

H1 2019 results

4th September 2019



The people we all rely on
to make the world go round,
they rely on Thales

H1 2019 highlights

Order intake driven by solid dynamics in Defence & Security

Sales growth impacted by slowdown of Space and phasing effects in Transport

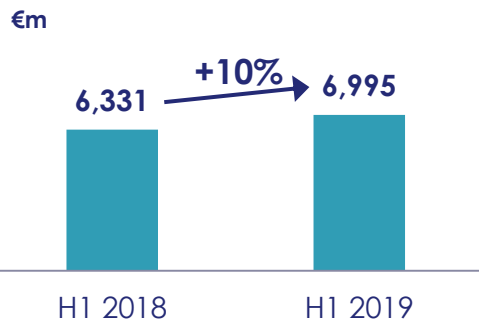
Further EBIT margin progression at constant scope and currency

Gemalto consolidated as of 1st April, contributing in line with expectations

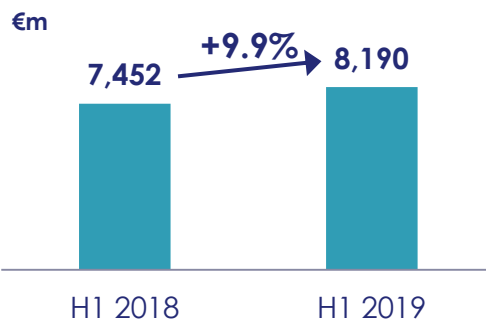


H1 2019 key figures

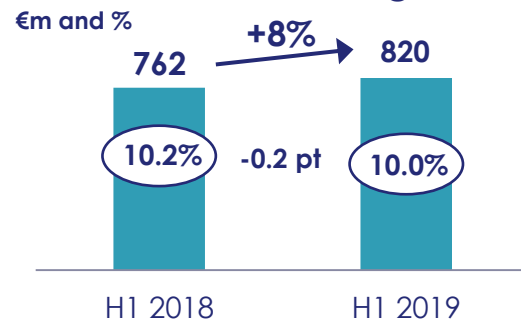
Order intake



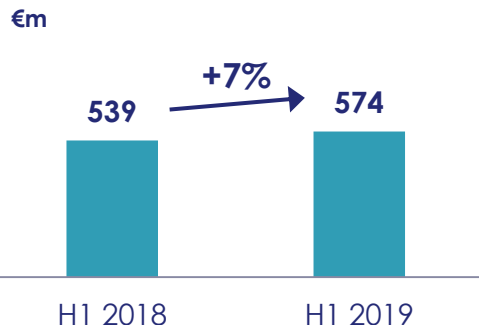
Sales



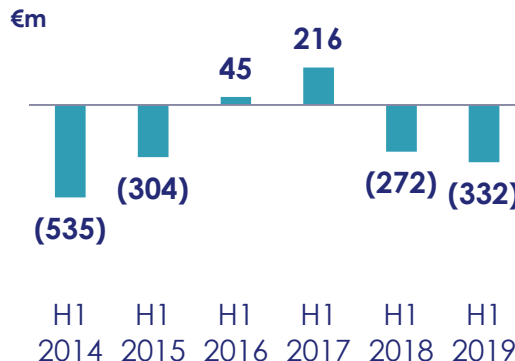
EBIT and EBIT margin^(a)



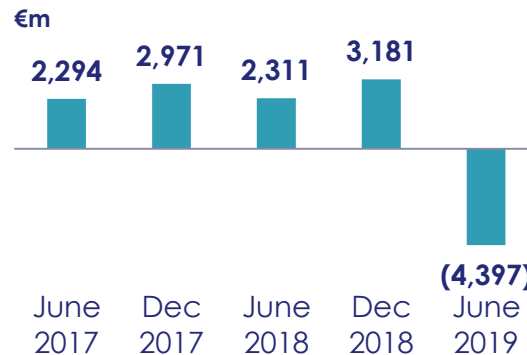
Adjusted net income^(a)



Free operating cash-flow^(a)



Net cash (debt) position



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

H1 2019 order intake

Solid order intake

- -1% before Gemalto consolidation
(impact: +€758m)

4 large^(a) orders booked in Q2 2019, for a total of 7 in H1 2019

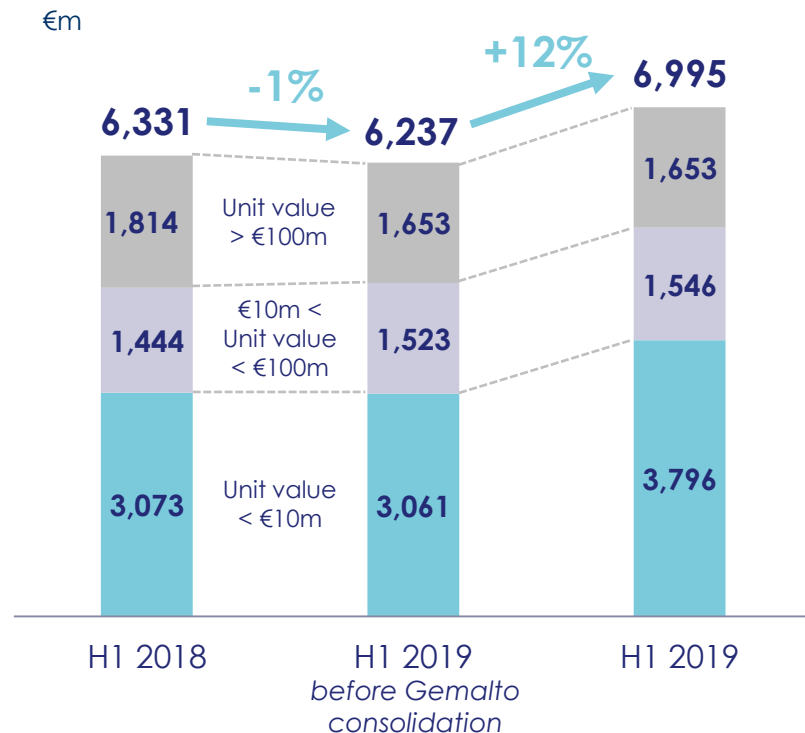
- Spainsat NG satellite
- Ground segment for French military satellite
- “CaMo” armored vehicles (Belgium)
- Long-term maintenance contract for French air force

