336</b>
Minorities	(31)	(23)
<b>Adjusted net income, Group share</b>	<b>367</b>	<b>313</b>
<b>Adjusted net income, Group share, per share (in €)</b>	<b>1.74</b>	<b>1.51</b>

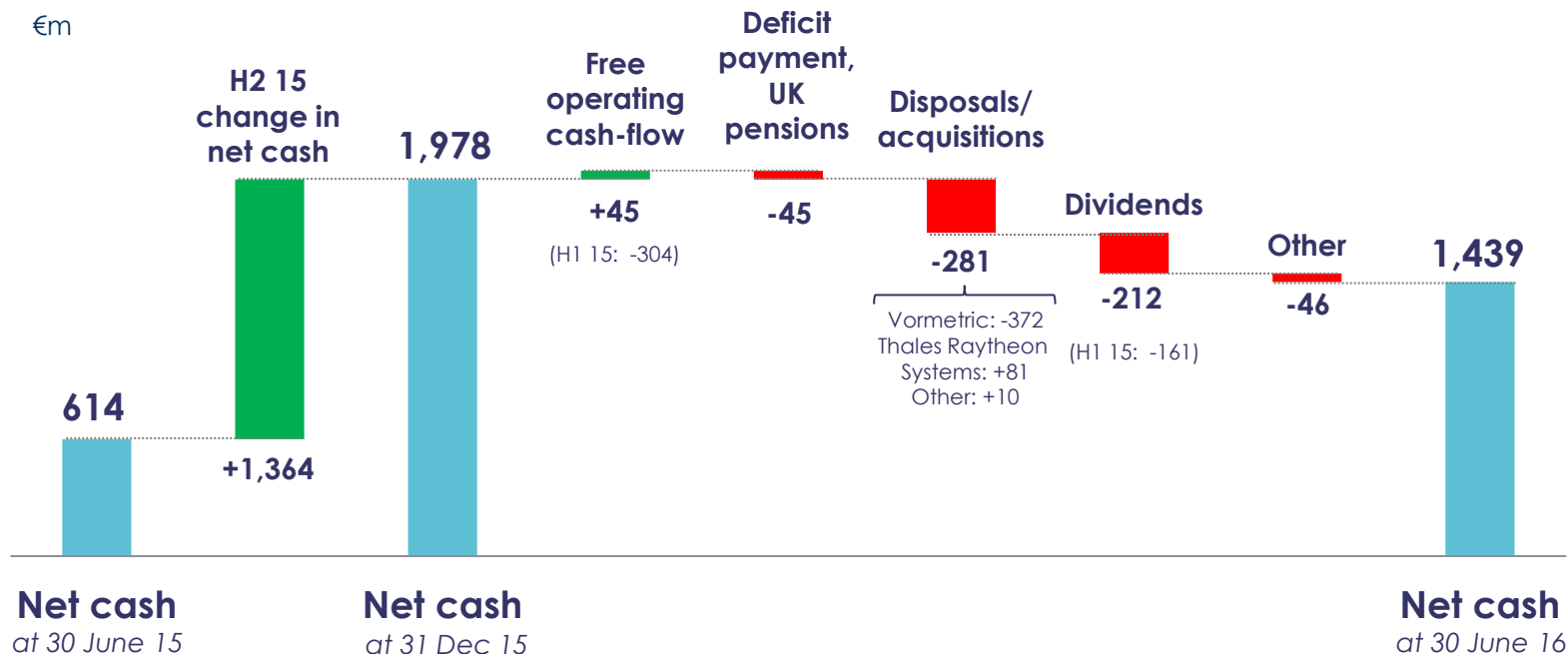
# H1 2016 Free operating cash-flow

- Increased capex to support future growth
- Strong WCR performance

€m	H1 2016	H1 2015
<b>Operating cash-flow before interest and taxes</b>	<b>704</b>	<b>683</b>
Change in WCR & reserves for contingencies	(337)	(697)
Payment of pension benefits, excluding contributions related to the reduction of the UK pension deficit	(52)	(60)
Net financial interest paid	(5)	10
Income tax paid	(39)	(42)
<b>Net cash-flow from operating activities</b>	<b>271</b>	<b>(106)</b>
Net operating investments	(226)	(198)
<b>Free operating cash-flow</b>	<b>45</b>	<b>(304)</b>

# Movement in net cash over H1 2016

High net cash position driven by free operating cash-flow





*Building a growing,  
more global and  
more profitable  
Thales*

## Continue to improve our competitiveness

- Maintain high-quality project execution
- Finalize operational recovery of transport
- Continue implementation of multiple competitiveness initiatives:
  - Engineering and product policy
  - Procurement
  - Support functions

## Deliver sustainable top line growth

- Increase investment in innovation and marketing
- Strengthen leadership position in cyber-security thanks to Vormetric
- Leverage digital transformation opportunities