Small orders^(b) stable at constant scope

(a) With a unit value over €100m

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

Order intake by contract unit value



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H1 2019 sales growth

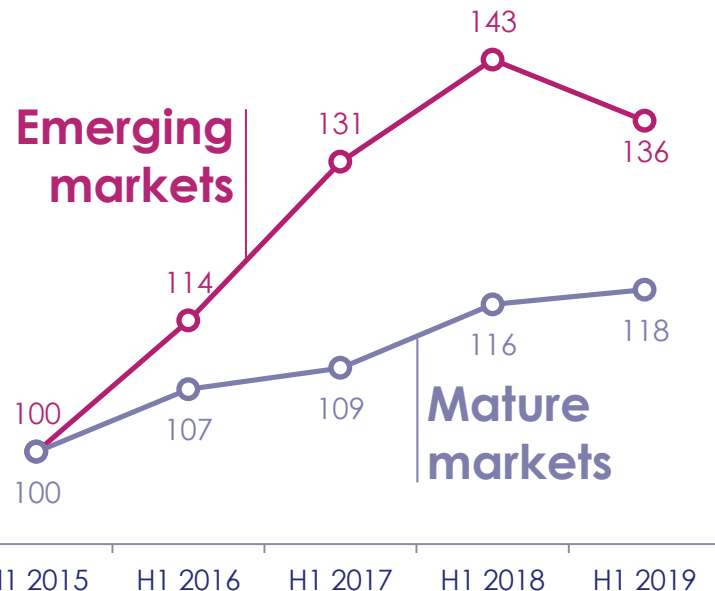
Sales growth benefiting from Gemalto consolidation

- Reported growth: +9.9%
- Organic growth: -0.5%
- Small positive currency impact: +0.8%

Organic sales decline driven by slowdown of space and by high comps, notably in emerging markets

Organic sales trend by region

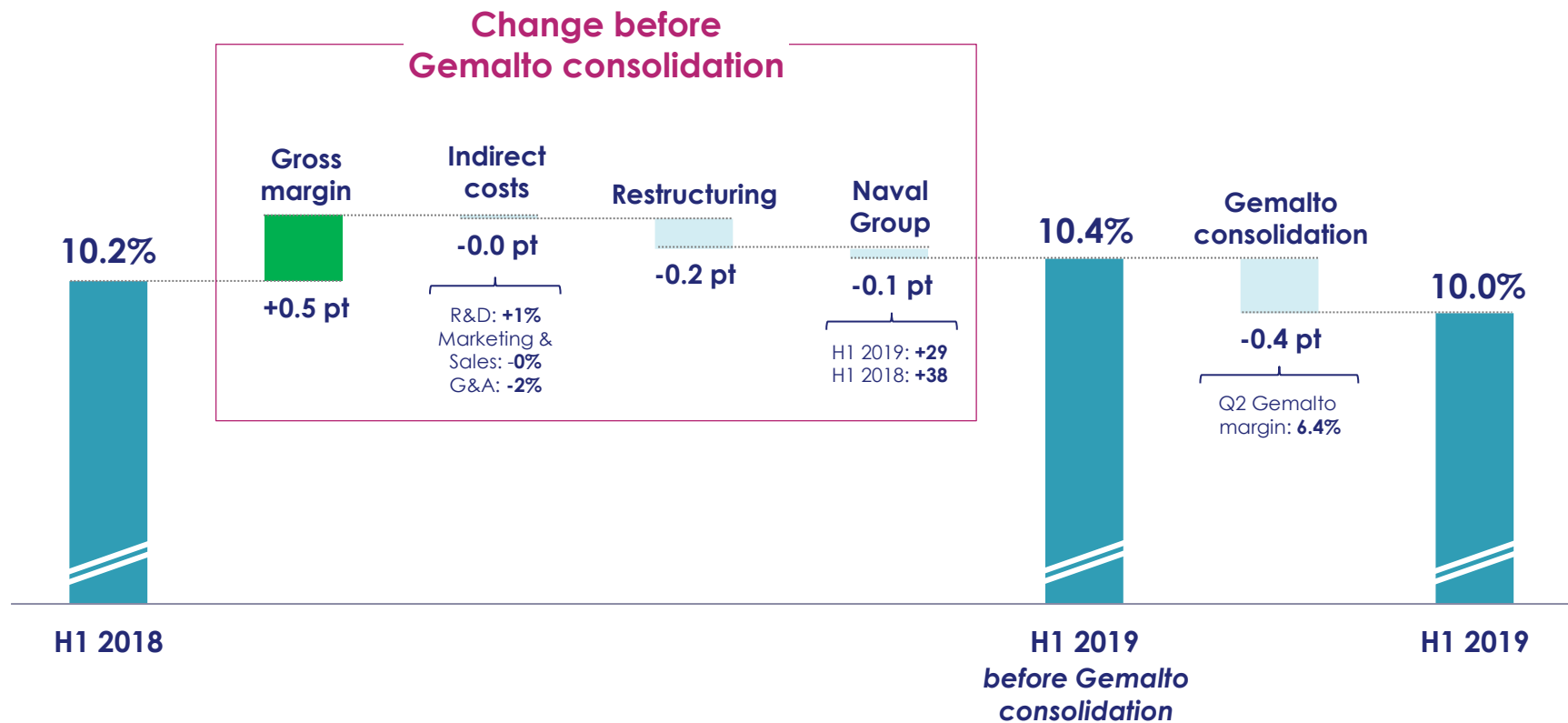
Base 100 in 2015



Summary adjusted P&L: from sales to EBIT

	H1 2019		H1 2018		Change	
	€m	% of sales	€m	% of sales	total	organic
Sales	8,190		7,452		+9.9%	-0.5%
Gross margin	2,203	26.9%	1,922	25.8%	+15%	+3%
Indirect costs	(1,420)	(17.3%)	(1,223)	(16.4%)	+15%	-1%
o/w R&D expenses	(476)	(5.8%)	(406)	(5.4%)	+17%	+0%
o/w Marketing & Sales expenses	(638)	(7.8%)	(541)	(7.3%)	+18%	+1%
o/w General & Administrative expenses	(306)	(3.7%)	(276)	(3.7%)	+11%	-3%
Restructuring costs	(44)	(0.5%)	(22)	(0.3%)	+100%	+71%
Share in net result of equity-accounted affiliates, excluding Naval Group	51	0.6%	47	0.6%	+8%	+4%
EBIT excluding Naval Group	790	9.6%	724	9.7%	+9%	+5%
Share in net result of Naval Group	29		38		-23%	-23%
EBIT	820	10.0%	762	10.2%	+8%	+4%

EBIT margin evolution driven by solid operational improvement



EBIT by operating segment

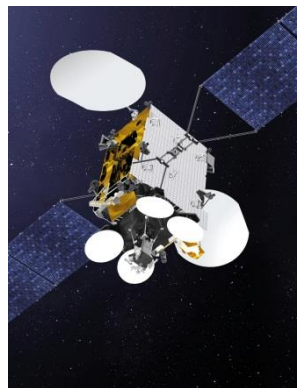
€m / % of sales	H1 2019		H1 2018		Change	
					total	organic
Aerospace	270	10.3%	291	10.5%	-7%	-8%
Transport	(42)	(5.0%)	27	2.9%	nm	nm
Defence & Security	564	14.5%	439	12.0%	+28%	+35%
Digital Identity & Security	37	4.5%	6	nm	nm	nm
Other	(39)		(37)			
EBIT – excluding Naval Group	790	9.6%	724	9.7%	+9%	+5%
Naval Group	29		38			
EBIT – total	820	10.0%	762	10.2%	+8%	+4%

Negative margin in Transport, driven by one-off effects

Significant margin improvement in Defence & Security



Aerospace: H1 2019 key figures



€m	H1 2019	H1 2018	Change	
			total	organic
Order intake	1,758	2,042	-14%	-15%
Sales	2,609	2,768	-5.7%	-7.0%
EBIT	270	291	-7%	-8%
<i>in % of sales</i>	10.3%	10.5%	-0.1 pt	-0.1 pt

Order intake down compared to H1 2018

- High comps in IFE and training & simulation
- Slow recovery of commercial telecom satellite market

Sales affected by commercial satellite market slowdown

- Space sales to level off in H2, in line with Full Year expected decline of ~10%

EBIT impact of lower space sales offset by solid dynamics in avionics

- H2 affected by booking of restructuring costs in space



Transport: H1 2019 key figures



€m	H1 2019	H1 2018	Change	
			total	organic
Order intake	556	835	-33%	-34%
Sales	835	904	-7.6%	-8.9%
EBIT	(42)	27	nm	nm
<i>in % of sales</i>	-5.0%	2.9%	-7.9 pts	-7.8 pts

Order intake significantly down due to high comps in H1 2018

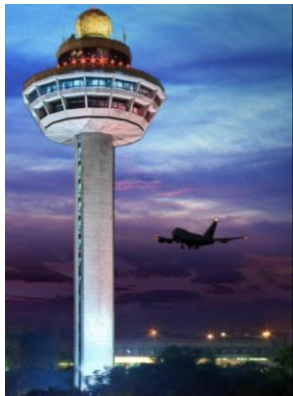
Sales affected by phasing effects on major urban rail projects, in line with expectations

➤ H1 2018 organic sales growth was exceptional: +22.2%

EBIT impacted by one-offs: restructuring costs linked to ambitious engineering transformation plan, 9% drop in sales and impact of execution delays on a metro project



Defence & Security: H1 2019 key figures



€m	H1 2019	H1 2018	Change	
			Total	organic
Order intake	3,809	3,350	+14%	+16%
Sales	3,881	3,669	+5.8%	+6.8%
EBIT	564	439	+28%	+35%
<i>in % of sales</i>	14.5%	12.0%	+2.5 pts	+3.0 pts

Strong order intake momentum

Solid, broad-based organic sales growth, in spite of high comps (H1 18 organic sales growth: +8.5%)

Further increase in profitability thanks to gross margin improvement, leverage on growth, and solid project execution



Digital Identity & Security: H1 2019 key figures



€m	H1 2019	H1 2018	Change	
			total	organic
Order intake	829	84		
Sales	830	87		non meaningful
EBIT	37	6		
in % of sales	4.5%	nm		

Order intake structurally aligned with sales for most businesses

Flat pro forma sales, in line with expectations

- Continuous decline of traditional SIM cards
- Good dynamics of EMV cards, driven by re-issue cycle in the US
- Authentication and data protection affected by reorganization

EBIT in line with Full Year €240-260m guidance

- Impact of integration costs and HSM business reorganization
- DIS EBIT margin more seasonal than in other segments

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

€m	H1 2019	H1 2018
EBIT	820	762
Cost of net financial debt and other financial results ^(a)	(20)	(3)
Finance costs on pensions and other employee benefits	(27)	(27)
Income tax	(184)	(173)
<i>Effective tax rate</i>	26.6%	26.6%
Adjusted net income	588	560
Minorities	(14)	(22)
Adjusted net income, Group share	574	539
EPS: Adjusted net income, Group share, per share (in €)	2.70	2.54