## Develop a more diversified talent pool



# Financial objectives

## 2016

<b>Order intake</b>	<b>Remaining at a high level, close to 2013-14<sup>(a)</sup></b>
<b>Sales</b>	<b>Mid-single digit organic growth</b>
<b>EBIT<sup>(b)</sup></b>	<b>€1,300-1,330m<sup>(c)</sup></b>

## 2017/18

<b>Sales</b>	<b>Mid-single digit organic growth per year</b>
<b>EBIT<sup>(b)</sup> margin</b>	<b>9.5-10%</b>

(a) Average 2013-14 order intake: €13.6 billion

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

(c) Based on foreign exchange rates as of February 2016



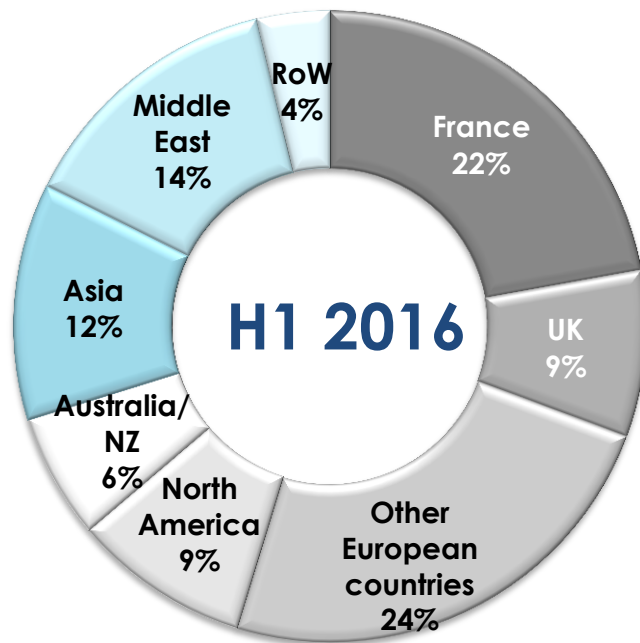
## Appendix

## Upcoming events

■ Q3 and 9m 2016 sales	19 October 2016
■ Full Year 2016 results	28 February 2017
■ Annual General Meeting	17 May 2017

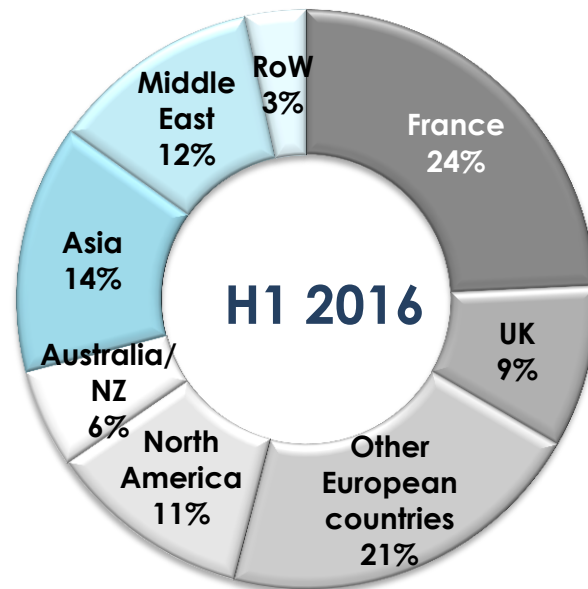
# H1 2016 order intake by destination

€m	H1 2016	H1 2015	change	
			total	organic
France	1,201	1,225	-2%	-2%
United Kingdom	463	513	-10%	-4%
Other European countries	1,304	1,031	+27%	+27%
<b>Europe</b>	<b>2,968</b>	<b>2,769</b>	<b>+7%</b>	<b>+9%</b>
<b>North America</b>	<b>492</b>	<b>564</b>	<b>-13%</b>	<b>-18%</b>
<b>Australia/NZ</b>	<b>346</b>	<b>399</b>	<b>-13%</b>	<b>-9%</b>
Asia	659	665	-1%	-1%
Middle East	755	1,688	-55%	-55%
Rest of the world	203	139	+46%	+52%
<b>Emerging markets</b>	<b>1,617</b>	<b>2,492</b>	<b>-35%</b>	<b>-34%</b>
<b>Total</b>	<b>5,423</b>	<b>6,224</b>	<b>-13%</b>	<b>-12%</b>



# H1 2016 sales by destination

€m	H1 2016	H1 2015	change	
			total	organic
France	1,661	1,569	+6%	+6%
United Kingdom	623	638	-2%	+4%
Other European countries	1,417	1,263	+12%	+13%
<b>Europe</b>	<b>3,701</b>	<b>3,470</b>	<b>+7%</b>	<b>+8%</b>
<b>North America</b>	<b>780</b>	<b>759</b>	<b>+3%</b>	<b>+0%</b>
<b>Australia/NZ</b>	<b>375</b>	<b>365</b>	<b>+3%</b>	<b>+8%</b>
Asia	953	842	+13%	+14%
Middle East	804	647	+24%	+25%
Rest of the world	233	265	-12%	-10%
<b>Emerging markets</b>	<b>1,990</b>	<b>1,753</b>	<b>+14%</b>	<b>+14%</b>
<b>Total</b>	<b>6,846</b>	<b>6,347</b>	<b>+8%</b>	<b>+9%</b>