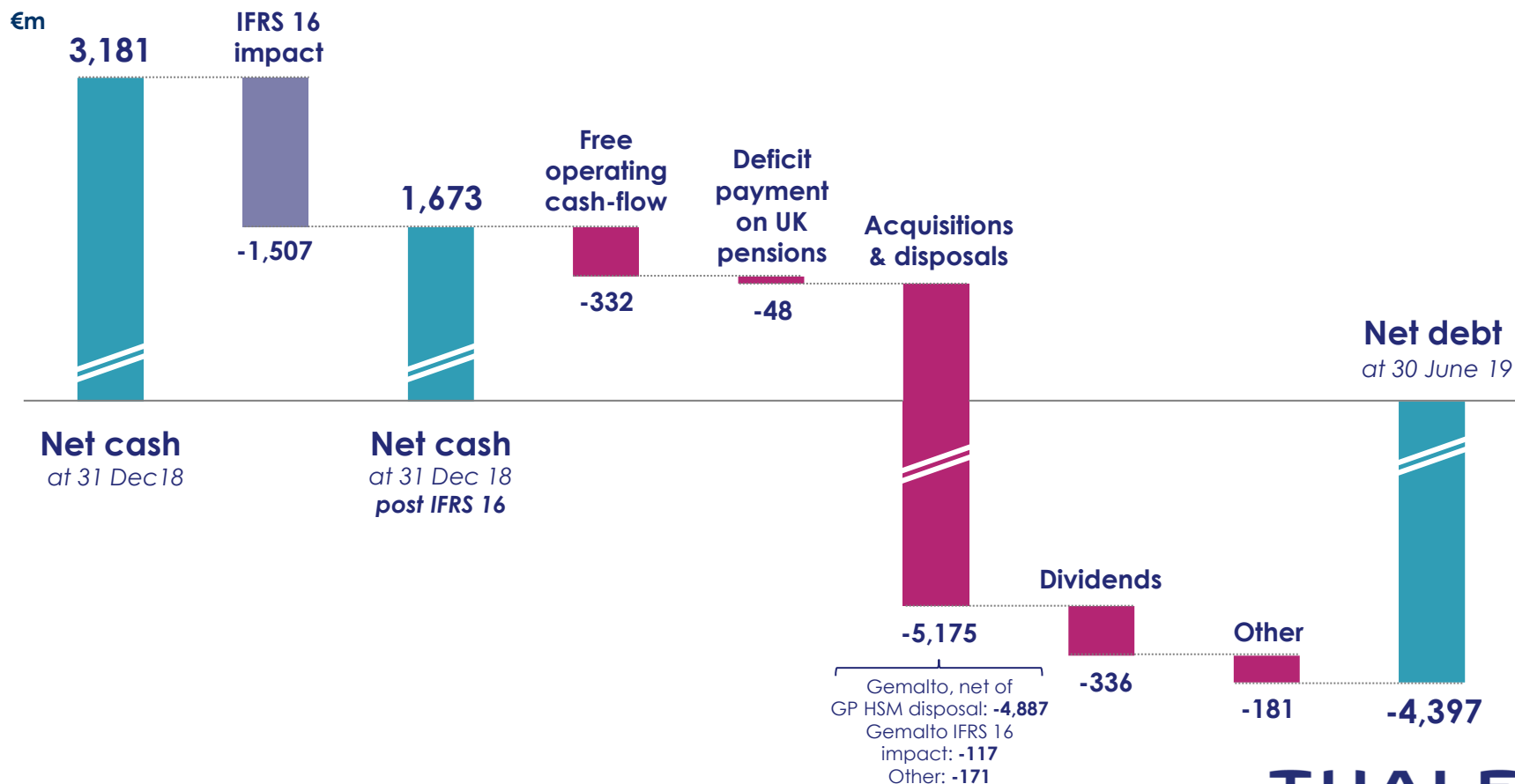
(a) IFRS 16 impact on cost of net financial debt: -€13m (financial interest linked to lease debt)

H1 2019 Free operating cash flow

€m	H1 2019	H1 2018
Operating cash flow before WCR changes, interest and tax^(a)	1,024	915
+ Change in WCR and reserves for contingency reserves ^(a)	(1,022)	(915)
+ Pension cash out, excluding deficit payment on UK pensions	(73)	(70)
+ Net financial interest	(22)	(16)
+ Income tax paid	(64)	(33)
= Net cash flow from operating activities^(a)	(157)	(118)
+ Net operating investments	(175)	(153)
= Free operating cash flow	(332)	(272)

(a) IFRS 16 impact on operating cash flow before WCR changes, interest and tax: +€112m, on change in WCR: -€21m, on net cash flow from operating activities: +€91m

Movement in net cash (debt) over H1 2019





H1 2019 results

Strategy



Unchanged 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



H1 2019 results

Space business update



A global well-balanced leader in space solutions

Space Alliance with Leonardo,
involving 2 joint-ventures

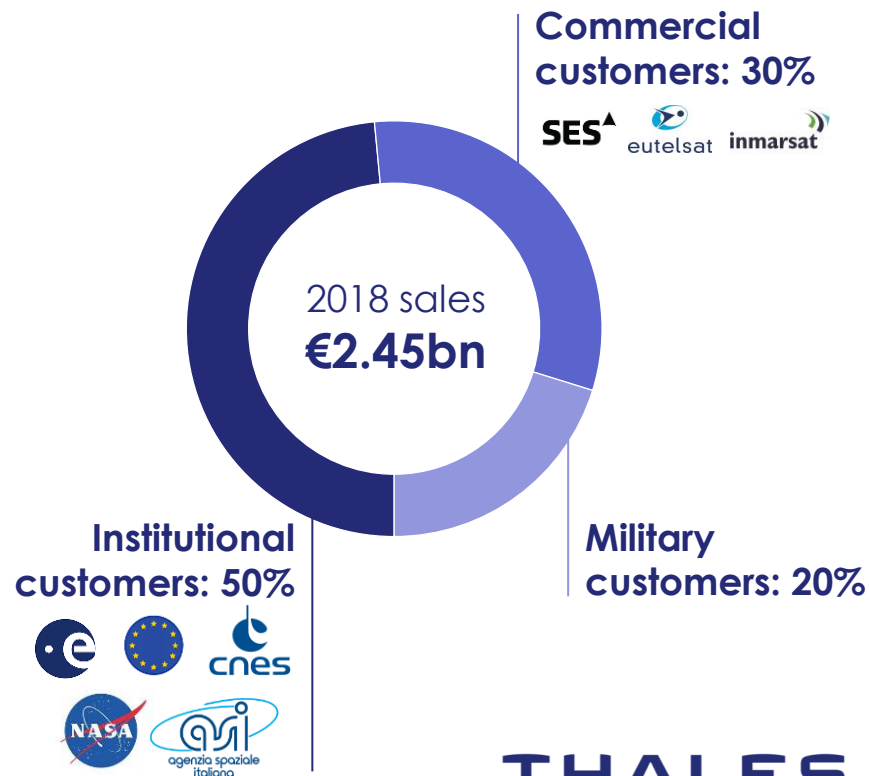
World #2 largest civil satellite
manufacturer

Well diversified across solutions
and end-markets

Delivering strong financial
performance in past 4 years

- 2015-18 sales CAGR: +5%
- High-single digit EBIT margin

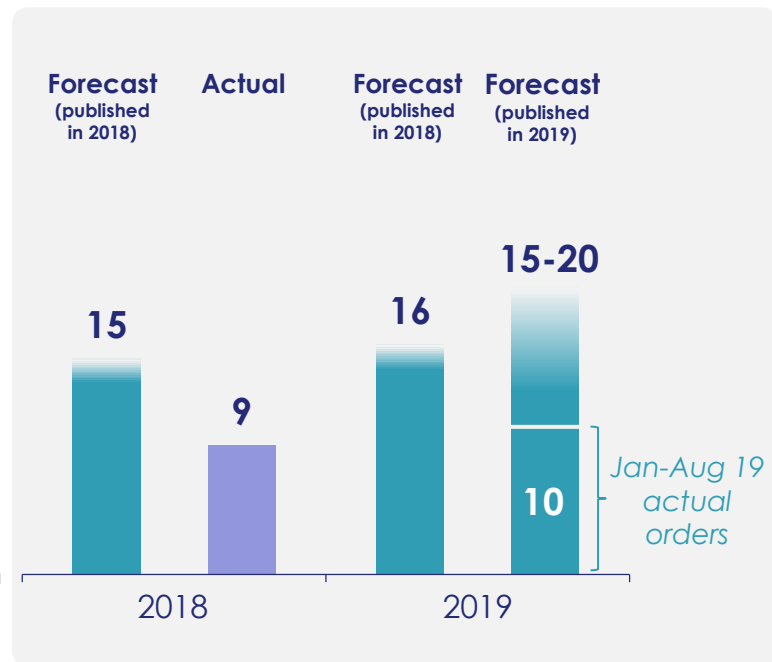
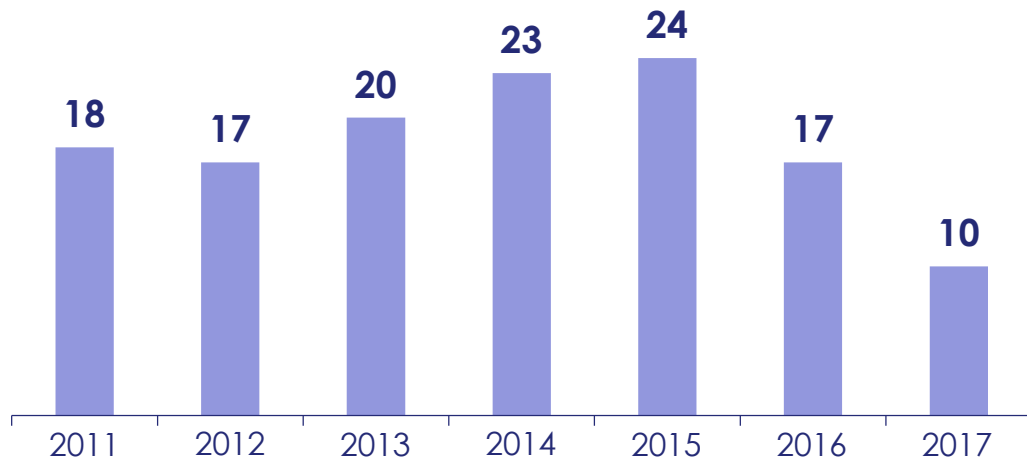
Breakdown of sales by end-markets



Recovery of geostationary telecom market delayed by one year

Worldwide number of geostationary telecom satellite ordered

satellites



Forecast source: NSR

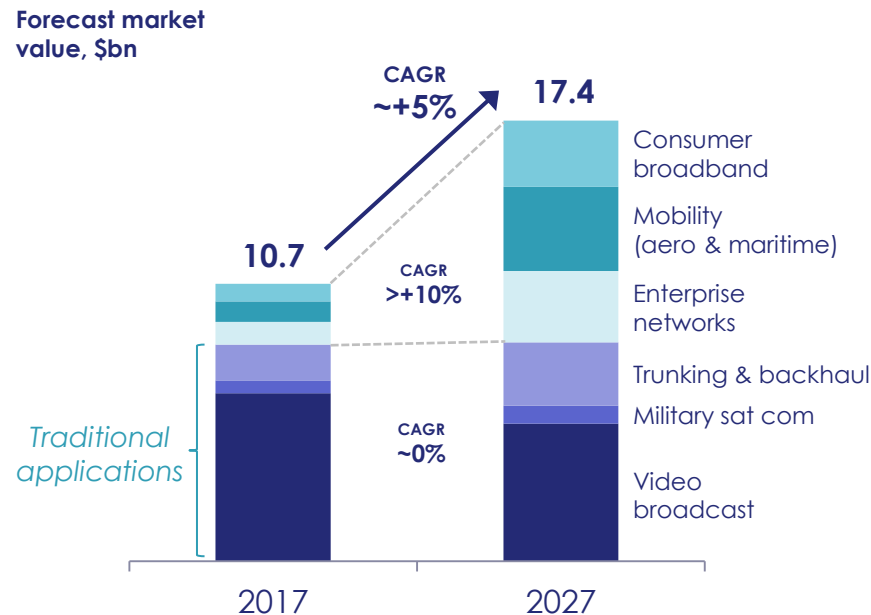
Solid long-term growth for space-based telecom solutions