# H1 2016 adjusted net result

€m	Consolidated P&L H1 2016	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 2016
Sales	6,846						6,846
Cost of sales	(5,212)						(5,212)
R&D	(327)		2				(325)
SG&A costs	(798)		5				(793)
Restructuring costs	(34)						(34)
Amortisation of intangible assets (PPA)	(40)	40					0
Income from operations	435	40	7				
Impairment of non-current operating assets	0						---
Disposal of assets, change in scope and others	95			(95)			0
Share in net income (loss) of equity affiliates	56	13					69
Income of operating activities incl. share in net income of equity affiliates	586						
EBIT							551
Impairment of non-current operating assets	---						0
Cost of net financial debt	1						1
Other financial income (expense)	(49)				46		(4)
Finance costs on pensions and other employee benefits	(48)					15	(34)
Income tax	(80)	(14)	(3)	(0)	(16)	(5)	(117)
Net income (loss)	410	40	5	(95)	30	10	398
Minorities	(26)	(5)			(1)		(31)
Net income (loss), Group share	384	35	5	(95)	29	10	367

# H1 2015 adjusted net result

€m	Consolidated P&L H1 2015	Amortisation of intangible assets (PPA)	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 2015
<b>Sales</b>	<b>6,347</b>					<b>6,347</b>
Cost of sales	(4,827)					(4,827)
R&D	(310)					(310)
SG&A costs	(754)					(754)
Restructuring costs	(43)					(43)
Amortisation of intangible assets (PPA)	(53)	53				0
<b>Income from operations</b>	<b>360</b>					
Impairment of non-current operating assets	0					---
Disposal of assets, change in scope and others	(3)		3			0
Share in net income (loss) of equity affiliates	47	13				60
<b>Income of operating activities incl. share in net income of equity affiliates</b>	<b>404</b>					
<b>EBIT</b>						<b>473</b>
Impairment of non-current operating assets	---					0
Cost of net financial debt	5					5
Other financial income (expense)	(13)			15		2
Finance costs on pensions and other employee benefits	(25)				(10)	(35)
Income tax	(88)	(18)	(1)	(5)	3	(109)
<b>Net income (loss)</b>	<b>282</b>	<b>48</b>	<b>2</b>	<b>10</b>	<b>(7)</b>	<b>336</b>
Minorities	(16)	(6)		(1)	1	(23)
<b>Net income (loss), Group share</b>	<b>266</b>	<b>42</b>	<b>2</b>	<b>9</b>	<b>(6)</b>	<b>313</b>

## Q2 2016 order intake by segment

€m	Q2 2016	Q2 2015	change	
			total	organic
Aerospace	1,189	1,067	+11%	+12%
Transport	276	735	-62%	-61%
Defence & Security	1,636	1,586	+3%	+4%
Other	10	13		
Total	3,111	3,401	-9%	-7%



## Q2 2016 sales by segment

€m		Q2 2016	Q2 2015	change	
				total	organic
Aerospace		1,600	1,431	+12%	+13%
Transport		457	335	+36%	+40%
Defence & Security		2,037	1,985	+3%	+3%
Other		20	20		
	Total	4,113	3,770	+9%	+10%

# Main programmes in backlog

Amount	Programme
<i>More than €600m</i>	London Underground signalling Rafale (Egypt) Hawkei (Australia) Rafale (France) Rafale (Qatar)
<i>Between €400m and €600m</i>	French military satellite (Comsat NG) Contact Software Defined Radio (France) Mirage 2000 Upgrade (India) JetBlue IFE systems (USA) Meteosat (EU)

# 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, ie 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 intangible assets acquired (PPA). From 1 January 2016, it also excludes charges recorded in the income from operations that are directly related to business combinations (H1 2016 impact: €+7m, H1 2015 impact: 0). See also note 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **Adjusted net income:** net income, *less* the following elements, net of the corresponding tax effects: (i) amortization of intangible assets acquired, (ii) charges recorded in the income from operations which are directly related to business combinations, which by their nature are unusual (H1 2016 impact: €+5m, H1 2015 impact: 0), (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 notes 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **Adjusted EPS:** ratio of adjusted net income (as defined above) to average number of shares outstanding. See notes 14-a and 2.2 of the consolidated financial statements at 31 December 2015.
- **Free operating cash-flow:** net cash flow from operating activities, *less*: capital expenditures, *less*: deficit payments on pensions in the United Kingdom. See notes 14-a and 11.1 of the consolidated financial statements at 31 December 2015.



Thales – Tour Carpe Diem – 31 Place des Corolles – 92098 Paris La Défense – France  
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