~5% long-term growth, driven by new applications

Shift in usage drives new technological requirements

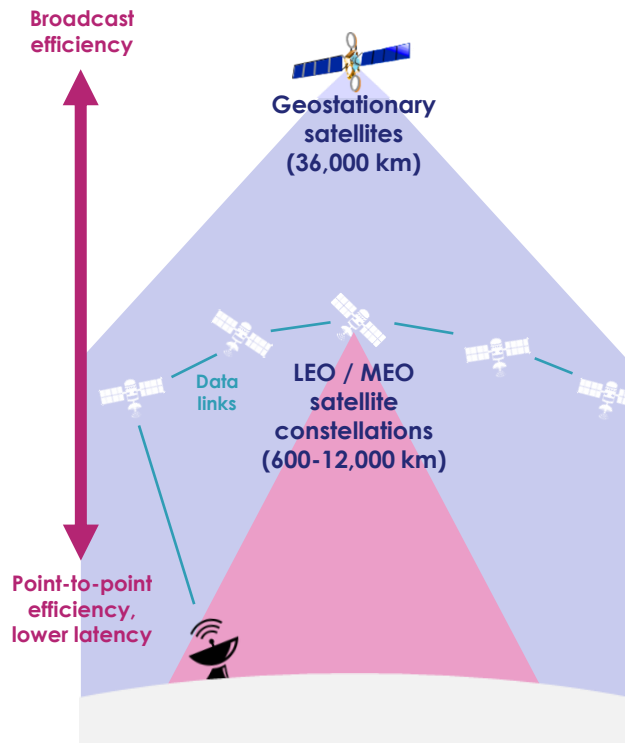
- Delivery of highest data rate at lowest cost
- Ability to seamlessly connect to moving objects on a global basis (mobility applications)
- Increased flexibility in mission type, coverage and orbital slot

Commercial telecom satellite services market demand



Source: Euroconsult

Thales: further investments to strengthen best-in-class product range



Note: GEO: geostationary, LEO: Low Earth Orbit, MEO: Medium Earth Orbit, VHTS: Very High Throughput Satellite

GEO satellites

SES[^]

SES 17

eutelsat

Konnect

PSN

SATRIA

- Global VHTS leader
- Extremely high capacity and unique agility
- Complementing with new satellite product line, offering in-orbit reconfiguration and flexible coverage

LEO / MEO constellations

Globalstar

3b Networks

Iridium NEXT

- Global constellation leader
- Unique expertise in networked constellations
- Recently awarded Kineis nanosatellite IoT constellation

Best-in-class product range, ideally suited to capture future market growth

Space: key takeaways

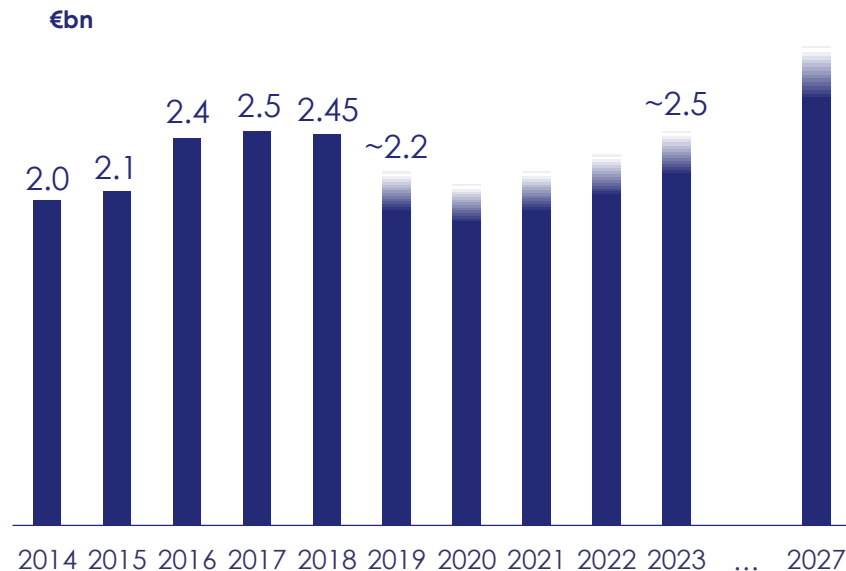
Solid long-term growth dynamics forecasted in all end-markets

Thales: best-in-class telecom product range, to be complemented by new generation flexible satellite product line

Slower than expected recovery of telecom market driving drop in sales in 2019 and 2020

Sales decline and R&D investment to weigh on profitability over 2019-2021 period

Space sales trend



Notes: 2014-2016 figures before application of IFRS 15 standard
Trajectory does not assume the booking of any telecom constellation



H1 2019 results

Outlook



2019 financial objectives

Order intake		Slightly above €18bn)	Unchanged
Sales	Thales excluding DIS segment	Organic growth between 3% and 4%)	Now expected at bottom of range
	DIS segment	Organic growth between 0% and 2% ^(a))	Unchanged
EBIT ^(b)		€1,980-2,000m ^(c))	Unchanged

(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

**Thursday 3 October 2019
from 8:30am CET to 2:00pm**

Capital Markets Day

**Intercontinental Le Grand
2, rue Scribe – Downtown Paris**

Do not forget to register!

Unable to locate your email invitation? Questions? Email the IR team at IR@thalesgroup.com



Appendix



The people we all rely on
to make the world go round,
they rely on Thales

Upcoming events

Capital Markets Day

3rd October 2019

Q3 and 9m 2019 sales

22nd October 2019

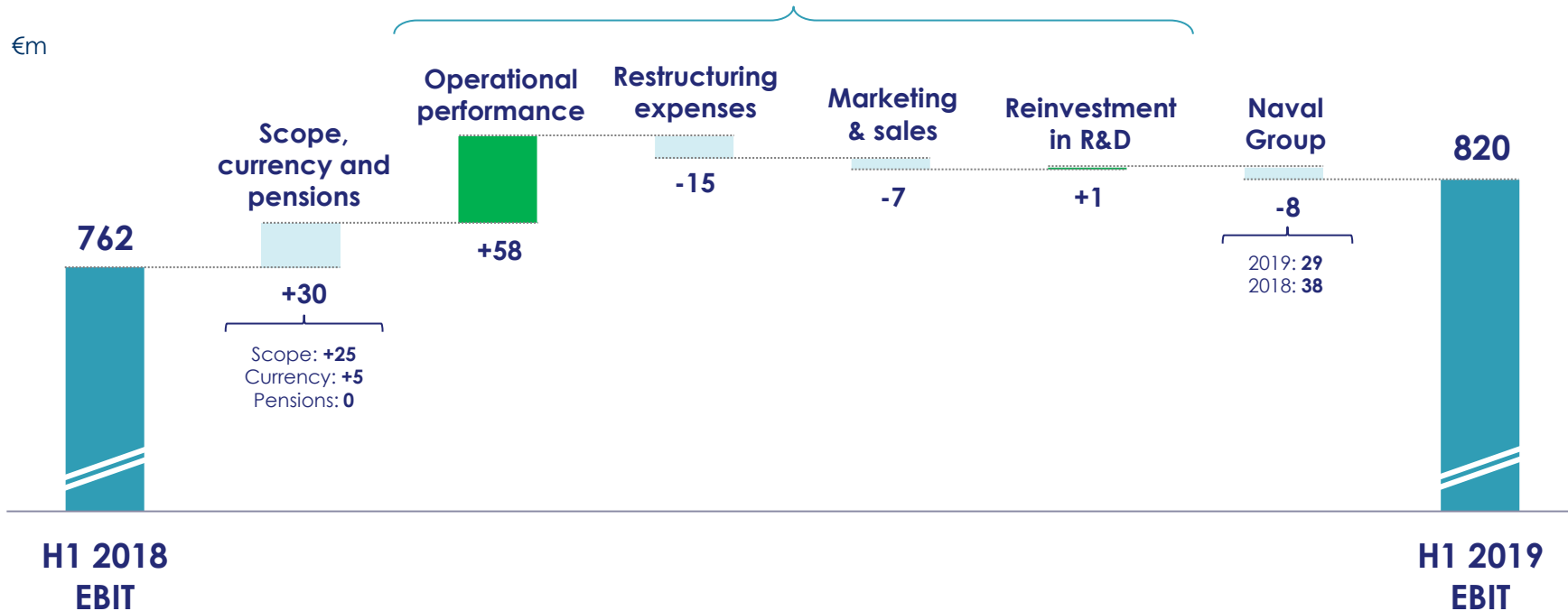
Full Year 2019 results

26th February 2020

H1 2018 to H1 2019 EBIT bridge

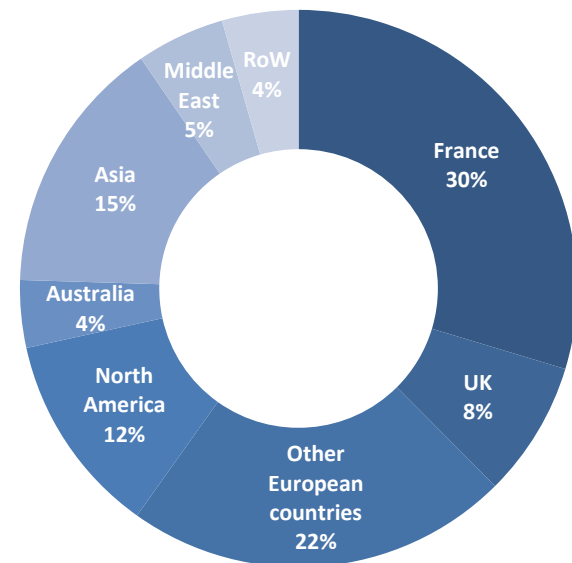


€m



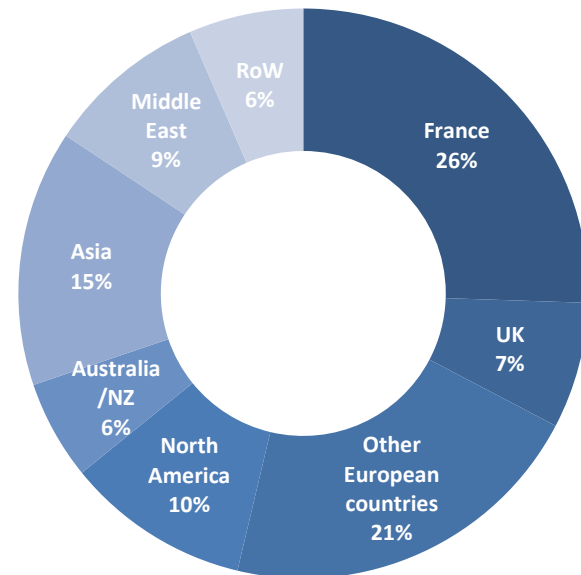
H1 2019 order intake by destination

€m	H1 2019	H1 2018	change	
			total	organic
France	2,075	1,456	+42%	+39%
United Kingdom	551	226	+144%	+132%
Other European countries	1,560	1,558	+0%	-9%
Europe	4,186	3,240	+29%	+23%
North America	821	532	+54%	+15%
Australia/NZ	274	1,239	-78%	-79%
Mature markets	5,280	5,011	+5%	-3%
Asia	1,046	716	+46%	+26%
Middle East	359	457	-22%	-31%
Rest of the world	310	147	+111%	+8%
Emerging markets	1,715	1,320	+30%	+4%
Total	6,995	6,331	+10%	-1%



H1 2019 sales by destination

€m	H1 2019	H1 2018	change	
			total	organic
France	2,090	1,956	+6.8%	+4.7%
United Kingdom	587	621	-5.6%	-11.5%
Other European countries	1,722	1,532	+12.4%	+2.4%
Europe	4,399	4,110	+7.0%	+1.4%
North America	856	660	+29.6%	-0.8%
Australia/NZ	461	433	+6.6%	+4.8%
Mature markets	5,716	5,203	+9.9%	+1.4%
Asia	1,191	1,062	+12.2%	-1.4%
Middle East	749	736	+1.8%	-4.1%
Rest of the world	533	452	+18.0%	-13.2%
Emerging markets	2,474	2,249	+10.0%	-4.7%
Total	8,190	7,452	+9.9%	-0.5%



H1 2019 adjusted net result

€m	Consolidated P&L H1 2019	Amortisation of acquired 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 2019
Sales	8,190						8,190
Cost of sales	(6,084)	97					(5,987)
R&D	(477)		1				(476)
Selling costs	(639)		1				(638)
G&A costs	(306)						(306)
Restructuring costs	(58)		14				(44)
Amortisation of intangible assets (PPA)	(128)	128	0				0
Income from operations	498	225	16				
Impairment of non-current operating assets	0						0
Share in net income (loss) of equity affiliates	67	14					80
Income of operating activities incl. share in net income of equity affiliates	565						
EBIT		239	16				820
Result of disposal of assets, change in scope and others	220			(220)			0
Cost of net financial debt	(16)						(16)
Other financial income (expense)	(44)				40		(4)
Finance costs on pensions and other employee benefits	(39)					11	(27)
Income tax	(123)	(68)	(3)	24	(12)	(3)	(184)
Net income (loss)	564	171	13	(196)	28	9	588
Minorities	(7)	(7)					(14)
Net income (loss), Group share	557	163	13	(196)	28	9	574

H1 2018 adjusted net result

€m	Consolidated P&L H1 2018	Amortisation of acquired 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				
Impairment of non-current operating assets	0						0
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

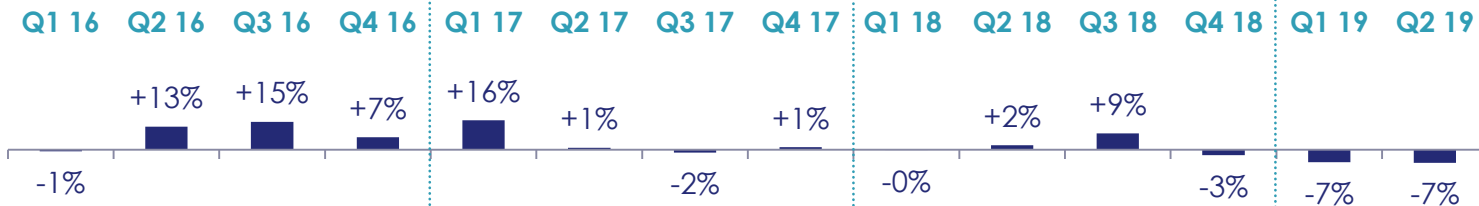
H1 2019 summary adjusted P&L before Gemalto consolidation

	H1 2019 before Gemalto		H1 2018		Change
	€m	% of sales	€m	% of sales	
Sales	7,437		7,452		
Gross margin	1,952	26.3%	1,922	25.8%	+0.5 pt
Indirect costs	(1,223)	(16.4%)	(1,222)	(16.4%)	-0.0 pt
o/w R&D expenses	(410)	(5.5%)	(406)	(5.4%)	-0.1 pt
o/w Marketing & Sales expenses	(542)	(7.3%)	(541)	(7.3%)	-0.0 pt
o/w General & Administrative expenses	(270)	(3.6%)	(276)	(3.7%)	+0.1 pt
Restructuring costs	(37)	(0.5%)	(22)	(0.3%)	-0.2 pt
Share in net result of equity-accounted affiliates, excluding Naval Group	50	0.7%	47	0.6%	+0.0 pt
EBIT excluding Naval Group	742	10.0%	724	9.7%	+0.3 pt
Share in net result of Naval Group	29	0.4%	38	0.5%	-0.1 pt
EBIT	772	10.4%	762	10.2%	+0.2 pt

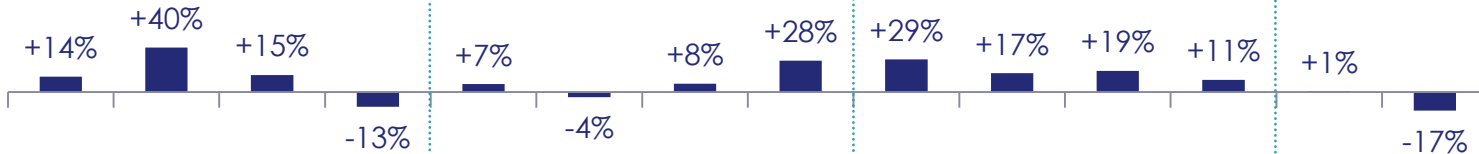
Organic sales growth per quarter



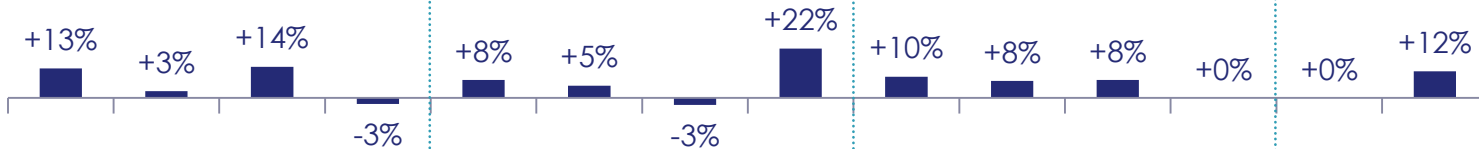
Aerospace



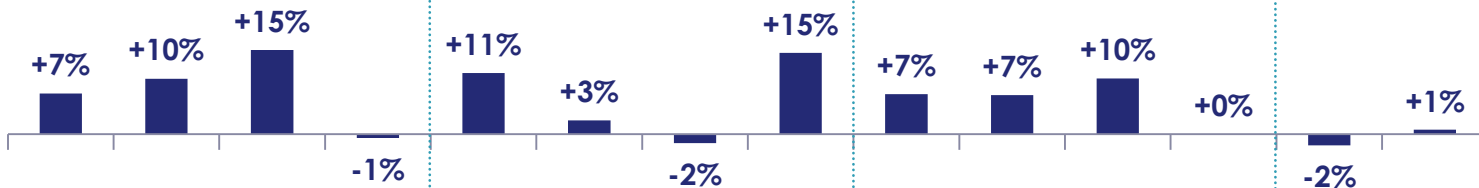
Transport



Defence & Security



Total



Q2 2019 order intake by operating segment

€m	Q2 2019	Q2 2018	change	
			total	organic
Aerospace	1,086	1,291	-15.8%	-17%
Transport	307	347	-11.4%	-13.1%
Defence & Security	2,507	1,607	+55.9%	+58.6%
Digital Identity & Security	795	44	nm	nm
Other	27	9	nm	nm
Total	4,723	3,298	+43.2%	+20.1%

Q2 2019 sales by operating segment

€m	Q2 2019	Q2 2018	Change	
			<i>total</i>	<i>organic</i>
Aerospace	1,389	1,483	-6.4%	-7.3%
Transport	437	518	-15.7%	-16.6%
Defence & Security	2,195	1,982	+10.8%	+11.9%
Digital Identity & Security	794	45	nm	nm
Other	14	12	nm	nm
Total	4,828	4,040	+19.5%	+0.8%

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 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 assets (PPA), (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 11 and 12 of the H1 2019 results 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 (debt):** 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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